WASHINGTON TRUST BANCORP INC
Form 10-K
March 14, 2007

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

For annual and transition reports pursuant to sections 13 or 15(d) of the Securities Exchange Act of 1934
(Mark One)
xAnnual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended **DECEMBER 31, 2006** or

oTransition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____________ to ____________

Commission file number: 000-13091

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

RHODE ISLAND	**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)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. oYes xNo

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. oYes xNo

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Mark one):
Large accelerated filero   Accelerated filer x   Non-accelerated filer o

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

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2006 was $303,706,881 based on a closing sales price of $27.72 per share as reported for the NASDAQ Global Market, which includes $19,906,785 held by The Washington Trust Company under trust agreements and other instruments.

The number of shares of the registrant's common stock, $.0625 par value per share, outstanding as of February 26, 2007 was 13,492,110.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement dated March 15, 2007 for the Annual Meeting of Shareholders to be held April 24, 2007 are incorporated by reference into Part III of this Form 10-K.

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FORM 10-K
WASHINGTON TRUST BANCORP, INC.
For the Year Ended December 31, 2006

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This report contains certain statements that may be considered “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The actual results, performance or achievements of the Corporation (as defined below) could differ materially from those projected in the forward-looking statements as a result, among other factors, of changes in general national or regional economic conditions, changes in interest rates, reductions in the market value of wealth management assets under administration, reductions in loan demand, reductions in deposit levels necessitating increased borrowing to fund loans and investments, changes in loan default and charge-off rates, changes in the size and nature of the Corporation’s competition, changes in legislation or regulation and accounting principles, policies and guidelines, and changes in the assumptions used in making such forward-looking statements. The Corporation assumes no obligation to update forward-looking statements or update the reasons actual results, performance or achievements could differ materially from those provided in the forward-looking statements, except as required by law.

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PART I

ITEM 1. Business

Washington Trust Bancorp, Inc.

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

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

The accounting and reporting policies of the Bancorp and its subsidiaries (collectively, the "Corporation" or "Washington Trust") are in accordance with accounting principles generally accepted in the United States of America and conform to general practices of the banking industry. At December 31, 2006, Washington Trust had total assets of $2.4 billion, total deposits of $1.7 billion and total shareholders' equity of $173.1 million.

Commercial Banking

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

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

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

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

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

Wealth Management Services

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

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plans. Investment management and financial planning services are provided for both personal and corporate clients. At December 31, 2006 and 2005, wealth management assets under administration totaled $3.7 billion and $3.3 billion, respectively. These assets are not included in the Consolidated Financial Statements.

The August 2005 acquisition of Weston Financial Group, Inc. (“Weston Financial”) increased the size and range of products and services offered by Washington Trust’s wealth management group. Revenue from wealth management services, as a percent of total revenues, increased from 18.2% in 2005 to 25.4% in 2006. See additional information under the caption “Acquisitions” below and in Note 2 to the Consolidated Financial Statements.

Business Segments

Segment reporting information is presented in Note 18 to the Consolidated Financial Statements.

Acquisitions

The following summarizes Washington Trust’s acquisition history:

On August 31, 2005, the Bancorp completed the acquisition of Weston Financial, a registered investment advisor and financial planning company located in Wellesley, Massachusetts, with broker-dealer and insurance agency subsidiaries. Pursuant to the Stock Purchase Agreement, dated March 18, 2005, the acquisition was effected by the Bancorp’s acquisition of all of Weston Financial’s outstanding capital stock. (1)

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

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

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

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(1) These acquisitions have been accounted for as a purchase and, accordingly, the operations of the acquired companies are included in the Consolidated Financial Statements from their dates of acquisition.

(2) These acquisitions were accounted for as poolings of interests and, accordingly, all financial data was restated to reflect the combined financial condition and results of operations as if these acquisitions were in effect for all periods presented.

Subsidiaries

The Bancorp’s subsidiaries include the Bank and Weston Securities Corporation (“WSC”). The Bancorp also owns all of the outstanding common stock of WT Capital Trust I and WT Capital Trust II, special purpose finance entities formed in connection with the acquisition of Weston Financial and with the sole purpose of issuing trust preferred debt securities and investing the proceeds in junior subordinated debentures of the Bancorp. See Notes 2 and 12 to the Consolidated Financial Statements for additional information.

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

The Washington Trust Company

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

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

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

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

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

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

The Bank operates ten of its sixteen branch offices in Washington County, Rhode Island. As of June 30, 2006, based upon information reported in the FDIC's Deposit Market Share Report, the Bank had 50% of total deposits reported by all financial institutions for Washington County. We have excluded our brokered certificates of deposit from this measurement to provide a more representative measurement of our market share. Brokered certificates of deposit are utilized by the Corporation as part of its overall funding program along with other sources. The closest competitor held 26%, and the second closest competitor held 8% of total deposits in Washington County. The Corporation believes that being the largest commercial banking institution headquartered within this market area provides a competitive advantage over other financial institutions.

The Bank's remaining six branch offices are located in Providence and Kent Counties in Rhode Island and New London County in southeastern Connecticut. In December 2006, Washington Trust relocated its Providence-based commercial lending staff, formerly based at the Washington Street branch office in Providence, to a leased office with 6,200 square feet of space located in the financial district of Providence. Washington Trust also plans to open a de novo branch in Providence County (Cranston) in the second quarter of 2007 and a de novo branch in Kent County (Warwick) in the second quarter of 2008. The Warwick branch is subject to the approval of state and federal regulators. These branches will bring the total number of the Bank's branch offices to eighteen and will increase the Bank's presence in Providence and Kent Counties. Both the population and number of businesses in Providence and Kent Counties far exceed those in Washington County.

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

Employees

At December 31, 2006, Washington Trust had 419 full-time and 46 part-time and other employees. Washington Trust maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, a pension plan and a 401(k) plan. Management considers relations with its employees to be good. See Note 16 to the Consolidated Financial Statements for additional information on certain employee benefit programs.

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Supervision and Regulation

The business in which the Corporation is engaged is subject to extensive supervision, regulation, and examination by various bank regulatory authorities and other governmental agencies. State and federal banking laws have as their principal objective either the maintenance of the safety and soundness of financial institutions and the federal deposit insurance system or the protection of consumers, or classes of consumers, and depositors, in particular, rather than the specific protection of shareholders of a bank or its parent company.

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

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

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

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

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Interstate Act"). The Interstate Act permits adequately capitalized and adequately managed bank holding companies, as determined by the Federal Reserve Board, to acquire banks in any state subject to certain concentration limits and other conditions. The Interstate Act also authorizes the interstate merger of banks. In addition, among other things, the Interstate Act permits banks to establish new branches on an interstate basis provided that the law of the host state specifically authorizes such action. Rhode Island and Connecticut, the two states in which the Corporation conducts branch-banking operations, have adopted legislation to "opt in" to interstate merger and branching provisions that effectively eliminated state law barriers. As a bank holding company, prior Federal Reserve Board approval is required before acquiring more than

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5% of a class of voting securities, or substantially all of the assets, of a bank holding company, bank or savings association.

Control Acquisitions. The Change in Bank Control Act prohibits a person or a group of persons from acquiring "control" of a bank holding company, such as the Bancorp, unless the Federal Reserve Board has been notified and has not objected to the transaction. Under a rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting securities of a bank holding company with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), would, under the circumstances set forth in the presumption, constitute the acquisition of control of the bank holding company. In addition, a company is required to obtain the approval of the Federal Reserve Board under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of outstanding voting securities of a bank holding company, or otherwise obtaining control or a "controlling influence" over that bank holding company.

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

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

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

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

The foregoing laws and regulations generally grant supervisory agencies and bodies broad administrative powers, including the power to limit or restrict Weston Financial from conducting its business in the event it fails to comply with such laws and regulations. Possible sanctions that may be imposed in the event of such noncompliance include the suspension of individual employees, limitations on business activities for specified periods of time, revocation of registration as an investment advisor, commodity trading advisor and/or other registrations, and other censures and fines.

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

Insurance of Accounts and FDIC Regulation. The Bank currently pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC for Bank Insurance Fund ("BIF") - member institutions. The FDIC has established a risk-based premium system under which the FDIC classifies institutions based on their capital ratios and on other relevant information and generally assesses higher rates on those institutions that tend to pose greater risks to the federal deposit insurance funds. Prior to the enactment of the Federal Deposit Insurance Reform Act of 2005 (the "FDIR Act") on February 8, 2006, the FDIC was not required to charge all banks deposit insurance premiums when the ratio of deposit insurance reserves to insured deposits was maintained above specified levels. Under new rules issued by the FDIC pursuant to the FDIR Act, the FDIC will impose assessments on all banks at a rate determined by the institution's risk classification regardless of the ratio of deposit insurance reserves to insured deposits. The new rules were issued November 2, 2006 and became effective on January 1, 2007, however the utilization of a one-time assessment credit is expected to minimize the financial impact of this change in 2007. The new rules are expected to increase the Bank's deposit insurance assessments over previous levels, resulting in an adverse effect on net earnings in 2008.

Additionally, as a result of the passage of the FDIR Act: (i) the BIF will be merged with the FDIC's Savings Association Insurance Fund, creating the Deposit Insurance Fund (the "DIF'); (ii) the $100,000 per account insurance level will be indexed to reflect inflation; (iii) deposit insurance coverage for certain retirement accounts will be increased to $250,000; and (iv) a cap will be placed on the level of the DIF and dividends will be paid to banks once the level of the DIF exceeds the specified threshold. The Corporation cannot predict whether, as a result of an adverse change in economic conditions or other reasons, the FDIC will be required in the future to further increase deposit insurance assessments levels.

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

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

The Federal Reserve Board risk-based guidelines define a three-tier capital framework. Tier 1 capital includes common shareholders' equity, perpetual preferred stock and trust preferred securities (both subject to certain limitations and in the case of the latter, to specific limitations on the kind and amount of such securities that may be included as Tier 1 capital), and minority interest in the equity accounts of consolidated subsidiaries, less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt and the allowance for loan losses up to 1.25% of risk-weighted assets. Tier 3 capital includes subordinated debt that is unsecured, fully paid, has an original maturity of at least two years, is not redeemable before maturity without prior approval by the Federal Reserve Board and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing bank's risk-based capital ratio to fall or remain below the required minimum. The sum of Tier 1 and Tier 2 capital less investments in unconsolidated subsidiaries represents qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 capital ratio is 4% and the minimum total risk-based capital (Tier 1 and Tier 2) is 8%. At December 31, 2006, the Corporation's net risk-weighted assets amounted to $1.5 billion, its Tier 1 capital ratio was 9.60% and its total risk-based capital ratio was 11.00%.

The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets. Although the stated minimum ratio is 100 to 200 basis points above 3%, banking organizations are required to maintain a ratio of at least 5% to be classified as well capitalized. The Corporation's leverage ratio was 6.04% as of December 31, 2006.

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

The various regulatory agencies have adopted substantially similar regulations that define the five capital categories identified by FDICIA, using the total risk-based capital, Tier 1 risk-based capital, and leverage capital ratios as the relevant capital measures. Such regulations establish various degrees of corrective action to be taken when an institution is considered undercapitalized. Under the regulations, a "well-capitalized" institution must have a Tier 1 risk-based capital ratio of at least 6%, a total risk-based capital ratio of at least 10% and a leverage ratio of at least 5% and not be subject to a capital directive order.

Regulators also must take into consideration (a) concentrations of credit risk; (b) interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance sheet position); and (c) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. In addition, the Bancorp, and any bank with significant trading activity, must incorporate a measure for market risk in their regulatory capital calculations. At December 31, 2006, the Bank's capital ratios placed it in the well-capitalized category. Reference is made to Note 13 to the Consolidated Financial Statements for additional discussion of the Corporation's regulatory capital requirements.

In 2005, the federal banking agencies issued an advance notice of proposed rulemaking ("ANPR") concerning potential changes in the risk-based capital rules ("Basel 1-A") that are designed to apply to, and potentially reduce the risk capital requirements of bank holding companies, such as the Bancorp, that are not among the 20 or so largest U.S. bank holding companies. In December 2006, the FDIC issued a revised Interagency Notice of Proposed Rulemaking concerning Basel 1-A (the "NPR"), which would allow banks and bank holding companies that are not among the 20 or so largest U.S. bank holding companies to either adopt Basel 1-A or remain subject to the existing risk-based capital rules. The NPR would also, among other things, amend the ANPR to add new risk weights, expand the use of external credit ratings for certain exposures and expand the range of eligible collateral and guarantors used to mitigate credit risk. The NPR remains subject to approval by other regulatory agencies, and if approved, will be made available to the public for comment, and in all likelihood, will be subject to further revision. The effective date, if adopted, of the Basel 1-A rules also remains uncertain. Accordingly, the Corporation is not yet in a position to determine the effect of such rules on its risk capital requirements.

Transactions with Affiliates. Under Sections 23A and 23B of the Federal Reserve Act and Regulation W thereunder, there are various legal restrictions on the extent to which a bank holding company and its nonbank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with its FDIC insured depository institution

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subsidiaries. Such borrowings and other covered transactions by an insured depository institution subsidiary (and its subsidiaries) with its nondepository institution affiliates are limited to the following amounts:

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

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

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

Limitations on Bank Dividends. The Bancorp's revenues consist primarily of cash dividends paid to it by the Bank. The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Payment of dividends by a bank is restricted pursuant to various state and federal regulatory limitations. Reference is made to Note 13 to the Consolidated Financial Statements for additional discussion of the Corporation's ability to pay dividends.

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

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

USA Patriot Act of 2001 (the "Patriot Act"). The Patriot Act, designed, among other things, to deny terrorists and others the ability to obtain anonymous access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act, together with the regulations implemented by various federal regulatory agencies, requires financial institutions, including the Bank, to implement new policies and procedures or amend existing policies or procedures with respect to, among other matters, anti-money laundering compliance, suspicious activity and currency transaction reporting, and due diligence on customers. The Patriot Act and underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the Federal Reserve Board to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under

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Section 3 of the BHCA or the Bank Merger Act. In 2006, final regulations under the Patriot Act were issued requiring financial institutions to take additional steps to monitor their correspondent banking and private banking relationships as well as their relationships with "shell Banks." Management believes that the Corporation is in compliance with all the requirements prescribed by the Patriot Act and all applicable final implementing regulations.

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

The Sarbanes-Oxley Act of 2002, as amended ("Sarbanes-Oxley"). Sarbanes-Oxley implements a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as Bancorp) designed to promote honesty and transparency in corporate America. Sarbanes-Oxley's principal provisions, many of which have been interpreted through regulations released in 2003, provide for and include, among other things:

§ The creation of an independent accounting oversight board;

§ Auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients;

§ Additional corporate governance and responsibility measures, including the requirement that the principal executive officer and principal financial officer of a public company certify financial statements;

§ The forfeiture of bonuses or other incentive-based compensation and profits from the sale of a public company's securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;

§ An increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with the company's independent auditors;

§ Requirements that audit committee members be independent and are barred from accepting consulting, advisory or other compensatory fees from public companies;

§ Requirements that public companies disclose whether at least one member of the audit committee is a "financial expert" (as such term is defined by the SEC) and if not, why not;

§ Expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods;

§ A prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions, such as the Bank, on nonpreferential terms and in compliance with other bank regulatory requirements;

§ Disclosure of a code of ethics and filing a Form 8-K for a change to or waiver of such code; and

§ A range of enhanced penalties for fraud and other violations.

The Corporation is monitoring the status of other related ongoing rulemaking by the SEC and other regulatory entities. Currently, management believes that the Corporation is in compliance with the rulemaking promulgated to date.

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Securities and Exchange Commission Availability of Filings

Under Sections 13 and 15(d) of the Exchange Act, periodic and current reports must be filed or furnished with the SEC. Washington Trust makes available free of charge on the Investor Relations section of its website (www.washtrust.com) its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and exhibits and amendments to those reports as soon as practicable after it electronically files such material with, or furnishes it to, the SEC. Information on the Washington Trust website is not incorporated by reference into this Annual Report on Form 10-K.

Item 1A Risk Factors

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

Interest Rate Volatility May Reduce Our Profitability

Significant changes in market interest rates may adversely affect both our profitability and our financial condition. Our profitability depends in part on the difference between rates earned on loans and investments and rates paid on deposits and other interest-bearing liabilities. Since market interest rates may change by differing magnitudes and at different times, significant changes in interest rates over an extended period of time could reduce overall net interest income. (See Item 7A, Quantitative and Qualitative Disclosures about Market Risk, for additional discussion on interest rate risk.)

Changes in the Market Value of Wealth Management Assets under Administration May Reduce Our Profitability

Revenues from wealth management services provide an important source of our total revenues. These fees are primarily dependent on the market value of wealth management assets under administration. These assets primarily consist of marketable securities. Reductions in the market value of these assets due to market conditions or the inability to attract and retain wealth management clients could reduce the level of fees that we earn.

Reductions in Deposit Levels Necessitating Increased Borrowing to Fund Loans and Investments

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

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

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

- Regional credit concentration - We are exposed to real estate and economic factors in southern New England, primarily Rhode Island and, to a lesser extent, Connecticut and Massachusetts, because a significant portion of our loan portfolio is concentrated among borrowers in these markets. Further, because a substantial portion of our loan portfolio is secured by real estate in this area, including residential mortgages, most consumer loans, commercial mortgages and other commercial loans, the value of our collateral is also subject to regional real estate market conditions and other factors that might affect the value of real estate, including natural disasters.

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Industry concentration - A portion of our loan portfolio consists of loans to the hospitality, tourism and recreation industries. Loans to companies in this industry may have a somewhat higher risk of loss than some other industries because these businesses are seasonal, with a substantial portion of commerce concentrated in the summer season. Accordingly, the ability of borrowers to meet their repayment terms is more dependent on economic, climate and other conditions and may be subject to a higher degree of volatility from year to year.

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

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

The financial services industry in our market has experienced both significant concentration and deregulation. This means that we compete with larger bank and non-bank financial institutions for loans and deposits as well as other sources of funding in the communities we serve, and we will likely face even greater competition in the future as a result of recent federal legislative changes. Many of our competitors have significantly greater resources and lending limits than we have. As a result of those greater resources, the large financial institutions that we compete with may be able to provide a broader range of services to their customers and may be able to afford newer and more sophisticated technology. Our long-term success depends on the ability of the Bank to compete successfully with other financial institutions in the Bank's service areas.

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

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

Changes in accounting principles generally accepted in the United States applicable to the Corporation could have a material impact on the Corporation's reported results of operations.

ITEM 1B. Unresolved Staff Comments

None.

GUIDE 3 Statistical Disclosures

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

		Page
I.	Distribution of Assets, Liabilities and Stockholder Equity; Interest Rates and Interest Differentials	26, 27
II.	Investment Portfolio	34, 62-65
III.	Loan Portfolio	35-37, 67
IV.	Summary of Loan Loss Experience	38-39, 68
V.	Deposits	26, 73
VI.	Return on Equity and Assets	18
VII.	Short-Term Borrowings	N/A

ITEM 2. Properties

The Corporation conducts its business from sixteen branch offices, including its headquarters located at 23 Broad Street, Westerly, Rhode Island and branch offices located within Washington, Providence and Kent Counties in Rhode Island and New London County in southeastern Connecticut. In December 2006, Washington Trust relocated its Providence-based commercial lending staff, formerly based at Washington Street branch office in Providence, to a leased office located in the financial district of Providence. The Corporation also provides wealth management services from its main office and offices located in Providence and Narragansett, Rhode Island and Wellesley, Massachusetts. In addition, the Bank has two operations facilities located in Westerly, Rhode Island. At December 31, 2006, ten of the Corporation's facilities were owned, ten were leased and one branch office was owned on leased land. Lease expiration dates range from four months to fifteen years with renewal options of one to twenty years. All of the

Corporation’s properties are considered to be in good condition and adequate for the purpose for which they are used.

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

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

For additional information regarding premises and equipments and lease obligations see Note 8 to the Consolidated Financial Statements.

ITEM 3. Legal Proceedings

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

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

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year ended December 31, 2006.

Executive Officers of the Registrant

The following is a list of all executive officers of the Bancorp and the Bank with their titles, ages, and years of service, followed by certain biographical information as of December 31, 2006.

Name	Title	Age	Years of Service
John C. Warren	Chairman and Chief Executive Officer of the Bancorp and the Bank	61	11
John F. Treanor	President and Chief Operating Officer of the Bancorp and the Bank	59	8
Galan G. Daukas	Executive Vice President of Wealth Management of the Bancorp and the Bank	43	1
David V. Devault	Executive Vice President, Secretary, Treasurer and Chief Financial Officer of the Bancorp and the Bank	52	20
Stephen M. Bessette	Executive Vice President - Retail Lending of the Bank	59	10
B. Michael Rauh, Jr.	Executive Vice President - Corporate Sales, Planning and Delivery of the Bank	47	15
Dennis L. Algiere	Senior Vice President - Chief Compliance Officer and Director of Community Affairs of the Bank	46	12
Vernon F. Bliven	Senior Vice President - Human Resources of the Bank	57	34

Elizabeth B. Eckel	Senior Vice President - Marketing of the Bank	46	15
William D. Gibson	Senior Vice President - Credit Administration of the Bank	60	8
Barbara J. Perino, CPA	Senior Vice President - Operations and Technology of the Bank	45	18
James M. Vesey	Senior Vice President and Chief Credit Officer of the Bank	59	8

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

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

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

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Funds, LLC from 2002 to 2005. He served as Chief Operating Officer and Chairman of the Management Committee of Harbor Capital Management Company from 2000 to 2002.

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

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

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

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

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

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

William D. Gibson joined the Bank in March 1999 as Senior Vice President - Credit Administration.

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

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

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PART II

ITEM 5. Market for the Registrant's Common Stock, Related Stockholder Matters

The Bancorp's common stock has traded on the NASDAQ Global Market since July 2006. Previously, the Bancorp's stock traded on the NASDAQ National Market since May 1996, the NASDAQ Small Cap Market since June 1992, and had been listed on the NASDAQ Over-The-Counter Market system since June 1987.

The quarterly common stock price ranges and dividends paid per share for the years ended December 31, 2006 and 2005 are presented in the following table. The stock prices are based on the high and low sales prices during the respective quarter.

2006 Quarters		1		2		3		4
Stock prices:								
High	$	29.49	$	28.93	$	27.44	$	29.30
Low		25.45		24.07		24.01		25.31
Cash dividend declared per share	$	.19	$	.19	$	.19	$	.19
2005 Quarters		1		2		3		4
Stock prices:								
High	$	29.99	$	28.81	$	30.38	$	29.98
Low		27.00		23.94		26.08		25.77
Cash dividend declared per share	$	.18	$	.18	$	.18	$	.18

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

The Bancorp's primary source of funds for dividends paid to shareholders is the receipt of dividends from the Bank. A discussion of the restrictions on the advance of funds or payment of dividends to the Bancorp is included in Note 13 to the Consolidated Financial Statements.

At February 26, 2007 there were 2,075 holders of record of the Bancorp's common stock.

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

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The following table provides information as of and for the quarter ended December 31, 2006 regarding shares of common stock of the Corporation that were repurchased under the Nonqualified Deferred Compensation Plan ("Deferred Compensation Plan"), the 2001 Stock Repurchase Plan, the 2006 Stock Repurchase Plan, the Amended and Restated 1988 Stock Option Plan (the "1988 Plan"), the Bancorp's 1997 Equity Incentive Plan, as amended (the "1997 Plan"), and the Bancorp's 2003 Stock Incentive Plan, as amended (the "2003 Plan").

	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan(s)	Maximum number of shares that may yet be purchased under the plan(s)
Deferred Compensation Plan (1)				
Balance at beginning of period				5,565
10/1/2006 to 10/31/2006	374	$ 26.81	374	5,191
11/1/2006 to 11/30/2006	265	27.31	265	4,926
12/1/2006 to 12/31/2006	356	28.31	356	4,570
Total Deferred Compensation Plan	995	$ 27.48	995	4,570
2001 Stock Repurchase Plan (2)				
Balance at beginning of period				162,000
10/1/2006 to 10/31/2006	-	-	-	162,000
11/1/2006 to 11/30/2006	-	-	-	162,000
12/1/2006 to 12/31/2006	50,000	$ 28.20	50,000	-
Total 2001 Stock Repurchase Plan	50,000	$ 28.20	50,000	-
2006 Stock Repurchase Plan (3)				
Balance at beginning of period				-
10/1/2006 to 10/31/2006	-	-	-	-
11/1/2006 to 11/30/2006	-	-	-	-
12/1/2006 to 12/31/2006	-	-	-	400,000
Total 2006 Stock Repurchase Plan	-	-	-	400,000
Other (4)				
Balance at beginning of period				N/A
10/1/2006 to 10/31/2006	-	-	-	N/A
11/1/2006 to 11/30/2006	4,302	$ 11.29	4,302	N/A
12/1/2006 to 12/31/2006	1,346	12.31	1,346	N/A
Total Other	5,648	$ 11.54	5,648	N/A
Total Purchases of Equity Securities	56,643	$ 26.53	56,643	

(1) The Deferred Compensation Plan was established on January 1, 1999. A maximum of 25,000 shares were authorized under this plan. This plan allows directors and officers to defer a portion of their compensation. The deferred compensation is contributed to a rabbi trust that invests the assets of the trust into selected mutual funds as

well as shares of the Bancorp's common stock pursuant to the direction of the plan participants. All shares are purchased in the open market.

(2) The 2001 Stock Repurchase Plan was established in September 2001. A maximum of 250,000 shares were authorized under the plan. The Bancorp held the repurchased shares as treasury stock for general corporate purposes. This plan was terminated in December 2006 and the Bancorp does not intend to make further purchases under this plan.

(3) The 2006 Stock Repurchase Plan was established in December 2006. A maximum of 400,000 shares were authorized under the plan. The Bancorp plans to hold the repurchased shares as treasury stock for general corporate purposes.

(4) Pursuant to the Corporation's share-based compensation plans, employees may deliver back shares of stock previously issued in payment of the exercise price of stock options. While required to be reported in this table, such transactions are not reported as share repurchases in the Corporation's Consolidated Financial Statements. The Corporation's share-based compensation plans (the 1988 Plan, the 1997 Plan and the 2003 Plan) have expiration dates of December 31, 1997, April 29, 2007 and April 29, 2013, respectively.

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ITEM 6. Selected Financial Data

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

Selected Operating Data and Financial Ratios: (Dollars in thousands, except per share amounts)

At or for the years ended December 31,	2006	2005	2004	2003	2002
Financial Results:					
Interest income	$ 131,134	$ 115,693	$ 96,853	$ 86,245	$ 87,339
Interest expense	69,660	55,037	42,412	37,446	43,057
Net interest income	61,474	60,656	54,441	48,799	44,282
Provision for loan losses	1,200	1,200	610	460	400
Net interest income after provision for loan losses	60,274	59,456	53,831	48,339	43,882
Noninterest income	42,183	30,946	26,905	26,735	23,258
Net interest and noninterest income	102,457	90,402	80,736	75,074	67,140
Noninterest expense	65,335	56,393	50,373	47,632	42,990
Income before income taxes	37,122	34,009	30,363	27,442	24,150
Income tax expense	12,091	10,985	9,534	8,519	7,393
Net income	$ 25,031	$ 23,024	$ 20,829	$ 18,923	$ 16,757
Per share information ($):					
Earnings per share:					
Basic	1.86	1.73	1.57	1.44	1.32
Diluted	1.82	1.69	1.54	1.41	1.30
Cash dividends declared (1)	.76	.72	.68	.62	.56
Book value	12.89	11.86	11.44	10.46	9.87
Tangible book value	8.61	7.79	9.64	8.60	7.93
Market value - closing stock price	27.89	26.18	29.31	26.20	19.53
Performance Ratios (%):					
Return on average assets	1.04	.98	.97	1.03	1.07
Return on average shareholders' equity	14.99	14.80	14.40	14.15	14.25
Average equity to average total assets	6.93	6.62	6.73	7.24	7.50
Dividend payout ratio (2)	41.76	42.60	44.16	43.97	43.08
Asset Quality Ratios (%):					
Nonperforming loans to total loans	.19	.17	.38	.29	.53
Nonperforming assets to total assets	.11	.10	.21	.14	.24
Allowance for loan losses to nonaccrual loans	693.87	742.25	354.49	580.17	370.78
Allowance for loan losses to total loans	1.29	1.28	1.34	1.66	1.95

Net charge-offs (recoveries) to average loans	.02	(.01)	(.02)	-	.05
Capital Ratios (%):					
Tier 1 leverage capital ratio	6.04	5.45	5.35	5.65	5.63
Tier 1 risk-based capital ratio	9.60	9.06	9.15	10.00	10.13
Total risk-based capital ratio	11.00	10.51	10.72	11.57	11.55

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

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

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Selected Balance Sheet Data: (Dollars in thousands)

December 31,	2006	2005	2004	2003	2002
Assets:					
Cash and cash equivalents	$ 71,909	$ 66,163	$ 52,081	$ 61,110	$ 51,048
Total securities	703,851	783,941	890,058	839,421	795,833
FHLB stock	28,727	34,966	34,373	31,464	24,582
Loans:					
Commercial and other	587,397	554,734	507,711	408,477	382,169
Residential real estate	588,671	582,708	513,695	389,855	280,886
Consumer	283,918	264,466	228,270	162,649	132,071
Total loans	1,459,986	1,401,908	1,249,676	960,981	795,126
Less allowance for loan losses	18,894	17,918	16,771	15,914	15,487
Net loans	1,441,092	1,383,990	1,232,905	945,067	779,639
Investment in bank-owned life insurance	39,770	30,360	29,249	28,074	22,013
Goodwill and other intangibles	57,374	54,372	23,900	24,544	25,260
Other	56,442	48,211	45,254	44,127	47,286
Total assets	$ 2,399,165	$ 2,402,003	$ 2,307,820	$ 1,973,807	$ 1,745,661
Liabilities:					
Deposits:					
Demand deposits	$ 186,533	$ 196,102	$ 189,588	$ 194,144	$ 157,539
NOW accounts	175,479	178,677	174,727	153,344	120,092
Money market accounts	286,998	223,255	196,775	83,037	75,446
Savings accounts	205,998	212,499	251,920	257,497	275,816
Time deposits	822,989	828,725	644,875	518,119	481,600
Total deposits	1,677,997	1,639,258	1,457,885	1,206,141	1,110,493
FHLB advances	474,561	545,323	672,748	607,104	480,080
Junior subordinated debentures	22,681	22,681	-	-	-
Other borrowings	14,684	9,774	3,417	2,311	9,183
Other liabilities	36,186	26,521	21,918	20,196	17,184
Shareholders' equity	173,056	158,446	151,852	138,055	128,721
Total liabilities and shareholders’ equity	$ 2,399,165	$ 2,402,003	$ 2,307,820	$ 1,973,807	$ 1,745,661
Asset Quality:					
Nonaccrual loans	$ 2,723	$ 2,414	$ 4,731	$ 2,743	$ 4,177
Other real estate owned, net	-	-	4	11	86
Total nonperforming assets	$ 2,723	$ 2,414	$ 4,735	$ 2,754	$ 4,263

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Selected Quarterly Financial Data (Dollars and shares in thousands, except per share amounts)

2006	Q1	Q2	Q3	Q4	Year
Interest income:					
Interest and fees on loans	$ 21,897	$ 23,130	$ 23,430	$ 23,733	$ 92,190
Income on securities:					
Taxable	8,412	8,648	8,493	8,210	33,763
Nontaxable	328	371	405	514	1,618
Dividends on corporate stock and FHLB stock	677	250	1,197	718	2,842
Interest on federal funds sold and other short-term investments	116	149	252	204	721
Total interest income	31,430	32,548	33,777	33,379	131,134
Interest expense:					
Deposits	10,238	11,161	12,473	13,110	46,982
FHLB advances	5,359	5,745	5,011	4,801	20,916
Junior subordinated debentures	338	338	338	338	1,352
Other	80	87	89	154	410
Total interest expense	16,015	17,331	17,911	18,403	69,660
Net interest income	15,415	15,217	15,866	14,976	61,474
Provision for loan losses	300	300	300	300	1,200
Net interest income after provision for loan losses	15,115	14,917	15,566	14,676	60,274
Noninterest income:					
Wealth management services:					
Trust and investment advisory fees	4,627	4,682	4,727	5,063	19,099
Mutual fund fees	1,130	1,214	1,229	1,092	4,665
Financial planning, commissions and other service fees	683	841	509	583	2,616
Wealth management services	6,440	6,737	6,465	6,738	26,380
Service charges on deposit accounts	1,119	1,236	1,312	1,248	4,915
Merchant processing fees	1,047	1,656	2,125	1,380	6,208
Income from bank-owned life insurance	279	346	389	396	1,410
Net gains on loan sales and commissions on loans originated for others	276	336	417	394	1,423
Net realized gains (losses) on securities	59	765	(365)	(16)	443
Other income	300	371	440	293	1,404
Total noninterest income	9,520	11,447	10,783	10,433	42,183
Noninterest expense:					
Salaries and employee benefits	9,619	9,830	9,651	9,598	38,698

Net occupancy	954	1,018	934	982	3,888
Equipment	799	881	872	818	3,370
Merchant processing costs	887	1,407	1,796	1,167	5,257
Outsourced services	518	496	490	505	2,009
Advertising and promotion	437	681	371	405	1,894
Legal, audit and professional fees	376	403	563	295	1,637
Amortization of intangibles	405	406	398	384	1,593
Other	1,709	2,158	1,536	1,586	6,989
Total noninterest expense	15,704	17,280	16,611	15,740	65,335
Income before income taxes	8,931	9,084	9,738	9,369	37,122
Income tax expense	2,858	2,907	3,160	3,166	12,091
Net income	$ 6,073	$ 6,177	$ 6,578	$ 6,203	$ 25,031
Weighted average shares outstanding - basic	13,386.8	13,419.9	13,436.6	13,452.5	13,424.1
Weighted average shares outstanding - diluted	13,698.6	13,703.2	13,726.3	13,769.3	13,723.2
Per share information:					
Basic earnings per share	$ .45	$ .46	$ .49	$ .46	$ 1.86
Diluted earnings per share	$ .44	$ .45	$ .48	$ .45	$ 1.82
Cash dividends declared per share	$ .19	$ .19	$ .19	$ .19	$ .76

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Selected Quarterly Financial Data

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

2005	Q1	Q2	Q3	Q4	Year
Interest income:					
Interest and fees on loans	$ 17,825	$ 19,096	$ 20,418	$ 21,592	$ 78,931
Income on securities:					
Taxable	8,434	8,285	8,085	8,130	32,934
Nontaxable	185	204	221	276	886
Dividends on corporate stock and FHLB stock	619	625	594	653	2,491
Interest on federal funds sold and other short-term investments	55	79	187	130	451
Total interest income	27,118	28,289	29,505	30,781	115,693
Interest expense:					
Deposits	6,932	7,627	8,241	9,386	32,186
FHLB advances	5,549	5,670	5,741	5,273	22,233
Junior subordinated debentures	-	-	124	334	458
Other	16	20	39	85	160
Total interest expense	12,497	13,317	14,145	15,078	55,037
Net interest income	14,621	14,972	15,360	15,703	60,656
Provision for loan losses	300	300	300	300	1,200
Net interest income after provision for loan losses	14,321	14,672	15,060	15,403	59,456
Noninterest income:					
Wealth management services:					
Trust and investment advisory fees	3,156	3,150	3,594	4,507	14,407
Mutual fund fees	-	-	304	1,032	1,336
Financial planning, commissions and other service fees	56	336	226	301	919
Wealth management services	3,212	3,486	4,124	5,840	16,662
Service charges on deposit accounts	1,011	1,168	1,158	1,165	4,502
Merchant processing fees	778	1,337	1,932	1,156	5,203
Income from bank-owned life insurance	272	279	283	277	1,110
Net gains on loan sales and commissions on loans originated for others	487	418	415	359	1,679
Net realized gains on securities	-	3	17	337	357
Other income	319	303	445	365	1,433
Total noninterest income	6,079	6,994	8,374	9,499	30,946
Noninterest expense:					
	7,459	7,450	8,194	9,030	32,133

Salaries and employee benefits									
Net occupancy		853		802		828		977		3,460
Equipment		882		869		832		873		3,456
Merchant processing costs		636		1,098		1,623		962		4,319
Outsourced services		413		444		406		460		1,723
Advertising and promotion		303		733		460		481		1,977
Legal, audit and professional fees		392		520		513		475		1,900
Amortization of intangibles		147		99		196		410		852
Other		1,359		1,358		1,758		2,098		6,573
Total noninterest expense		12,444		13,373		14,810		15,766		56,393
Income before income taxes		7,956		8,293		8,624		9,136		34,009
Income tax expense		2,546		2,654		2,802		2,983		10,985
Net income	$	5,410	$	5,639	$	5,822	$	6,153	$	23,024
Weighted average shares outstanding - basic		13,282.7		13,296.0		13,330.3		13,352.4		13,315.2
Weighted average shares outstanding - diluted		13,617.3		13,592.3		13,671.9		13,659.6		13,626.7
Per share information:										
Basic earnings per share	$	.41	$	.42	$	.44	$	.46	$	1.73
Diluted earnings per share	$	.40	$	.41	$	.43	$	.45	$	1.69
Cash dividends declared per share	$	.18	$	.18	$	.18	$	.18	$	.72

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

The following analysis is intended to provide the reader with a further understanding of the consolidated financial condition and results of operations of the Corporation for the periods shown. For a full understanding of this analysis, it should be read in conjunction with the Corporation's Consolidated Financial Statements and Notes thereto included in Item 8 "Financial Statements and Supplementary Data."

Forward-Looking Statements

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

Some of the factors that might cause these differences include the following: changes in general national or regional economic conditions, changes in interest rates, reductions in the market value of wealth management assets under administration, reductions in loan demand, reductions in deposit levels necessitating increased borrowing to fund loans and investments, changes in loan defaults and charge-off rates, changes in the size and nature of the Corporation's competition, changes in legislation or regulation and accounting principles, policies and guidelines and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under "Risk Factors" in Item 1A of this Annual Report on Form 10-K may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Application of Critical Accounting Policies and Estimates

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

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements: (1) identification of loss allocations for certain specific loans, (2) general loss allocations for certain loan types based on credit grade and loss experience factors, and (3) general loss allocations for other environmental factors. The methodology includes an analysis of individual loans deemed to be impaired in accordance with accounting principles generally accepted in the United States of America (SFAS 114, "Accounting by Creditors for Impairment of a Loan--an amendment of FASB Statements No. 5 and 15"). Other individual commercial loans and commercial mortgage loans are evaluated using an internal rating system and the application of loss allocation factors.

The loan rating system and the related loss allocation factors take into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, and the adequacy of collateral. Portfolios of more homogenous populations of loans including residential mortgages and consumer loans are analyzed as groups taking into account delinquency ratios and other indicators, the Corporation's historical loss experience and comparison to industry standards of loss allocation factors for each type of credit product. Finally, an additional unallocated allowance is maintained based on a judgmental process whereby management considers qualitative and quantitative assessments of other environmental factors. For example, a significant portion of our loan portfolio is concentrated among borrowers in southern New England, primarily Rhode Island and, to a lesser

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extent, Connecticut and Massachusetts, and a substantial portion of the portfolio is collateralized by real estate in this area. A portion of the commercial loans and commercial mortgage loans are to borrowers in the hospitality, tourism and recreation industries. Further, economic conditions which may affect the ability of borrowers to meet debt service requirements are considered, including interest rates and energy costs. Results of regulatory examinations, historical loss ranges, portfolio composition, including a trend toward somewhat larger credit relationships, and other changes in the portfolio are also considered.

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

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

For acquisitions accounted for under the purchase method, the Corporation is required to record assets acquired and liabilities assumed at their fair value. The valuation techniques used to determine the carrying value of tangible and intangible assets acquired in acquisitions and the estimated lives of identifiable intangible assets involve estimates for discount rates, projected future cash flows and time period calculations, all of which are susceptible to change based on changes in economic conditions and other factors. Any change in the estimates that are used to determine the carrying value of goodwill and identifiable intangible assets or that otherwise adversely affects their value or estimated lives could adversely affect the Corporation's results of operations. Core deposit and other identifiable intangible assets are amortized to expense over their estimated useful lives and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Furthermore, the determination of which intangible assets have finite lives is subjective, as is the determination of the amortization period for such intangible assets. Goodwill and intangible assets are evaluated for impairment, based on fair values, at least annually. The valuation techniques contain estimates as to the comparability of selected market information to the specifics of the Corporation.

Other-Than-Temporary Impairment

The Corporation records an investment impairment charge at the point it believes an investment security has experienced a decline in value that is other-than-temporary. In determining whether an other-than-temporary impairment has occurred, the Corporation considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in the value subsequent to year end, forecasted performance of the issuer, and the general market condition in the geographic area or industry the issuer operates in. If necessary, the investment is written down to its current fair value through a charge to earnings at the time the impairment is deemed to have occurred. Future adverse changes in market conditions, continued poor operating results of the issuer or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an additional impairment charge in the future.

Defined Benefit Pension Obligations

The Corporation accounts for its qualified pension plan and non-qualified retirement plans based on calculations that incorporate various actuarial and other assumptions. These assumptions include discount rates, mortality, assumed rates of return, and compensation increases. The Corporation reviews its assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when necessary. The effect of the modifications to those assumptions is recorded in accumulated other comprehensive income beginning in 2006, with the adoption of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132R), and amortized to net periodic cost over future periods. The Corporation believes that the assumptions utilized in recording its obligations under its plans are reasonable based on its experience and market conditions.

Interest Income Recognition

Interest on loans is included in income as earned based upon rates applied to unpaid principal. Interest is not accrued on loans 90 days or more past due unless they are adequately secured and in the process of collection or on other loans when management believes collection is doubtful. All loans considered impaired are nonaccruing. Interest on nonaccruing loans is recognized as payments are received when the ultimate collectibility of interest is no longer considered doubtful. When a loan is placed on nonaccrual status, all interest previously accrued is reversed against

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current-period interest income; therefore, an increase in loans on nonaccrual status could have impact on interest income recognized in future periods.

Tax Estimates

The Corporation accounts for income taxes by deferring income taxes based on estimated future tax effects of differences between the tax and book basis of assets and liabilities considering the provisions of enacted tax laws. These differences result in deferred tax assets and liabilities, which are included in the Consolidated Balance Sheets. The Corporation must also assess the likelihood that any deferred tax assets will be recovered from future taxable income and establish a valuation allowance for those assets determined to not likely be recoverable. Management judgment is required in determining the amount and timing of recognition of the resulting deferred tax assets and liabilities, including projections of future taxable income. The Corporation has determined that a valuation allowance is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized primarily through carryback to taxable income in prior years and future reversals of existing taxable temporary differences.

Results of Operations

Overview

Net income for the year ended December 31, 2006 amounted to $25.0 million, up $2.0 million, or 8.7%, from $23.0 million reported for 2005. On a per diluted share basis, net income was $1.82 for 2006, up $0.13, or 7.7%, from the $1.69 reported for 2005.

The rates of return on average equity and average assets for 2006 were 14.99% and 1.04%, respectively. Comparable amounts for 2005 were 14.80% and 0.98%, respectively.

Selected financial highlights for 2006 and 2005 are presented in the table below:

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

Years ended December 31,		2006		2005
Earnings:				
Net income	$	25,031	$	23,024
Diluted earnings per share	$	1.82	$	1.69
Dividends declared per share	$	0.76	$	0.72
Book value per share	$	12.89	$	11.86
Tangible book value per share	$	8.61	$	7.79
Weighted average shares - Basic		13,424.1		13,315.2
Weighted average shares - Diluted		13,723.2		13,626.7
Select Ratios:				
Return on average assets		1.04%		0.98%
Return on average shareholders equity		14.99%		14.80%
Interest rate spread (taxable equivalent basis)		2.47%		2.49%
Net interest margin (taxable equivalent basis)		2.80%		2.79%

On August 31, 2005, the Corporation completed the acquisition of Weston Financial, a registered investment advisor and financial planning company located in Wellesley, Massachusetts, with broker-dealer and insurance agency subsidiaries. The results of Weston Financial's operations have been included in the Consolidated Statements of Income since that date. One-time expenses associated with the acquisition amounting to $605 thousand were recognized in the third quarter of 2005. After tax, this amounted to $440 thousand, or approximately 3 cents per diluted share. The acquisition of Weston Financial increased the size and range of products and services offered by

Washington Trust's wealth management group. As a result of the Weston Financial acquisition, investment management assets under administration increased from approximately $1.9 billion to $3.3 billion. Washington Trust financed the payments made at closing through the issuance of two series of trust preferred stock by newly-formed special purpose finance entities in an aggregate amount of $22 million (see Note 12 to the Consolidated Financial Statements). In connection with the transaction, Washington Trust also elected to become a financial holding company. See Note 2 to the Consolidated Financial Statements for a more complete description of the acquisition transaction.

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Net Interest Income

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and continues to be the primary source of Washington Trust's operating income. Included in interest income are loan prepayment fees and certain other fees, such as late charges. Net interest income is affected by the level of interest rates, changes in interest rates and by changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Net interest income totaled $61.5 million for 2006, up $818 thousand, or 1.3%, from the amount reported for 2005.

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

FTE net interest income for 2006 amounted to $62.9 million, up $1.2 million, or 2.0%, from the $61.7 million reported for 2005. The net interest margin (FTE net interest income as a percentage of average interest-earning assets) for 2006 amounted to 2.80%, compared to 2.79% for 2005. Excluding the impact of loan prepayment fees and certain other fees, such as late charges, the net interest margin was up 2 basis points from 2005. The continued rise in short-term rates in 2006 has caused deposit costs to rise, while yields on loans and securities have increased by lesser amounts.

Average interest-earning assets increased $34.7 million, or 1.6%, in 2006. Growth of $88.1 million, or 6.6%, in the loan portfolio was partially offset by reductions of $53.4 million, or 6.1%, in the securities portfolio. Growth in average loan balances resulted from internal loan growth. The yield on total loans increased 56 basis points in 2006. The contribution of loan prepayment and other fees to the yield on total loans was 5 basis points and 6 basis points, respectively, in 2006 and 2005. The increase in the yield on total loans was primarily due to higher marginal yields on loans as compared to the prior year and higher yields on new loan originations. Total average securities declined in 2006. The flattening and inversion of the yield curve made reinvestment of maturing balances unattractive relative to funding costs during this period and lower yielding fixed and adjustable rate mortgage-backed securities totaling $104.6 million were sold in the second half of 2006. The 60 basis point increase in the total yield on securities in 2006 reflects a combination of higher yields on variable rate securities tied to short-term interest rates, sale or runoff of lower yielding securities and higher marginal rates on reinvestment of cash flows in 2006 relative to the prior year. The Corporation continues to consider appropriate strategies to manage rising funding costs and more slowly increasing investment yields given the relatively flat yield curve.

Average interest-bearing liabilities rose $52.9 million, or 2.7%, in 2006. The Corporation experienced growth in time deposits and money market accounts, and declines in NOW accounts, savings account balances and FHLB advances. The increase in average interest-bearing liabilities was largely due to $115.5 million of growth in time deposits in 2006. The average rate paid on time deposits increased 70 basis points in 2006. Included in time deposits were brokered certificates of deposit, which are utilized by the Corporation as part of its overall funding program along with other sources. Average brokered certificates of deposit increased $12.0 million in 2006. The balance of average FHLB advances decreased $101.6 million in 2006, while the average rate paid on FHLB advances increased 46 basis points.

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

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

Years ended December 31,	2006			2005			2004		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Residential real estate loans	$ 590,245	$ 30,237	5.12	$ 562,838	$ 27,890	4.96	$ 450,898	$ 22,737	5.04
Commercial and other loans	564,310	43,409	7.69	531,434	37,244	7.01	454,251	29,266	6.44
Consumer loans	274,764	18,748	6.82	246,959	13,983	5.66	198,857	8,984	4.52
Total loans	1,429,319	92,394	6.46	1,341,231	79,117	5.90	1,104,006	60,987	5.52
Federal funds sold and other short-term investments	14,548	721	4.96	14,703	451	3.07	12,371	133	1.08
Taxable debt securities	712,870	33,763	4.74	783,662	32,934	4.20	835,091	33,125	3.97
Nontaxable debt securities	42,977	2,486	5.79	23,329	1,362	5.84	16,430	1,018	6.20
Corporate stocks and FHLB stock	48,643	3,205	6.59	50,763	2,858	5.63	54,706	2,543	4.65
Total securities	819,038	40,175	4.91	872,457	37,605	4.31	918,598	36,819	4.01
Total interest-earning assets	2,248,357	132,569	5.90	2,213,688	116,722	5.27	2,022,604	97,806	4.84
Noninterest-earning assets	159,115			137,460			126,302		
Total assets	$ 2,407,472			$ 2,351,148			$ 2,148,906		
Liabilities and shareholders' equity:									
NOW accounts	$ 173,137	302	0.17	$ 176,706	295	0.17	$ 162,714	341	0.21
Money market accounts	262,613	9,063	3.45	203,799	4,386	2.15	152,664	2,205	1.44
Savings accounts	198,040	1,464	0.74	234,311	1,392	0.59	257,274	1,581	0.61
Time deposits	856,979	36,153	4.22	741,456	26,113	3.52	575,877	18,070	3.14
FHLB advances	509,611	20,916	4.10	611,177	22,233	3.64	644,520	20,153	3.13
Junior subordinated debentures	22,681	1,352	5.96	7,767	458	5.90	-	-	-
Other	8,627	410	4.76	3,581	160	4.48	2,014	62	3.10
Total interest-bearing liabilities	2,031,688	69,660	3.43	1,978,797	55,037	2.78	1,795,063	42,412	2.36
Demand deposits	185,322			197,245			193,905		
Other liabilities	23,517			19,498			15,281		

Shareholders' equity	166,945		155,608		144,657	
Total liabilities and shareholders' equity	$ 2,407,472		$ 2,351,148		$ 2,148,906	
Net interest income		$ 62,909		$ 61,685		$ 55,394
Interest rate spread		2.47		2.49		2.48
Net interest margin		2.80		2.79		2.74

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

(Dollars in thousands)			
Years ended December 31,	2006	2005	2004
Commercial and other loans	$ 204	$ 186	$ 159
Nontaxable debt securities	868	476	356
Corporate stocks and FHLB stock	363	367	438

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Volume/Rate Analysis - Interest Income and Expense (Fully Taxable Equivalent Basis)
The following table presents certain information on a fully taxable equivalent basis regarding changes in our interest income and interest expense for the periods indicated. The net change attributable to both volume and rate has been allocated proportionately.

	2006/2005			2005/2004		
(Dollars in thousands)	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest on interest-earning assets:						
Residential real estate loans	$ 1,412	$ 935	$ 2,347	$ 5,521	$ (368)	$ 5,153
Commercial and other loans	2,401	3,764	6,165	5,246	2,732	7,978
Consumer loans	1,689	3,076	4,765	2,447	2,552	4,999
Federal funds sold and other short-term investments	(5)	275	270	30	288	318
Taxable debt securities	(3,150)	3,979	829	(2,078)	1,887	(191)
Nontaxable debt securities	1,136	(12)	1,124	406	(62)	344
Corporate stocks and FHLB stock	(124)	471	347	(193)	508	315
Total interest income	3,359	12,488	15,847	11,379	7,537	18,916
Interest on interest-bearing liabilities:						
NOW accounts	7	-	7	26	(72)	(46)
Money market accounts	1,511	3,166	4,677	1,004	1,177	2,181
Savings accounts	(239)	311	72	(138)	(51)	(189)
Time deposits	4,411	5,629	10,040	5,660	2,383	8,043
FHLB advances	(3,942)	2,625	(1,317)	(1,083)	3,163	2,080
Junior subordinated debentures	889	5	894	458	-	458
Other	239	11	250	62	36	98
Total interest expense	2,876	11,747	14,623	5,989	6,636	12,625
Net interest income	$ 483	$ 741	$ 1,224	$ 5,390	$ 901	$ 6,291

Provision and Allowance for Loan Losses
The allowance for loan losses is management's best estimate of the probable loan losses incurred as of the balance sheet date. The allowance for loan losses was $18.9 million, or 1.29% of total loans, at December 31, 2006, compared to $17.9 million, or 1.28% of total loans, at December 31, 2005. For the year ended December 31, 2006, the Corporation's provision for loan losses amounted to $1.2 million, unchanged from the amount recorded in 2005. See the additional discussion under the caption "Asset Quality" for further information on the Allowance for Loan Losses.

Noninterest Income
Noninterest income is an important source of revenue for Washington Trust. Noninterest income, as a percent of total revenues (net interest income plus noninterest income), increased from 33.8% in 2005 to 40.7% in 2006. Washington Trust's primary sources of noninterest income are revenues from wealth management services, service charges on deposit accounts, merchant credit card processing fees, and net gains on loan sales and commissions on loans originated for others. Also included in noninterest income are earnings generated from bank-owned life insurance ("BOLI"). Noninterest income amounted to $42.2 million for 2006, up $11.2 million, or 36.3%, from 2005. This increase is primarily attributable to higher revenues from wealth management services, mainly due to the acquisition of Weston Financial in the third quarter of 2005.

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The following table presents a noninterest income comparison for the years ended December 31, 2006 and 2005:

(Dollars in thousands)	2006	2005	$ Change	% Change
Noninterest income:				
Wealth management services:				
Trust and investment advisory fees	$ 19,099	$ 14,407	$ 4,692	32.6%
Mutual fund fees	4,665	1,336	3,329	249.2
Financial planning, commissions and other service fees	2,616	919	1,697	184.7
Wealth management services	26,380	16,662	9,718	58.3
Service charges on deposit accounts	4,915	4,502	413	9.2
Merchant processing fees	6,208	5,203	1,005	19.3
Income from BOLI	1,410	1,110	300	27.0
Net gains on loan sales and commissions on loans originated for others	1,423	1,679	(256)	(15.2)
Other income	1,404	1,433	(29)	(2.0)
Subtotal	41,740	30,589	11,151	36.5
Net realized gains on securities	443	357	86	24.1
Total noninterest income	$ 42,183	$ 30,946	$ 11,237	36.3%

Revenue from wealth management services increased $9.7 million, or 58.3%, in 2006. This increase was primarily due to the acquisition of Weston Financial completed on August 31, 2005. Revenue from wealth management services is largely dependent on the value of wealth management assets under administration and is closely tied to the performance of the financial markets. Assets under administration totaled $3.695 billion at December 31, 2006, up $423 million, or 12.9%, from $3.272 billion at December 31, 2005. This increase was due to financial market appreciation and business development efforts.

Service charges on deposit accounts were up $413 thousand, or 9.2%, in 2006. The increase was primarily attributable to higher fees as well as expanded fee arrangements in the areas of insufficient funds fees and debit card fees.

Merchant processing fees increased $1.0 million, or 19.3%, in 2006 primarily due to increases in the volume of transactions processed for existing and new customers. Merchant processing fees represents charges to merchants for credit card transactions processed.

Income from BOLI amounted to $1.4 million and $1.1 million for 2006 and 2005, respectively. BOLI represents life insurance on the lives of certain employees who have consented to allowing the Bank to be the beneficiary of such policies. The Corporation expects to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The BOLI investment provides a means to mitigate increasing employee benefit costs. During the second quarter of 2006, Washington Trust purchased an additional $8 million in BOLI.

We originate residential mortgage loans for sale in the secondary market and also originate loans for various investors in a broker capacity, including conventional mortgages and reverse mortgages. In addition, from time to time we sell the guaranteed portion of SBA loans to investors. Net gains on loan sales and commissions on loans originated for others decreased $256 thousand, or 15.2%, in 2006, due to a decline in sales of residential mortgage loans and Small Business Administration ("SBA") loans. In general, loan originations have been adversely affected by higher interest rates.

Other income consists of mortgage servicing fees, non-customers ATM fees, safe deposit rents, wire transfer fees, fees on letters of credit and other fees. Other income amounted to $1.4 million in 2006, down 2.0% from 2005.

In 2006 and 2005, net realized gains on sales of securities totaled $443 thousand and $357 thousand, respectively. This included realized gains of $381 thousand and $337 thousand recognized in 2006 and 2005, respectively, in connection with the Corporation's annual charitable contribution of appreciated equity securities. The cost of the annual contributions is included in noninterest expenses and amounted to $513 thousand and $522 thousand in 2006 and 2005, respectively. In the third and fourth quarters of 2006, balance sheet repositioning transactions were

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conducted in response to the flat to inverted yield curve shape in effect during most of the period. These transactions included sales of mortgage-backed and other debt securities totaling $104.6 million with a realized loss of $3.5 million. The proceeds from these transactions were primarily used to reduce advances from the FHLB. In addition, during 2006 equity securities were sold with a realized gain of $3.5 million. See additional discussion under the caption "Financial Condition" for further information on the investment securities portfolio and FHLB advances.

Noninterest Expense

For the year ended December 31, 2006, total noninterest expense amounted to $65.3 million, up $8.9 million, or 15.9%, from 2005. This increase is largely the result of the August 2005 acquisition of Weston Financial, which added $5.4 million to noninterest expense in 2006 that did not exist in the prior year. Also contributing to the increase was the 21.7% increase in merchant processing costs in 2006. Included in noninterest expenses in 2005 were direct acquisition and acquisition related costs amounting to $605 thousand, which included $292 thousand in salaries and benefits, $50 thousand in legal, audit and professional fees, and $263 thousand in other noninterest expenses. Acquisition related costs included costs incurred in connection with management changes, organization costs related to the establishment of the trust preferred entities, accounting and legal costs and other charges. Excluding the impact of Weston Financial operating expenses, the increase in merchant processing costs and the direct acquisition and acquisition related costs recognized in 2005, noninterest expenses for 2006 increased $3.2 million, or 6.5%, from 2005. Additional discussion and further changes in the components of noninterest expenses are disclosed below.

The following table presents a noninterest expense comparison for the years ended December 31, 2006 and 2005:

(Dollars in thousands)	2006	2005	$ Change	% Change
Noninterest expense:				
Salaries and employee benefits	$ 38,698	$ 32,133	$ 6,565	20.4%
Net occupancy	3,888	3,460	428	12.4
Equipment	3,370	3,456	(86)	(2.5)
Merchant processing costs	5,257	4,319	938	21.7
Outsourced services	2,009	1,723	286	16.6
Advertising and promotion	1,894	1,977	(83)	(4.2)
Legal, audit and professional fees	1,637	1,900	(263)	(13.8)
Amortization of intangibles	1,593	852	741	87.0
Other	6,989	6,573	416	6.3
Total noninterest expense	$ 65,335	$ 56,393	$ 8,942	15.9%

Salaries and employee benefit expense, the largest component of total noninterest expense, increased $6.6 million, or 20.4%, in 2006. Approximately 58.2% of the increase in 2006 was due to the operating expenses of Weston Financial. The remainder of the increase in 2006 was due to increases in salaries and wages, higher defined benefit plan costs, increases in performance-based compensation and higher share-based compensation. See Note 17 to the Consolidated Financial Statements for additional discussion on share-based compensation.

Net occupancy expense in 2006 increased $428 thousand, or 12.4%. The increase reflected higher rental expense for premises leased by the Bank and included operating expenses of Weston Financial.

Merchant processing costs increased $938 thousand, or 21.7%, in 2006 due largely to increased volume of transactions processed for existing and new customers. Merchant processing costs represent third-party costs incurred that are directly attributable to handling merchant credit card transactions.

Outsourced services increased 16.6% in 2006 due to higher costs for data processing services and third party vendor costs.

Legal, audit and professional fees decreased 13.8% from 2005. This decrease was primarily due to costs incurred for special projects in 2005.

Amortization of intangibles amounted to $1.6 million in 2006 and $852 thousand in 2005. See Note 9 to the Consolidated Financial Statements for additional information on identifiable intangible assets.

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Other noninterest expense increased $416 thousand, or 6.3%, in 2006. Approximately $293 thousand of this increase was attributable to the operating expenses of Weston Financial, which was acquired in August 2005. Included in other noninterest expense in 2005 were $263 thousand of acquisition related costs and $129 thousand in prepayment costs associated with the payoff of a match funded FHLB advance.

Taxes

Income tax expense amounted to $12.1 million and $11.0 million in 2006 and 2005, respectively. The Corporation's effective tax rate was 32.6% in 2006, compared to a rate of 32.3% in 2005. These rates differed from the federal rate of 35.0% due to the benefits of tax-exempt income, the dividends received deduction and income from BOLI. In 2006, the net increase in the effective tax rate was primarily a result of higher state tax provision, offset in part by higher levels of tax-exempt income.

The Corporation's net deferred tax asset amounted to $6.7 million at December 31, 2006, compared to $3.6 million at December 31, 2005. The increase in net deferred tax asset included a $1.7 million adjustment to initially apply the recognition provisions of SFAS No. 158. See Note 16 to the Consolidated Financial Statements for further discussion on the impact of the adoption of SFAS No. 158. The Corporation has determined that a valuation allowance is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized primarily through future reversals of existing taxable temporary differences or carryback to taxable income in prior years. See Note 10 to the Consolidated Financial Statements for additional information regarding income taxes.

Comparison of 2005 with 2004

Net income for the year ended December 31, 2005 amounted to $23.0 million, up 10.5% from the amount reported for 2004. On a diluted share basis, Washington Trust earned $1.69 for 2005, up 9.7% from the $1.54 earned in 2004. The rates of return on average equity and average assets for 2005 were 14.80% and 0.98%, respectively. Comparable amounts for the year 2004 were 14.40% and 0.97%, respectively.

On August 31, 2005, the Corporation completed the acquisition of Weston Financial, a registered investment advisor and financial planning company located in Wellesley, Massachusetts, with broker-dealer and insurance agency subsidiaries. The results of Weston Financial's operations have been included in the Consolidated Statements of Income since that date. One-time expenses associated with the acquisition amounting to $605 thousand were recognized in the third quarter of 2005. After tax, this amounted to $440 thousand, or approximately 3 cents per diluted share.

Net interest income totaled $60.7 million in 2005, an increase of $6.2 million, or 11.4% from 2004. FTE net interest income for 2005 totaled $61.7 million, up 11.4% from 2004. The increase in net interest income reflected growth in the loan portfolio and a higher yield on earning assets, which were partially offset by the growth in time deposits and an increase in the cost of funds.

The net interest margin increased 5 basis points in 2005 to 2.79. Excluding the impact of loan prepayment fees and other fees, such as late charges, the net interest margin was up 3 basis points from 2004. The increase in the net interest margin was attributable to the higher amount of loans as a percentage of interest-earnings assets and to changes in loan and deposit rates.

Average interest-earning assets increased by $191.1 million, or 9.4%, in 2005. This increase was mainly due to growth of $237.2 million, or 21.5%, in the loan portfolio, which was partially offset by reductions of $46.1 million, or 5.0%, in the securities portfolio. Growth in average loan balances resulted from purchases of primarily adjustable rate residential mortgage loans as well as internal growth in commercial and consumer loans.

The yield on total loans increased 38 basis points in 2005. This increase was primarily due to higher marginal yields on loans as compared to 2004 and higher yields on new loan originations and purchases. The contribution of loan prepayment penalties and other fees to the yield on total loans was 6 basis points and 3 basis points, respectively, for 2005 and 2004. Total average securities declined in 2005 as the flattening of the yield curve made reinvestment of maturing balances relatively unattractive. The total yield on securities increased 30 basis points in 2005, reflecting a combination of higher yields on variable rate securities tied to short term interest rates, runoff of lower yielding securities and higher marginal rates on reinvestment of cash flows in 2005 compared to 2004.

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Average interest-bearing liabilities increased $183.7 million, or 10.2%, in 2005. The Corporation experienced growth in time deposits, NOW accounts and money market accounts, and declines in savings account balances and FHLB advances. In the third quarter of 2005, the Corporation also issued junior subordinated debentures and recorded a liability for the minimum future payments due in connection with the acquisition of Weston Financial. The increase in average interest-bearing liabilities was principally due to $165.6 million of growth in time deposits in 2005. The average rate paid on time deposits in 2005 increased 38 basis points and amounted to 3.52%. Included in time deposits were brokered certificates of deposit. Average brokered certificates of deposit increased $45.5 million in 2005. Average FHLB advances decreased $33.3 million in 2005, while the average rate paid on FHLB advances increased 51 basis points.

For the years ended December 31, 2005 and 2004, the Corporation's provision for loan losses amounted to $1.2 million and $610 thousand, respectively. The increase in the loan loss provision was in response to growth in the loan portfolio. The allowance for loan losses amounted to $17.9 million, or 1.28% of total loans, at December 31, 2005, compared to $16.8 million, or 1.34% of total loans, at December 31, 2004.

Noninterest income amounted to $30.9 million for 2005, up $4.0 million, or 15.0%, from 2004. The following table presents a noninterest income comparison for the years ended December 31, 2005 and 2004:

(Dollars in thousands)	2005	2004	$ Change	% Change
Noninterest income:				
Wealth management services:				
Trust and investment advisory fees	$ 14,407	$ 12,385	$ 2,022	16.3%
Mutual fund fees	1,336	-	1,336	100.0
Financial planning, commissions and other service fees	919	663	256	38.6
Wealth management services	16,662	13,048	3,614	27.7
Service charges on deposit accounts	4,502	4,483	19	0.4
Merchant processing fees	5,203	4,259	944	22.2
Income from BOLI	1,110	1,175	(65)	(5.5)
Net gains on loan sales	1,679	1,901	(222)	(11.7)
Other income	1,433	1,791	(358)	(20.0)
Subtotal	30,589	26,657	3,932	14.8
Net realized gains on securities	357	248	109	44.0
Total noninterest income	$ 30,946	$ 26,905	$ 4,041	15.0%

In 2005, revenue from wealth management services represented 54% of noninterest income, excluding net realized gains on securities, compared to 49% in 2004. Revenue from wealth management services increased $3.6 million, or 27.7%, in 2005. This increase was primarily attributable to the acquisition of Weston Financial which was completed on August 31, 2005. Assets under administration rose significantly due to the addition of Weston Financial, and amounted to $3.272 billion at December 31, 2005. This included approximately $1.376 billion attributable to Weston Financial. Assets under administration were $1.871 billion at December 31, 2004.

Service charges on deposit accounts were essentially unchanged from 2004. This revenue source was affected by deposit account pricing strategies and reflects a very competitive retail-banking environment.

Merchant processing fees (charges to merchants for credit card transactions processed) increased $944 thousand, or 22.2%, in 2005 due primarily to increases in the volume of transactions processed.

Net gains on loan sales decreased $222 thousand, or 11.7%, in 2005, reflecting a decline in Small Business Administration loans.

Other income decreased $358 thousand in 2005. Included in other income in 2004 was a non-routine item of $150 thousand unrelated to the Corporation's normal course of business, and $280 thousand recovered as a result of a favorable litigation decision.

In 2005 and 2004, net realized gains on securities totaled $357 thousand and $248 thousand, respectively. The Corporation recognized net realized gains on securities of $337 thousand and $387 thousand in the fourth quarter of

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2005 and 2004, respectively, resulting principally from the Corporation's annual contributions of appreciated equity securities to the Corporation's charitable foundation. The cost of the contributions, included in noninterest expenses, amounted to $522 thousand and $454 thousand in 2005 and 2004, respectively.

Noninterest expense amounted to $56.4 million in 2005, an increase of 12.0% from the $50.4 million reported in 2004. Included in noninterest expenses in 2005 were direct acquisition and acquisition related costs amounting to $605 thousand, which included $292 thousand in salaries and benefits, $50 thousand in legal, audit and professional fees, and $263 thousand in other noninterest expenses. Acquisition related costs included costs incurred in connection with management changes, organization costs related to the establishment of the trust preferred entities, accounting and legal costs and other charges.

As previously mentioned, 2005 financial results include the operations of Weston Financial for the period subsequent to August 31, 2005. Approximately $3.1 million, or 51%, of the total increase in noninterest expense was attributable to the one-time acquisition related charges and the operating expenses of Weston Financial.

The following table presents a noninterest expense comparison for the years ended December 31, 2005 and 2004:

(Dollars in thousands)	2005	2004	$ Change	% Change
Noninterest expense:				
Salaries and employee benefits	$ 32,133	$ 28,816	$ 3,317	11.5%
Net occupancy	3,460	3,201	259	8.1
Equipment	3,456	3,267	189	5.8
Merchant processing costs	4,319	3,534	785	22.2
Outsourced services	1,723	1,616	107	6.6
Advertising and promotion	1,977	1,748	229	13.1
Legal, audit and professional fees	1,900	1,535	365	23.8
Amortization of intangibles	852	644	208	32.3
Other	6,573	6,012	561	9.3
Total noninterest expense	$ 56,393	$ 50,373	$ 6,020	12.0%

Salaries and employee benefit expense increased $3.3 million, or 11.5%, in 2005. Excluding one-time acquisition related charges and the operating expenses of Weston Financial, salaries and employee benefits expense rose $1.5 million, or 5.1%, in 2005. This 5.1% increase was mainly due to an increase in salaries and wages, higher defined benefit pension costs and increases in performance-based and stock-based compensation. Salaries and wages increased $441 thousand, or 2.3%. Pension costs increased $398 thousand in 2005, primarily due to higher service cost and a lower discount rate. Performance-based compensation expense increased $219 thousand in 2005, and stock compensation expense associated with nonvested shares and nonvested share unit awards increased $213 thousand.

Net occupancy expense in 2005 increased 8.1%. The increase reflected higher rental expense for premises leased by the Bank and included operating expenses of Weston Financial. Equipment expense increased 5.8% in 2005 primarily due to additional investments in technology and other equipment.

Merchant processing costs (third-party costs incurred that are directly attributable to handling merchant credit card transactions) increased 22.2% in 2005 due to increases in the volume of transactions processed.

Outsourced services increased 6.6% in 2005 due to higher costs for data processing services and third party vendors.

As a result of stronger marketing and promotion efforts, advertising and promotion expense increased 13.1% in 2005.

Legal, audit and professional fees totaled $1.9 million in 2005, up from $1.5 million in 2004. The increase was primarily due to costs incurred for various consulting matters.

Amortization of intangibles amounted to $852 thousand in 2005, compared to $644 thousand in 2004. See Note 9 to the Consolidated Financial Statements for additional information on identifiable intangible assets.

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Other noninterest expense increased $561 thousand, or 9.3%, in 2005. Excluding one-time acquisition related costs, other noninterest expense increased $298 thousand, or 5.0%, primarily due to the operations of Weston Financial. Also included in other noninterest expense in 2005 was $129 thousand in prepayment costs associated with the payoff of a match funded FHLB advance.

Income tax expense amounted to $11.0 million and $9.5 million in 2005 and 2004, respectively. The Corporation's effective tax rate was 32.3% in 2005, compared to a rate of 31.4% in 2004. The increase in the Corporation's effective tax rate in 2005 was primarily due to a higher effective tax rate associated with Weston Financial.

Financial Condition
Summary
Total assets were $2.399 billion at December 31, 2006, down $2.8 million from December 31, 2005. Total liabilities declined $17.4 million in 2006, with total deposits increasing $38.7 million and FHLB advances decreasing $70.8 million. Shareholders' equity totaled $173.1 million at December 31, 2006, compared to $158.4 million at the end of 2005. Washington Trust experienced relatively modest loan demand during 2006. The investment securities portfolio was reduced in 2006 through balance sheet repositioning transactions during the third and fourth quarters of 2006. Proceeds from these transactions were primarily used to reduce FHLB advances.

Securities
Washington Trust's securities portfolio is managed to generate interest income, to implement interest rate risk management strategies, and to provide a readily available source of liquidity for balance sheet management. Securities are designated as either available for sale or held to maturity at the time of purchase. Securities available for sale may be sold in response to changes in market conditions, prepayment risk, rate fluctuations, liquidity, or capital requirements. Securities available for sale are reported at fair value, with any unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of tax, until realized. Securities designated as held to maturity are part of the Corporation's portfolio of long-term interest-earning assets. These securities are classified as held to maturity because the Corporation has the intent and ability to hold them until maturity. Securities held to maturity are reported at amortized cost. At December 31, 2006, the Corporation's portfolio consisted primarily of mortgage-backed securities and U.S. government treasury and agency securities. See Note 5 to the Consolidated Financial Statements for additional information.

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

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

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

(Dollars in thousands) December 31,	2006 Amount	%	2005 Amount	%	2004 Amount	%
Securities Available for Sale:						
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	$ 157,285	30%	$ 107,651	18%	$ 137,663	19%
Mortgage-backed securities	293,787	56%	428,174	69%	491,847	67%
Corporate bonds	55,608	11%	63,195	10%	78,834	10%
Corporate stocks	19,716	3%	20,214	3%	27,322	4%
Total securities available for sale	$ 526,396	100%	$ 619,234	100%	$ 735,666	100%

(Dollars in thousands) December 31,	2006 Amount	%	2005 Amount	%	2004 Amount	%
Securities Held to Maturity:						
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	$ 42,000	24%	$ 47,250	29%	$ 30,000	19%
Mortgage-backed securities	69,340	39%	84,960	52%	105,753	69%
States and political subdivisions	66,115	37%	32,497	19%	18,639	12%
Total securities held to maturity	$ 177,455	100%	$ 164,707	100%	$ 154,392	100%

Total investment securities declined $80.1 million in 2006, primarily as a result of third and fourth quarter balance sheet repositioning transactions in response to the flat to inverted yield curve shape in effect during most of the period. These transactions included sales of mortgage-backed securities and other debt securities totaling $104.6 million with a realized loss of $3.5 million. The decision to sell lower yielding fixed and adjustable rate mortgage-backed securities was related to the inversion of the yield curve during the period caused by rising short-term interest rates and falling longer-term interest rates. The inversion of the yield curve resulted in both higher FHLB borrowing costs and a relative price appreciation on the sold mortgage-backed securities compared to earlier periods. The funds provided by reducing investment portfolio balances were primarily used to reduce advances from the FHLB, which have declined by $70.8 million in 2006. In addition, during 2006 equity securities were sold with a realized gain of $3.5 million.

The net unrealized losses on securities available for sale and held to maturity amounted to $1.7 million and $3.4 million at December 31, 2006 and 2005, respectively. See Note 5 to the Consolidated Financial Statements for detail of unrealized gains and losses on securities.

Federal Home Loan Bank Stock

The Corporation is required to maintain a level of investment in FHLB stock that currently is based on the level of its FHLB advances. As of December 31, 2006 and 2005, the Corporation's investment in FHLB stock totaled $28.7 million and $35.0 million, respectively.

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Loans

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

(Dollars in thousands) December 31,	2006 Amount	%	2005 Amount	%	2004 Amount	%	2003 Amount	%	2002 Amount	%
Commercial:										
Mortgages	$ 282,019	19%	$ 291,292	21%	$ 266,670	21%	$ 227,334	24%	$ 197,814	25%
Construction & development	32,233	2%	37,190	3%	29,263	2%	12,486	1%	10,337	1%
Other (1)	273,145	19%	226,252	16%	211,778	18%	168,657	18%	174,018	22%
Total commercial	587,397	40%	554,734	40%	507,711	41%	408,477	43%	382,169	48%
Residential real estate:										
Mortgages	577,522	40%	565,680	40%	494,720	40%	375,706	39%	269,548	34%
Homeowner construction	11,149	-%	17,028	2%	18,975	1%	14,149	2%	11,338	1%
Total residential real estate	588,671	40%	582,708	42%	513,695	41%	389,855	41%	280,886	35%
Consumer:										
Home equity lines	145,676	10%	161,100	11%	155,001	12%	80,523	12%	81,503	10%
Home equity loans	93,947	6%	72,288	5%	54,297	4%	35,935	4%	39,010	5%
Other (2)	44,295	4%	31,078	2%	18,972	2%	46,191	-%	11,558	2%
Total consumer loans	283,918	20%	264,466	18%	228,270	18%	162,649	16%	132,071	17%
Total loans	$ 1,459,986	100%	$ 1,401,908	100%	$ 1,249,676	100%	$ 960,981	100%	$ 795,126	100%

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

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

Washington Trust's loan portfolio amounted to $1.460 billion at December 31, 2006, up $58.1 million, or 4.1%, in 2006. Modest growth occurred in all lines of business.

Commercial loans, including commercial real estate and construction loans, increased $32.7 million, or 5.9%, from the balance at December 31, 2005. Substantially all of the growth in commercial loans was the result of internal growth.

Consumer loans increased $19.5 million, or 7.4%, in 2006, led by growth in home equity loans.

The Corporation originates residential mortgages for both portfolio and sale, and purchases mortgages from other financial institutions. Residential real estate loans grew $6.0 million, or 1.0%, in 2006.

An analysis of the maturity and interest rate sensitivity of Real Estate Construction and Other Commercial loans as of December 31, 2006 follows:

(Dollars in thousands)

Matures in:	1 Year or Less	1 to 5 Years	After 5 Years	Totals
Construction and development (1)	$ 13,919	$ 6,038	$ 23,425	$ 43,382
Commercial - other	116,247	110,084	46,814	273,145
	$ 130,166	$ 116,122	$ 70,239	$ 316,527

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

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

(Dollars in thousands)

	Predetermined Rates	Floating or Adjustable Rates	Totals
Principal due after one year	$ 132,003	$ 54,358	$ 186,361

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Asset Quality

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

Nonperforming Assets

Nonperforming assets include nonaccrual loans and other real estate owned. Nonperforming assets were 0.11% of total assets at December 31, 2006, compared to 0.10% at December 31, 2005. Nonaccrual loans as a percentage of total loans increased slightly from 0.17% at the end of 2005 to 0.19% at December 31, 2006.

The following table presents nonperforming assets for the dates indicated:

(Dollars in thousands)

December 31,	2006	2005	2004	2003	2002
Nonaccrual loans:					
Residential real estate	$ 721	$ 1,147	$ 1,027	$ 946	$ 1,202
Commercial and other:					
Mortgages	981	394	2,357	342	1,356
Construction and development	-	-	390	-	-
Other	831	624	730	1,236	1,354
Consumer	190	249	227	219	265
Total nonaccrual loans	2,723	2,414	4,731	2,743	4,177
Other real estate owned, net	-	-	4	11	86
Total nonperforming assets	$ 2,723	$ 2,414	$ 4,735	$ 2,754	$ 4,263
Loans past due 90 days or more and accruing	$ -	$ -	$ -	$ -	$ -

Nonaccrual Loans

Loans, with the exception of certain well-secured residential mortgage loans, are placed on nonaccrual status and interest recognition is suspended when such loans are 90 days or more past due with respect to principal and/or interest. Well-secured residential mortgage loans are permitted to remain on accrual status provided that full collection of principal and interest is assured. Loans are also placed on nonaccrual status when, in the opinion of management, full collection of principal and interest is doubtful. Interest previously accrued, but uncollected, is reversed against current period income. Subsequent cash receipts on nonaccrual loans are recognized as interest income, or recorded as a reduction of principal if full collection of the loan is doubtful or if impairment of the collateral is identified. Loans are removed from nonaccrual status when they have been current as to principal and 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.

For the year ended December 31, 2006, the gross interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms was approximately $218 thousand. Interest recognized on these loans amounted to approximately $192 thousand.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at December 31, 2006.

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

(Dollars in thousands)

December 31,		2006		2005
Nonaccrual loans 90 days or more past due	$	1,470	$	1,257
Nonaccrual loans less than 90 days past due		1,253		1,157
Total nonaccrual loans	$	2,723	$	2,414

Restructured Loans

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

There were no restructured accruing loans as of December 31 in each of the years 2002 through 2006.

There were no loans whose terms had been restructured included in nonaccrual loans at December 31, 2006 and 2005.

Potential Problem Loans

The Corporation classifies certain loans as "substandard," "doubtful," or "loss" based on criteria consistent with guidelines provided by banking regulators. Potential problem loans consist of classified accruing commercial loans that were less than 90 days past due at December 31, 2006. Such loans are characterized by weaknesses in the financial condition of borrowers or collateral deficiencies. Based on historical experience, the credit quality of some of these loans may improve as a result of collection efforts, while the credit quality of other loans may deteriorate, resulting in some amount of losses. These loans are not included in the analysis of nonaccrual or restructured loans above. At December 31, 2006, potential problem loans amounted to approximately $2.9 million. The Corporation's loan policy provides guidelines for the review of such loans in order to facilitate collection.

Depending on future events, these potential problem loans, and others not currently identified, could be classified as nonperforming in the future.

Other Real Estate Owned and Repossessed Assets

Other real estate owned and repossessed assets is comprised of properties acquired through foreclosure and other legal means, and loans determined to be substantively repossessed. A loan is considered to be substantively repossessed when the Corporation has taken possession of the collateral, but has not completed legal foreclosure proceedings. These assets are carried at the lower of cost or fair value minus estimated costs to sell. A valuation allowance is maintained for declines in market value and estimated selling costs.

At December 31, 2006 and 2005, the balances of other real estate owned and repossessed assets were insignificant and were reported in other assets in the Corporations' Consolidated Balance Sheets. Washington Trust occasionally provides financing to facilitate the sales of some of these properties. Financing is generally provided at market rates with credit terms similar to those available to other borrowers.

Allowance for Loan Losses

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. See additional discussion regarding the allowance for loan losses under the caption “Critical Accounting Policies”.

The allowance for loan losses is management’s best estimate of the probable loan losses incurred 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.

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At December 31, 2006, the allowance for loan losses was $18.9 million, or 1.29% of the total loan portfolio, and 694% of total nonaccrual loans. This compares with an allowance of $17.9 million or 1.28% of the total loan portfolio, and 742% of total nonaccrual loans at December 31, 2005.

The following table reflects the activity in the allowance for loan losses for the dates presented:

(Dollars in thousands)

December 31,	2006	2005	2004	2003	2002
Balance at beginning of year	$ 17,918	$ 16,771	$ 15,914	$ 15,487	$ 13,593
Charge-offs:					
Commercial:					
Mortgages	-	85	215	-	27
Construction and development	-	-	-	-	-
Other	295	198	257	200	284
Residential:					
Mortgages	-	-	-	-	29
Homeowner construction	-	-	-	-	-
Consumer	133	86	95	94	157
Total charge-offs	428	369	567	294	497
Recoveries:					
Commercial:					
Mortgages	-	71	36	17	72
Construction and development	-	-	34	-	-
Other	171	389	569	177	-
Residential:					
Mortgages	-	-	-	-	-
Homeowner construction	-	-	-	-	-
Consumer	33	106	175	67	90
Total recoveries	204	566	814	261	162
Net charge-offs (recoveries)	224	(197)	(247)	33	335
Allowance on acquired loans	-	-	-	-	1,829
Reclassification of allowance on off-balance sheet exposures	-	(250)	-	-	-
Provision charged to earnings	1,200	1,200	610	460	400
Balance at end of year	$ 18,894	$ 17,918	$ 16,771	$ 15,914	$ 15,487
Net charge-offs (recoveries) to average loans	.02%	(.01)%	(.02)%	-%	.05%

In 2005, the Corporation reclassified to other liabilities that portion of the allowance for loan losses related to off-balance sheet credit risk.

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The following table presents the allocation of the allowance for loan losses:

(Dollars in thousands)

December 31,	2006	2005	2004	2003	2002
Commercial:					
Mortgages	$ 4,757	$ 4,467	$ 4,385	$ 4,102	$ 3,161
% of these loans to all loans	19.3%	20.8%	21.3%	23.7%	24.9%
Construction and development	589	713	729	294	243
% of these loans to all loans	2.2%	2.7%	2.3%	1.3%	1.3%
Other	4,137	3,263	3,633	3,248	2,832
% of these loans to all loans	18.7%	16.1%	16.9%	17.6%	21.9%
Residential:					
Mortgages	1,619	1,642	1,447	1,965	1,457
% of these loans to all loans	39.6%	40.3%	39.7%	39.0%	33.9%
Homeowner construction	56	43	47	74	61
% of these loans to all loans	0.8%	1.2%	1.5%	1.5%	1.4%
Consumer	1,882	1,585	1,323	1,507	1,305
% of these loans to all loans	19.4%	18.9%	18.3%	16.9%	16.6%
Unallocated	5,854	6,205	5,207	4,724	6,428
Balance at end of year	$ 18,894	$ 17,918	$ 16,771	$ 15,914	$ 15,487
	100.0%	100.0%	100.0%	100.0%	100.0%

Investment in Bank-Owned Life Insurance ("BOLI")

BOLI amounted to $39.8 million and $30.4 million at December 31, 2006 and 2005, respectively. During the second quarter of 2006, Washington Trust purchased an additional $8 million in BOLI. BOLI provides a means to mitigate increasing employee benefit costs. The Corporation expects to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The purchase of the life insurance policy results in an interest sensitive asset on the Consolidated Balance Sheet that provides monthly tax-free income to the Corporation. The largest risk to the BOLI program is credit risk of the insurance carriers. To mitigate this risk, annual financial condition reviews are completed on all carriers. BOLI is invested in the "general account" of quality insurance companies. Standard & Poor's rated all such general account carriers "AA" or better at December 31, 2006. BOLI is included in the Consolidated Balance Sheets at its cash surrender value. Increases in BOLI's cash surrender value are reported as a component of noninterest income in the Consolidated Statements of Income.

Deposits

Total deposits amounted to $1.678 billion at December 31, 2006, up $38.7 million, or 2.4%, from the balance at December 31, 2005. Excluding the $24.5 million decrease in brokered certificates of deposit, in-market deposits were up $63.2 million, or 4.4%, in 2006. Due to increases in short-term rates, Washington Trust has continued to experience a shift in the mix of deposits away from lower cost savings accounts and into higher cost premium money market accounts and certificates of deposit. Deposit gathering continues to be extremely competitive.

Demand deposits amounted to $186.5 million at December 31, 2006, down $9.6 million, or 4.9%, from December 31, 2005.

NOW account balances decreased $3.2 million, or 1.8%, in 2006 and totaled $175.5 million at December 31, 2006.

Money market account balances totaled $287.0 million at December 31, 2006, up $63.7 million, or 28.6%, from December 31, 2005.

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During 2006, savings deposits declined $6.5 million, or 3.1%, and amounted to $206.0 million at December 31, 2006.

Time deposits (including brokered certificates of deposit) amounted to $823.0 million, down $5.7 million, or 0.7%, during 2006. The Corporation utilizes brokered time deposits as part of its overall funding program along with other sources. Brokered time deposits amounted to $175.6 million, down $24.5 million, or 12.2%, during 2006. Excluding the brokered time deposits, time deposits rose $18.8 million, or 3.0%, in 2006 due to growth in consumer and commercial certificates of deposit.

Borrowings

The Corporation utilizes advances from the FHLB as well as other borrowings as part of its overall funding strategy. FHLB advances were used to meet short-term liquidity needs, to purchase securities and to purchase loans from other institutions. Proceeds from balance sheet repositioning transactions were utilized to reduce FHLB advances, which declined $70.8 million during 2006. Included in the December 31, 2006 balance are $49.5 million of callable advances with call dates ranging from January 2007 through November 2007.

In the third quarter of 2005, the Corporation issued $22.7 million of junior subordinated debentures and recorded a liability of $5.4 million for minimum future payments due in connection with the acquisition of Weston Financial. The Stock Purchase Agreement dated March 18, 2005, by and among the Corporation, Weston Financial and Weston Financial's shareholders, provides for the payment of contingent purchase price amounts based on operating results in each of the years in the three-year earn-out period ending December 31, 2008. During the third quarter of 2006 the Corporation recognized a liability of $4.6 million, with a corresponding addition to goodwill, representing the 2006 portion of the earn-out period. See additional discussion on the acquisition in Note 2 to the Consolidated Financial Statements.

Liquidity and Capital Resources

Liquidity is the ability of a financial institution to meet maturing liability obligations and customer loan demand. Washington Trust's primary source of liquidity is deposits. Deposits (demand, NOW, money market, savings and time deposits) funded approximately 69.6% of total average assets in 2006. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLB term advances and federal funds purchased), cash flows from the Corporation's securities portfolios and loan repayments. In addition, securities designated as available for sale may be sold in response to short-term or long-term liquidity needs.

The ALCO establishes and monitors internal liquidity measures to manage liquidity exposure. Liquidity remained well within target ranges established by the ALCO during 2006. Net loans as a percentage of total assets amounted to 60.1% at December 31, 2006, compared to 57.6% at December 31, 2005. Total securities as a percentage of total assets amounted to 29.3% at December 31, 2006, down from 32.6% at December 31, 2005.

For 2006, net cash used in financing activities amounted to $40.8 million and was used primarily to reduce FHLB advances. Net cash provided by investing activities was $18.0 million in 2006 and resulted primarily from maturities and principal payments of securities and proceeds from the sales of securities, offset in part by purchased loans and internal loan growth. Net cash provided by operating activities amounted to $28.5 million in 2006, $25.0 million of which was generated by net income. See the Consolidated Statements of Cash Flows for further information about sources and uses of cash.

Total shareholders' equity amounted to $173.1 million at December 31, 2006, compared to $158.4 million at December 31, 2005. The increase in shareholder's equity in 2006 was primarily attributable to net income of $25.0 million, which was partially offset by $10.2 million in dividends to shareholders. As a result of the December 31, 2006 adoption of the recognition provisions of SFAS No. 158, Washington Trust recorded a $3.2 million charge to the accumulated other comprehensive loss component of shareholders' equity. See Note 16 to the Consolidated Financial Statements for further discussion on the impact of the adoption of SFAS No. 158.

The ratio of total equity to total assets amounted to 7.21% at December 31, 2006, compared to 6.60% at December 31, 2005. Book value per share at December 31, 2006 amounted to $12.89, an 8.7% increase from the year-earlier amount of $11.86 per share. Tangible book value increased 10.6% from $7.79 per share at the end of 2005 to $8.61 per share at December 31, 2006.

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In December 2006, the Bancorp's Board of Directors approved a new common stock repurchase plan to replace its stock repurchase plan approved in 2001. The new plan authorizes the repurchase of up to 400,000 shares, or approximately 3%, of the Corporation's common stock in open market transactions. No shares have been repurchased under the 2006 plan. During 2006, the Bancorp purchased 50,000 shares at a total cost of $1.4 million under the 2001 plan.

In connection with the August 2005 Weston Financial acquisition, trust preferred securities totaling $22 million were issued in the third quarter of 2005 by capital trusts created by the Corporation. In accordance with FIN 46-R, the capital trusts that issued the trust preferred securities are not consolidated into the Corporation's financial statements, however, the Corporation reflects the amounts of junior subordinated debentures payable to the capital trusts as debt in its financial statements. The trust preferred securities qualify as Tier 1 capital.

The Corporation is subject to various regulatory capital requirements. The Corporation is categorized as "well-capitalized" under the regulatory framework for prompt corrective action. On March 1, 2005, the Federal Reserve Board issued a final rule that retains trust preferred securities in Tier 1 capital of bank holding companies, but with stricter quantitative limits and clearer standards. After a five-year transition period that would end on March 31, 2009, the aggregate amount of trust preferred securities would be limited to 25% of Tier 1 capital elements, net of goodwill. The Corporation has evaluated the potential impact of such a change on its Tier 1 capital ratio and has concluded that the regulatory capital treatment of the trust preferred securities in the Corporation's total capital ratio would be unchanged. See Note 13 to the Consolidated Financial Statements for additional discussion of capital requirements.

Contractual Obligations and Commitments

The Corporation has entered into numerous contractual obligations and commitments. The following table summarizes our contractual cash obligations and other commitments at December 31, 2006.

(Dollars in thousands)	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Contractual Obligations:					
FHLB advances (1)	$ 474,561	$ 154,935	$ 190,051	$ 59,308	$ 70,267
Junior subordinated debentures	22,681	-	-	-	22,681
Operating lease obligations	5,122	945	1,445	928	1,804
Software licensing arrangements	1,587	878	549	160	-
Treasury, tax and loan demand note	3,863	3,863	-	-	-
Deferred acquisition obligations	10,372	6,644	3,728	-	-
Other borrowings	449	65	58	68	258
Total contractual obligations	$ 518,635	$ 167,330	$ 195,831	$ 60,464	$ 95,010

(1) All FHLB advances are shown in the period corresponding to their scheduled maturity.

(Dollars in thousands)	Amount of Commitment Expiration - Per Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Other Commitments:					
Commercial loans	$ 122,376	$ 82,272	$ 12,318	$ 12,668	$ 15,118
Home equity lines	185,483	4,209	7,588	10,923	162,763
Other loans	10,671	8,662	1,422	587	-
Standby letters of credit	9,401	9,401	-	-	-

Forward loan commitments to:					
Originate loans	2,924	2,924	-	-	-
Sell loans	5,066	5,066	-	-	-
Total commitments	$ 335,921	$ 112,534	$ 21,328	$ 24,178	$ 177,881

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Off-Balance Sheet Arrangements

In the normal course of business, Washington Trust engages in a variety of financial transactions that, in accordance with accounting principles generally accepted in the United States, are not recorded in the financial statements, or are recorded in amounts that differ from the notional amounts. Such transactions are used to meet the financing needs of its customers and to manage the exposure to fluctuations in interest rates. These financial transactions include commitments to extend credit, standby letters of credit, financial guarantees, interest rate swaps and floors, and commitments to originate and commitments to sell fixed rate mortgage loans. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

For the year ended December 31, 2006, Washington Trust engaged in no off-balance sheet transactions reasonably likely to have a material effect on the consolidated financial condition.

Asset/Liability Management and Interest Rate Risk

The ALCO is responsible for establishing policy guidelines on liquidity and acceptable exposure to interest rate risk. Interest rate risk is the risk of loss to future earnings due to changes in interest rates. The objective of the ALCO is to manage assets and funding sources to produce results that are consistent with Washington Trust's liquidity, capital adequacy, growth, risk and profitability goals.

The ALCO manages the Corporation's interest rate risk using income simulation to measure interest rate risk inherent in the Corporation's on-balance sheet and off-balance sheet financial instruments at a given point in time by showing the effect of interest rate shifts on net interest income over a 12-month horizon, the month 13 to month 24 horizon, and a 60-month horizon. The simulations assume that the size and general composition of the Corporation's balance sheet remain static over the simulation horizons and take into account the specific repricing, maturity, call options, and prepayment characteristics of differing financial instruments that may vary under different interest rate scenarios. The characteristics of financial instrument classes are reviewed periodically by the ALCO to ensure their accuracy and consistency.

The ALCO reviews simulation results to determine whether the Corporation's exposure to a decline in net interest income remains within established tolerance levels over the simulation horizons and to develop appropriate strategies to manage this exposure. As of December 31, 2006 and 2005, net interest income simulations indicated that exposure to changing interest rates over the simulation horizons remained within tolerance levels established by the Corporation. The Corporation defines maximum unfavorable net interest income exposure to be a change of no more than 5% in net interest income over the first 12 months, no more than 10% over the second 12 months, and no more than 10% over the full 60-month simulation horizon. All changes are measured in comparison to the projected net interest income that would result from an "unchanged" rate scenario where both interest rates and the composition of the Corporation's balance sheet remain stable for a 60-month period. In addition to measuring the change in net interest income as compared to an unchanged interest rate scenario, the ALCO also measures the trend of both net interest income and net interest margin over a 60-month horizon to ensure the stability and adequacy of this source of earnings in different interest rate scenarios.

The ALCO reviews a variety of interest rate shift scenario results to evaluate interest risk exposure, including scenarios showing the effect of steepening or flattening changes in yield curve shape as well as parallel changes in interest rates. Because income simulations assume that the Corporation's balance sheet will remain static over the simulation horizon, the results do not reflect adjustments in strategy that the ALCO could implement in response to rate shifts.

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The following table sets forth the estimated change in net interest income from an unchanged interest rate scenario over the periods indicated for parallel changes in market interest rates using the Corporation's on and off-balance sheet financial instruments as of December 31, 2006 and 2005. Interest rates are assumed to shift by a parallel 100 or 200 basis points upward or 100 basis points downward over the periods indicated, except for core savings deposits, which are assumed to shift by lesser amounts due to their relative historical insensitivity to market interest rate movements. Further, deposits are assumed to have certain minimum rate levels below which they will not fall. It should be noted that the rate scenarios shown do not necessarily reflect the ALCO's view of the "most likely" change in interest rates over the periods indicated.

December 31,	2006		2005	
	Months 1 - 12	Months 13 - 24	Months 1 - 12	Months 13 - 24
100 basis point rate decrease	-1.63%	-2.47%	-0.08%	-1.18%
100 basis point rate increase	-1.18%	-5.03%	0.93%	-0.14%
200 basis point rate increase	-0.78%	-8.01%	1.59%	-1.31%

The ALCO estimates that the negative exposure of net interest income to falling rates as compared to an unchanged rate scenario results from asset yields declining as current asset holdings mature or reprice, while rates paid on certain core savings deposits are unlikely to fall significantly given their already low current levels. If rates were to fall and remain low for a sustained period, core savings deposit rates would likely decline more slowly than other market rates, while asset yields would decline as current asset holdings mature or reprice with increasing cash flows from more rapid mortgage-related prepayments and redemption of callable securities.

The negative exposure of net interest income to rising rates as compared to an unchanged rate scenario results from more rapid increases in funding costs than for asset yields. The ALCO's estimate of interest rate risk exposure to rising rate environments, including those involving a further flattening or inversion of the yield curve, incorporates certain assumptions regarding the shift in mix from low-cost core savings deposits to higher-cost deposit categories, which has characterized a shift in funding mix during the current rising interest rate cycle. Although asset yields would also increase in a rising interest rate environment, the cumulative impact of relative growth in the higher cost deposit categories suggests that by Year 2 of rising interest rate scenarios, the increase in the Corporation's cost of funds could result in a relative decline in net interest margin compared to an unchanged rate scenario. For simulation purposes, core savings rate changes are anticipated to lag other market rates related to loan and investment yields in both timing and magnitude.

While the ALCO reviews simulation assumptions to ensure that they are reasonable and current, income simulation may not always prove to be an accurate indicator of interest rate risk or future net interest margin since the repricing, maturity and prepayment characteristics of financial instruments and the composition of the Corporation's balance sheet may change to a different degree than estimated. Firstly, simulation modeling assumes a static balance sheet, with the exception of certain modeled deposit mix shifts from low-cost core savings deposits to higher-cost money market and time deposits in a rising interest rate environment as noted above. The static balance sheet assumption does not necessarily reflect the Corporation's expectation for future balance sheet growth, which is a function of the business environment and customer behavior. Another significant simulation assumption is the sensitivity of core savings deposits to fluctuations in interest rates. Income simulation results assume that changes in both core savings deposit rates and balances are related to changes in short-term interest rates. The assumed relationship between short-term interest rate changes and core deposit rate and balance changes used in income simulation may differ from the ALCO's estimates. Lastly, mortgage-backed securities and mortgage loans involve a level of risk that unforeseen changes in prepayment speeds may cause related cash flows to vary significantly in differing rate environments. Such changes could affect the level of reinvestment risk associated with cash flow from these instruments, as well as their market value. Changes in prepayment speeds could also increase or decrease the amortization of premium or accretion of discounts related to such instruments, thereby affecting interest income.

The Corporation also monitors the potential change in market value of its available for sale debt securities in changing interest rate environments. The purpose is to determine market value exposure that may not be captured by income simulation, but which might result in changes to the Corporation's capital position. Results are calculated using industry-standard analytical techniques and securities data. Available for sale equity securities are excluded from this analysis because the market value of such securities cannot be directly correlated with changes in interest

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rates. The following table summarizes the potential change in market value of the Corporation's available for sale debt securities as of December 31, 2006 and 2005 resulting from immediate parallel rate shifts:

(Dollars in thousands) Security Type	Down 100 Basis Points	Up 200 Basis Points
U.S. Treasury and government-sponsored agency securities (noncallable)	$ 2,867	$ (5,250)
U.S. government-sponsored agency securities (callable)	1,259	(5,947)
Mortgage-backed securities	7,025	(17,450)
Corporate securities	416	(800)
Total change in market value as of December 31, 2006	$ 11,567	$ (29,447)
Total change in market value as of December 31, 2005	$ 13,533	$ (34,327)

See Note 15 to the Consolidated Financial Statements for more information regarding the nature and business purpose of financial instruments with off-balance sheet risk and derivative financial instruments.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Information regarding quantitative and qualitative disclosures about market risk appears under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the caption "Asset/Liability Management and Interest Rate Risk".

ITEM 8. Financial Statements and Supplementary Data

The financial statements and supplementary data are contained herein.

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Management's Annual Report on Internal Control Over Financial Reporting

The management of Washington Trust Bancorp, Inc. and subsidiaries (the "Corporation") is responsible for establishing and maintaining adequate internal control over financial reporting for the Corporation. The Corporation's internal control system was designed to provide reasonable assurance to management and the Board of Directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Corporation's management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment, we believe that, as of December 31, 2006, the Corporation's internal control over financial reporting is effective based on those criteria.

The Corporation's independent registered public accounting firm has issued an attestation report on our assessment of the Corporation's internal control over financial reporting. This report appears on the following page of this Annual Report on Form 10-K.

/s/ John C. Warren	/s/ David V Devault
John C. Warren	**David V. Devault**
Chairman and	Executive Vice President, Secretary,
Chief Executive Officer	Treasurer and Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Washington Trust Bancorp, Inc.:

We have audited management's assessment, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, that Washington Trust Bancorp, Inc. and subsidiaries (the "Corporation") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Corporation maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO. Also, in our opinion, the Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control—Integrated Framework* issued by the COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Corporation as of December 31, 2006 and 2005, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated March 12, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Providence, Rhode Island
March 12, 2007

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Washington Trust Bancorp, Inc.:

We have audited the consolidated financial statements of Washington Trust Bancorp, Inc. and subsidiaries (the "Corporation") as listed in the accompanying index. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Washington Trust Bancorp, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 12, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Providence, Rhode Island
March 12, 2007

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES **(Dollars in thousands)**
CONSOLIDATED BALANCE SHEETS

December 31,	2006	2005
Assets:		
Cash and due from banks	$ 54,337	$ 48,997
Federal funds sold and other short-term investments	17,572	17,166
Mortgage loans held for sale	2,148	439
Securities:		
Available for sale, at fair value; amortized cost $525,966 in 2006 and $620,638 in 2005	526,396	619,234
Held to maturity, at cost; fair value $175,369 in 2006 and $162,756 in 2005	177,455	164,707
Total securities	703,851	783,941
Federal Home Loan Bank stock, at cost	28,727	34,966
Loans:		
Commercial and other	587,397	554,734
Residential real estate	588,671	582,708
Consumer	283,918	264,466
Total loans	1,459,986	1,401,908
Less allowance for loan losses	18,894	17,918
Net loans	1,441,092	1,383,990
Premises and equipment, net	24,307	23,737
Accrued interest receivable	11,268	10,594
Investment in bank-owned life insurance	39,770	30,360
Goodwill	44,558	39,963
Identifiable intangible assets, net	12,816	14,409
Other assets	18,719	13,441
Total assets	$ 2,399,165	$ 2,402,003
Liabilities:		
Deposits:		
Demand deposits	$ 186,533	$ 196,102
NOW accounts	175,479	178,677
Money market accounts	286,998	223,255
Savings accounts	205,998	212,499
Time deposits	822,989	828,725
Total deposits	1,677,997	1,639,258
Dividends payable	2,556	2,408
Federal Home Loan Bank advances	474,561	545,323
Junior subordinated debentures	22,681	22,681
Other borrowings	14,684	9,774
Accrued expenses and other liabilities	33,630	24,113
Total liabilities	2,226,109	2,243,557
Commitments and contingencies		
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares in 2006 and 2005;		
issued 13,492,110 shares in 2006 and 13,372,295 shares in 2005	843	836
Paid-in capital	35,893	32,778
Retained earnings	141,548	126,735
Accumulated other comprehensive loss	(3,515)	(1,653)

Treasury stock, at cost; 62,432 shares in 2006 and 10,519 shares in 2005		(1,713)		(250)
Total shareholders' equity		173,056		158,446
Total liabilities and shareholders' equity	$	2,399,165	$	2,402,003

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

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

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

Years ended December 31,	2006	2005	2004
Interest income:			
Interest and fees on loans	$ 92,190	$ 78,931	$ 60,828
Interest on securities:			
Taxable	33,763	32,934	33,125
Nontaxable	1,618	886	662
Dividends on corporate stock and Federal Home Loan Bank stock	2,842	2,491	2,105
Interest on federal funds sold and other short-term investments	721	451	133
Total interest income	131,134	115,693	96,853
Interest expense:			
Deposits	46,982	32,186	22,197
Federal Home Loan Bank advances	20,916	22,233	20,153
Junior subordinated debentures	1,352	458	-
Other	410	160	62
Total interest expense	69,660	55,037	42,412
Net interest income	61,474	60,656	54,441
Provision for loan losses	1,200	1,200	610
Net interest income after provision for loan losses	60,274	59,456	53,831
Noninterest income:			
Wealth management services:			
Trust and investment advisory fees	19,099	14,407	12,385
Mutual fund fees	4,665	1,336	-
Financial planning, commissions and other service fees	2,616	919	663
Wealth management services	26,380	16,662	13,048
Service charges on deposit accounts	4,915	4,502	4,483
Merchant processing fees	6,208	5,203	4,259
Income from bank-owned life insurance	1,410	1,110	1,175
Net gains on loan sales and commissions on loans originated for others	1,423	1,679	1,901
Net realized gains on securities	443	357	248
Other income	1,404	1,433	1,791
Total noninterest income	42,183	30,946	26,905
Noninterest expense:			
Salaries and employee benefits	38,698	32,133	28,816
Net occupancy	3,888	3,460	3,201
Equipment	3,370	3,456	3,267
Merchant processing costs	5,257	4,319	3,534
Outsourced services	2,009	1,723	1,616
Advertising and promotion	1,894	1,977	1,748
Legal, audit and professional fees	1,637	1,900	1,535
Amortization of intangibles	1,593	852	644
Other	6,989	6,573	6,012
Total noninterest expense	65,335	56,393	50,373
Income before income taxes	37,122	34,009	30,363

Income tax expense		12,091		10,985		9,534
Net income	$	25,031	$	23,024	$	20,829
Weighted average shares outstanding - basic		13,424.1		13,315.2		13,227.8
Weighted average shares outstanding - diluted		13,723.2		13,626.7		13,542.7
Per share information:						
Basic earnings per share	$	1.86	$	1.73	$	1.57
Diluted earnings per share	$	1.82	$	1.69	$	1.54
Cash dividends declared per share	$	.76	$	.72	$	.68

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

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES **(Dollars and shares in thousands)**

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Dollars and shares in thousands)	Common Shares Outstanding	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2004	13,195	$ 825	$ 29,846	$ 101,492	$ 6,101	$ (209)	$ 138,055
Net income for 2004				20,829			20,829
Unrealized gains on securities, net of $383 income tax expense					1,006		1,006
Reclassification adjustments for net realized gains included in net income, net of $87 income tax expense					(161)		(161)
Minimum pension liability adjustment, net of $5 income tax benefit					(9)		(9)
Comprehensive income							21,665
Cash dividends declared				(9,007)			(9,007)
Share-based compensation			135				135
Deferred compensation plan	(1)					(1)	(1)
Exercise of stock options and related tax benefit	80	5	1,000			125	1,130
Shares repurchased	(5)					(125)	(125)
Balance at December 31, 2004	13,269	$ 830	$ 30,981	$ 113,314	$ 6,937	$ (210)	$ 151,852
Net income for 2005				23,024			23,024
Unrealized losses on securities, net of $4,443 income tax benefit					(8,061)		(8,061)
Reclassification adjustments for net realized gains included in net income, net of $125 income tax expense					(232)		(232)
Minimum pension liability adjustment, net of $160 income tax benefit					(297)		(297)
Comprehensive income							14,434
Cash dividends declared				(9,603)			(9,603)
Share-based compensation			372				372

Deferred compensation plan	(1)		7			(40)	(33)
Exercise of stock options and related tax benefit	66	4	814				818
Shares issued - dividend reinvestment plan and other	28	2	604				606
Balance at December 31, 2005	13,362	$ 836	$ 32,778	$ 126,735	$ (1,653)	$ (250)	$ 158,446
Net income for 2006				25,031			25,031
Unrealized gains on securities, net of $843 income tax expense					1,432		1,432
Reclassification adjustments for net realized gains included in net income, net of $322 income tax expense					(121)		(121)
Minimum pension liability adjustment, net of $33 income tax expense					61		61
Comprehensive income							26,403
Adjustment to initially apply SFAS No. 158, net of $1,741 income tax benefit					(3,234)		(3,234)
Cash dividends declared				(10,218)			(10,218)
Share-based compensation			694				694
Deferred compensation plan	(5)		7			(144)	(137)
Exercise of stock options and related tax benefit	77	5	1,200			91	1,296
Shares issued - dividend reinvestment plan	46	2	1,214				1,216
Shares repurchased	(50)					(1,410)	(1,410)
Balance at December 31, 2006	13,430	$ 843	$ 35,893	$ 141,548	$ (3,515)	$ (1,713)	$ 173,056

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

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

(Dollars in thousands)

Years ended December 31,	2006	2005	2004
Cash flows from operating activities:			
Net income	$ 25,031	$ 23,024	$ 20,829
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,200	1,200	610
Depreciation of premises and equipment	2,995	3,020	3,124
Net amortization of premium and discount	1,252	2,295	2,758
Net amortization of intangibles	1,593	852	644
Share-based compensation	694	372	135
Deferred income tax benefit	(1,969)	(1,296)	(296)
Earnings from bank-owned life insurance	(1,410)	(1,110)	(1,175)
Net gains on loan sales	(1,423)	(1,679)	(1,901)
Net realized gains on securities	(443)	(357)	(248)
Proceeds from sales of loans	44,398	65,000	67,426
Loans originated for sale	(45,082)	(63,045)	(64,456)
Increase in accrued interest receivable, excluding purchased interest	(513)	(1,008)	(1,075)
(Increase) decrease in other assets	(2,175)	4,970	(1,755)
Increase (decrease) in accrued expenses and other liabilities	4,689	(3,145)	1,578
Other, net	(372)	(450)	(12)
Net cash provided by operating activities	28,465	28,643	26,186
Cash flows from investing activities:			
Purchases of: Mortgage-backed securities available for sale	(39,279)	(84,852)	(174,933)
Other investment securities available for sale	(77,111)	(57,401)	(122,354)
Mortgage-backed securities held to maturity	-	(17,505)	(6,131)
Other investment securities held to maturity	(38,358)	(28,184)	(38,406)
Proceeds from sales of: Mortgage-backed securities available for sale	92,401	11,426	-
Other investment securities available for sale	14,465	56,116	4,604
Maturities and principal payments of: Mortgage-backed securities available for sale	86,778	128,019	144,896
Other investment securities available for sale	16,999	48,995	85,500
Mortgage-backed securities held to maturity	16,019	25,957	43,030
Other investment securities held to maturity	9,360	9,052	12,160
Remittance (purchase) of Federal Home Loan Bank stock	6,239	(593)	(2,909)
Net increase in loans	(25,047)	(78,822)	(169,228)
Purchases of loans, including purchased interest	(33,238)	(73,520)	(119,796)
Proceeds from the sale of other real estate owned	380	4	6
Purchases of premises and equipment	(3,571)	(2,443)	(2,431)
Purchases of bank-owned life insurance	(8,000)	-	-
Equity investment in capital trusts	-	(681)	-
Cash paid for acquisition, net of cash acquired	-	(19,827)	-
Net cash provided by (used in) investing activities	18,037	(84,259)	(345,992)
Cash flows from financing activities:			
Net increase in deposits	38,740	181,384	251,767

Net increase in other borrowings	315	970	1,106
Proceeds from Federal Home Loan Bank advances	516,162	669,643	1,077,228
Repayment of Federal Home Loan Bank advances	(586,868)	(796,919)	(1,011,465)
Purchase of treasury stock, including deferred compensation plan activity	(1,547)	(33)	(126)
Proceeds from the issuance of common stock under dividend reinvestment plan	1,216	606	-
Proceeds from the exercise of stock options	912	367	561
Tax benefit from stock option exercises	384	451	569
Proceeds from the issuance of junior subordinated debentures	-	22,681	-
Cash dividends paid	(10,070)	(9,452)	(8,863)
Net cash (used in) provided by financing activities	(40,756)	69,698	310,777
Net increase (decrease) in cash and cash equivalents	5,746	14,082	(9,029)
Cash and cash equivalents at beginning of year	66,163	52,081	61,110
Cash and cash equivalents at end of year	$ 71,909	$ 66,163	$ 52,081

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

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

(Dollars in thousands)

Years ended December 31,	2006	2005	2004
Noncash Investing and Financing Activities:			
Loans charged off	$ 428	$ 369	$ 567
Net transfers from loans to other real estate owned	385	-	-
In conjunction with the purchase acquisition detailed in Note 2 to the Consolidated Financial Statements, assets were acquired and liabilities were assumed as follows:			
Fair value of assets acquired, excluding cash	4,595	32,561	-
Fair value of liabilities assumed	-	7,347	-
Net assets acquired, excluding cash	4,595	25,214	-
Less:			
Deferred acquisition obligation incurred	4,595	5,387	-
Cash paid for acquisition, net of cash acquired	-	19,827	-
Supplemental Disclosures:			
Interest payments	68,946	53,722	41,305
Income tax payments	14,054	11,962	9,731

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

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2006 and 2005

General

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

(1) Summary of Significant Accounting Policies

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.

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 and other intangible assets for impairment.

Securities

Investments in debt securities that management has the positive intent to hold to maturity are classified as held to maturity and carried at amortized cost. Management determines the appropriate classification of securities at the time of purchase.

Investments not classified as held to maturity are classified as available for sale. Securities available for sale consist of debt and equity securities that are available for sale to respond to changes in market interest rates, liquidity needs, changes in funding sources and other similar factors. These assets are specifically identified and are carried at fair value. Changes in fair value of available for sale securities, net of applicable income taxes, are reported as a separate component of shareholders' equity.

When a decline in market value of a security is considered other than temporary, the cost basis of the individual security is written down to fair value as the new cost basis and the write-down is charged to net realized securities losses in the consolidated statements of income. Washington Trust does not have a trading portfolio.

Premiums and discounts are amortized and accreted over the term of the securities on a method that approximates the interest method. The amortization and accretion is included in interest income on securities. Realized gains or losses from sales of equity securities are determined using the average cost method, while other realized gains and losses are determined using the specific identification method.

Federal Home Loan Bank Stock

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Boston. As a requirement of membership, the Bank must own a minimum amount of FHLB stock, calculated periodically based primarily on its level of borrowings from the FHLB. The Bank may redeem FHLB stock in excess of the minimum required. In addition, the FHLB may require members to redeem stock in excess of the requirement. FHLB stock is redeemable at par value, which equals cost. Since no market exists for these shares, they are carried at par value.

Mortgage Banking Activities

Mortgage Loans Held for Sale - Residential mortgage loans originated for sale are classified as held for sale. These loans are specifically identified and are carried at the lower of aggregate cost, net of unamortized deferred loan origination fees and costs, or market. Gains or losses on sales of loans are included in noninterest income and are recognized at the time of sale.

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

Loan Servicing Rights - Rights to service loans for others are recognized as an asset, including rights acquired through both purchases and originations. The total cost of originated loans that are sold with servicing rights retained is allocated between the loan servicing rights and the loans without servicing rights based on their relative fair values. Capitalized loan servicing rights are included in other assets and are amortized as an offset to other income over the period of estimated net servicing income. They are periodically evaluated for impairment based on their fair value. Impairment is measured on an aggregated basis according to interest rate band and period of origination. The fair value is estimated based on the present value of expected cash flows, incorporating assumptions for discount rate, prepayment speed and servicing cost. Any impairment is recognized as a charge to earnings through a valuation allowance.

Loans
Portfolio Loans - Loans held in the portfolio are stated at the principal amount outstanding, net of unamortized deferred loan origination fees and costs. Interest income is accrued on a level yield basis based on principal amounts outstanding. Deferred loan origination fees and costs are amortized as an adjustment to yield over the life of the related loans.

Nonaccrual Loans - Loans, with the exception of certain well-secured residential mortgage loans, 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. Well-secured residential mortgage loans are permitted to remain on accrual status provided that full collection of principal and interest is assured. 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 collectibility 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.

Impaired Loans - A loan is impaired when it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. All nonaccrual commercial loans are considered to be impaired. Impairment is measured on a discounted cash flow method, or at the loan's observable market price, or at the fair value of the collateral if the loan is collateral dependent. Impairment is measured based on the fair value of the collateral if it is determined that foreclosure is probable.

Restructured Loans - Restructured loans include those for which concessions such as reduction of interest rates, other than normal market rate adjustments, or deferral of principal or interest payments have been granted due to a borrower's financial condition. Subsequent cash receipts on restructured loans are applied to the outstanding principal balance of the loan, or recognized as interest income depending on management's assessment of the ultimate collectibility of the loan.

Allowance for Loan Losses
A methodology is used to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements: (1) identification of loss allocations for certain specific loans, (2) general loss allocations for certain loan types based on credit grade and loss experience factors, and (3) general loss allocations for other environmental factors. The methodology includes an analysis of individual loans deemed to be impaired in accordance with accounting principles

generally accepted in the United States of America (SFAS No. 114, “Accounting by Creditors for Impairment of a Loan - an amendment of FASB Statements No. 5 and 15”). Other individual commercial and commercial mortgage loans are evaluated using an internal rating system and the application of loss allocation factors. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower’s financial condition, the borrower’s performance with respect to loan terms, and the adequacy of collateral. Portfolios of more homogenous populations of loans including residential mortgages and consumer loans are analyzed as groups taking into account delinquency ratios and other indicators, the Corporation’s historical loss experience and comparison to industry standards of loss allocation factors for each type of credit product. Finally, an

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

additional allowance is maintained based on a judgmental process whereby management considers qualitative and quantitative assessments of other factors including regional credit concentration, industry concentration, results of regulatory examinations, historical loss ranges, portfolio composition, economic conditions such as interest rates and energy costs and other changes in the portfolio. The allowance for loan losses is management's best estimate of the probable loan losses incurred 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 (or portions thereof) deemed to be uncollectible.

While management believes that the allowance for loan losses is adequate, future additions to the allowance may be necessary based on changes in economic conditions. 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.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation for financial reporting purposes is calculated on the straight-line method over the estimated useful lives of assets. Expenditures for major additions and improvements are capitalized while the costs of current maintenance and repairs are charged to operating expenses. The estimated useful lives of premises and improvements range from three to fifty years. For furniture, fixtures and equipment, the estimated useful lives range from two to twenty years.

Goodwill and Other Intangibles

Goodwill represents the excess of the purchase price over the fair value of net assets acquired for transactions accounted for using purchase accounting. Goodwill and intangible assets that are not amortized are tested for impairment, based on their fair values, at least annually. Identifiable intangible assets that are subject to amortization are also reviewed for impairment based on their fair value. Any impairment is recognized as a charge to earnings and the adjusted carrying amount of the intangible asset becomes its new accounting basis. The remaining useful life of an intangible asset that is being amortized is also evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Impairment of Long-Lived Assets Other than Goodwill

Long-lived assets and other intangible assets are reviewed for impairment at least annually or whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. If impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal.

Other Real Estate Owned ("OREO")

OREO consists of property acquired through foreclosure and loans determined to be substantively repossessed. Real estate loans that are substantively repossessed include only those loans for which the Corporation has taken possession of the collateral, but has not completed legal foreclosure proceedings.

OREO is stated at the lower of cost or fair value minus estimated costs to sell at the date of acquisition or classification to OREO status. Fair value of such assets is determined based on independent appraisals and other relevant factors. Any write-down to fair value at the time of foreclosure is charged to the allowance for loan losses. A valuation allowance is maintained for declines in market value and for estimated selling expenses. Increases to the valuation allowance, expenses associated with ownership of these properties, and gains and losses from their sale are included in foreclosed property costs.

Bank-Owned Life Insurance ("BOLI")

BOLI represents life insurance on the lives of certain Bank employees who have provided positive consent allowing the Bank to be the beneficiary of such policies. Increases in the cash value of the policies, as well as insurance proceeds received, are recorded in other noninterest income, and are not subject to income taxes. The cash value is

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

included in assets. The financial strength of the insurance carrier is reviewed prior to the purchase of BOLI and annually thereafter.

Transfers and Servicing of Assets and Extinguishments of Liabilities
The accounting for transfers and servicing of financial assets and extinguishments of liabilities is based on consistent application of a financial components approach that focuses on control. This approach distinguishes transfers of financial assets that are sales from transfers that are secured borrowings. After a transfer of financial assets, the Corporation recognizes all financial and servicing assets it controls and liabilities it has incurred and derecognizes financial assets it no longer controls and liabilities that have been extinguished. This financial components approach focuses on the assets and liabilities that exist after the transfer. Many of these assets and liabilities are components of financial assets that existed prior to the transfer. If a transfer does not meet the criteria for a sale, the transfer is accounted for as a secured borrowing with a pledge of collateral.

Fee Revenue
Revenue from wealth management services is primarily accrued as earned based upon a percentage of asset values under administration. Certain trust service and financial planning fee revenue is recognized to the extent that services have been completed. Fee revenue from deposit service charges is generally recognized when earned. Fee revenue for merchant processing services is generally accrued as earned.

Pension Costs
Effective December 31, 2006, the Corporation adopted the recognition and disclosure provisions of SFAS No.158 “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R).” This Statement required that the funded status of an employer’s postretirement benefit plan, measured as the difference between the fair value of plan assets and the projected benefit obligation, be recognized in its statement of financial position. This Statement also requires that changes in the funded status of a defined benefit plan, including actuarial gains and losses and prior service costs and credits, must be recognized in comprehensive income in the year in which the changes occur.

Prior to the adoption of the recognition provisions of SFAS No. 158, the Corporation accounted for its defined benefit post-retirement plans under SFAS No. 87, “Employers Accounting for Pensions”. SFAS No. 87 required that a liability (minimum pension liability) be recorded when the accumulated benefit obligation liability exceeded the fair value of plan assets. Minimum pension liability adjustments were recorded as a non-cash charge to accumulated other comprehensive income in shareholders’ equity. Under SFAS No. 87, changes in the funded status were not immediately recognized, rather they were deferred and recognized ratably over future periods.

Pension benefits are accounted for using the net periodic benefit cost method, which recognizes the compensation cost of an employee’s pension benefit over that employee’s approximate service period.

Stock-Based Compensation
Effective January 1, 2006, the Corporation adopted the fair value recognition provisions of SFAS No. 123R, “Share-Based Payment”, using the modified prospective basis. Under this method, compensation cost includes the portion of awards vested in the period for (1) all share-based payments granted prior to, but not vested as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123; and (2) all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value.

Prior to January 1, 2006, compensation cost for stock-based compensation plans was measured using the intrinsic value based method prescribed by Accounting Principles Board ("APB") Opinion No. 25 and related interpretations. Under APB Opinion No. 25, because the exercise price of the stock options equaled the market price of the underlying stock on the date of grant (intrinsic value method), no compensation expense was recognized.

Income Taxes

Income tax expense is determined based on the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Earnings Per Share (EPS)
Diluted EPS is computed by dividing net income by the average number of common shares and common stock equivalents outstanding. Common stock equivalents arise from the assumed exercise of outstanding stock options, if dilutive. The computation of basic EPS excludes common stock equivalents from the denominator.

Comprehensive Income
Comprehensive income is defined as all changes in equity, except for those resulting from investments by and distribution to shareholders. Net income is a component of comprehensive income, with all other components referred to in the aggregate as other comprehensive income.

Cash Flows
For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and other short-term investments. Generally, federal funds are sold on an overnight basis.

Guarantees
FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," considers standby letters of credit a guarantee of the Corporation. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Corporation is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary.

Derivative Instruments and Hedging Activities
Derivatives are accounted for in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", as amended by SFAS Nos. 137, 138 and 149. All derivatives are recognized as either assets or liabilities on the balance sheet and are measured at fair value. Changes in the fair value of the derivatives are reported in either earnings or other comprehensive income (loss), depending on the use of the derivative and whether or not it qualifies for hedge accounting. Hedge accounting treatment is permitted only if specific criteria are met, including a requirement that the hedging relationship be highly effective both at inception and on an ongoing basis. Accounting for hedges varies based on the type of hedge — fair value or cash flow. Results of effective hedges are recognized in current earnings for fair value hedges and in other comprehensive income (loss) for cash flow hedges. Ineffective portions of hedges are recognized immediately in earnings and are not deferred. There may be increased volatility in net income and other comprehensive income (loss) on an ongoing basis as a result of accounting for derivative instruments in accordance with SFAS No. 133, as amended.

Interest rate lock commitments are extended to borrowers that relate to the origination of readily marketable mortgage loans held for sale ("rate locks"). To mitigate the interest rate risk inherent in these rate locks, as well as closed mortgage loans held for sale ("loans held for sale"), best efforts forward commitments are established to sell individual mortgage loans ("forward commitments"). Rate locks and forward commitments are considered to be derivatives under SFAS No. 133, as amended. The estimated fair value of the rate locks and forward commitments are recorded on the balance sheet in other assets, with the offset to net gains on sales of loans included in noninterest income. Market value is estimated based on outstanding investor commitments or, in the absence of such information, current investor yield requirements.

From time to time, interest rate contracts (swaps and floors) are used as part of interest rate risk management strategy. Interest rate swap and floor agreements are entered into as hedges against future interest rate fluctuations on specifically identified assets or liabilities.

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By using derivative financial instruments to hedge exposures to changes in interest rates, the Corporation exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Corporation, which creates credit risk for the Corporation. When the fair value of a derivative contract is negative, the Corporation owes the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is minimized by entering into transactions with highly rated counterparties that management believes to be creditworthy.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The net amounts to be paid or received on outstanding interest rate contracts are recognized on the accrual basis as an adjustment to the related interest income or expense over the life of the agreements. Changes in fair value of interest rate contracts are recorded in current earnings. Gains or losses resulting from the termination of interest rate swap and floor agreements on qualifying hedges of existing assets or liabilities are deferred and amortized over the remaining lives of the related assets/liabilities as an adjustment to the yield. Unamortized deferred gains/losses on terminated interest rate swap and floor agreements are included in the underlying assets/liabilities hedged.

(2) Acquisition

On August 31, 2005, the Corporation completed its acquisition of Weston Financial Group, Inc. (“Weston Financial”), a registered investment advisor and financial planning company located in Wellesley, Massachusetts, with broker-dealer and insurance agency subsidiaries. The results of Weston Financial’s operations have been included in the Consolidated Statements of Income since that date. The acquisition was accounted for as a purchase in accordance with SFAS No. 141 “Business Combinations” and the provisions of SFAS No. 142 “Goodwill and Other Intangible Assets” were also applied. See Note 9 for additional information on Goodwill and Other Intangibles.

The acquisition of Weston Financial increased the size and range of products and services offered by Washington Trust’s wealth management services group. As a result of the Weston Financial acquisition, wealth management assets under administration increased from approximately $1.9 billion to $3.3 billion in 2005.

Pursuant to the Stock Purchase Agreement dated March 18, 2005, by and among the Corporation, Weston Financial and Weston Financial’s shareholders, the Corporation purchased all of the outstanding shares of capital stock of Weston Financial in exchange for an aggregate amount of cash equal to $20.3 million plus certain future payments. The future payments include minimum payments of $2 million per year in each of the years 2007, 2008 and 2009. The present value of these minimum payments is included in Other Borrowings in the Consolidated Balance Sheet. In addition, the transaction is structured to provide for the contingent payment of additional amounts up to a maximum of $18.5 million based on operating results in each of the years during a three-year earn-out period ending December 31, 2008. During the third quarter of 2006 the Corporation recognized a liability for the 2006 portion of the earn-out period, with a corresponding addition to goodwill. Goodwill is not deductible for tax purposes. Contingent payments are added to goodwill and recorded as liabilities at the time the payments are determinable beyond a reasonable doubt.

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The following table summarizes the fair values of the assets acquired and liabilities assumed for Weston Financial at August 31, 2005, the date of acquisition.

(Dollars in thousands)

Assets:		
Cash and due from banks	$	1,060
Short-term investments		142
Equipment, net		72
Goodwill		17,372
Other identified intangible assets		13,952
Other assets		1,165
Total assets acquired	$	33,763
Liabilities:		
Accrued expenses and other liabilities	$	7,347
Total liabilities acquired		7,347
Net assets acquired	$	26,416

Washington Trust financed the payments made at closing through the issuance of two series of trust preferred stock by newly-formed special purpose finance entities in an aggregate amount of $22 million (see Note 12). In connection with the transaction Washington Trust also elected to become a financial holding company.

(3) New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, "Accounting Changes and Error Corrections". SFAS No 154 replaces APB Opinion No. 20, "Accounting Changes", and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements", and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS No. 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. SFAS No. 154 defines retrospective application as the application of a different accounting principle to prior accounting periods as if that principle had always been used or as the adjustment of previously issued financial statements to reflect a change in the reporting entity. SFAS No. 154 also redefines restatement as the revising of previously issued financial statements to reflect the correction of an error. This Statement requires that retrospective application of a change in accounting principle be limited to the direct effects of the change. This Statement carries forward without change the guidance contained in APB Opinion No. 20 for reporting the correction of an error in previously issued financial statements and a change in accounting estimate. SFAS No. 154 also carries forward the guidance in APB Opinion No. 20 requiring justification of a change in accounting principle on the basis of preferability. SFAS No. 154 was effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 did not have a material impact on the Corporation's financial position or results of operations.

In November 2005, the FASB issued FASB Staff Position ("FSP") 115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP provides additional guidance on when an investment in a debt or equity security should be considered impaired, and when that impairment should be considered other-than-temporary and recognized as a loss in earnings. Specifically, the guidance clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell has not been made. The FSP also requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. This FSP was effective for reporting periods

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beginning after December 15, 2005. The adoption of FSP 115-1 did not have a material impact on the Corporation’s financial position or results of operations.

In February 2006, the FASB issued SFAS No. 155, “Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140.” This Statement eliminates the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. SFAS No. 155 also allows a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. Provisions of this Statement may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. Prior periods should not be restated. The Corporation believes the adoption of SFAS No. 155 will not have a material impact on the Corporation’s financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, “Accounting for Servicing of Financial Assets - an amendment of FASB Statement No. 140.” This Statement requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value. SFAS No. 156 permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. An entity that used derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. SFAS No. 156 is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The Corporation believes the adoption of SFAS No. 156 will not have a material impact on the Corporation’s financial position or results of operations.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006. The provisions of FIN 48 are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of FIN 48. The Corporation believes that the adoption of FIN 48 will not have a material impact on the Corporation’s financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures of fair value measurements. SFAS No. 157 applies to the accounting principles that currently use fair value measurement, and does not require any new fair value measurements. The expanded disclosures focus on the inputs used to measure fair value as well as the effect of the fair value measurements on earnings. This Statement is effective as of the beginning of the first fiscal year beginning after November 15, 2007 and interim periods within that fiscal year. The Corporation believes the adoption of SFAS No. 157 will not have a material impact on the Corporation’s financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Post Retirement Plans - an amendment of FASB Statements No. 87, 88, 106 and 132(R)”. This Statement requires that the funded status of an employer’s postretirement benefit plan be recognized in its statement of financial position. This Statement also requires that changes in the funded status of a defined benefit plan, including actuarial gains and losses and prior service costs and credits, must be recognized in comprehensive income in the year in which the changes occur. In addition, SFAS No. 158 requires the measurement of the defined benefit plan’s assets and obligations as of the employer’s fiscal year end. The requirements to recognize funded status and any changes in that funded status are effective as of the first fiscal year ending after December 15, 2006. The requirement to

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measure the plan's assets and obligations as of the employer's fiscal year end is effective for fiscal years ending after December 15, 2008. The Corporation adopted the recognition and disclosure requirements of SFAS No. 158 effective December 31, 2006. Washington Trust is currently evaluating the impact that the measurement date provisions of SFAS No. 158 will have on its consolidated financial statements.

The SEC released Staff Accounting Bulletin No. 108 ("SAB 108") in September 2006. SAB 108 provides guidance on how the effects of the carryover or reversal of prior year financial statement misstatements should be considered in quantifying a current period misstatement. In addition, upon adoption, SAB 108 permits the Corporation to adjust the cumulative effect of immaterial errors relating to prior years in the carrying amount of assets and liabilities as of the beginning of the current fiscal year, with an offsetting adjustment to the opening balance of retained earnings. SAB 108 also requires the adjustment of any prior quarterly financial statement within the fiscal year of adoption for the effects of such errors on the quarters when the information is next presented. The adoption of SAB 108 did not have a material impact on the Corporation's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Liabilities - Including an amendment to FASB no. 115". This Statement permits instrument-by-instrument election of fair value for entire financial instruments, with changes in value realized in earnings. The election is available upon adoption of SFAS No. 159, for newly recognized financial instruments, or for financial instruments that are required to be remeasured. The fair value option election may not be made for (1) an investment that would otherwise be consolidated, (2) pension benefit, postretirement benefit, postemployment benefit, employee stock option, stock purchase, and other deferred compensation plans, (3) financial assets and liabilities recognized under lease contracts per SFAS No. 13, (4) firm commitments that would otherwise not be recognized at inception and that only involve financial instruments, (5) demand deposit account liabilities, (6) nonfinancial insurance contracts and warranties that the insurer can settle by paying a third party to provide those goods or services, and (7) host financial instruments resulting from separation of an embedded nonfinancial derivative instrument from a nonfinancial hybrid instrument. The fair value election cannot be revoked unless a new election date occurs. This Statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157, "Fair Value Instruments." Retrospective application is allowed for early adopters, prohibited for others. The choice to adopt early must be made within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements. This Statement permits application to eligible items existing at the effective date (or early adoption date). The Corporation is currently evaluating the impact that SFAS No. 159 will have on its consolidated financial statements.

(4) Cash and Due From Banks

The Bank is required to maintain certain average reserve balances with the Federal Reserve Board. Such reserve balances amounted to $18.8 million and $18.9 million at December 31, 2006 and 2005, respectively.

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(5) Securities
Securities are summarized as follows:

(Dollars in thousands)

December 31, 2006	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	$ 157,383	$ 778	$ (876)	$ 157,285
Mortgage-backed securities	298,038	923	(5,174)	293,787
Corporate bonds	55,569	291	(252)	55,608
Corporate stocks	14,976	4,915	(175)	19,716
Total securities available for sale	525,966	6,907	(6,477)	526,396
Securities Held to Maturity:				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	42,000	-	(422)	41,578
Mortgage-backed securities	69,340	440	(1,604)	68,176
States and political subdivisions	66,115	88	(588)	65,615
Total securities held to maturity	177,455	528	(2,614)	175,369
Total securities	$ 703,421	$ 7,435	$ (9,091)	$ 701,765

(Dollars in thousands)

December 31, 2005	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities Available for Sale:				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	$ 107,135	$ 1,332	$ (816)	$ 107,651
Mortgage-backed securities	436,142	1,019	(8,987)	428,174
Corporate bonds	63,565	346	(716)	63,195
Corporate stocks	13,796	6,573	(155)	20,214
Total securities available for sale	620,638	9,270	(10,674)	619,234
Securities Held to Maturity:				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	47,250	-	(797)	46,453
Mortgage-backed securities	84,960	768	(1,527)	84,201
States and political subdivisions	32,497	72	(467)	32,102
Total securities held to maturity	164,707	840	(2,791)	162,756
Total securities	$ 785,345	$ 10,110	$ (13,465)	$ 781,990

Included in corporate stocks at December 31, 2006 are preferred stocks, which are callable at the discretion of the issuer, with an amortized cost of $10.1 million and a fair value of $10.2 million. Call features on these stocks range from six months to four years.

At December 31, 2006 and 2005, the available for sale and held to maturity securities portfolio included $1.7 million and $3.4 million of net pretax unrealized losses, respectively. Included in these net amounts were gross unrealized losses amounting to $9.1 million and $13.5 million at December 31, 2006 and 2005, respectively.

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The following tables summarize, for all securities in an unrealized loss position at December 31, 2006 and 2005, respectively, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
At December 31, 2006	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	8	$ 52,751	$ 211	14	$ 94,393	$ 1,087	22	$ 147,144	$ 1,298
Mortgage-backed securities	7	20,620	122	69	240,457	6,656	76	261,077	6,778
States and political subdivisions	61	45,948	419	12	6,747	169	73	52,695	588
Corporate bonds	2	6,130	34	8	17,846	218	10	23,976	252
Subtotal, debt securities	78	125,449	786	103	359,443	8,130	181	484,892	8,916
Corporate stocks	5	5,823	110	4	1,494	65	9	7,317	175
Total temporarily impaired securities	83	$ 131,272	$ 896	107	$ 360,937	$ 8,195	190	$ 492,209	$ 9,091

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
At December 31, 2005	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	12	$ 70,586	$ 827	6	$ 43,464	$ 786	18	$ 114,050	$ 1,613
Mortgage-backed securities	56	178,688	2,565	47	238,844	7,949	103	417,532	10,514
States and political subdivisions	33	19,129	349	5	3,557	118	38	22,686	467
Corporate bonds	5	10,929	75	9	25,019	641	14	35,948	716
Subtotal, debt securities	106	279,332	3,816	67	310,884	9,494	173	590,216	13,310
Corporate stocks	6	2,617	126	1	483	29	7	3,100	155
Total temporarily impaired securities	112	$ 281,949	$ 3,942	68	$ 311,367	$ 9,523	180	$ 593,316	$ 13,465

For those debt securities whose amortized cost exceeds fair value, the primary cause is related to interest rates. The majority of the loss for debt securities reported in an unrealized loss position at December 31, 2006 was concentrated in mortgage-backed securities purchased during 2003 and 2004, during which time interest rates were at or near historical lows. The market value for these and other security holdings included in this analysis have declined due to the relative increase in short and medium term interest rates since the middle of 2004. The Corporation believes that the nature and duration of impairment on its debt security holdings are primarily a function of future interest rate movements and changes in investment spreads, and does not consider full repayment of principal on the reported debt obligations to be at risk. The Corporation has the ability and intent to hold these investments to full recovery of the cost basis. The debt securities in an unrealized loss position at December 31, 2006 consisted of 181 debt security holdings. The largest loss percentage of any single holding was 4.75% of its amortized cost.

Causes of conditions whereby the fair value of corporate stock equity securities is less than cost include the timing of purchases and changes in valuation specific to individual industries or issuers. The relationship between the level of market interest rates and the dividend rates paid on individual equity securities may also be a contributing factor.

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The Corporation believes that the nature and duration of impairment on its equity securities holdings are a function of general financial market movements and industry conditions. The Corporation has the ability and intent to hold these investments to full recovery of the cost basis. The equity securities in an unrealized loss position at December 31, 2006 consisted of nine holdings of financial and commercial entities. The largest loss percentage position of any single holding was 10.34% of its cost.

The maturities of debt securities as of December 31, 2006 are 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 December 31, 2006 were debt securities with an aggregate carrying value of $174.5 million that are callable at the discretion of the issuers. Final maturities of the callable securities range from fifteen months to twenty-two years, with call features ranging from one month to ten 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:					
U.S. Treasury obligations and obligations					
of U.S. government-sponsored agencies:					
Amortized cost	$ 17,183	$ 110,309	$ 29,891	$ -	$ 157,383
Weighted average yield	5.98%	5.01%	5.43%	-%	5.19%
Mortgage-backed securities:					
Amortized cost	62,987	152,015	66,940	16,096	298,038
Weighted average yield	5.05%	5.13%	5.13%	5.30%	5.12%
Corporate bonds:					
Amortized cost	14,002	12,002	8,721	20,844	55,569
Weighted average yield	5.80%	5.65%	5.73%	6.58%	6.05%
Total debt securities:					
Amortized cost	$ 94,172	$ 274,326	$ 105,552	$ 36,940	$ 510,990
Weighted average yield	5.33%	5.10%	5.27%	6.02%	5.25%
Fair value	$ 93,272	$ 272,098	$ 104,585	$ 36,725	$ 506,680

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(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 Held to Maturity:					
U.S. Treasury obligations and obligations					
of U.S. government-sponsored agencies:					
Amortized cost	$ 25,000	$ 17,000	$ -	$ -	$ 42,000
Weighted average yield	3.17%	4.19%	-%	-%	3.58%
Mortgage-backed securities:					
Amortized cost	13,740	34,775	17,652	3,173	69,340
Weighted average yield	5.06%	4.94%	4.69%	5.18%	4.91%
States and political subdivisions:					
Amortized cost	1,470	2,291	15,186	47,168	66,115
Weighted average yield	4.39%	3.00%	3.62%	3.95%	3.85%
Total debt securities:					
Amortized cost	$ 40,210	$ 54,066	$ 32,838	$ 50,341	$ 177,455
Weighted average yield	3.86%	4.62%	4.20%	4.02%	4.20%
Fair value	$ 39,717	$ 53,294	$ 32,427	$ 49,931	$ 175,369

The following is a summary of amounts relating to sales of securities available for sale:

(Dollars in thousands)

Years ended December 31,	2006	2005	2004
Proceeds from sales	$ 106,866	$ 67,542	$ 4,604
Gross realized gains	$ 3,984	$ 1,840	$ 937
Gross realized losses	(3,541)	(1,451)	(689)
Other than temporary write-downs	-	(32)	-
Net realized gains	$ 443	$ 357	$ 248

Included in net realized gains on securities in 2005 were $32 thousand in loss write-downs on certain equity securities deemed to be other-than-temporarily impaired based on an analysis of the financial condition and operating outlook of the issuers.

Included in other noninterest expense for the years ended December 31, 2006, 2005 and 2004 were contributions of appreciated equity securities to the Corporation's charitable foundation amounting to $513 thousand, $522 thousand and $454 thousand, respectively. These transactions resulted in realized securities gains of $381 thousand, $369 thousand and $387 thousand, respectively, for the same periods.

Securities available for sale and held to maturity with a fair value of $557.4 million and $564.3 million were pledged in compliance with state regulations concerning trust powers and to secure Treasury Tax and Loan deposits, borrowings and certain public deposits at December 31, 2006 and 2005, respectively. (See Note 12 to the Consolidated Financial Statements for additional discussion of FHLB borrowings). In addition, securities available for sale and held to maturity with a fair value of $9.6 million and $13.8 million were collateralized for the discount window at the Federal Reserve Bank at December 31, 2006 and 2005, respectively. There were no borrowings with the Federal Reserve Bank at either date. Securities available for sale with a fair value of $2.1 million and $2.2 million were designated in a rabbi trust for a nonqualified retirement plan at December 31, 2006 and 2005, respectively.

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(6) Loans

The following is a summary of loans:

(Dollars in thousands)	December 31, 2006			December 31, 2005		
		Amount	%		Amount	%
Commercial:						
Mortgages (1)	$	282,019	19%	$	291,292	21%
Construction and development (2)		32,233	2%		37,190	3%
Other (3)		273,145	19%		226,252	16%
Total commercial		587,397	40%		554,734	40%
Residential real estate:						
Mortgages (4)		577,522	40%		565,680	40%
Homeowner construction		11,149	-%		17,028	2%
Total residential real estate		588,671	40%		582,708	42%
Consumer						
Home equity lines		145,676	10%		161,100	11%
Home equity loans		93,947	6%		72,288	5%
Other (5)		44,295	4%		31,078	2%
Total consumer		283,918	20%		264,466	18%
Total loans (6)	$	1,459,986	100%	$	1,401,908	100%

(1) Amortizing mortgages, primarily secured by income producing property.
(2) Loans for construction of residential and commercial properties and for land development.
(3) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.
(4) A substantial portion of these loans is used as qualified collateral for FHLB borrowings (See Note 12 for additional discussion of FHLB borrowings).
(5) Fixed rate home equity loans and other consumer installment loans.
(6) Net of unamortized loan origination fees, net of costs, totaling $277 thousand and $373 thousand at December 31, 2006 and December 31, 2005, respectively. Also includes $342 thousand and $753 thousand of premium, net of discount, on purchased loans at December 31, 2006 and December 31, 2005, respectively.

Concentrations of Credit Risk

A significant portion of our loan portfolio is concentrated among borrowers in southern New England, primarily Rhode Island and, to a lesser extent, Connecticut and Massachusetts, and a substantial portion of the portfolio is collateralized by real estate in this area. In addition, a portion of the commercial loans and commercial mortgage loans are to borrowers in the hospitality, tourism and recreation industries. The ability of single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the market area and real estate values. The ability of commercial borrowers to honor their repayment commitments is dependent on the general economy as well as the health of the real estate economic sector in the Corporation’s market area.

Nonaccrual Loans

The balance of loans on nonaccrual status as of December 31, 2006 and 2005 was $2.7 million and $2.4 million, respectively. Interest income that would have been recognized had these loans been current in accordance with their original terms was approximately $218 thousand in 2006 and $171 thousand in 2005. Interest income attributable to these loans included in the Consolidated Statements of Income amounted to approximately $192 thousand in 2006 and $176 thousand in 2005.

There were no accruing loans 90 days or more past due at December 31, 2006 and 2005.

There were no loans whose terms had been restructured included in nonaccrual loans at December 31, 2006 and 2005.

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Impaired Loans

Impaired loans consist of all nonaccrual commercial loans. The following is a summary of impaired loans:

(Dollars in thousands) December 31,		2006		2005
Impaired loans requiring an allowance	$	1,393	$	332
Impaired loans not requiring an allowance		419		686
Total recorded investment in impaired loans	$	1,812	$	1,018

(Dollars in thousands) Years ended December 31,		2006		2005		2004
Average recorded investment in impaired loans	$	1,105	$	1,076	$	3,300
Interest income recognized on impaired loans	$	192	$	94	$	222

Loan Servicing Activities

An analysis of loan servicing rights for the years ended December 31, 2006, 2005 and 2004 follows:

(Dollars in thousands)		Loan Servicing Rights		Valuation Allowance		Total
Balance at December 31, 2003	$	1,300	$	(579)	$	721
Loan servicing rights capitalized		487		-		487
Amortization (1)		(311)		-		(311)
Direct write-down		(146)		146		-
Decrease in impairment reserve (2)		-		102		102
Balance at December 31, 2004		1,330		(331)		999
Loan servicing rights capitalized		391		-		391
Amortization (1)		(375)		-		(375)
Decrease in impairment reserve (2)		-		71		71
Balance at December 31, 2005		1,346		(260)		1,086
Loan servicing rights capitalized		255		-		255
Amortization (1)		(419)		-		(419)
Decrease in impairment reserve (2)		-		36		36
Balance at December 31, 2006	$	1,182	$	(224)	$	958

(1) Amortization expense is charged against loan servicing fee income.

(2) (Increases) and decreases in the impairment reserve are recorded as (reductions) and additions to loan servicing fee income.

Estimated aggregate amortization expense related to loan servicing assets is as follows:

(Dollars in thousands)			
Years ending December 31:	2007	$	232
	2008		188
	2009		151

2010	121
2011	96

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Mortgage loans and other loans sold to others are serviced on a fee basis under various agreements. Loans serviced for others are not included in the Consolidated Balance Sheets. Balance of loans serviced for others, by type of loan:

(Dollars in thousands)				
December 31,		2006		2005
Residential mortgages	$	64,269	$	66,533
Commercial loans		28,196		35,705
Total	$	92,465	$	102,238

Loans to Related Parties
The Corporation has made loans in the ordinary course of business to certain directors and executive officers including their immediate families and their affiliated companies. Such loans were made under normal interest rate and collateralization terms. Activity related to these loans in 2006 was as follows:

(Dollars in thousands)		
Balance at beginning of year	$	17,495
Additions		7,300
Reductions		(8,106)
Balance at end of year	$	16,689

(7) Allowance for Loan Losses
The following is an analysis of the allowance for loan losses:

(Dollars in thousands)						
Years ended December 31,		2006		2005		2004
Balance at beginning of year	$	17,918	$	16,771	$	15,914
Reclassification of allowance on off-balance sheet exposures		-		(250)		-
Provision charged to expense		1,200		1,200		610
Recoveries of loans previously charged off		204		566		814
Loans charged off		(428)		(369)		(567)
Balance at end of year	$	18,894	$	17,918	$	16,771

Included in the allowance for loan losses at December 31, 2006, 2005 and 2004 was an allowance for impaired loans amounting to $258 thousand, $44 thousand and $236 thousand, respectively.

(8) Premises and Equipment
The following is a summary of premises and equipment:

(Dollars in thousands)				
December 31,		2006		2005
Land and improvements	$	4,203	$	4,026
Premises and improvements		29,298		28,921
Furniture, fixtures and equipment		22,839		20,634
		56,340		53,581
Less accumulated depreciation		32,033		29,844

Total premises and equipment, net	$	24,307	$	23,737

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Depreciation of premises and equipment amounted to $3.0 million, $3.0 million and $3.1 million of expense for the years ended December 31, 2006, 2005 and 2004, respectively.

At December 31, 2006, the Corporation was committed to rent premises used in banking operations under noncancellable operating leases. Rental expense under the operating leases amounted to $963 thousand, $706 thousand and $569 thousand for 2006, 2005 and 2004, respectively. The minimum annual lease payments under the terms of these leases, exclusive of renewal provisions, are as follows:

(Dollars in thousands)			
Years ending December 31:	2007	$	945
	2008		743
	2009		702
	2010		506
	2111		422
	2012 and thereafter		1,804
Total minimum lease payments		$	5,122

Lease expiration dates range from four months to fifteen years, with renewal options of one to twenty years.

(9) Goodwill and Other Intangibles
The changes in the carrying value of goodwill and other intangible assets for the year ended December 31, 2006 were as follows:

Goodwill

(Dollars in thousands)		Commercial Banking Segment		Wealth Management Service Segment		Total
Balance at December 31, 2004	$	22,591	$	-	$	22,591
Additions to goodwill during the period		-		17,372		17,372
Impairment recognized		-		-		-
Balance at December 31, 2005		22,591		17,372		39,963
Additions to goodwill during the period		-		4,595		4,595
Impairment recognized		-		-		-
Balance at December 31, 2006	$	22,591	$	21,967	$	44,558

Other Intangible Assets

(Dollars in thousands)					Non-compete Agreements				
		Core Deposit Intangible		Advisory Contracts		Weston Financial		Other		Total
Balance at December 31, 2004	$	1,214	$	-	$	-	$	95	$	1,309
Acquisition		-		13,657		295		-		13,952
Amortization		303		437		17		95		852

Balance at December 31, 2005	911	13,220	278	-	14,409
Amortization	261	1,283	49	-	1,593
Balance at December 31, 2006	$ 650	$ 11,937	$ 229	$ -	$ 12,816

During the third quarter of 2005, goodwill and intangible assets related to the acquisition of Weston Financial were recorded amounting to $17.4 million and $14.0 million, respectively. The Stock Purchase Agreement dated

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March 18, 2005, by and among the Corporation, Weston Financial and Weston Financial's shareholders, provides for the payment of contingent purchase price amounts based on operating results in each of the years in the three-year earn-out period ending December 31, 2008. During the third quarter of 2006 the Corporation recognized a liability of $4.6 million, with a corresponding addition to goodwill, representing the 2006 portion of the earn-out period. Goodwill is not deductible for tax purposes.
The value attributable to the core deposit intangible ("CDI") is a function of the estimated attrition of the core deposit accounts, and the expected cost savings associated with the use of the existing core deposit base rather than alternative funding sources.

The value attributed to the advisory contracts was based on the time period over which the advisory contracts are expected to generate economic benefits. The intangible values of advisory contracts are being amortized over a 20-year life using a declining balance method, based on expected attrition for Weston Financial's current customer base derived from historical runoff data. The amortization schedule is based on the anticipated future customer runoff rate. This schedule will result in amortization of approximately 50% of the intangible asset after six years, and approximately 70% amortization of the balance after ten years.

The value attributable to the Weston Financial non-compete agreements was based on the expected receipt of future economic benefits related to provisions in the non-compete agreements that restrict competitive behavior. The intangible value of non-compete agreements is being amortized on a straight-line basis over the six-year contractual lives of the agreements.

Estimated annual amortization expense is as follows:

(Dollars in thousands)

Estimated amortization expense	Core Deposits	Advisory Contracts	Non-compete Agreements	Total
2007	$ 140	$ 1,194	$ 49	$ 1,383
2008	120	1,111	49	1,280
2009	120	1,040	49	1,209
2010	120	922	49	1,091
2011	120	768	33	921

The components of intangible assets at December 31, 2006 and 2005 were as follows:

(Dollars in thousands)

	Core Deposits	Advisory Contracts	Non-compete Agreements	Total
December 31, 2006:				
Gross carrying amount	$ 2,997	$ 13,657	$ 1,147	$ 17,801
Accumulated amortization	2,347	1,720	918	4,985
Net amount	$ 650	$ 11,937	$ 229	$ 12,816
December 31, 2005:				
Gross carrying amount	$ 2,997	$ 13,657	$ 1,147	$ 17,801

Accumulated amortization		2,086		437		869		3,392
Net amount	$	911	$	13,220	$	278	$	14,409

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(10) Net Deferred Tax Asset and Income Taxes
The components of income tax expense were as follows:

(Dollars in thousands)

Years ended December 31,	2006	2005	2004
Current tax expense:			
Federal	$ 13,435	$ 12,106	$ 9,826
State	625	175	4
Total current tax expense	14,060	12,281	9,830
Deferred tax benefit:			
Federal	(1,828)	(1,261)	(296)
State	(141)	(35)	-
Total deferred tax benefit	(1,969)	(1,296)	(296)
Total income tax expense	$ 12,091	$ 10,985	$ 9,534

Total income tax expense varied from the amount determined by applying the Federal income tax rate to income before income taxes. The reasons for the differences were as follows:

(Dollars in thousands)

Years ended December 31,	2006	2005	2004
Tax expense at Federal statutory rate	$ 12,993	$ 11,903	$ 10,627
(Decrease) increase in taxes resulting from:			
Tax-exempt income	(613)	(383)	(305)
Dividends received deduction	(244)	(240)	(288)
Bank-owned life insurance	(493)	(389)	(411)
State tax, net of Federal income tax benefit	406	114	3
Other	42	(20)	(92)
Total income tax expense	$ 12,091	$ 10,985	$ 9,534

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The approximate tax effects of temporary differences that give rise to gross deferred tax assets and gross deferred tax liabilities at December 31, 2006 and 2005 are as follows:

(Dollars in thousands)

December 31,		2006		2005
Gross deferred tax assets:				
Allowance for loan losses	$	6,613	$	6,257
Defined benefit pension obligations		5,266		3,166
Deferred loan origination fees		923		864
Deferred compensation		963		760
Securities available for sale		-		341
Net operating loss carryover from acquired bank		-		39
Other		1,043		906
Gross deferred tax assets		14,808		12,333
Gross deferred tax liabilities:				
Securities available for sale		(181)		-
Deferred loan origination costs		(1,803)		(1,758)
Premises and equipment		(440)		(683)
Amortization of intangibles		(5,160)		(5,778)
Other		(512)		(557)
Gross deferred tax liabilities		(8,096)		(8,776)
Net deferred tax asset	$	6,712	$	3,557

The Corporation has determined that a valuation allowance is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized primarily through future reversals of existing taxable temporary differences or carryback to taxable income in prior years.

(11) Time Certificates of Deposit
Scheduled maturities of time certificates of deposit at December 31, 2006 were as follows:

(Dollars in thousands)

Years ending December 31:	2007	$	550,981
	2008		156,130
	2009		75,535
	2010		25,925
	2011		10,373
	2012 and thereafter		4,045
Balance at December 31, 2006		$	822,989

The aggregate amount of time certificates of deposit in denominations of $100 thousand or more was $426.3 million and $424.6 million at December 31, 2006 and 2005, respectively.

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The following table represents the amount of certificates of deposit of $100 thousand or more at December 31, 2006 maturing during the periods indicated:

(Dollars in thousands)

Maturing:	January 1, 2007 to March 31, 2007	$116,316
	April 1, 2007 to June 30, 2007	52,871
	July 1, 2007 to December 31, 2007	85,935
	January 1, 2008 and beyond	171,188
Balance at December 31, 2006		426,310

(12) Borrowings
Federal Home Loan Bank Advances
The following table presents maturities and weighted average interest rates paid on FHLB advances outstanding at December 31, 2006 and 2005:

(Dollars in thousands)

	December 31, 2006			December 31, 2005		
	Scheduled Maturity	Redeemed at Call Date (1)	Weighted Average Rate (2)	Scheduled Maturity	Redeemed at Call Date (1)	Weighted Average Rate (2)
2006	$ -	$ -	-%	$ 152,437	$ 202,937	3.43%
2007	161,000	210,500	4.09%	109,970	119,970	3.51%
2008	115,860	115,860	3.84%	107,508	107,508	3.72%
2009	82,063	70,063	4.17%	81,160	69,160	4.17%
2010	29,671	15,171	5.49%	28,395	13,895	5.51%
2011	28,993	20,993	4.77%	29,874	10,874	4.61%
2012 and after	56,974	41,974	4.74%	35,979	20,979	4.58%
	$ 474,561	$ 474,561		$ 545,323	$ 545,323	

(1) Callable FHLB 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 amounting to $8.0 million at December 31, 2006. Under agreement with the FHLB, the Bank is required to maintain qualified collateral, free and clear of liens, pledges, or encumbrances that, based on certain percentages of book and market values, has a value equal to the aggregate amount of the line of credit and outstanding advances. The FHLB maintains a security interest in various assets of the Bank including, but not limited to, residential mortgage loans, U.S. government or agency securities, U.S. government-sponsored agency securities, and amounts maintained on deposit at the FHLB. The Bank maintains qualified collateral in excess of the amount required to collateralize the line of credit and outstanding advances at December 31, 2006. Included in the collateral were securities available for sale and held to maturity with a fair value of $451.5 million and $498.0 million that were specifically pledged to secure FHLB borrowings at

December 31, 2006 and December 31, 2005, respectively. 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 FHLB borrowings, except for that collateral which has been specifically pledged.

Junior Subordinated Debentures

In August 2005, the Bancorp sponsored the creation of WT Capital Trust I ("Trust I") and WT Capital Trust II ("Trust II"). Trust I and Trust II are Delaware statutory trusts created for the sole purpose of issuing trust preferred securities and investing the proceeds in junior subordinated debentures of the Bancorp. The Bancorp is the owner of all of the common securities of Trust I and Trust II. In accordance with FASB Interpretation 46-R, "Consolidation of Variable Interest Entities—Revised", Trust I and Trust II are treated as unconsolidated subsidiaries. The common stock investment in the statutory trusts is included in "Other Assets" in the Consolidated Balance Sheet.

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On August 29, 2005, Trust I issued $8 million of Capital Securities in a private placement of trust preferred securities. The Capital Securities mature in September 2035, are redeemable at the Bancorp’s option beginning after five years, and require quarterly distributions by Trust I to the holder of the Capital Securities, at a rate of 5.965% until September 15, 2010, and thereafter at a rate equal to the three-month LIBOR rate plus 1.45%. The Bancorp has guaranteed the Capital Securities and, to the extent not paid by Trust I, accrued and unpaid distributions on the Capital Securities, as well as the redemption price payable to the Capital Securities holders. The proceeds of the Capital Securities, along with proceeds from the issuance of common securities by Trust I to the Bancorp, were used to purchase $8.3 million of the Bancorp's junior subordinated deferrable interest notes (the “Trust I Debentures”) and constitute the primary asset of Trust I. Like the Capital Securities, the Trust I Debentures bear interest at a rate of 5.965% until September 15, 2010, and thereafter at a rate equal to the three-month LIBOR rate plus 1.45%. The Trust I Debentures mature on September 15, 2035, but may be redeemed at par at the Bancorp’s option, subject to the approval of the applicable banking regulator to the extent required under applicable guidelines or policies, at any time on or after September 15, 2010, or upon the occurrence of certain special qualifying events.

On August 29, 2005, Trust II issued $14 million of Capital Securities in a private placement of trust preferred securities. The Capital Securities mature in November 2035, are redeemable at the Bancorp’s option beginning after five years, and require quarterly distributions by Trust II to the holder of the Capital Securities, at a rate of 5.96% until November 23, 2010, and thereafter at a rate equal to the three-month LIBOR rate plus 1.45%. The Bancorp has guaranteed the Capital Securities and, to the extent not paid by Trust II, accrued and unpaid distributions on the Capital Securities, as well as the redemption price payable to the Capital Securities holders. The proceeds of the Capital Securities, along with proceeds from the issuance of common securities by Trust II to the Bancorp, were used to purchase $14.4 million of the Bancorp's junior subordinated deferrable interest notes (the “Trust II Debentures”) and constitute the primary asset of Trust II. Like the Capital Securities, the Trust II Debentures bear interest at a rate of 5.96% until November 23, 2010, and thereafter at a rate equal to the three-month LIBOR rate plus 1.45%. The Trust II Debentures mature on September 15, 2035, but may be redeemed at par at the Bancorp's option, subject to the approval of the applicable banking regulator to the extent required under applicable guidelines or policies, at any time on or after September 15, 2010, or upon the occurrence of certain special qualifying events.

Other Borrowings
The following is a summary of other borrowings:

(Dollars in thousands)

December 31,		2006		2005
Treasury, Tax and Loan demand note balance	$	3,863	$	3,794
Deferred acquisition obligations		10,372		5,469
Other		449		511
Other borrowings	$	14,684	$	9,774

The Stock Purchase Agreement for the August 2005 acquisition of Weston Financial provides for the payment of contingent purchase price amounts based on operating results in each of the years in the three-year earn-out period ending December 31, 2008. During 2006, the Corporation recognized additional deferred acquisition obligation of $4.6 million, representing the 2006 portion of the earn-out period. As of December 31, 2006, approximately $6.6 million of the deferred acquisition obligations will be paid in 2007 and the remainder will be paid in 2008.

There were no securities sold under repurchase agreements outstanding at December 31, 2006, 2005 and 2004. Securities sold under repurchase agreements generally mature within 90 days. The securities underlying the agreements are held in safekeeping by the counterparty in the name of the Corporation and are repurchased when the agreement matures. Accordingly, these underlying securities are included in securities available for sale and the obligations to repurchase such securities are reflected as a liability.

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(13) Shareholders' Equity
Stock Repurchase Plan
In December 2006, the Bancorp's Board of Directors approved a new common stock repurchase plan to replace a prior stock repurchase plan approved in 2001, which was terminated. The 2006 plan authorizes the repurchase of up to 400,000 shares, or approximately 3%, of the Corporation's common stock in open market transactions. This authority may be exercised from time to time and in such amounts as market conditions warrant, and subject to regulatory considerations. The Bancorp plans to hold the repurchased shares as treasury stock to be used for general corporate purposes. No shares have been repurchased under the 2006 plan.

The 2001 stock repurchase plan had authorized the repurchase of up to 250,000 shares, or 2.1%, of the Corporation's outstanding common shares. The 2001 plan had approximately 112,000 shares remaining to be repurchased. During 2006, the Bancorp purchased 50,000 shares at a total cost of $1.4 million under this plan. No shares were repurchased during 2005 and 5,000 shares at a total cost of $125 thousand were purchased during 2004. The 2001 Plan was terminated with the adoption of the 2006 plan.

In addition, from time to time shares are acquired pursuant to the Nonqualified Deferred Compensation Plan.

Rights
In August 2006, the Bancorp's Board of Directors adopted a new shareholder rights plan, as set forth in the Shareholders Rights Agreement, dated August 17, 2006 (the "2006 Rights Agreement"). The 2006 Rights Agreement replaced a previous rights plan, which expired in August 2006. Pursuant to the terms of the 2006 Rights Agreement, the Bancorp declared a dividend distribution of one common share purchase right (a "Right") for each outstanding share of common stock to shareholders of record on August 31, 2006. Such Rights also apply to new issuances of shares after that date. Each Right entitles the registered holder to purchase from the Corporation one share of its common stock at a price of $100.00 per share, subject to adjustment.

The Rights are not exercisable or separable from the common stock until the earlier of 10 days after a person or group (an "Acquiring Person") acquires beneficial ownership of 15% or more of the outstanding common shares or announces a tender offer to do so. The Rights, which expire on August 31, 2016, may be redeemed by the Bancorp at any time prior to the acquisition by an Acquiring Person of beneficial ownership of 15% or more of the common stock at a price of $.001 per Right. In the event that any party becomes an Acquiring Person, each holder of a Right, other than Rights owned by the Acquiring Person, will have the right to receive upon exercise that number of common shares having a market value of two times the purchase price of the Right. In the event that, at any time after any party becomes an Acquiring Person, the Corporation is acquired in a merger or other business combination transaction or 50% or more of its assets or earning power are sold, each holder of a Right will have the right to purchase that number of shares of the acquiring company having a market value of two times the purchase price of the Right.

Dividends
The primary source of liquidity for the Bancorp is dividends received from the Bank. The Bancorp and the Bank are regulated enterprises and their abilities to pay dividends are subject to regulatory review and restriction. Certain regulatory and statutory restrictions exist regarding dividends, loans, and advances from the Bank to the Bancorp. Generally the Bank has the ability to pay dividends to the Bancorp subject to minimum regulatory capital requirements. The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. In addition, the Rhode Island Division of Banking may also restrict the declaration of dividends if a bank would not be able to pay its debts as they

become due in the usual course of business or the bank's total assets would be less than the sum of its total liabilities. Under the most restrictive of these requirements, the Bank could have declared aggregate additional dividends of $54.8 million as of December 31, 2006.

Dividend Reinvestment

Under the Amended and Restated Dividend Reinvestment and Stock Purchase Plan, 607,500 shares of common stock were originally reserved to be issued for dividends reinvested and cash payments to the plan.

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Reserved Shares

As of December 31, 2006, a total of 1,598,576 common stock shares were reserved for issuance under the 1988 Plan, 1997 Plan, 2003 Plan and the Amended and Restated Dividend Reinvestment and Stock Purchase Plan.

Regulatory Capital Requirements

The Bancorp and the Bank are subject to various regulatory capital requirements administered by the Federal Reserve Board and the FDIC, respectively. These requirements were established to more accurately assess the credit risk inherent in the assets and off-balance sheet activities of financial institutions. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation to maintain minimum amounts and ratios of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined in the regulations), and of Tier 1 capital to average assets (as defined in the regulations). Management believes, as of December 31, 2006 that the Corporation meets all capital adequacy requirements to which it is subject.

As of December 31, 2006, the most recent notification from the FDIC categorized the Bank as “well-capitalized” under the regulatory framework for prompt corrective action. To be categorized as “well-capitalized,” the Bank must maintain minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios. There are no conditions or events since that notification that management believes have changed the Bank’s categorization.

The following table presents the Corporation’s and the Bank’s actual capital amounts and ratios at December 31, 2006 and 2005, as well as the corresponding minimum regulatory amounts and ratios:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be “Well Capitalized” Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 161,606	11.00%	$ 117,538	8.00%	$ 146,922	10.00%
Bank	$ 168,765	11.49%	$ 117,465	8.00%	$ 146,832	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	$ 141,098	9.60%	$ 58,769	4.00%	$ 88,153	6.00%
Bank	$ 148,268	10.10%	$ 58,733	4.00%	$ 88,099	6.00%
Tier 1 Capital (to Average Assets): (1)						
Corporation	$ 141,098	6.04%	$ 93,487	4.00%	$ 116,858	5.00%
Bank	$ 148,268	6.35%	$ 93,437	4.00%	$ 116,797	5.00%

As of December 31, 2005:									
Total Capital (to Risk-Weighted Assets):									
Corporation	$	147,454	10.51%	$	112,221	8.00%	$	140,277	10.00%
Bank	$	151,383	10.80%	$	112,152	8.00%	$	140,190	10.00%
Tier 1 Capital (to Risk-Weighted Assets):									
Corporation	$	127,023	9.06%	$	56,111	4.00%	$	84,166	6.00%
Bank	$	130,962	9.34%	$	56,076	4.00%	$	84,114	6.00%
Tier 1 Capital (to Average Assets): (1)									
Corporation	$	127,023	5.45%	$	93,285	4.00%	$	116,606	5.00%
Bank	$	130,962	5.62%	$	93,254	4.00%	$	116,568	5.00%

(1) Leverage ratio

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WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
December 31, 2006 and 2005

In connection with the Weston Financial acquisition, trust preferred securities totaling $22 million were issued in the third quarter of 2005 by Trust I and Trust II, capital trusts created by the Bancorp. In accordance with FIN 46-R, Trust I and Trust II are not consolidated into the Corporation's financial statements; however, the Corporation reflects the amounts of junior subordinated debentures payable to the preferred shareholders of Trust I and Trust II as debt in its financial statements. The trust preferred securities qualify as Tier 1 capital.

The Corporation's capital ratios at December 31, 2006 place the Corporation in the "well-capitalized" category according to regulatory standards. On March 1, 2005, the Federal Reserve Board issued a final rule that would retain trust preferred securities in Tier 1 capital of bank holding companies, but with stricter quantitative limits and clearer standards. Under the proposal, after a five-year transition period that would end on March 31, 2009, the aggregate amount of trust preferred securities would be limited to 25% of Tier 1 capital elements, net of goodwill. The Corporation has evaluated the potential impact of such a change on its Tier 1 capital ratio and has concluded that the regulatory capital treatment of the trust preferred securities in the Corporation's total capital ratio would be unchanged.

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

(Dollars in thousands)

December 31,	2006	2005
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	$ 122,376	$ 105,971
Home equity lines	185,483	174,073
Other loans	10,671	17,271
Standby letters of credit	9,401	10,986
Financial instruments whose notional amounts exceed the amount of credit risk:		
Forward loan commitments:		
Commitments to originate fixed rate mortgage loans to be sold	2,924	2,188
Commitments to sell fixed rate mortgage loans	5,066	2,626

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

evaluated on a case-by-case basis. The amount of collateral obtained is based on manageme