

WASHINGTON TRUST BANCORP INC
Form 10-Q
August 09, 2011

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

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended JUNE 30, 2011 or

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

Commission file number: 001-32991

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

02891
(Zip Code)

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

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

Yes No

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

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Mark one)

| | | | |
|---|-----------------------|-------------------|----------------------------------|
| Large accelerated filer | <input type="radio"/> | Accelerated filer | <input checked="" type="radio"/> |
| Non-accelerated filer | <input type="radio"/> | Smaller reporting | <input type="radio"/> |
| (Do not check if a smaller reporting company) | | | |

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

Yes No

The number of shares of common stock of the registrant outstanding as of August 5, 2011 was 16,279,449.

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

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (unaudited)(Dollars in thousands,
except par value)

| | June 30, 2011 | December 31, 2010 |
|--|------------------|----------------------|
| Assets: | | |
| Cash and due from banks | \$ 64,265 | \$ 85,971 |
| Other short-term investments | 7,480 | 6,765 |
| Mortgage loans held for sale | 8,825 | 13,894 |
| Securities available for sale, at fair value; amortized cost \$570,905 in 2011 and \$578,897 in 2010 | 591,580 | 594,100 |
| Federal Home Loan Bank stock, at cost | 42,008 | 42,008 |
| Loans: | | |
| Commercial and other | 1,073,495 | 1,027,065 |
| Residential real estate | 658,347 | 645,020 |
| Consumer | 325,310 | 323,553 |
| Total loans | 2,057,152 | 1,995,638 |
| Less allowance for loan losses | 29,353 | 28,583 |
| Net loans | 2,027,799 | 1,967,055 |
| Premises and equipment, net | 25,265 | 26,069 |
| Investment in bank-owned life insurance | 52,802 | 51,844 |
| Goodwill | 58,114 | 58,114 |
| Identifiable intangible assets, net | 7,377 | 7,852 |
| Other assets | 50,791 | 55,853 |
| Total assets | \$ 2,936,306 | \$ 2,909,525 |
| Liabilities: | | |
| Deposits: | | |
| Demand deposits | \$ 261,016 | \$ 228,437 |
| NOW accounts | 236,162 | 241,974 |
| Money market accounts | 355,096 | 396,455 |
| Savings accounts | 227,014 | 220,888 |
| Time deposits | 916,755 | 948,576 |
| Total deposits | 1,996,043 | 2,036,330 |
| Federal Home Loan Bank advances | 558,441 | 498,722 |
| Junior subordinated debentures | 32,991 | 32,991 |
| Other borrowings | 22,005 | 23,359 |
| Other liabilities | 45,401 | 49,259 |
| Total liabilities | 2,654,881 | 2,640,661 |
| Shareholders' Equity: | | |
| Common stock of \$.0625 par value; authorized 30,000,000 shares; issued 16,266,483 shares in 2011 and 16,171,618 shares in 2010 | 1,017 | 1,011 |
| Paid-in capital | 86,838 | 84,889 |
| Retained earnings | 186,078 | 178,939 |
| Accumulated other comprehensive income | 7,492 | 4,025 |
| Total shareholders' equity | 281,425 | 268,864 |
| Total liabilities and shareholders' equity | \$ 2,936,306 | \$ 2,909,525 |

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

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SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (unaudited)

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

| Periods ended June 30, | Three Months | | Six Months | |
|--|---------------|---------------|---------------|---------------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest income: | | | | |
| Interest and fees on loans | \$ 24,707 | \$ 24,180 | \$ 48,966 | \$ 48,148 |
| Interest on securities:Taxable | 4,869 | 5,837 | 9,642 | 11,888 |
| Nontaxable | 758 | 770 | 1,527 | 1,539 |
| Dividends on corporate stock and Federal Home Loan Bank stock | 66 | 54 | 133 | 109 |
| Other interest income | 13 | 13 | 37 | 34 |
| Total interest income | 30,413 | 30,854 | 60,305 | 61,718 |
| Interest expense: | | | | |
| Deposits | 4,030 | 5,331 | 8,232 | 11,100 |
| Federal Home Loan Bank advances | 4,685 | 6,000 | 9,417 | 12,219 |
| Junior subordinated debentures | 392 | 447 | 782 | 1,077 |
| Other interest expense | 242 | 243 | 483 | 485 |
| Total interest expense | 9,349 | 12,021 | 18,914 | 24,881 |
| Net interest income | 21,064 | 18,833 | 41,391 | 36,837 |
| Provision for loan losses | 1,200 | 1,500 | 2,700 | 3,000 |
| Net interest income after provision for loan losses | 19,864 | 17,333 | 38,691 | 33,837 |
| Noninterest income: | | | | |
| Wealth management services: | | | | |
| Trust and investment advisory fees | 5,822 | 5,153 | 11,498 | 10,170 |
| Mutual fund fees | 1,135 | 1,105 | 2,258 | 2,215 |
| Financial planning, commissions and other service fees | 553 | 505 | 834 | 684 |
| Wealth management services | 7,510 | 6,763 | 14,590 | 13,069 |
| Service charges on deposit accounts | 909 | 913 | 1,841 | 1,762 |
| Merchant processing fees | 2,682 | 2,406 | 4,626 | 4,012 |
| Card interchange fees | 581 | 487 | 1,068 | 876 |
| Income from bank-owned life insurance | 482 | 474 | 958 | 913 |
| Net gains on loan sales and commissions on loans originated for others | 537 | 318 | 1,062 | 878 |
| Net realized gains on securities | 226 | – | 197 | – |
| Net (losses) gains on interest rate swap contracts | (35) | (121) | 41 | (53) |
| Equity in losses of unconsolidated subsidiaries | (145) | (50) | (289) | (102) |
| Other income | 538 | 323 | 921 | 688 |
| Noninterest income, excluding other-than-temporary impairment losses | 13,285 | 11,513 | 25,015 | 22,043 |
| Total other-than-temporary impairment losses on securities | – | (243) | (54) | (245) |
| Portion of loss recognized in other comprehensive income (before tax) | – | (111) | 21 | (172) |
| | – | (354) | (33) | (417) |

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| | | | | | |
|--|-----------------------------------|----------|-----------|-----------|---------|
| Net impairment losses recognized in earnings | | | | | |
| Total noninterest income | 13,285 | 11,159 | 24,982 | 21,626 | |
| Noninterest expense: | | | | | |
| Salaries and employee benefits | 12,398 | 11,726 | 24,226 | 23,227 | |
| Net occupancy | 1,236 | 1,237 | 2,557 | 2,461 | |
| Equipment | 1,070 | 1,014 | 2,119 | 2,011 | |
| Merchant processing costs | 2,345 | 2,057 | 4,014 | 3,414 | |
| Outsourced services | 875 | 855 | 1,747 | 1,695 | |
| FDIC deposit insurance costs | 464 | 784 | 1,187 | 1,578 | |
| Legal, audit and professional fees | 467 | 408 | 959 | 926 | |
| Advertising and promotion | 427 | 419 | 780 | 783 | |
| Amortization of intangibles | 237 | 290 | 475 | 581 | |
| Foreclosed property costs | 338 | 87 | 504 | 123 | |
| Debt prepayment penalties | 221 | — | 221 | — | |
| Other expenses | 2,186 | 2,106 | 4,215 | 3,861 | |
| Total noninterest expense | 22,264 | 20,983 | 43,004 | 40,660 | |
| Income before income taxes | 10,885 | 7,509 | 20,669 | 14,803 | |
| Income tax expense | 3,320 | 2,211 | 6,304 | 4,333 | |
| Net income | \$ 7,565 | \$ 5,298 | \$ 14,365 | \$ 10,470 | |
| Weighted average common shares outstanding - basic | | | | | |
| | 16,251.6 | 16,104.6 | 16,224.5 | 16,081.3 | |
| Weighted average common shares outstanding - diluted | | | | | |
| | 16,284.3 | 16,111.3 | 16,257.0 | 16,116.3 | |
| Per share information: | | | | | |
| | Basic earnings per common share | \$ 0.46 | \$ 0.33 | \$ 0.88 | \$ 0.65 |
| | Diluted earnings per common share | \$ 0.46 | \$ 0.33 | \$ 0.88 | \$ 0.65 |
| | Cash dividends declared per share | \$ 0.22 | \$ 0.21 | \$ 0.44 | \$ 0.42 |

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Dollars in thousands)

| Six months ended June 30, | 2011 | 2010 |
|---|-----------|-----------|
| Cash Flows from Operating Activities: | | |
| Net income | \$ 14,365 | \$ 10,470 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 2,700 | 3,000 |
| Depreciation of premises and equipment | 1,540 | 1,540 |
| Foreclosed and repossessed property valuation adjustments | 392 | 50 |
| Net gain on sale of premises | (203) | - |
| Net amortization of premium and discount | 664 | 207 |
| Net amortization of intangibles | 475 | 581 |
| Share-based compensation | 680 | 395 |
| Earnings from bank-owned life insurance | (958) | (913) |
| Net gains on loan sales and commissions on loans originated for others | (1,062) | (878) |
| Net realized gains on securities | (197) | - |
| Net impairment losses recognized in earnings | 33 | 417 |
| Net (gains) losses on interest rate swap contracts | (41) | 53 |
| Equity in losses of unconsolidated subsidiaries | 289 | 102 |
| Proceeds from sales of loans | 52,714 | 59,487 |
| Loans originated for sale | (46,587) | (57,518) |
| Decrease in other assets | 2,291 | 2,279 |
| Decrease in other liabilities | (5,888) | (3,140) |
| Net cash provided by operating activities | 21,207 | 16,132 |
| Cash Flows from Investing Activities: | | |
| Purchases of: | | |
| Mortgage-backed securities available for sale | (90,855) | (44,479) |
| Other investment securities available for sale | - | (15,000) |
| Proceeds from sale of: | | |
| Mortgage-backed securities available for sale | 42,783 | - |
| Other investment securities available for sale | 1,000 | 711 |
| Maturities and principal payments of mortgage-backed securities available for sale | 54,494 | 82,301 |
| Net increase in loans | (60,274) | (54,553) |
| Purchases of loans, including purchased interest | (3,116) | (558) |
| Proceeds from the sale of property acquired through foreclosure or repossession | 1,675 | 219 |
| Purchases of premises and equipment | (1,239) | (1,266) |
| Purchases of bank-owned life insurance | - | (5,000) |
| Net proceeds from the sale of premises | 1,279 | - |
| Equity investments in real estate limited partnerships | (294) | (414) |
| Net cash used in investing activities | (54,547) | (38,039) |
| Cash Flows from Financing Activities: | | |
| Net (decrease) increase in deposits | (40,287) | 26,895 |
| Net decrease in other borrowings | (1,354) | (587) |
| Proceeds from Federal Home Loan Bank advances | 248,078 | 164,500 |
| Repayment of Federal Home Loan Bank advances | (188,360) | (156,679) |
| Issuance of treasury stock, including deferred compensation plan activity | - | 44 |
| Net proceeds from the issuance of common stock under dividend reinvestment plan | 484 | 517 |
| Net proceeds from the exercise of stock options and issuance of other compensation-related equity instruments | 725 | 558 |
| Tax benefit from stock option exercises and issuance of other compensation-related equity instruments | 68 | 47 |

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| | | |
|--|-----------|-----------|
| Cash dividends paid | (7,005) | (6,759) |
| Net cash provided by financing activities | 12,349 | 28,536 |
| Net (decrease) increase in cash and cash equivalents | (20,991) | 6,629 |
| Cash and cash equivalents at beginning of period | 92,736 | 57,260 |
| Cash and cash equivalents at end of period | \$ 71,745 | \$ 63,889 |

Noncash Investing and Financing

| | | | |
|-------------|---|----------|----------|
| Activities: | Loans charged off | \$ 2,096 | \$ 2,538 |
| | Net transfers from loans to property acquired through foreclosure or repossession | 801 | 630 |

| | | | |
|---------------------------|---------------------|--------|--------|
| Supplemental Disclosures: | Interest payments | 18,710 | 24,148 |
| | Income tax payments | 5,836 | 4,513 |

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

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

(1) General and Basis of Presentation

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

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

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

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) and disclosures necessary to present fairly the Corporation’s financial position as of June 30, 2011 and December 31, 2010, respectively, and the results of operations and cash flows for the interim periods presented. Interim results are not necessarily reflective of the results of the entire year. The unaudited consolidated financial statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission (“SEC”) for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K for the year ended December 31, 2010.

(2) Recently Issued Accounting Pronouncements

Receivables – Topic 310

Accounting Standards Update No. 2010-20 “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses” (“ASU 2010-20”) was issued in July 2010. ASU 2010-20 significantly enhances disclosures that entities must make about the credit quality of financing receivables and the allowance for credit losses. The Financial Accounting Standards Board (“FASB”) issued the ASU to give financial statement users greater transparency about entities’ credit-risk exposures and the allowance for credit losses. The disclosures provide financial statement users with additional information about the nature of credit risks inherent in entities’ financing receivables, how credit risk is analyzed and assessed when determining the allowance for credit losses, and the reasons for the change in the allowance for credit losses. Accounting Standards Update No. 2011-01 “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update 2010-20” (“ASU 2011-01”) was issued in January 2011 and delayed the effective date of the ASU 2010-20 disclosures pertaining to troubled debt restructurings. The disclosures required by ASU 2011-01 are effective for interim and annual periods beginning after June 15, 2011. Effective December 31, 2010, we adopted the provisions of ASU 2010-20 requiring end of period disclosures about credit quality of financing receivables and the allowance for credit losses. ASU 2010-20 provisions encourage, but do not

require, comparative disclosures for earlier reporting periods that ended before initial adoption. The adoption of the remaining provisions of ASU 2010-20 and ASU 2011-01 is not expected to have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

Accounting Standards Update No. 2011-02 "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring" ("ASU 2011-02") was issued in April 2011. ASU 2011-02 provides additional guidance to assist creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

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difficulties for purposes of determining whether a restructuring constitutes a trouble debt restructuring. ASU 2011-02 will be effective for interim and reporting periods beginning after June 15, 2011 and should be applied retrospectively to the beginning of the 2011 annual period. The adoption of ASU 2011-02 is not expected to have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

Fair Value Measurement – Topic 820

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

Comprehensive Income – Topic 220

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

(3) Cash and Due from Banks

The Bank is required to maintain certain average reserve balances with the Board of Governors of the Federal Reserve System. Such reserve balances amounted to \$4.0 million at June 30, 2011 and December 31, 2010 and are included in cash and due from banks in the Consolidated Statements of Condition.

As of June 30, 2011 and December 31, 2010, cash and due from banks included interest-bearing deposits in other banks of \$24.4 million and \$50.5 million, respectively.

(4) Securities

The amortized cost, gross unrealized holding gains, gross unrealized holding losses, and fair value of securities by major security type and class of security at June 30, 2011 and December 31, 2010 were as follows:

(Dollars in thousands)

| June 30, 2011 | Amortized Cost (1) | Unrealized Gains | Unrealized Losses | Fair Value |
|--|-----------------------|---------------------|----------------------|---------------|
| Securities Available for Sale: | | | | |
| Obligations of U.S. government-sponsored enterprises | \$ 29,415 | \$ 3,834 | \$ – | \$ 33,249 |
| Mortgage-backed securities issued by U.S. government | | | | |

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| | | | | |
|--|------------|-----------|-------------|------------|
| agencies and U.S. government-sponsored enterprises | 411,629 | 20,098 | (35) | 431,692 |
| States and political subdivisions | 78,445 | 3,595 | (65) | 81,975 |
| Trust preferred securities: | | | | |
| Individual name issuers | 30,620 | – | (5,009) | 25,611 |
| Collateralized debt obligations | 4,414 | – | (3,480) | 934 |
| Corporate bonds | 13,870 | 1,098 | – | 14,968 |
| Common stocks | 658 | 224 | – | 882 |
| Perpetual preferred stocks (2) | 1,854 | 415 | – | 2,269 |
| Total securities available for sale | \$ 570,905 | \$ 29,264 | \$ (8,589) | \$ 591,580 |

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

| December 31, 2010 | Amortized Cost (1) | Unrealized Gains | Unrealized Losses | Fair Value |
|--|-----------------------|---------------------|----------------------|-------------------|
| Securities Available for Sale: | | | | |
| Obligations of U.S. government-sponsored enterprises | \$ 36,900 | \$ 4,094 | \$ – | \$ 40,994 |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | | | | |
| States and political subdivisions | 411,087 | 19,068 | (384) | 429,771 |
| | 79,455 | 1,975 | (375) | 81,055 |
| Trust preferred securities: | | | | |
| Individual name issuers | 30,601 | – | (7,326) | 23,275 |
| Collateralized debt obligations | 4,466 | – | (3,660) | 806 |
| Corporate bonds | 13,874 | 1,338 | – | 15,212 |
| Common stocks | 660 | 149 | – | 809 |
| Perpetual preferred stocks (2) | 1,854 | 324 | – | 2,178 |
| Total securities available for sale | \$ 578,897 | \$ 26,948 | \$ (11,745) | \$ 594,100 |

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

Securities available for sale with a fair value of \$499 million and \$507 million were pledged in compliance with state regulations concerning trust powers and to secure Treasury Tax and Loan deposits, borrowings, certain public deposits and certain interest rate swap agreements at June 30, 2011 and December 31, 2010, respectively. See Note 7 for additional disclosure regarding Federal Home Loan Bank of Boston (“FHLBB”) borrowings. In addition, securities available for sale with a fair value of \$23.0 million and \$22.0 million were pledged for potential use at the Federal Reserve Bank discount window at June 30, 2011 and December 31, 2010, respectively. There were no borrowings with the Federal Reserve Bank at either date. As of June 30, 2011 and December 31, 2010, securities available for sale with a fair value of \$4.8 million and \$5.5 million, respectively, were designated in rabbi trusts for nonqualified retirement plans.

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

(Dollars in thousands)

| Periods ended June 30, | Three Months | | Six Months | |
|--|--------------|----------|------------|----------|
| | 2011 | 2010 | 2011 | 2010 |
| Balance at beginning of period | \$ 2,946 | \$ 2,559 | \$ 2,913 | \$ 2,496 |
| Credit-related impairment loss on debt securities for which an other-than-temporary impairment was not previously recognized | – | – | – | – |
| Additional increases to the amount of credit-related impairment loss on debt securities for which an other than-temporary impairment was previously recognized | – | 354 | 33 | 417 |
| Balance at end of period | \$ 2,946 | \$ 2,913 | \$ 2,946 | \$ 2,913 |

During the second quarter of 2011, there were no credit-related impairment losses recognized in earnings, compared to \$354 thousand of credit-related impairment losses in the same quarter a year earlier. For the six months ended June 30, 2011 and 2010, credit-related impairment losses recognized in earnings on pooled trust preferred debt securities totaled \$33 thousand and \$417 thousand, respectively. The anticipated cash flows expected to be collected from these debt securities were discounted at the rate equal to the yield used to accrete the current and prospective beneficial interest for each security. Significant inputs included estimated cash flows and prospective deferrals, defaults and recoveries. Estimated cash flows are generated based on the underlying seniority status and subordination structure of the pooled trust preferred debt tranche at the time of measurement. Prospective deferral, default and recovery estimates affecting projected cash flows were based on analysis of the underlying financial condition of individual issuers, and took into account capital adequacy, credit quality, lending concentrations, and other factors.

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

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

The following table summarizes temporarily impaired securities as of June 30, 2011, segregated by length of time the securities have been in a continuous unrealized loss position:

| (Dollars in thousands) | Less than 12 Months | | | 12 Months or Longer | | | Total | | |
|---|---------------------|------------|-------------------|---------------------|------------|-------------------|-------|------------|-------------------|
| | # | Fair Value | Unrealized Losses | # | Fair Value | Unrealized Losses | # | Fair Value | Unrealized Losses |
| June 30, 2011 | | | | | | | | | |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | 2 | \$ 30,685 | \$ 35 | – | \$ – | \$ – | 2 | \$ 30,685 | \$ 35 |
| States and political subdivisions | 1 | 783 | 4 | 2 | 1,269 | 61 | 3 | 2,052 | 65 |
| Trust preferred securities: | | | | | | | | | |
| Individual name issuers | – | – | – | 11 | 25,611 | 5,009 | 11 | 25,611 | 5,009 |
| Collateralized debt obligations | – | – | – | 2 | 934 | 3,480 | 2 | 934 | 3,480 |
| Total temporarily impaired securities | 3 | \$ 31,468 | \$ 39 | 15 | \$ 27,814 | \$ 8,550 | 18 | \$ 59,282 | \$ 8,589 |

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

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

| | | | | | | | | | |
|---------------------------------------|----|-----------|--------|----|-----------|-----------|----|------------|-----------|
| Total temporarily impaired securities | 21 | \$ 90,591 | \$ 642 | 18 | \$ 30,517 | \$ 11,103 | 39 | \$ 121,108 | \$ 11,745 |
|---------------------------------------|----|-----------|--------|----|-----------|-----------|----|------------|-----------|

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

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

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Trust Preferred Debt Securities of Individual Name Issuers

Included in debt securities in an unrealized loss position at June 30, 2011 were 11 trust preferred security holdings issued by seven individual companies in the financial services/banking industry. The aggregate unrealized losses on these debt securities amounted to \$5.0 million at June 30, 2011. Management believes the decline in fair value of these trust preferred securities primarily reflects investor concerns about global economic growth and how it will affect the recent and potential future losses in the financial services industry. These concerns resulted in increased risk premiums for securities in this sector. Based on the information available through the filing date of this report, all individual name trust preferred debt securities held in our portfolio continue to accrue and make payments as expected with no payment deferrals or defaults on the part of the issuers. As of June 30, 2011, trust preferred debt securities with a carrying value of \$9.6 million and unrealized losses of \$2.2 million were rated below investment grade by Standard & Poors, Inc. ("S&P"). Management reviewed the collectibility of these securities taking into consideration such factors as the financial condition of the issuers, reported regulatory capital ratios of the issuers, credit ratings including ratings in effect as of the reporting period date as well as credit rating changes between the reporting period date and the filing date of this report and other information. We noted no additional downgrades to below investment grade between the reporting period date and the filing date of this report. Based on these analyses, management concluded that it expects to recover the entire amortized cost basis of these securities. Furthermore, Washington Trust does not intend to sell these securities and it is not more likely than not that Washington Trust will be required to sell these securities before recovery of their cost basis, which may be maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at June 30, 2011.

Trust Preferred Debt Securities in the Form of Collateralized Debt Obligations

Washington Trust has two pooled trust preferred holdings in the form of collateralized debt obligations with a total amortized cost of \$4.4 million and aggregate unrealized losses of \$3.5 million at June 30, 2011. These pooled trust preferred holdings consist of trust preferred obligations of banking industry companies and, to a lesser extent, insurance industry companies. For both of these pooled trust preferred securities, Washington Trust's investment is senior to one or more subordinated tranches which have first loss exposure. Valuations of the pooled trust preferred holdings are dependent in part on cash flows from underlying issuers. Unexpected cash flow disruptions could have an adverse impact on the fair value and performance of pooled trust preferred securities. Management believes the unrealized losses on these pooled trust preferred securities primarily reflect investor concerns about global economic growth and how it will affect the recent and potential future losses in the financial services industry and the possibility of further incremental deferrals of or defaults on interest payments on trust preferred debentures by financial institutions participating in these pools. These concerns have resulted in a substantial decrease in market liquidity and increased risk premiums for securities in this sector. Credit spreads for issuers in this sector have remained wide during recent months, causing prices for these securities holdings to remain at low levels.

As of June 30, 2011, one of the pooled trust preferred securities had an amortized cost of \$3.2 million. This amortized cost was net of \$1.7 million of credit-related impairment losses previously recognized in earnings reflective of payment deferrals and credit deterioration of the underlying collateral. This security was placed on nonaccrual status in March 2009. The tranche instrument held by Washington Trust has been deferring a portion of interest payments since April 2010. As of June 30, 2011, this security has unrealized losses of \$2.3 million and a below investment grade rating of "Ca" by Moody's Investors Service Inc. ("Moody's"). Through the filing date of this report, there have been no further rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security. The analysis of the expected cash flows for this security as of June 30, 2011 did not negatively affect the amount of credit-related impairment losses previously recognized on this security.

As of June 30, 2011, the second pooled trust preferred security held by Washington Trust had an amortized cost of \$1.3 million. This amortized cost was net of \$1.2 million of credit-related impairment losses previously recognized in earnings reflective of payment deferrals and credit deterioration of the underlying collateral. This security was placed on nonaccrual status in December 2008. The tranche instrument held by Washington Trust has been deferring interest payments since December 2008. As of June 30, 2011, this security has unrealized losses of \$1.1 million and a below investment grade rating of "C" by Moody's. Through the filing date of this report, there have been no material rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security. The analysis of the expected cash flows for this security as of June 30, 2011 did not negatively affect the amount of credit-related impairment losses previously recognized on this security.

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

As of June 30, 2011, the amortized cost of debt securities by maturity is presented below. Mortgage-backed securities are included based on weighted average maturities, adjusted for anticipated prepayments. All other securities are included based on contractual maturities. Actual maturities may differ from amounts presented because certain issuers have the right to call or prepay obligations with or without call or prepayment penalties. Yields on tax exempt obligations are not computed on a tax equivalent basis. Included in the securities portfolio at June 30, 2011 were debt securities with an amortized cost balance of \$100 million and a fair value of \$94 million that are callable at the discretion of the issuers. Final maturities of the callable securities range from four to twenty-six years, with call features ranging from one month to six years.

| (Dollars in thousands) | Due in 1 Year or Less | After 1 Year but within 5 Years | After 5 Years but within 10 Years | After 10 Years | Totals |
|---|-----------------------------|--|--|-------------------|------------|
| Securities Available for Sale: | | | | | |
| Obligations of U.S. government-sponsored enterprises: | | | | | |
| Amortized cost | \$ – | \$ 29,415 | \$ – | \$ – | \$ 29,415 |
| Weighted average yield | – % | 5.41 % | – % | – % | 5.41 % |
| Mortgage-backed securities issued by U.S. government agencies & U.S. government-sponsored enterprises: | | | | | |
| Amortized cost | 86,992 | 204,993 | 92,680 | 26,964 | 411,629 |
| Weighted average yield | 4.39 % | 4.12 % | 2.89 % | 2.84 % | 3.82 % |
| State and political subdivisions: | | | | | |
| Amortized cost | 9,495 | 45,057 | 23,893 | – | 78,445 |
| Weighted average yield | 3.88 % | 3.85 % | 3.96 % | – % | 3.88 % |
| Trust preferred securities: | | | | | |
| Amortized cost (1) | – | – | – | 35,034 | 35,034 |
| Weighted average yield | – % | – % | – % | 1.46 % | 1.46 % |
| Corporate bonds: | | | | | |
| Amortized cost | 4,989 | 8,881 | – | – | 13,870 |
| Weighted average yield | 6.50 % | 6.30 % | – % | – % | 6.37 % |
| Total debt securities: | | | | | |
| Amortized cost | \$ 101,476 | \$ 288,346 | \$ 116,573 | \$ 61,998 | \$ 568,393 |
| Weighted average yield | 4.44 % | 4.28 % | 3.11 % | 2.06 % | 3.83 % |
| Fair value | \$ 103,486 | \$ 299,466 | \$ 122,165 | \$ 63,312 | \$ 588,429 |

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

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(5) Loans

The following is a summary of loans:

| (Dollars in thousands) | June 30, 2011 | | December 31, 2010 | |
|----------------------------------|---------------|-------|-------------------|-------|
| | Amount | % | Amount | % |
| Commercial: | | | | |
| Mortgages (1) | \$ 562,976 | 27 % | \$ 518,623 | 26 % |
| Construction and development (2) | 19,448 | 1 | 47,335 | 2 |
| Other (3) | 491,071 | 24 | 461,107 | 23 |
| Total commercial | 1,073,495 | 52 | 1,027,065 | 51 |
| Residential real estate: | | | | |
| Mortgages (4) | 644,210 | 31 | 634,739 | 31 |
| Homeowner construction | 14,137 | 1 | 10,281 | 1 |
| Total residential real estate | 658,347 | 32 | 645,020 | 32 |
| Consumer: | | | | |
| Home equity lines (5) | 223,284 | 11 | 218,288 | 11 |
| Home equity loans (5) | 46,797 | 2 | 50,624 | 3 |
| Other (6) | 55,229 | 3 | 54,641 | 3 |
| Total consumer | 325,310 | 16 | 323,553 | 17 |
| Total loans (7) | \$ 2,057,152 | 100 % | \$ 1,995,638 | 100 % |

(1) Amortizing mortgages and lines of credit, primarily secured by income producing property. As of June 30, 2011 and December 31, 2010, \$111 million and \$122 million, respectively, of these loans were pledged as collateral for FHLBB borrowings (see Note 7).

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

(3) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate. As of June 30, 2011, \$29 million and \$48 million, respectively, of these loans were pledged as collateral for FHLBB borrowings and were collateralized for the discount window at the Federal Reserve Bank. Comparable amounts for December 31, 2010 were \$30 million and \$61 million, respectively (see Note 7).

(4) As of June 30, 2011 and December 31, 2010, \$579 million and \$570 million, respectively, of these loans were pledged as collateral for FHLBB borrowings (see Note 7).

(5) As of June 30, 2011 and December 31, 2010, \$206 million and \$203 million, respectively, of these loans were pledged as collateral for FHLBB borrowings (see Note 7).

(6) Fixed rate consumer installment loans.

(7) Includes unamortized loan origination costs, net of fees, totaling \$218 thousand and \$271 thousand at June 30, 2011 and December 31, 2010, respectively. Also includes \$54 thousand and \$39 thousand of net premiums on purchased loans at June 30, 2011 and December 31, 2010, respectively.

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Nonaccrual Loans

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

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

| (Dollars in thousands) | June 30, 2011 | December 31, 2010 |
|---|------------------|----------------------|
| Commercial: | | |
| Mortgages | \$ 7,476 | \$ 6,624 |
| Construction and development | - | - |
| Other | 3,152 | 5,259 |
| Residential real estate: | | |
| Mortgages | 9,570 | 6,414 |
| Homeowner construction | - | - |
| Consumer: | | |
| Home equity lines | 390 | 152 |
| Home equity loans | 199 | 53 |
| Other | 191 | 8 |
| Total nonaccrual loans | \$ 20,978 | \$ 18,510 |
| Accruing loans 90 days or more past due | \$ - | \$ - |

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Past Due Loans

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

| June 30, 2011 | Days Past Due | | | Total Past Due | Current | Total Loans |
|---------------------------------|-----------------|-----------------|------------------|------------------|---------------------|---------------------|
| | 30-59 | 60-89 | Over 90 | | | |
| Commercial: | | | | | | |
| Mortgages | \$ 1,507 | \$ 1,013 | \$ 5,553 | \$ 8,073 | \$ 554,903 | \$ 562,976 |
| Construction and development | – | – | – | – | 19,448 | 19,448 |
| Other | 1,783 | 80 | 1,378 | 3,241 | 487,830 | 491,071 |
| Residential real estate: | | | | | | |
| Mortgages | 3,355 | 992 | 6,549 | 10,896 | 633,314 | 644,210 |
| Homeowner construction | – | – | – | – | 14,137 | 14,137 |
| Consumer: | | | | | | |
| Home equity lines | 1,539 | 21 | 75 | 1,635 | 221,649 | 223,284 |
| Home equity loans | 429 | – | 77 | 506 | 46,291 | 46,797 |
| Other | 11 | 99 | 93 | 203 | 55,026 | 55,229 |
| Total loans | \$ 8,624 | \$ 2,205 | \$ 13,725 | \$ 24,554 | \$ 2,032,598 | \$ 2,057,152 |

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

Included in past due loans as of June 30, 2011 and December 31, 2010, were nonaccrual loans of \$16.7 million and \$14.9 million, respectively.

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Impaired Loans

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

| (Dollars in thousands) | Recorded Investment (1) | | Unpaid Principal | | Related Allowance | |
|---------------------------------|----------------------------|------------------|---------------------|------------------|----------------------|------------------|
| | Jun. 30, 2011 | Dec. 31, 2010 | Jun. 30, 2011 | Dec. 31, 2010 | Jun. 30, 2011 | Dec. 31, 2010 |
| No Related Allowance | | | | | | |
| Recorded: | | | | | | |
| Commercial: | | | | | | |
| Mortgages | \$ 1,773 | \$ 3,113 | \$ 1,771 | \$ 3,128 | \$ - | \$ - |
| Construction and development | - | - | - | - | - | - |
| Other | 2,114 | 3,237 | 2,249 | 3,834 | - | - |
| Residential real estate: | | | | | | |
| Mortgages | 2,472 | 928 | 2,542 | 937 | - | - |
| Homeowner construction | - | - | - | - | - | - |
| Consumer: | | | | | | |
| Home equity lines | - | - | - | - | - | - |
| Home equity loans | - | 163 | - | 159 | - | - |
| Other | - | - | - | - | - | - |
| Subtotal | \$ 6,359 | \$ 7,441 | \$ 6,562 | \$ 8,058 | \$ - | \$ - |
| With Related Allowance | | | | | | |
| Recorded: | | | | | | |
| Commercial: | | | | | | |
| Mortgages | \$ 12,273 | \$ 15,287 | \$ 13,374 | \$ 15,930 | \$ 708 | \$ 629 |
| Construction and development | - | - | - | - | - | - |
| Other | 5,085 | 6,632 | 6,784 | 9,311 | 547 | 1,245 |
| Residential real estate: | | | | | | |
| Mortgages | 3,899 | 3,773 | 4,245 | 3,971 | 474 | 258 |
| Homeowner construction | - | - | - | - | - | - |
| Consumer: | | | | | | |
| Home equity lines | 105 | 105 | 172 | 172 | 1 | 1 |
| Home equity loans | 253 | 307 | 275 | 330 | 1 | 4 |
| Other | 257 | 145 | 256 | 143 | 1 | - |
| Subtotal | \$ 21,872 | \$ 26,249 | \$ 25,106 | \$ 29,857 | \$ 1,732 | \$ 2,137 |
| Total impaired loans | \$ 28,231 | \$ 33,690 | \$ 31,668 | \$ 37,915 | \$ 1,732 | \$ 2,137 |
| Total: | | | | | | |
| Commercial | \$ 21,245 | \$ 28,269 | \$ 24,178 | \$ 32,203 | \$ 1,255 | \$ 1,874 |

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| | | | | | | |
|-------------------------|-----------|-----------|-----------|-----------|----------|----------|
| Residential real estate | 6,371 | 4,701 | 6,787 | 4,908 | 474 | 258 |
| Consumer | 615 | 720 | 703 | 804 | 3 | 5 |
| Total impaired loans | \$ 28,231 | \$ 33,690 | \$ 31,668 | \$ 37,915 | \$ 1,732 | \$ 2,137 |

(1) The recorded investment in impaired loans consists of unpaid principal balance, net of charge-offs, interest payments received applied to principal and unamortized deferred loan origination fees and costs. For impaired accruing loans (those troubled debt restructurings for which management has concluded that the collectibility of the loan is not in doubt), the recorded investment also includes accrued interest. As of June 30, 2011 and December 31, 2010, recorded investment in impaired loans included accrued interest of \$48 thousand and \$62 thousand, respectively.

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

| (Dollars in thousands) | Average Recorded Investment | | Interest Income Recognized | |
|---------------------------------|-----------------------------|-----------|----------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Three months ended June 30, | | | | |
| Commercial: | | | | |
| Mortgages | \$ 15,231 | \$ 14,195 | \$ 149 | \$ 245 |
| Construction and development | – | – | – | – |
| Other | 8,564 | 10,806 | 117 | 103 |
| Residential real estate: | | | | |
| Mortgages | 6,114 | 4,837 | 46 | 41 |
| Homeowner construction | – | – | – | – |
| Consumer: | | | | |
| Home equity lines | 96 | 336 | 2 | 3 |
| Home equity loans | 396 | 924 | 5 | 15 |
| Other | 260 | 196 | 4 | 4 |
| Totals | \$ 30,661 | \$ 31,294 | \$ 323 | \$ 411 |

| (Dollars in thousands) | Average Recorded Investment | | Interest Income Recognized | |
|---------------------------------|-----------------------------|-----------|----------------------------|--------|
| | 2011 | 2010 | 2011 | 2010 |
| Six months ended June 30, | | | | |
| Commercial: | | | | |
| Mortgages | \$ 16,682 | \$ 15,417 | \$ 322 | \$ 414 |
| Construction and development | – | – | – | – |
| Other | 10,014 | 10,304 | 211 | 169 |
| Residential real estate: | | | | |
| Mortgages | 5,574 | 4,604 | 90 | 93 |
| Homeowner construction | – | – | – | – |
| Consumer: | | | | |
| Home equity lines | 101 | 320 | 3 | 6 |
| Home equity loans | 427 | 773 | 11 | 27 |
| Other | 231 | 203 | 8 | 8 |
| Totals | \$ 33,029 | \$ 31,621 | \$ 645 | \$ 717 |

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

Credit Quality Indicators

Commercial

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

Corporation's commercial loan portfolio was 4.95 and 5.01, respectively.

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

A description of the commercial loan categories are as follows:

Pass – Loans with acceptable credit quality, defined as ranging from superior or very strong to a status of lesser

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

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

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

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

(Dollars in thousands)

| | Pass | | Special Mention | | Classified | |
|---------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Jun. 30, 2011 | Dec. 31, 2010 | Jun. 30, 2011 | Dec. 31, 2010 | Jun. 30, 2011 | Dec. 31, 2010 |
| Mortgages | \$ 524,777 | \$ 485,668 | \$ 23,711 | \$ 16,367 | \$ 14,488 | \$ 16,588 |
| Construction and development | 18,743 | 43,119 | 705 | 4,216 | – | – |
| Other | 442,953 | 425,522 | 40,032 | 28,131 | 8,086 | 7,454 |
| Total commercial loans | \$ 986,473 | \$ 954,309 | \$ 64,448 | \$ 48,714 | \$ 22,574 | \$ 24,042 |

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

Residential and Consumer

The residential and consumer portfolios are monitored on an ongoing basis by the Corporation using delinquency information and loan type as credit quality indicators. These credit quality indicators are assessed on an aggregate

basis in these relatively homogenous portfolios. The following table presents the residential and consumer loan portfolios, segregated by category of credit quality indicator:

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

| (Dollars in thousands) | Under 90 Days Past Due | | Over 90 Days Past Due | |
|--|---------------------------|-------------------|--------------------------|------------------|
| | Jun. 30, 2011 | Dec. 31, 2010 | Jun. 30, 2011 | Dec. 31, 2010 |
| Residential Real Estate: | | | | |
| Accruing mortgages | \$ 634,640 | \$ 628,325 | \$ – | \$ – |
| Nonaccrual mortgages | 3,021 | 2,373 | 6,549 | 4,041 |
| Homeowner construction | 14,137 | 10,281 | – | – |
| Total residential real estate loans | \$ 651,798 | \$ 640,979 | \$ 6,549 | \$ 4,041 |
| Consumer: | | | | |
| Home equity lines | \$ 223,209 | \$ 218,288 | \$ 75 | \$ – |
| Home equity loans | 46,720 | 50,613 | 77 | 11 |
| Other | 55,136 | 54,641 | 93 | – |
| Total consumer loans | \$ 325,065 | \$ 323,542 | \$ 245 | \$ 11 |

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

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

(6) Allowance for Loan Losses

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

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

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

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

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

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

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

(Dollars in thousands)

| | Commercial | | | Total | | | Un-allocated | Total |
|-------------------|------------|--------------|----------|------------|-------------|----------|--------------|-----------|
| | Mortgages | Construction | Other | Commercial | Residential | Consumer | | |
| Beginning Balance | \$ 7,600 | \$ 532 | \$ 6,256 | \$ 14,388 | \$ 4,805 | \$ 2,046 | \$ 7,870 | \$ 29,109 |
| Charge-offs | (124) | – | (617) | (741) | (146) | (157) | – | (1,044) |
| Recoveries | 2 | – | 76 | 78 | – | 10 | – | 88 |
| Provision | (104) | (315) | 1,278 | 859 | (188) | 253 | 276 | 1,200 |
| Ending Balance | \$ 7,374 | \$ 217 | \$ 6,993 | \$ 14,584 | \$ 4,471 | \$ 2,152 | \$ 8,146 | \$ 29,353 |

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

(Dollars in thousands)

| | Commercial | | | Total | | | Un-allocated | Total |
|-------------------|------------|--------------|----------|------------|-------------|----------|--------------|-----------|
| | Mortgages | Construction | Other | Commercial | Residential | Consumer | | |
| Beginning Balance | \$ 7,330 | \$ 723 | \$ 6,495 | \$ 14,548 | \$ 4,129 | \$ 1,903 | \$ 8,003 | \$ 28,583 |
| Charge-offs | (459) | – | (1,195) | (1,654) | (265) | (177) | – | (2,096) |

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| | | | | | | | | |
|----------------|----------|--------|----------|-----------|----------|----------|----------|-----------|
| Recoveries | 4 | – | 146 | 150 | 1 | 15 | – | 166 |
| Provision | 499 | (506) | 1,547 | 1,540 | 606 | 411 | 143 | 2,700 |
| Ending Balance | \$ 7,374 | \$ 217 | \$ 6,993 | \$ 14,584 | \$ 4,471 | \$ 2,152 | \$ 8,146 | \$ 29,353 |

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

| Periods ended June 30, 2010 | | Three Months | Six Months |
|--------------------------------|------------------------------|--------------|------------|
| Balance at beginning of period | | \$ 27,711 | \$ 27,400 |
| Charge-offs: | | | |
| Commercial: | Mortgages | (533) | (1,026) |
| | Construction and development | — | — |
| | Other | (561) | (1,096) |
| Residential real estate: | Mortgages | (116) | (287) |
| | Homeowner construction | — | — |
| Consumer | | (53) | (129) |
| Total charge-offs | | (1,263) | (2,538) |
| Recoveries: | | | |
| Commercial: | Mortgages | 2 | 4 |
| | Construction and development | — | — |
| | Other | 3 | 30 |
| Residential real estate: | Mortgages | 26 | 76 |
| | Homeowner construction | — | — |
| Consumer | | 6 | 13 |
| Total recoveries | | 37 | 123 |
| Net charge-offs | | (1,226) | (2,415) |
| Provision charged to expense | | 1,500 | 3,000 |
| Balance at end of period | | \$ 27,985 | \$ 27,985 |

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

| (Dollars in thousands) | June 30, 2011 | | December 31, 2010 | |
|---|---------------|-------------------|-------------------|-------------------|
| | Loans | Related Allowance | Loans | Related Allowance |
| Loans Individually Evaluated for Impairment: | | | | |
| Commercial: | | | | |
| Mortgages | \$ 14,028 | \$ 708 | \$ 18,360 | \$ 629 |
| Construction & development | – | – | – | – |
| Other | 7,178 | 547 | 9,854 | 1,245 |
| Residential real estate mortgages | 6,363 | 474 | 4,699 | 258 |
| Consumer | 614 | 3 | 715 | 5 |
| Subtotal | \$ 28,183 | \$ 1,732 | \$ 33,628 | \$ 2,137 |
| Loans Collectively Evaluated for Impairment: | | | | |
| Commercial: | | | | |
| Mortgages | \$ 548,948 | \$ 6,666 | \$ 500,263 | \$ 6,701 |
| Construction & development | 19,448 | 217 | 47,335 | 723 |
| Other | 483,893 | 6,446 | 451,253 | 5,250 |
| Residential real estate mortgages | 651,984 | 3,997 | 640,321 | 3,871 |
| Consumer | 324,696 | 2,149 | 322,838 | 1,898 |
| Subtotal | \$ 2,028,969 | \$ 19,475 | \$ 1,962,010 | \$ 18,443 |
| Unallocated | – | 8,146 | – | 8,003 |
| Total | \$ 2,057,152 | \$ 29,353 | \$ 1,995,638 | \$ 28,583 |

(7) Borrowings

Federal Home Loan Bank of Boston Advances

Advances payable to the FHLBB amounted to \$558.4 million at June 30, 2011 and \$498.7 million at December 31, 2010. In connection with the Corporation's ongoing interest rate risk management efforts, in May 2011, the Corporation modified the terms to extend the maturity dates of \$10 million of its FHLBB advances with original maturity dates in 2012. During the second quarter of 2011, the Corporation prepaid \$5 million in advances payable to the FHLBB resulting in a debt prepayment penalty charge, recorded in noninterest expense, of \$221 thousand. In July 2011, the Corporation modified the terms to extend the maturity dates of an additional \$34 million of its FHLBB advances with original maturity dates in 2013. The following table presents maturities and weighted average interest rates paid on FHLBB advances outstanding at June 30, 2011, on a pro-forma basis, reflecting the July 2011 modification:

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| (Dollars in thousands) | Scheduled Maturity | Redeemed at Call Date (1) | Weighted Average Rate (2) | |
|---|-----------------------|------------------------------|---------------------------------|---|
| July 1, 2011 through December 31, 2011: | \$ 116,641 | \$ 121,641 | 0.64 | % |
| 2112 | 42,078 | 42,078 | 3.66 | % |
| 2113 | 123,390 | 118,390 | 3.80 | % |
| 2114 | 98,109 | 98,109 | 3.70 | % |
| 2115 | 114,310 | 114,310 | 3.75 | % |
| 2116 | 20,100 | 20,100 | 5.33 | % |
| 2117 and after | 43,813 | 43,813 | 4.95 | % |
| Total | \$ 558,441 | \$ 558,441 | | |

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

(2) Weighted average rate based on scheduled maturity dates.

In addition to the outstanding advances, the Bank also has access to an unused line of credit with the FHLBB amounting to \$8.0 million at June 30, 2011. Under agreement with the FHLBB, the Bank is required to maintain qualified collateral, free and clear of liens, pledges, or encumbrances that, based on certain percentages of book and fair values, has a value equal to the aggregate amount of the line of credit and outstanding advances. The FHLBB maintains a security interest in various assets of the Corporation including, but not limited to, residential mortgage loans, commercial mortgages and other commercial loans, U.S. government agency securities, U.S. government-sponsored enterprise securities, and amounts maintained on deposit at the FHLBB. The Corporation maintained qualified collateral in excess of the amount required to collateralize the line of credit and outstanding advances at June 30, 2011. Included in the collateral were securities available for sale with a fair value of \$286.6 million and \$273.7 million, respectively, which were specifically pledged to secure FHLBB borrowings at June 30, 2011 and December 31, 2010. See Note 5 for discussion on loans pledged as collateral for FHLBB borrowings. Unless there is an event of default under the agreement, the Corporation may use, encumber or dispose any portion of the collateral in excess of the amount required to secure FHLBB borrowings, except for that collateral which has been specifically pledged.

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(8) Shareholders' Equity

Regulatory Capital Requirements

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

| (Dollars in thousands) | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|----------------------------|------------|--------|----------------------------------|-------|--|--------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| June 30, 2011: | | | | | | |
| Total Capital (to | | | | | | |
| Risk-Weighted Assets): | | | | | | |
| Corporation | \$ 269,210 | 12.98% | \$ 165,865 | 8.00% | \$ 207,331 | 10.00% |
| Bank | \$ 265,165 | 12.81% | \$ 165,656 | 8.00% | \$ 207,070 | 10.00% |
| Tier 1 Capital (to | | | | | | |
| Risk-Weighted Assets): | | | | | | |
| Corporation | \$ 242,960 | 11.72% | \$ 82,932 | 4.00% | \$ 124,399 | 6.00% |
| Bank | \$ 238,947 | 11.54% | \$ 82,828 | 4.00% | \$ 124,242 | 6.00% |
| Tier 1 Capital (to Average | | | | | | |
| Assets): (1) | | | | | | |
| Corporation | \$ 242,960 | 8.61% | \$ 112,852 | 4.00% | \$ 141,064 | 5.00% |
| Bank | \$ 238,947 | 8.48% | \$ 112,687 | 4.00% | \$ 140,859 | 5.00% |
| December 31, 2010: | | | | | | |
| Total Capital (to | | | | | | |
| Risk-Weighted Assets): | | | | | | |
| Corporation | \$ 259,122 | 12.79% | \$ 162,083 | 8.00% | \$ 202,603 | 10.00% |
| Bank | \$ 255,078 | 12.61% | \$ 161,878 | 8.00% | \$ 202,347 | 10.00% |
| Tier 1 Capital (to | | | | | | |
| Risk-Weighted Assets): | | | | | | |
| Corporation | \$ 233,540 | 11.53% | \$ 81,041 | 4.00% | \$ 121,562 | 6.00% |
| Bank | \$ 229,528 | 11.34% | \$ 80,939 | 4.00% | \$ 121,408 | 6.00% |
| Tier 1 Capital (to Average | | | | | | |
| Assets): (1) | | | | | | |
| Corporation | \$ 233,540 | 8.25% | \$ 113,188 | 4.00% | \$ 141,485 | 5.00% |
| Bank | \$ 229,528 | 8.12% | \$ 113,001 | 4.00% | \$ 141,252 | 5.00% |

(1) Leverage ratio

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage the Corporation's exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, equity commitments to affordable housing partnerships, interest rate swap agreements and commitments to originate and commitments to sell fixed rate mortgage loans. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Corporation's Consolidated Balance Sheets. The contract or notional amounts of these

instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation's credit policies with respect to interest rate swap agreements with commercial borrowers, commitments to extend credit, and financial guarantees are similar to those used for loans. The interest rate swaps with other counterparties are generally subject to bilateral collateralization terms. The contractual and notional amounts of financial instruments with off-balance sheet risk are as follows:

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| (Dollars in thousands) | June 30, 2011 | Dec. 31, 2010 |
|--|------------------|------------------|
| Financial instruments whose contract amounts represent credit risk: | | |
| Commitments to extend credit: | | |
| Commercial loans | \$ 173,086 | \$ 176,436 |
| Home equity lines | 180,386 | 182,260 |
| Other loans | 26,802 | 23,971 |
| Standby letters of credit | 9,228 | 9,510 |
| Equity commitments to affordable housing partnerships | 156 | 449 |
| Financial instruments whose notional amounts exceed the amount of credit risk: | | |
| Forward loan commitments: | | |
| Commitments to originate fixed rate mortgage loans to be sold | 17,637 | 10,893 |
| Commitments to sell fixed rate mortgage loans | 26,444 | 24,901 |
| Customer related derivative contracts: | | |
| Interest rate swaps with customers | 62,209 | 59,749 |
| Mirror swaps with counterparties | 62,209 | 59,749 |
| Interest rate risk management contracts: | | |
| Interest rate swap contracts | 32,991 | 32,991 |

Commitments to Extend Credit

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

Standby Letters of Credit

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under a standby letter of credit, the Corporation is required to make payments to the beneficiary of the letter of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to five years. At June 30, 2011 and December 31, 2010, the maximum potential amount of undiscounted future payments, not reduced by amounts that may be recovered, totaled \$9.2 million and \$9.5 million, respectively. At June 30, 2011 and December 31, 2010, there was no liability to beneficiaries resulting from standby letters of credit. Fee income on standby letters of credit for the three and six months ended June 30, 2011 amounted to \$33 thousand and \$97 thousand, respectively. Comparable amounts for the three and six months ended June 30, 2010 were \$20 thousand and \$40 thousand, respectively.

At June 30, 2011 and December 31, 2010, a substantial portion of the standby letters of credit was supported by pledged collateral. The collateral obtained is determined based on management's credit evaluation of the customer. Should the Corporation be required to make payments to the beneficiary, repayment from the customer to the Corporation is required.

Equity Commitments

As of June 30, 2011, Washington Trust has investments in two real estate limited partnerships, one of which was entered into in the latter portion of 2010. The partnerships were created for the purpose of renovating and operating low-income housing projects. Equity commitments to affordable housing partnerships represent funding commitments by Washington Trust to the limited partnerships. The funding of commitments is generally contingent upon substantial completion of the projects.

Forward Loan Commitments

Interest rate lock commitments are extended to borrowers that relate to the origination of readily marketable mortgage loans held for sale. To mitigate the interest rate risk inherent in these rate locks, as well as closed mortgage loans held for sale, best efforts forward commitments are established to sell individual mortgage loans. Commitments to

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originate and commitments to sell fixed rate mortgage loans are derivative financial instruments and, therefore, changes in fair value of these commitments are recognized in earnings.

Interest Rate Risk Management Agreements

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

At of June 30, 2011 and December 31, 2010, the Bancorp had three interest rate swap contracts designated as cash flow hedges to hedge the interest rate associated with \$33 million of variable rate junior subordinated debenture. The effective portion of the changes in fair value of derivatives designated as cash flow hedges is recorded in other comprehensive income and subsequently reclassified to earnings when gains or losses are realized. The ineffective portion of changes in fair value of the derivatives is recognized directly in earnings as interest expense. The Bancorp pledged collateral to derivative counterparties in the form of cash totaling \$1.6 million and \$1.9 million, respectively, as of June 30, 2011 and December 31, 2010. The Bancorp may need to post additional collateral in the future in proportion to potential increases in unrealized loss positions.

The Bank has entered into interest rate swap contracts to help commercial loan borrowers manage their interest rate risk. The interest rate swap contracts with commercial loan borrowers allow them to convert floating rate loan payments to fixed rate loan payments. When we enter into an interest rate swap contract with a commercial loan borrower, we simultaneously enter into a "mirror" swap contract with a third party. The third party exchanges the client's fixed rate loan payments for floating rate loan payments. We retain the risk that is associated with the potential failure of counterparties and inherent in making loans. At June 30, 2011 and December 31, 2010, Washington Trust had interest rate swap contracts with commercial loan borrowers with notional amounts of \$62.2 million and \$59.7 million, respectively, and equal amounts of "mirror" swap contracts with third-party financial institutions. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings.

The following table presents the fair values of derivative instruments in the Corporation's Consolidated Balance Sheets as of the dates indicated:

| (Dollars in thousands) | Asset Derivatives | | | Liability Derivatives | | |
|--|------------------------|--------------------------------|--------------------------------|------------------------|--------------------------------|--------------------------------|
| | Balance Sheet Location | Fair Value June 30, 2011 | Fair Value Dec. 31, 2010 | Balance Sheet Location | Fair Value June 30, 2011 | Fair Value Dec. 31, 2010 |
| Derivatives Designated as Cash Flow Hedging Instruments: | | | | | | |
| Interest rate risk management contracts: | | | | | | |
| Interest rate swap contracts | | \$ - | \$ - | Other liabilities | \$ 1,369 | \$ 1,098 |
| Derivatives not Designated | | | | | | |

as Hedging Instruments:

Forward loan commitments:

| | | | | | | |
|---|--------------|----------|----------|-------------------|----------|----------|
| Commitments to originate fixed rate mortgage loans to be sold | Other assets | 33 | 31 | Other liabilities | 104 | 135 |
| Commitments to sell fixed rate mortgage loans | Other assets | 127 | 571 | Other liabilities | 94 | 32 |
| Customer related derivative contracts: | | | | | | |
| Interest rate swaps with customers | Other assets | 3,893 | 3,690 | | – | – |
| Mirror swaps with counterparties | | – | – | Other liabilities | 4,015 | 3,806 |
| Total | | \$ 4,053 | \$ 4,292 | | \$ 5,582 | \$ 5,071 |

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The following tables present the effect of derivative instruments in the Corporations' Consolidated Statements of Income and Changes in Shareholders' Equity for the periods indicated:

(Dollars in thousands)

| Periods ended June 30, Derivatives in Cash Flow Hedging Relationships: | Gain (Loss) | | | | Location of Gain (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing) | Gain (Loss) | | | |
|--|--|--------------------|---------|---------|---|--|--------------------|------|--------|
| | Recognized in Other | | | | | Recognized in Income | | | |
| | Comprehensive Income (Effective Portion) | | | | | on Derivative (Ineffective Portion) | | | |
| | Three Months 2011 | Six Months 2010 | 2011 | 2010 | | Three Months 2011 | Six Months 2010 | 2011 | 2010 |
| Interest rate risk management contracts: | | | | | | | | | |
| Interest rate swap contracts | \$(346) | \$(551) | \$(174) | \$(544) | Interest Expense | \$ - | \$ - | \$ - | \$(78) |
| Total | \$(346) | \$(551) | \$(174) | \$(544) | | \$ - | \$ - | \$ - | \$(78) |

(Dollars in thousands)

| Periods ended June 30, Derivatives not Designated as Hedging Instruments: | Location of Gain (Loss) Recognized in Income on Derivative | Amount of Gain (Loss) Recognized in Income on Derivative | | | |
|---|--|---|-----------|-----------|--------------------|
| | | Three Months 2011 | 2010 | 2011 | Six Months 2010 |
| Forward loan commitments: | | | | | |
| Commitments to originate fixed rate mortgage loans to be sold | Net gains on loan sales & commissions on loans originated for others | \$ (53) | \$ 249 | \$ 33 | \$ 398 |
| Commitments to sell fixed rate mortgage loans | Net gains on loan sales & commissions on loans originated for others | 42 | (442) | (506) | (735) |
| Customer related derivative contracts: | | | | | |
| Interest rate swaps with customers | Net gains (losses) on interest rate swaps | 1,214 | 2,007 | 1,118 | 3,114 |
| Mirror swaps with counterparties | Net gains (losses) on interest rate swaps | (1,249) | (2,128) | (1,077) | (3,167) |
| Total | | \$ (46) | \$ (314) | \$ (432) | \$ (390) |

(10) Fair Value Measurements

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale and derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record at fair value other assets on a nonrecurring basis,

such as loans held for sale, collateral dependent impaired loans, property acquired through foreclosure or repossession and mortgage servicing rights. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write-downs of individual assets.

Fair value is a market-based measurement, not an entity-specific measurement. Fair value measurements are determined based on the assumptions the market participants would use in pricing the asset or liability. In addition, GAAP specifies a hierarchy of valuation techniques based on whether the types of valuation information (“inputs”) are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation’s market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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Determination of Fair Value

Fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Corporation uses quoted market prices to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques such as matrix pricing or other models that use, where possible, current market-based or independently sourced market parameters, such as interest rates. If observable market-based inputs are not available, the Corporation uses unobservable inputs to determine appropriate valuation adjustments using methodologies applied consistently over time.

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

Items Measured at Fair Value on a Recurring Basis

Securities Available for Sale

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

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

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities may be classified as Level 3. As of June 30, 2011 and December 31, 2010, Level 3 securities were comprised of two pooled trust preferred debt securities, in the form of collateralized debt obligations, which were not actively traded. As of June 30, 2011 and December 31, 2010, the Corporation concluded that the low level of activity for its Level 3 pooled trust preferred debt securities continued to indicate that quoted market prices are not indicative of fair value. The Corporation obtained valuations including broker quotes and cash flow scenario analyses prepared by a third party valuation consultant. The fair values were assigned a weighting that was dependent upon the methods used to calculate the prices. The cash flow scenarios (Level 3) were given substantially more weight than the broker quotes (Level 2) as management believed that the broker quotes reflected limited sales evidenced by a relatively inactive market. The cash flow scenarios were prepared using discounted cash flow methodologies based on detailed cash flow and credit analysis of the pooled securities. The weighting was then used to determine an overall fair value of the securities. Management believes that this approach is most representative of fair value for these particular securities in current market conditions.

Our internal review procedures have confirmed that the fair values provided by the aforementioned third party valuation sources utilized by the Corporation are consistent with GAAP. Our fair values assumed liquidation in an orderly market and not under distressed circumstances. Due to the continued market illiquidity and credit risk for securities in the financial sector, the fair value of these securities is highly sensitive to assumption changes and market volatility.

Derivatives

Substantially all of our derivatives are traded in over-the-counter markets where quoted market prices are not readily available. Fair value measurements are determined using independent pricing models that utilize primarily market observable inputs, such as swap rates of different maturities and LIBOR rates and, accordingly, are classified as Level 2. Examples include interest rate swap contracts. Our internal review procedures have confirmed that the fair values determined with independent pricing models and utilized by the Corporation are consistent with GAAP. Any derivative for which we measure fair value using significant assumptions that are unobservable are classified as Level 3. Level 3 derivatives include commitments to sell fixed rate residential mortgages and interest rate lock commitments written for our residential mortgage loans that we intend to sell. The valuation of these items is determined by management based on internal calculations using external market inputs.

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For purposes of potential valuation adjustments to its interest rate swap contracts, the Corporation evaluates the credit risk of its counterparties as well as that of the Corporation. Accordingly, Washington Trust considers factors such as the likelihood of default by the Corporation and its counterparties, its net exposures and remaining contractual life, among other factors, in determining if any fair value adjustments related to credit risk are required. Counterparty exposure is evaluated by netting positions that are subject to master netting agreements, as well as considering the amount of collateral securing the position.

Items Measured at Fair Value on a Nonrecurring Basis

Collateral Dependent Impaired Loans

Collateral dependent loans that are deemed to be impaired are valued based upon the fair value of the underlying collateral less costs to sell. Such collateral primarily consists of real estate and, to a lesser extent, other business assets. Management adjusts appraised values to reflect estimated market value declines or applies other discounts to appraised values resulting from its knowledge of the property. Internal valuations are utilized to determine the fair value of other business assets. Collateral dependent impaired loans are categorized as Level 3.

Loan Servicing Rights

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

Property Acquired Through Foreclosure or Repossession

Property acquired through foreclosure or repossession is adjusted to fair value less costs to sell upon transfer out of loans. Subsequently, it is carried at the lower of carrying value or fair value less costs to sell. Fair value is generally based upon independent market prices or appraised values of the collateral. Management adjusts appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of the property, and such property is categorized as Level 3.

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Items Recorded at Fair Value on a Recurring Basis

The table below presents the balances of assets and liabilities reported at fair value on a recurring basis:

(Dollars in thousands)

| June 30, 2011 | Fair Value Measurements Using | | | Assets/ Liabilities at Fair Value |
|---|-------------------------------|-------------------|-----------------|---|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Securities Available for Sale: | | | | |
| Obligations of U.S. government-sponsored enterprises | \$ – | \$ 33,249 | \$ – | \$ 33,249 |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | – | 431,692 | – | 431,692 |
| States and political subdivisions | – | 81,975 | – | 81,975 |
| Trust preferred securities: | | | | |
| Individual name issuers | – | 25,611 | – | 25,611 |
| Collateralized debt obligations | – | – | 934 | 934 |
| Corporate bonds | – | 14,968 | – | 14,968 |
| Common stocks | 882 | – | – | 882 |
| Perpetual preferred stocks | 2,269 | – | – | 2,269 |
| Derivative Assets (1) | | | | |
| Interest rate swap contracts with customers | – | 3,893 | – | 3,893 |
| Forward loan commitments | – | – | 160 | 160 |
| Total assets at fair value on a recurring basis | \$ 3,151 | \$ 591,388 | \$ 1,094 | \$ 595,633 |
| Liabilities: | | | | |
| Derivative Liabilities (1) | | | | |
| Mirror swaps with counterparties | \$ – | \$ 4,015 | \$ – | \$ 4,015 |
| Interest rate risk management contracts | – | 1,369 | – | 1,369 |
| Forward loan commitments | – | – | 198 | 198 |
| Total liabilities at fair value on a recurring basis | \$ – | \$ 5,384 | \$ 198 | \$ 5,582 |

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

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CONDENSED NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

| December 31, 2010 | Fair Value Measurements Using | | | Assets/ Liabilities at Fair Value |
|---|-------------------------------|------------|----------|---|
| | Level 1 | Level 2 | Level 3 | |
| Assets: | | | | |
| Securities Available for Sale: | | | | |
| Obligations of U.S. government-sponsored enterprises | \$ - | \$ 40,994 | \$ - | \$ 40,994 |
| Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises | - | 429,771 | - | 429,771 |
| States and political subdivisions | - | 81,055 | - | 81,055 |
| Trust preferred securities: | | | | |
| Individual name issuers | - | 23,275 | - | 23,275 |
| Collateralized debt obligations | - | - | 806 | 806 |
| Corporate bonds | - | 15,212 | - | 15,212 |
| Common stocks | 809 | - | - | 809 |
| Perpetual preferred stocks | 2,178 | - | - | 2,178 |
| Derivative Assets (1) | | | | |
| Interest rate swap contracts with customers | - | 3,690 | - | 3,690 |
| Forward loan commitments | - | - | 602 | 602 |
| Total assets at fair value on a recurring basis | \$ 2,987 | \$ 593,997 | \$ 1,408 | \$ 598,392 |
| Liabilities: | | | | |
| Derivative Liabilities (1) | | | | |
| Mirror swaps with counterparties | \$ - | \$ 3,806 | \$ - | \$ 3,806 |
| Interest rate risk management contract | - | 1,098 | - | 1,098 |
| Forward loan commitments | - | - | 167 | 167 |
| Total liabilities at fair value on a recurring basis | \$ - | \$ 4,904 | \$ 167 | \$ 5,071 |

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

It is the Corporation's policy to review and reflect transfers between Levels as of the financial statement reporting date. There were no transfers in and/or out of Level 1, Level 2 and Level 3 during the three and six months ended June 30, 2011 and 2010.

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis during the periods indicated:

| Three months ended June 30, | 2011 | | | 2010 | | |
|-----------------------------|-------------------------------|-----------------------------------|--------|-------------------------------|-----------------------------------|----------|
| | Securities Available for Sale | Derivative Assets / (Liabilities) | Total | Securities Available for Sale | Derivative Assets / (Liabilities) | Total |
| (Dollars in thousands) | (1) | (2) | Total | (1) | (2) | Total |
| | \$ 752 | \$ (27) | \$ 725 | \$ 1,154 | \$ 9 | \$ 1,163 |

| | | | | | | |
|---|--------|----------|--------|--------|-----------|--------|
| Balance at beginning of period | | | | | | |
| Gains and losses (realized and unrealized): | | | | | | |
| Included in earnings (3) | – | (11) | (11) | (354) | (193) | (547) |
| Included in other comprehensive income | 182 | – | 182 | 72 | – | 72 |
| Purchases | – | – | – | – | – | – |
| Issuances | – | – | – | – | – | – |
| Settlements | – | – | – | – | – | – |
| Transfers into Level 3 | – | – | – | – | – | – |
| Transfers out of Level 3 | – | – | – | – | – | – |
| Balance at end of period | \$ 934 | \$ (38) | \$ 896 | \$ 872 | \$ (184) | \$ 688 |

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(Continued)

Six months ended June
30,

| | 2011 | | | 2010 | | |
|---|------------|---------------|----------|------------|---------------|----------|
| | Securities | Derivative | | Securities | Derivative | |
| | Available | Assets / | | Available | Assets / | |
| | for Sale | (Liabilities) | Total | for Sale | (Liabilities) | Total |
| (Dollars in thousands) | (1) | (2) | | (1) | (2) | |
| Balance at beginning of period | \$ 806 | \$ 435 | \$ 1,241 | \$ 1,065 | \$ 153 | \$ 1,218 |
| Gains and losses (realized and unrealized): | | | | | | |