WASHINGTON TRUST BANCORP INC
Form 10-K
March 08, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)

x Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended DECEMBER 31, 2010 or

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

Commission file number: 001-32991

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

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

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

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

COMMON STOCK, $.0625 PAR VALUE PER SHARE	THE NASDAQ STOCK MARKET LLC
(Title of each class)	(Name of each exchange on which registered)

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

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

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

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

Indicate by check mark 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
oYes oNo

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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.:

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2010 was $233,435,650 based on a closing sales price of $17.04 per share as reported for the NASDAQ Global Select Market, which includes $9,170,367 held by The Washington Trust Company under trust agreements and other instruments.

The number of shares of the registrant's common stock, $.0625 par value per share, outstanding as of February 25, 2011 was 16,198,820.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement dated March 14, 2011 for the Annual Meeting of Shareholders to be held April 26, 2011 are incorporated by reference into Part III of this Form 10-K.

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WASHINGTON TRUST BANCORP, INC.
For the Year Ended December 31, 2010

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Exhibit 10.47	Annual Performance Plan, dated December 13, 2010
Exhibit 10.48	Amended and Restated Wealth Management Business Building Incentive Plan, dated December 31, 2010
Exhibit 10.49	Terms of Change in Control Agreement with an executive officer, dated December 21, 2010
Exhibit 10.50	Terms of Deferred Stock Unit Award Agreement with certain executive officers, dated January 18, 2011
Exhibit 23.1	Consent of Independent Accountants
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Exhibit 32.1	

Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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PART I

ITEM 1. Business

Washington Trust Bancorp, Inc.

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

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

The accounting and reporting policies of the Bancorp and its subsidiaries (collectively, the "Corporation" or "Washington Trust") are in accordance with U. S. generally accepted accounting principles ("GAAP") and conform to general practices of the banking industry. At December 31, 2010, Washington Trust had total assets of $2.9 billion, total deposits of $2.0 billion and total shareholders' equity of $268.9 million.

Business Segments

Washington Trust manages its operations through two business segments, Commercial Banking and Wealth Management Services. Activity not related to the segments, such as the investment securities portfolio, wholesale funding activities and administrative units are considered Corporate. See Note 17 to the Consolidated Financial Statements for additional disclosure related to business segments.

Commercial Banking

Lending Activities

The Corporation's lending activities are conducted primarily in southern New England and, to a lesser extent, other states. Washington Trust offers a variety of commercial and retail lending products.

Commercial Loans

Commercial lending represents a significant portion of the Bank's loan portfolio. Commercial loans fall into two major categories, commercial real estate and other commercial loans (commercial and industrial).

Commercial real estate loans consist of commercial mortgages and construction and development loans made for the purpose of acquiring, developing, constructing, improving or refinancing commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. Properties such as retail facilities, office buildings, lodging, commercial mixed use, multi-family dwellings, healthcare facilities and industrial and warehouse properties normally collateralize commercial real estate loans. These properties are primarily located in Rhode Island, Connecticut and Massachusetts.

Commercial and industrial loans primarily provide working capital, equipment financing, financing for leasehold improvements and financing for expansion. Commercial and industrial loans are frequently collateralized by equipment, inventory, accounts receivable, and/or general business assets. A significant portion of the Bank's commercial and industrial loans are also collateralized by real estate, but are not classified as commercial real estate loans because such loans are not made for the purpose of acquiring, developing, constructing, improving or

refinancing the real estate securing the loan, nor is the repayment source income generated directly from such real property. The Bank's commercial and industrial loan portfolio includes loans to business sectors such as retail trade, healthcare/social assistance, owner occupied and other real estate, manufacturing, construction businesses, wholesale trade, accommodation & food services, entertainment & recreation, transportation & warehousing and professional services.

In recent years, the Bank has experienced increased demand for commercial and commercial real estate loan activity. The Bank has sought to selectively expand its commercial lending relationships with new and existing customers

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while at the same time maintaining its traditional commercial lending underwriting standards and levels of interest rate risk. The total commercial loan portfolio has increased from 40% of total loans at December 31, 2006 to 51% at December 31, 2010. With respect to commercial real estate lending, management believes that the portfolio growth is in large part attributable to enhanced business cultivation efforts with new and existing borrowers. With respect to other commercial loans (commercial and industrial lending), management believes that the portfolio growth in recent years has in large part been attributable to the Bank's success in attracting commercial borrowers from larger institutions in its regional market area of southern New England, primarily in Rhode Island.

In making commercial loans, Washington Trust may occasionally solicit the participation of other banks and may also occasionally participate in commercial loans originated by other banks. From time to time, we sell the guaranteed portion of Small Business Administration ("SBA") loans to investors.

Residential Real Estate Mortgages

The residential real estate portfolio represented 32% of total loans at December 31, 2010. Residential real estate mortgages are primarily originated by commissioned mortgage originator employees. Washington Trust generally underwrites its residential mortgages based upon secondary market standards. Residential mortgages are originated both for sale in the secondary market as well as for retention in the Bank's loan portfolio. Loan sales in the secondary market provide funds for additional lending and other banking activities. The majority of loans are sold with servicing released. We also originate residential loans for various investors in a broker capacity, including conventional mortgages and reverse mortgages. In 2009 and 2010, Washington Trust experienced strong residential mortgage refinancing activity in response to the low mortgage interest rate environment. In 2010, Washington Trust originated a record $418.1 million in residential mortgage loans, including brokered loans as agent. Residential mortgage refinancing activity has recently slowed as a result of a rise in market interest rates in the latter part of the fourth quarter of 2010.

From time to time, Washington Trust purchases one-to four-family residential mortgages originated in other states as well as southern New England from other financial institutions. All residential mortgage loans purchased from other financial institutions have been individually evaluated by us at the time of purchase using underwriting standards similar to those employed for Washington Trust's self-originated loans. At December 31, 2010, the purchased portfolio made up 14% and 5% of the total residential real estate and total loan portfolios, respectively.

Washington Trust has never offered a sub-prime mortgage program and has no option-adjusted ARMs.

Consumer Loans

The consumer loan portfolio represented 17% of total loans as of December 31, 2010. Consumer loans include home equity loans and lines of credit, personal installment loans and loans to individuals secured by general aviation aircraft and automobiles. Home equity lines and home equity loans represent 83% of the total consumer portfolio at December 31, 2010. All home equity lines and home equity loans were originated by Washington Trust in its general market area. The Bank estimates that approximately 55% of the combined home equity line and home equity loan balances are first lien positions or subordinate to other Washington Trust mortgages.

Credit Risk Management and Asset Quality

Washington Trust utilizes the following general practices to manage credit risk:

- Limiting the amount of credit that individual lenders may extend;
- Establishment of formal, documented processes for credit approval accountability;
- Prudent initial underwriting and analysis of borrower, transaction, market and collateral risks;

- Ongoing servicing of the majority of individual loans and lending relationships;
- Continuous monitoring of the portfolio, market dynamics and the economy; and
- Periodic reevaluation of our strategy and overall exposure as economic, market and other relevant conditions change.

Credit risk management is independent of the lending groups, and is responsible for oversight of the commercial loan rating system, determining the adequacy of the allowance for loan losses and for preparing monthly and quarterly reports regarding the credit quality of the loan portfolio to ensure compliance with the credit policy. In addition, the

credit risk management function is responsible for managing nonperforming and classified assets. 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. Various 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 Board of Directors of the Bank monitors credit risk management through two committees, the Finance Committee and the Audit Committee. The Finance Committee has primary oversight responsibility for the credit granting function including approval authority for credit granting policies, review of management's credit granting activities and approval of large exposure credit requests. The Audit Committee oversees management's system and procedures to monitor the credit quality of the loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system and determine the adequacy of the allowance for loan losses. These committees report the results of their respective oversight functions to the Bank's Board of Directors. In addition, the Board receives information concerning asset quality measurements and trends on a monthly basis.

Deposit Activities

Deposits represent Washington Trust's primary source of funds and are gathered primarily from the areas surrounding our branch network. The Bank offers a wide variety of deposit products with a range of interest rates and terms to consumer, commercial, non-profit and municipal deposit customers. Washington Trust's deposit accounts consist of interest-bearing checking, noninterest-bearing checking, savings, money market and certificates of deposit. Washington Trust also offers a variety of retirement deposit accounts to personal and business customers. Additional deposit services provided to customers are debit cards, ATM, telephone banking, Internet banking, remote deposit capture and cash management. Washington Trust also offers merchant credit card processing services to business customers. From time to time, we utilize brokered time deposits from out-of-market institutional sources as part of our overall funding strategy.

Washington Trust is a member of the Certificate of Deposit Account Registry Service ("CDARS") network. Washington Trust uses CDARS to place customer funds into certificates of deposit issued by other banks that are members of the CDARS network. This occurs in increments less than FDIC insurance limits to ensure that customers are eligible for full FDIC insurance. We receive a reciprocal amount of deposits from other network members who do the same with their customer deposits. CDARS deposits are considered to be brokered deposits for banking regulatory purposes. We consider these reciprocal CDARS deposit balances to be in-market deposits as distinguished from out-of-market brokered deposits.

Wealth Management Services

The Corporation's wealth management business generated revenues totaling $26 million in 2010, representing 21% of total revenues. It provides a broad range of wealth management services to personal and institutional clients and mutual funds. These services include investment management; financial planning; personal trust services including services as trustee, administrator, custodian and guardian; and estate settlement. Institutional trust services are also provided, including custody and fiduciary services. Wealth Management services are provided through the Bank and

its registered investment adviser subsidiary, Weston Financial Group, Inc. The Corporation also operates a broker-dealer subsidiary which primarily conducts transactions for Weston Financial Group clients. See additional information under the caption “Subsidiaries.” Noninterest income from wealth management services consists of trust and investment management fees, mutual fund fees, and financial planning, commissions, estate settlement fees and other service fees.

At December 31, 2010 and 2009, wealth management assets under administration totaled $4.1 billion and $3.8 billion, respectively. These assets are not included in the Consolidated Financial Statements.

Investment Securities Portfolio

Washington Trust's investment securities portfolio is managed to generate interest income, to implement interest rate risk management strategies, and to provide a readily available source of liquidity for balance sheet management. See Note 4 to the Consolidated Financial Statements for additional information.

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

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

Wholesale Funding Activities

The Corporation utilizes advances from the FHLBB as well as other borrowings as part of its overall funding strategy. FHLBB advances are used to meet short-term liquidity needs, to purchase securities and to purchase loans from other institutions. The FHLBB is a cooperative that provides services, including funding in the form of advances, to its member banking institutions. As a requirement of membership, the Bank must own a minimum amount of FHLBB stock, calculated periodically based primarily on its level of borrowings from the FHLBB. The Bank also has access to an unused line of credit with the FHLBB amounting to $8.0 million at December 31, 2010. 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 FHLBB advances. The FHLBB maintains a security interest in various assets of the Bank 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. Additional funding sources are available through securities sold under agreements to repurchase and the Federal Reserve Bank ("FRB"). See Note 11 to the Consolidated Financial Statements for additional information.

Acquisitions

The following summarizes Washington Trust's acquisition history:

On August 31, 2005, the Bancorp completed the acquisition of Weston Financial Group, Inc. ("Weston Financial"), a Registered Investment Adviser and financial planning company located in Wellesley, Massachusetts, with broker-dealer and insurance agency subsidiaries. Pursuant to the Stock Purchase Agreement, dated March 18, 2005, as amended December 24, 2008, the acquisition was effected by the Bancorp's acquisition of all of Weston Financial's outstanding capital stock. (1)

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

On June 26, 2000, the Bancorp completed the acquisition of Phoenix Investment Management Company, Inc. ("Phoenix"), an independent investment advisory firm located in Providence, Rhode Island. Pursuant to the

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Agreement and Plan of Merger, dated April 24, 2000, the acquisition was effected by means of merger of Phoenix with and into the Bank. (2)

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

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(1) These acquisitions have been accounted for as purchases and, accordingly, the operations of the acquired companies are included in the Consolidated Financial
Statements from their dates of acquisition.
(2) These acquisitions were accounted for as poolings of interests and, accordingly, all financial data was restated to reflect the combined financial condition
and results of operations as if these acquisitions were in effect for all periods presented.

Subsidiaries

The Bancorp's subsidiaries include the Bank and Weston Securities Corporation ("WSC"). The Bancorp also owns all of the outstanding common stock of WT Capital Trust I, WT Capital Trust II and Washington Preferred Capital Trust, special purpose finance entities formed with the sole purpose of issuing trust preferred debt securities and investing the proceeds in junior subordinated debentures of the Bancorp. See Note 11 to the Consolidated Financial Statements for additional information.

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

The Washington Trust Company

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

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

The Bank's subsidiary, Weston Financial, is a Registered Investment Adviser and financial planning company located in Wellesley, Massachusetts, with an insurance agency subsidiary. In addition, the Bank has other passive investment subsidiaries whose primary functions are to provide servicing on passive investments, such as residential and consumer loans acquired from the Bank and investment securities. The Bank also has a limited liability company subsidiary that serves as a special limited partner responsible for certain administrative functions associated with the Bank's investment in two real estate limited partnerships.

Weston Securities Corporation

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

Market Area

Washington Trust is headquartered in Westerly, Rhode Island in Washington County. Washington Trust's primary deposit gathering area consists of the communities that are served by its branch network. The Bank has ten banking

offices located throughout Washington County, Rhode Island, five branch offices located in Providence and Kent Counties in Rhode Island and two located in New London County in southeastern Connecticut. In 2011, the Bank plans to open a full-service branch in Providence County (East Providence). This branch, which is subject to local and bank regulatory approval, will be the Bank's eighteenth branch office and its first in East Providence. We continue to expand our branch footprint and broaden our presence in Providence and Kent Counties. Both the population and number of businesses in Providence and Kent Counties far exceed those in Washington County.

Washington Trust's lending activities are conducted primarily in southern New England and, to a lesser extent, other states. In addition to its branch offices, the Bank has a commercial lending office located in the financial district of Providence and a residential mortgage lending office located in Sharon, Massachusetts. The Bank opened a second mortgage lending office in February 2011 in Burlington, Massachusetts.

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Washington Trust provides wealth management services from its main office and offices located in Providence and Narragansett, Rhode Island and Wellesley, Massachusetts.

Competition

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

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

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

Employees

At December 31, 2010, Washington Trust had 528 employees consisting of 481 full-time and 47 part-time and other employees. Washington Trust maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, a pension plan and a 401(k) plan. The pension plan was closed to new hires and rehires after September 30, 2007. Management considers relations with its employees to be good. See Note 15 to the Consolidated Financial Statements for additional information on certain employee benefit programs.

Supervision and Regulation

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

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

Regulatory Reform

On July 21, 2010, the President signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which comprehensively reforms the regulation of financial institutions, products and services. Many of the provisions of the Dodd-Frank Act noted in this section are also discussed in other sections below. Furthermore, many of the provisions of the Dodd-Frank Act require study or rulemaking by federal agencies, a process which will take months and years to fully implement.

Among other things, the Dodd-Frank Act provides for new capital standards that eliminate the treatment of trust preferred securities as Tier 1 capital. Existing trust preferred securities are grandfathered for banking entities with less than $15 billion of assets, such as the Bancorp. The Dodd-Frank Act permanently raises deposit insurance levels to $250,000, retroactive to January 1, 2008, and provides unlimited deposit insurance coverage for noninterest-bearing transaction accounts through December 31, 2012, which is mandatory for all insured depository institutions. Pursuant to modifications under the Dodd-Frank Act, deposit insurance assessments will be calculated as of April 1, 2011, based on an insured depository institution's assets rather than its insured deposits and the minimum reserve ratio of the FDIC's Deposit Insurance Fund will be raised to 1.35%. The payment of interest on business demand deposit accounts is permitted by the Dodd-Frank Act. The Dodd-Frank Act authorizes the Board of Governors of the Federal

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Reserve System (the "FRB") to regulate interchange fees for debit card transactions and establishes new minimum mortgage underwriting standards for residential mortgages. Further, the Dodd-Frank Act bars banking organizations, such as the Bancorp, from engaging in proprietary trading and from sponsoring and investing in hedge funds and private equity funds, except as permitted under certain limited circumstances. The Dodd-Frank Act empowers the newly established Financial Stability Oversight Council to designate certain activities as posing a risk to the U.S. financial system and to recommend new or heightened standards and safeguards for financial institutions engaging in such activities.

Under the Dodd Frank Act, the FRB may directly examine the subsidiaries of the Bancorp, including the Bank. Further, the Dodd-Frank Act establishes the Office of Financial Research which has the power to require reports from financial services companies such as the Bancorp. The Dodd-Frank Act also establishes the Bureau of Consumer Financial Protection ("CFPB") as an independent bureau of the FRB. The CFPB has the exclusive authority to prescribe rules governing the provision of consumer financial products and services, which in the case of the Bank will be enforced by the FDIC.

Under the Dodd-Frank Act, the SEC has adopted rules granting proxy access for shareholder nominees, and grants shareholders a non-binding vote on executive compensation and "golden parachute" payments. Pursuant to modifications of the proxy rules under the Dodd-Frank Act, the Bancorp will be required to disclose the relationship between executive pay and financial performance, the ratio of the median pay of all employees to the pay of the chief executive officer, and employee and director hedging activities. The Dodd-Frank Act also requires that stock exchanges change their listing rules to require that each member of a listed company's compensation committee be independent and be granted the authority and funding to retain independent advisors and to prohibit the listing of any security of an issuer that does not adopt policies governing the claw back of excess executive compensation based on inaccurate financial statements. The federal regulatory agencies have proposed new regulations which prohibit incentive-based compensation arrangements that encourage executives and certain other employees to take inappropriate risks.

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

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

In 2005, the Bancorp elected financial holding company status pursuant to the provisions of the Gramm-Leach-Bliley Act of 1999 ("GLBA"). As a financial holding company, the Bancorp is authorized to engage in certain financial activities in which a bank holding company may not engage. "Financial activities" is broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the FRB, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Currently, pursuant to its authority as a financial holding company, the Bancorp engages, through WSC, in broker-dealer activities pursuant to this authority. The Dodd-Frank Act bars banking organizations, such as the Bancorp, from engaging in proprietary trading and from sponsoring and investing

in hedge funds and private equity funds, except as permitted under certain limited circumstances, in a provision commonly referred to as the "Volcker Rule." Under the Dodd-Frank Act, proprietary trading generally means trading by a banking entity or its affiliate for its own account. The federal banking agencies have not yet proposed the regulations that will further define the scope of the restrictions on these activities set forth in the Dodd Frank Act, so it is uncertain what impact the implementation of the Volcker Rule with have on the Bancorp or WSC, and their activities. If a financial holding company fails to remain well capitalized and well managed, the company and its affiliates may not commence any new activity that is authorized particularly for financial holding companies. If a financial holding company remains out of compliance for 180 days or such longer period as the FRB permits, the FRB

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may require the financial holding company to divest either its insured depository institution or all of its nonbanking subsidiaries engaged in activities not permissible for a bank holding company. If a financial holding company fails to maintain a "satisfactory" or better record of performance under the Community Reinvestment Act, it will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities, or acquiring companies other than bank holding companies, banks or savings associations, except that the Bancorp could engage in new activities, or acquire companies engaged in activities that are closely related to banking under the BHCA. In addition, if the FRB finds that the Bank is not well capitalized or well managed, the Bancorp would be required to enter into an agreement with the FRB to comply with all applicable capital and management requirements and which may contain additional limitations or conditions. Until corrected, the Bancorp would not be able to engage in any new activity or acquire companies engaged in activities that are not closely related to banking under the BHCA without prior FRB approval. If the Bancorp fails to correct any such condition within a prescribed period, the FRB could order the Bancorp to divest its banking subsidiary or, in the alternative, to cease engaging in activities other than those closely related to banking under the BHCA.

Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 ("Riegle-Neal")
Riegle-Neal and the Dodd-Frank Act permit well capitalized and well managed bank holding companies, as determined by the FRB, to acquire banks in any state subject to certain concentration limits and other conditions. Riegle-Neal also generally authorizes the interstate merger of banks. In addition, among other things, Riegle-Neal and the Dodd-Frank Act permit banks to establish new branches on an interstate basis to the same extent a bank chartered by the host state may establish branches. However, as a bank holding company, we are required to obtain prior FRB approval before acquiring more than 5% of a class of voting securities, or substantially all of the assets, of a bank holding company, bank or savings association.

Control Acquisitions
The Change in Bank Control Act prohibits a person or a group of persons from acquiring "control" of a bank holding company or a depository institution, such as the Bancorp or the Bank, unless the FRB has been notified and has not objected to the transaction. Under a rebuttable presumption established by the FRB, the acquisition of 10% or more of a class of voting securities of a bank holding company or a depository institution with a class of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), would, under the circumstances set forth in the presumption, constitute the acquisition of control of such institution. In addition, a company is required to obtain the approval of the FRB under the BHCA before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of outstanding voting securities of a bank holding company, or otherwise obtaining control or a "controlling influence" over that bank holding company. In 2008, the FRB released guidance on minority investments in banks which relaxed the presumption of control for investments of greater than 10% of a class of outstanding voting securities of a bank holding company in certain instances discussed in the guidance. In addition, certain states, including Rhode Island and Massachusetts, have similar statutes that regulate the acquisition of "control" of local depository institutions.

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

payable by the Bank. The inability of the Bank to pay dividends may have an adverse effect on the Bancorp.

Regulation of the Bank

The Bank is subject to the regulation, supervision and examination by the FDIC, the Rhode Island Division of Banking and the State of Connecticut, Department of Banking. The Bank is also subject to various Rhode Island and Connecticut business and banking regulations and the regulations issued by the CFPB (as examined and enforced by

the FDIC). Additionally, under the Dodd-Frank Act the FRB may directly examine the subsidiaries of the Bancorp, including the Bank.

Regulation of the Registered Investment Adviser and Broker-Dealer

WSC is a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”) and is subject to extensive regulation, supervision, and examination by the Securities and Exchange Commission (“SEC”), FINRA and the Commonwealth of Massachusetts. Weston Financial is registered as an investment advisor under the Investment Advisers Act of 1940, as amended (the “Investment Advisers Act”), and is subject to extensive regulation, supervision, and examination by the SEC and the Commonwealth of Massachusetts, including those related to sales methods, trading practices, the use and safekeeping of customers’ funds and securities, capital structure, record keeping and the conduct of directors, officers and employees.

As an investment advisor, Weston Financial is subject to the Investment Advisers Act and any regulations promulgated thereunder, including fiduciary, recordkeeping, operational and disclosure obligations. Each of the mutual funds for which Weston Financial acts an advisor or subadvisor is registered with the SEC under the Investment Company Act of 1940, as amended (the “Investment Company Act”), and subject to requirements thereunder. Shares of each mutual fund are registered with the SEC under the Securities Act of 1933, as amended (the “Securities Act”), and are qualified for sale (or exempt from such qualification) under the laws of each state and the District of Columbia to the extent such shares are sold in any of those jurisdictions. In addition, an advisor or subadvisor to a registered investment company generally has obligations with respect to the qualification of the registered investment company under the Internal Revenue Code of 1986, as amended (the “Code”).

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

ERISA

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

Insurance of Accounts and FDIC Regulation

The Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. For most banks and savings associations, including the Bank, FDIC rates depend upon a combination of CAMELS component ratings and financial ratios. CAMELS ratings reflect the applicable bank regulatory agency’s evaluation of the financial institution’s capital, asset quality, management, earnings, liquidity and sensitivity to risk. For large banks and savings associations that have long-term debt issuer ratings, assessment rates will depend upon such ratings, and CAMELS component ratings. Pursuant to the Dodd-Frank Act, the FDIC has amended the deposit insurance assessment by changing the calculation of deposit assessments. Under the new calculation, deposit premiums will be based on assets rather than insurable deposits. To determine its actual deposit insurance premiums, the Bank will compute the base amount on its average consolidated assets less its average tangible equity (which the FDIC proposes to be defined as the amount of Tier 1 capital) and its applicable assessment rate. The new assessment formula will become effective on April 1, 2011, and will be used to calculate the June 30, 2011 assessment. Future expenses will

be based on asset levels, Tier 1 capital levels, assessment rates, CAMELS ratings, and whether there are any future special assessments by the FDIC. The Bank is unable to precisely predict the effect of the changes to the calculation of its deposit insurance assessment, but expects that its aggregate FDIC-deposit insurance premium payable June 30, 2011 will be lower than its December 31, 2010 payment.

In November 2009, the FDIC issued a final rule that mandated that insured depository institutions prepay their quarterly risk-based assessments to the FDIC for the fourth quarter of 2009 and for all of 2010, 2011, and 2012 on December 30, 2009. The Bank recorded the entire amount of its prepayment as an asset (a prepaid expense). The

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prepaid assessments bear a zero-percent risk weight for risk-based capital purposes. As of December 31, 2009, and each quarter thereafter, the Bank will record an expense for its regular quarterly assessment for the quarter and a corresponding credit to the prepaid assessment until the asset is exhausted. The FDIC will not refund or collect additional prepaid assessments because of a decrease or growth in deposits over the next three years. However, if the prepaid assessment is not exhausted after collection of the amount due on June 30, 2013, the remaining amount of the prepayment will be returned to the institution. The timing of any refund of the prepaid assessment will not be affected by the change in the deposit insurance assessment calculation discussed above. In 2008, FDIC deposit insurance was temporarily increased from $100,000 to $250,000 per depositor and this level of insurance was made permanent under the Dodd-Frank Act. Additionally, the Dodd-Frank Act provides temporary unlimited deposit insurance coverage for noninterest-bearing transaction accounts beginning December 31, 2010, and ending December 31, 2012. This replaced the FDIC's Transaction Account Guarantee Program, which expired on December 31, 2010. The Bank's FDIC deposit insurance costs totaled $3.2 million in 2010. The FDIC has the power to adjust the assessment rates at any time. We cannot predict whether, as a result of the adverse change in U.S. economic conditions and, in particular, declines in the value of real estate in certain markets served by the Bank, the FDIC will in the future require increases to deposit insurance assessment levels.

Bank Holding Company Support to Subsidiary Bank

Under the Dodd-Frank Act, the Bancorp is required to serve as a source of financial strength for the Bank in the event of the financial distress of the Bank. This provision codifies the longstanding policy of the FRB. This support may be required at times when the bank holding company may not have the resources to provide it. The federal banking agencies must still issue regulations to implement the source of strength provisions of the Dodd-Frank Act. Similarly, under the cross-guarantee provisions of the Federal Deposit Insurance Act, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the "default" of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution "in danger of default." The Bank is a FDIC-insured depository institution.

Regulatory Capital Requirements

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

The FRB's risk-based guidelines define a three-tier capital framework. Tier 1 capital for bank holding companies generally consists of the sum of common stockholders' equity, perpetual preferred stock and trust preferred securities (both subject to certain limitations and, in the case of the latter, to specific limitations on the kind and amount of such securities which may be included as Tier 1 capital and certain additional restrictions described below), and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and other non-qualifying intangible assets. Tier 2 capital generally consists of hybrid capital instruments, perpetual debt and mandatory convertible debt securities; perpetual preferred stock and trust preferred securities, to the extent it is not eligible to be included as Tier 1 capital; term subordinated debt and intermediate-term preferred stock; and, subject to limitations, general allowances for loan losses. The sum of Tier 1 and Tier 2 capital less certain required deductions, such as investments in unconsolidated banking or finance subsidiaries, represents qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital, respectively, by risk-weighted assets. Assets and off-balance sheet credit equivalents are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 risk-based capital ratio is 4% and the minimum total risk-based capital ratio is 8%. As of December 31, 2010, the Corporation's Tier 1 capital ratio was 11.53% and its total risk-based capital ratio was 12.79%.

Pursuant to Section 171 of the Dodd-Frank Act (more commonly known as the “Collins Amendment”), the capital requirements generally applicable to insured depository institutions will serve as a floor for any capital requirements the FRB may establish for Bancorp as a bank holding company. As a result, hybrid securities, including trust preferred securities, issued on or after May 19, 2010 are not eligible to be included in Tier 1 capital and instead may be included only in Tier 2 capital. The Bancorp has not issued any trust preferred securities since May 19, 2010. However, as the Bancorp had total consolidated assets of less than $15 billion as of December 31, 2009, its hybrid securities, including its trust preferred securities, issued before May 19, 2010 will remain eligible to be included in

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Tier 1 capital to the same extent as before the enactment of the Collins Amendment. The Collins Amendment also specifies that the Federal Reserve may not establish risk-based capital requirements for bank holding companies that are quantitatively lower than the risk-based capital requirements in effect for insured depository institutions as of July 21, 2010.

In addition to the risk-based capital requirements, the FRB requires top rated bank holding companies to maintain a minimum leverage capital ratio of Tier 1 capital (defined by reference to the risk-based capital guidelines) to its average total consolidated assets of at least 3.0%. For most other bank holding companies (including the Bancorp), the minimum Leverage Ratio is 4.0%. Bank holding companies with supervisory, financial, operational or managerial weaknesses, as well as bank holding companies that are anticipating or experiencing significant growth, are expected to maintain capital ratios well above the minimum levels. The Corporation's leverage ratio was 8.25% as of December 31, 2010.

Pursuant to the Collins Amendment, as with the risk-based capital requirements discussed above, the leverage capital requirements generally applicable to insured depository institutions will serve as a floor for any leverage capital requirements the FRB may establish for bank holding companies, such as the Bancorp. The Collins Amendment also specifies that the FRB may not establish leverage capital requirements for bank holding companies that are quantitatively lower than the leverage capital requirements in effect for insured depository institutions as of July 21, 2010.

The FDIC has promulgated regulations and adopted a statement of policy regarding the capital adequacy of state-chartered banks, which, like the Bank, are not members of the Federal Reserve System. These requirements are substantially similar to those adopted by the FRB regarding bank holding companies, as described above. Moreover, the FDIC has promulgated corresponding regulations to implement the system of prompt corrective action established by Section 38 of the Federal Deposit Insurance Act ("FDIA"). Under the regulations, a bank is "well capitalized" if it has: (1) a total risk-based capital ratio of 10.0% or greater; (2) a Tier 1 risk-based capital ratio of 6.0% or greater; (3) a leverage ratio of 5.0% or greater; and (4) is not subject to any written agreement, order, capital directive or prompt corrective action directive to meet and maintain a specific capital level for any capital measure. A bank is "adequately capitalized" if it has: (1) a total risk-based capital ratio of 8.0% or greater; (2) a Tier 1 risk-based capital ratio of 4.0% or greater; and (3) a leverage ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the definition of a "well capitalized bank."

Regulators also must take into consideration: (1) concentrations of credit risk; (2) interest rate risk; and (3) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. As of December 31, 2010, the Bank's capital ratios placed it in the well capitalized category. Reference is made to Note 12 to the Consolidated Financial Statements for additional discussion of the Corporation's regulatory capital requirements.

Generally, a bank, upon receiving notice that it is not adequately capitalized (i.e., that it is "undercapitalized"), becomes subject to the prompt corrective action provisions of Section 38 of FDIA that, for example, (i) restrict payment of capital distributions and management fees, (ii) require that the FDIC monitor the condition of the institution and its efforts to restore its capital, (iii) require submission of a capital restoration plan, (iv) restrict the growth of the institution's assets and (v) require prior regulatory approval of certain expansion proposals. A bank that is required to submit a capital restoration plan must concurrently submit a performance guarantee by each company that controls the bank. A bank that is "critically undercapitalized" (i.e., has a ratio of tangible equity to total assets that is equal to or less than 2.0%) will be subject to further restrictions, and generally will be placed in conservatorship or receivership within 90 days.

The Bancorp has not elected, and does not expect to elect, to calculate its risk-based capital requirements under the Internal-Ratings Based and Advanced Measurement Approaches (commonly referred to as the "advanced approaches" or "Basel II") proposed by the Basel Committee on Banking Supervision (the "Basel Committee"), as implemented in the U.S. by the federal banking agencies. In connection with Basel II, the federal banking agencies also issued, in 2008, a joint notice of proposed rulemaking that sought comment on implementation in the United States of certain aspects of the "standardized approach" of the international Basel II Accord (the "Standardized Approach Proposal").

However, the federal banking agencies have delayed finalizing the Standardized Approach Proposal until they can determine how best to eliminate its reliance on credit ratings, as required by Section 939A of the Dodd-Frank Act.

In response to the recent financial crisis, the Basel Committee released additional recommended revisions to existing capital rules throughout the world. These proposed revisions are intended to protect financial stability and promote sustainable economic growth by setting out higher and better capital requirements, better risk coverage, the introduction of a global leverage ratio, measures to promote the build up of capital that can be drawn down in periods of stress, and the introduction of two global liquidity standards (collectively, "Basel III"). The FRB has not yet adopted Basel III, and there remains considerable uncertainty regarding the timing for adoption and implementation of Basel III in the United States. If and when the FRB does implement Basel III, it may be with some modifications or adjustments. Accordingly, the Bancorp is not yet in a position to determine the effect of Basel III on its capital requirements.

Transactions with Affiliates

Under Sections 23A and 23B of the Federal Reserve Act and Regulation W thereunder, there are various legal restrictions on the extent to which a bank holding company and its nonbank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with its FDIC-insured depository institution subsidiaries. Such borrowings and other covered transactions by an insured depository institution subsidiary (and its subsidiaries) with its nondepository institution affiliates are limited to the following amounts:

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

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

The Dodd-Frank Act amended the definition of affiliate to include an investment fund for which the depository institution or one of its affiliates is an investment adviser. "Covered transactions" are defined by statute for these purposes to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate unless exempted by the FRB, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliated that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Covered transactions are also subject to certain collateral security requirements. Further, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Limitations on Bank Dividends

The Bancorp's revenues consist primarily of cash dividends paid to it by the Bank. The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Payment of dividends by a bank is also restricted pursuant to various state regulatory limitations. Reference is made to Note 12 to the Consolidated Financial Statements for additional discussion of the Corporation's ability to pay dividends.

Customer Information Security

The federal banking agencies have adopted final guidelines for establishing standards for safeguarding nonpublic personal information about customers. These guidelines implement provisions of GLBA, which establishes a

comprehensive framework to permit affiliations among commercial banks, insurance companies, securities firms, and other financial service providers by revising and expanding the BHCA framework. Specifically, the Information Security Guidelines established by the GLBA require each financial institution, under the supervision and ongoing oversight of its Board of Directors or an appropriate committee thereof, to develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information, to protect against any anticipated threats or hazards to the security or integrity of such information, and protect against unauthorized access to or use of such information that could result in substantial harm or

inconvenience to any customer. The federal banking agencies have issued guidance for banks on response programs for unauthorized access to customer information. This guidance, among other things, requires notice to be sent to customers whose "sensitive information" has been compromised if unauthorized use of this information is "reasonably possible". A majority of states have enacted legislation concerning breaches of data security and Congress is considering federal legislation that would require consumer notice of data security breaches.

Privacy

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

Anti-Money Laundering and the Bank Secrecy Act

Under the Bank Secrecy Act ("BSA"), a financial institution, is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report to the United States Treasury any cash transactions involving more than $10,000. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than $5,000 and which the financial institution knows, suspects or has reason to suspect involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose. The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA PATRIOT Act"), which amended the BSA, is designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system. The USA PATRIOT Act has significant implications for financial institutions and businesses of other types involved in the transfer of money. The USA PATRIOT Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, such as the Bank, to adopt and implement additional policies or amend existing policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity, currency transaction reporting, customer identity verification and customer risk analysis. In evaluating an application under Section 3 of the BHCA to acquire a bank or an application under the Bank Merger Act to merge banks or effect a purchase of assets and assumption of deposits and other liabilities, the applicable federal banking regulator must consider the anti-money laundering compliance record of both the applicant and the target. In addition, under the USA PATRIOT Act financial institutions are required to take steps to monitor their correspondent banking and private banking relationships as well as, if applicable, their relationships with "shell banks."

Office of Foreign Assets Control ("OFAC")

The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These sanctions, which are administered by OFAC, take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on "U.S. persons" engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (for example, property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences for the Bancorp.

The Community Reinvestment Act (the "CRA")

The CRA requires lenders to identify the communities served by the institution's offices and other deposit taking facilities and to make loans and investments and provide services that meet the credit needs of these communities. Regulatory agencies examine each institution and rate such institution's compliance with CRA as "Outstanding", "Satisfactory", "Needs to Improve" or "Substantial Noncompliance". Failure of an institution to receive a least a "Satisfactory" rating could inhibit an institution or its holding company from undertaking certain activities, including engaging in activities newly permitted as a financial holding company under GLBA and acquisitions of other financial institutions. The FRB must take into account the record of performance of banks in meeting the credit needs of the entire community served, including low and moderate income neighborhoods. The Bank has achieved a rating of "Satisfactory" on its most recent examination dated August 31, 2009. Rhode Island and Connecticut also have enacted substantially similar community reinvestment requirements.

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Regulation R
The GLBA also amended the federal securities laws to eliminate the blanket exceptions that banks traditionally have had from the definition of "broker," "dealer" and "investment adviser" under the Exchange Act. The GLBA provided 11 exceptions from the definition of "broker" in Section 3(a)(4) of the Exchange Act that permit banks to effect securities transactions under certain conditions without registering as broker-dealers with the SEC. Regulation R, which was issued jointly by the SEC and the FRB, implements certain of these exceptions. The FRB and SEC have stated that they will jointly issue any interpretations or no-action letters/guidance regarding Regulation R and consult with each other and the appropriate federal banking agency with respect to formal enforcement actions pursuant to Regulation R.

Regulatory Enforcement Authority
The enforcement powers available to the federal banking agencies include, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties, as defined. In general, these enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices. Other actions or inactions may provide the basis for enforcement action, including misleading or untimely reports filed with regulatory authorities. Under certain circumstances, federal and state law requires public disclosure and reports of certain criminal offenses and also final enforcement actions by the federal banking agencies.

Identity Theft Red Flags
The federal banking agencies jointly issued final rules and guidelines in 2007 implementing Section 114 ("Section 114") of the Fair and Accurate Credit Transactions Act of 2003 ("FACT Act") and final rules implementing Section 315 of the FACT Act ("Section 315"). Section 114 requires the Bank to develop and implement a written Identity Theft Prevention Program (the "Program") to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Section 114 also requires credit and debit card issuers to assess the validity of notifications of changes of address under certain circumstances. The federal banking agencies issued joint rules under Section 315 that provide guidance regarding reasonable policies and procedures that a user of consumer reports must employ when a consumer reporting agency sends the user a notice of address discrepancy. The final rules and guidelines became effective January 1, 2008 and the Bank had to begin complying with the rules by November 1, 2008.

Fair Credit Reporting Affiliate Marketing Regulations
Section 214 of the FACT Act, which amends the Fair Credit Reporting Act, generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations.

The Sarbanes-Oxley Act of 2002, as amended ("Sarbanes-Oxley")
Sarbanes-Oxley implemented a broad range of corporate governance and accounting measures for public companies (including publicly-held bank holding companies such as Bancorp) designed to promote honesty and transparency in corporate America. Sarbanes-Oxley's principal provisions, many of which have been interpreted through regulations released in 2003, provide for and include, among other things, (1) requirements for audit committees, including independence and financial expertise; (2) certification of financial statements by the principal executive officer and principal financial officer of the reporting company; (3) standards for auditors and regulation of audits; (4) disclosure and reporting requirements for the reporting company and directors and executive officers; and (5) a range of civil and criminal penalties for fraud and other violations of securities laws.

Consumer Protection Laws

The Bancorp and the Bank are subject to a number of federal and state laws designed to protect consumers and prohibit unfair or deceptive business practices. These laws include the Equal Credit Opportunity Act, Fair Housing Act, Home Ownership Protection Act, Fair Credit Reporting Act, as amended by the FACT Act, GLBA, Truth in Lending Act, the CRA, the Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, National Flood Insurance Act and various state law counterparts. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must interact with customers when taking deposits, making loans, collecting loans and providing other services. Further, the Dodd-Frank Act established the CFPB, which has

the responsibility for making rules and regulations under the federal consumer protection laws relating to financial products and services. The CFPB also has a broad mandate to prohibit unfair or deceptive acts and practices and is specifically empowered to require certain disclosures to consumers and draft model disclosure forms. Failure to comply with consumer protection laws and regulations can subject financial institutions to enforcement actions, fines and other penalties. The FDIC will examine the Bank for compliance with CFPB rules and enforce CFPB rules with respect to the Bank.

Interchange Fees

Pursuant to the Dodd-Frank Act, the FRB has issued a proposed rule governing the interchange fees charged on debit cards. The proposed rule would cap the fee a bank could charge on a debit card transaction and shifts such interchange fees from a percentage of the transaction amount to a per transaction fee. Although the proposed rule does not directly apply to institutions with less than $10 billion in assets, market forces may result in debit card issuers of all sizes adopting fees that comply with this rule. The Bank is unable to predict the impact of the proposed rule, however it could result in a decrease in fee income the Bank earns from debit cards.

Mortgage Reform

The Dodd-Frank Act prescribes certain standards that mortgage lenders must consider before making a residential mortgage loan, including verifying a borrower's ability to repay such mortgage loan. The Dodd-Frank Act also allows borrowers to assert violations of certain provisions of the Truth-in-Lending Act as a defense to foreclosure proceedings. Under the Dodd-Frank Act, prepayment penalties are prohibited for certain mortgage transactions and creditors are prohibited from financing insurance policies in connection with a residential mortgage loan or home equity line of credit. The Dodd-Frank Act requires mortgage lenders to make additional disclosures prior to the extension of credit, in each billing statement and for negative amortization loans and hybrid adjustable rate mortgages.

Brokered Deposits

Section 29 of the FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution's capital category is "well capitalized" or, with the FDIC's approval, "adequately capitalized." These restrictions have not in the past had a material impact on the operations of the Bank. Depository institutions, other than those in the lowest risk category, that have brokered deposits in excess of 10% of total deposits will be subject to increased FDIC deposit insurance premium assessments. The FDIC has proposed to adjust this formula to account for the new deposit assessment base discussed above. Additionally, depository institutions considered "adequately capitalized" that need FDIC approval to accept, renew or roll over any brokered deposits are subject to additional restrictions on the interest rate they may pay on deposits.

Securities and Exchange Commission Availability of Filings

Under Sections 13 and 15(d) of the Exchange Act, periodic and current reports must be filed or furnished with the SEC. You may read and copy any reports, statements or other information filed by Washington Trust with the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Washington Trust's filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at http://www.sec.gov. In addition, Washington Trust makes available free of charge on the Investor Relations section of its website (www.washtrust.com) its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and exhibits and amendments to those reports as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the SEC. Information on the Washington Trust website is not incorporated by reference into this Annual Report on Form 10-K.

Item 1A. Risk Factors.

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

Interest Rate Volatility May Reduce Our Profitability

Our consolidated results of operations depend, to a large extent, on the level of net interest income, which is the difference between interest income from interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. The narrowing of interest rate spreads, meaning, the difference between interest rates earned on loans and investments and the interest rates paid on deposits and borrowings, could adversely affect our earnings.

We are unable to predict or control future fluctuations in interest rates or the specific impact thereof. Washington Trust has ongoing policies and procedures designed to manage the risks associated with changes in market interest rates.

The market values of most of our financial assets are sensitive to fluctuations in market interest rates. Fixed-rate investments, mortgage-backed securities and mortgage loans typically decline in value as interest rates rise. Changes in interest rates can also affect the rate of prepayments on mortgage-backed securities, thereby adversely affecting the value of such securities and the interest income generated by them.

Changes in interest rates can also affect the amount of loans that we originate, as well as the value of loans and other interest-earning assets and our ability to realize gains on the sale of such assets and liabilities. Prevailing interest rates also affect the extent to which our borrowers prepay their loans. When interest rates increase, borrowers are less likely to prepay their loans, and when interest rates decrease, borrowers are more likely to prepay loans. Funds generated by prepayments might be reinvested at a less favorable interest rate. Prepayments may adversely affect the value of mortgage loans, the levels of such assets that are retained in our portfolio, net interest income, loan servicing income and capitalized servicing rights.

Increases in interest rates might cause depositors to shift funds from accounts that have a comparatively lower cost, such as regular savings accounts, to accounts with a higher cost, such as certificates of deposit. If the cost of interest-bearing deposits increases at a rate greater than the yields on interest-earning assets increase, our net interest income will be negatively affected. Changes in the asset and liability mix may also affect our net interest income.

For additional discussion on interest rate risk, see disclosures in Item 7 under the caption "Asset / Liability Management and Interest Rate Risk."

The Market Value of Wealth Management Assets Under Administration May Be Negatively Affected by Changes in Economic and Market Conditions

Revenues from wealth management services represented 21% of our total revenues for 2010. A substantial portion of these fees are dependent on the market value of wealth management assets under administration, which are primarily marketable securities. Changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of these assets and the fee revenues derived from the management of these assets.

We May Not Be Able to Attract and Retain Wealth Management Clients at Current Levels

Due to strong competition, our wealth management division may not be able to attract and retain clients at current levels. Competition is strong because there are numerous well-established and successful investment management and wealth advisory firms including commercial banks and trust companies, investment advisory firms, mutual fund companies, stock brokerage firms, and other financial companies. Many of our competitors have greater resources than we have.

Our ability to successfully attract and retain wealth management clients is dependent upon our ability to compete with competitors' investment products, level of investment performance, client services and marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted.

Wealth management revenues are primarily derived from investment management (including mutual funds), trust fees and financial planning services. Most of our investment management clients may withdraw funds from accounts under management generally at their sole discretion. Financial planning contracts must typically be renewed on an annual basis and are terminable upon relatively short notice. The financial performance of our wealth management

business is a significant factor in our overall results of operations and financial condition.

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

We make various assumptions and judgments about the collectibility of our loan portfolio and provide an allowance for potential losses based on a number of factors. If our assumptions are wrong, our allowance for loan losses may not be sufficient to cover our losses, which would have an adverse effect on our operating results, and may also cause us to increase the allowance in the future. Material additions to our allowance would materially decrease our net income.

In addition to general real estate and economic factors, the following factors could affect our ability to collect our loans and require us to increase the allowance in the future:

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

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

- Recent economic conditions have contributed to varying declines in residential and commercial real estate values and the value of other collateral as well as increasing the constraints on the cash flows of borrowers. These conditions may also result in an increase in delinquencies with a negative impact on our loan loss experience. Accordingly, our allowance for loan losses may need to be increased, which could have an adverse effect on our results of operations and financial condition.

- Federal and state regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize additional charge-offs. Any increase in our allowance for loan losses or loan charge-offs required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

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

Our Focus on Commercial Lending May Expose Us to Increased Lending Risks

Commercial loans are historically more sensitive to economic downturns. Such sensitivity includes potentially higher default rates and possible declines in collateral values. Commercial lending involves larger loan sizes and significant relationship exposures, which can have a greater impact on profits in the event of adverse loan performance. Commercial lending also involves development financing, which is dependent on the future success of new operations. In addition, commercial loans include lending to nonprofit organizations, which in some cases are particularly sensitive to negative economic events. As of December 31, 2010, commercial loans represent 51% of our loan portfolio.

We Have Credit and Market Risk Inherent in Our Securities Portfolio

We maintain a diversified securities portfolio, which includes mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, obligations of U.S. government-sponsored agencies, securities issued by state and political subdivisions, trust preferred debt securities issued primarily by financial service companies, and corporate debt securities. We also invest in capital securities, which include common and perpetual preferred stocks. We seek to limit credit losses in our securities portfolios by generally purchasing only highly-rated securities. Significant credit market anomalies may impact the valuation and liquidity of our securities including conditions such as reduced market liquidity, increased normal bid-asked spreads and increased uncertainty of market participants. Such illiquidity could reduce the market value of our securities, even those with no apparent credit

exposure. The valuation of our securities requires judgment and as market conditions change security values may also change.

If We Are Required to Write-Down Goodwill Recorded in Connection with Our Acquisitions, Our Profitability Would be Negatively Impacted

Applicable accounting standards require us to use the purchase method of accounting for all business combinations. Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. At December 31, 2010, the Corporation had

$58 million of goodwill on its balance sheet. Goodwill must be evaluated for impairment at least annually. Write-downs of the amount of any impairment, if necessary, are to be charged to the results of operations in the period in which the impairment occurs. There can be no assurance that future evaluations of goodwill will not result in findings of impairment and related write-downs, which would have an adverse effect on the Corporation's financial condition and results of operations.

We May Not Be Able to Compete Effectively Against Larger Financial Institutions in Our Increasingly Competitive Industry
We compete with larger bank and non-bank financial institutions for loans and deposits in the communities we serve, and we may face even greater competition in the future due to legislative, regulatory and technological changes and continued consolidation. Many of our competitors have significantly greater resources and lending limits than we have. Banks and other financial services firms can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automated transfer and automatic payment systems. Many competitors have fewer regulatory constraints and may have lower cost structures than we do. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can. Our long-term success depends on the ability of the Bank to compete successfully with other financial institutions in the Bank's service areas.

We May Be Unable to Attract and Retain Key Personnel
Our success depends, in large part, on our ability to attract and retain key personnel. Competition for qualified personnel in the financial services industry can be intense and we may not be able to hire or retain the key personnel that we depend upon for success. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business because of their skills, knowledge of the markets in which we operate, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

Changes in the National and Local Economy May Affect Our Future Growth Possibilities
National and local economic conditions have an impact on the banking and financial services industry. Our operating results depend to a large extent on providing products and services to customers in our local market area. Unemployment rates, real estate values, demographic changes, property tax rates, and local and state governments have an impact on local and regional economic conditions. An increase in unemployment, a decrease in real estate values, an increase in property tax rates, or decrease in population could weaken the local economies in which we operate. Weak economic conditions could lead to credit quality concerns related to repayment ability and collateral protection. These conditions could also affect our ability to retain or grow deposits.

Our Stock Price Can Be Volatile
The price of our common stock can fluctuate widely in response to a variety of factors. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly. Some of the factors that could cause fluctuations or declines in the price of our common stock include, but are not limited to, actual or anticipated variations in reported operating results, recommendations by securities analysts, the level of trading activity in our common stock, new services or delivery systems offered by competitors, business combinations involving our competitors, operating and stock price performance of companies that investors deem to be comparable to Washington Trust, news reports relating to trends or developments in the credit, mortgage and housing markets as well as the financial services industry, and changes in government regulations.

We are Subject to Operational Risk That Could Adversely Affect Our Business

We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We depend upon data processing, software, communication, and information exchange on a variety of computing platforms and networks and over the Internet. Despite instituted safeguards, we cannot be certain that all of its systems are entirely free from vulnerability to attack or other technological difficulties or failures. If information security is breached or other technology difficulties or failures occur, information may be lost or misappropriated, services and operations may be interrupted and we could be exposed to claims from customers. While we maintain a system of internal controls and procedures, any of these results could have a material adverse effect on our business, financial condition, results of operations or liquidity.

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Changes in Laws and/or Regulations and Accounting Standards May Adversely Affect Our Results of Operations
We are subject to extensive federal and state laws and regulations and are subject to supervision, regulation and examination by various federal and state bank regulatory agencies. The restrictions imposed by such laws and regulations limit the manner in which we may conduct business. We cannot assure you that any modification of these laws and regulations, or new legislation that may be enacted in the future, will not make compliance more difficult or expensive, or otherwise adversely affect our results of operations. See the section entitled "Supervision and Regulation" in Item 1 of this Annual Report on Form 10-K.

We are also subject to tax laws and regulations promulgated by the United States government and the states in which we operate. Changes to these laws and regulations or the interpretation of such laws and regulations by taxing authorities could impact future tax expense and the value of deferred tax assets.

The presentation of the Corporation’s financial condition and results of operations in its consolidated financial statements is dependent upon our accounting practices pursuant to accounting standards. From time to time, the Financial Accounting Standards Board (“FASB”) or regulatory authorities change the financial accounting and reporting standards that govern the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in the Corporation restating prior period financial statements.

We May Need To Raise Additional Capital in the Future and Such Capital May Not Be Available When Needed
We may need to raise additional capital in the future to provide us with sufficient capital resources and liquidity to meet our commitments and business needs. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of our control, and our financial performance. We cannot assure you that such capital will be available to us on acceptable terms or at all. Our inability to raise sufficient additional capital on acceptable terms when needed could adversely affect our businesses, financial condition and results of operations.

ITEM 1B. Unresolved Staff Comments.
None.

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

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I.	Distribution of Assets, Liabilities and Stockholder Equity; Interest Rates and Interest Differentials	36-37
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III.	Loan Portfolio	48-55, 91
IV.	Summary of Loan Loss Experience	55-58, 98
V.	Deposits	36, 104
VI.	Return on Equity and Assets	24
VII.	Short-Term Borrowings	106

ITEM 2. Properties.
Washington Trust is headquartered at 23 Broad Street, Westerly, Rhode Island and has seventeen branch offices located within Washington, Providence and Kent Counties in Rhode Island and New London County in southeastern Connecticut. In addition, Washington Trust has a commercial lending office located in the financial district of

Providence, Rhode Island, and a residential mortgage lending office located in Sharon, Massachusetts. Washington Trust also provides wealth management services from its offices located in Westerly, Narragansett and Providence, Rhode Island and Wellesley, Massachusetts. Washington Trust has two operations facilities and an additional corporate office located in Westerly, Rhode Island.

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At December 31, 2010, eleven of the Corporation's facilities were owned, fourteen were leased and one branch office was owned on leased land. Lease expiration dates range from two months to eleven years with renewal options on certain leases of two to twenty-five years. All of the Corporation's properties are considered to be in good condition and adequate for the purpose for which they are used.

In addition to the locations mentioned above, the Bank has two owned offsite-ATMs in leased spaces. The terms of one of these leases are negotiated annually. The lease term for the second offsite-ATM expires in twenty months with no renewal option.

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

For additional information regarding premises and equipment and lease obligations see Note 7 to the Consolidated Financial Statements.

ITEM 3. Legal Proceedings.

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

ITEM 4. [Removed and Reserved.]

PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Bancorp's common stock trades on the NASDAQ Global Select® Market under the symbol WASH.

The quarterly common stock price ranges and dividends paid per share for the years ended December 31, 2010 and 2009 are presented in the following table. The stock prices are based on the high and low sales prices during the respective quarter.

2010 Quarters	1	2	3	4
Stock prices:				
High	$20.09	$20.44	$20.48	$22.71
Low	14.50	16.84	16.70	18.53
Cash dividend declared per share	$0.21	$0.21	$0.21	$0.21

2009 Quarters	1	2	3	4
Stock prices:				
High	$20.62	$20.75	$19.61	$17.95
Low	11.50	15.67	16.16	13.97
Cash dividend declared per share	$0.21	$0.21	$0.21	$0.21

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

The Bancorp's primary source of funds for dividends paid to shareholders is the receipt of dividends from the Bank. A discussion of the restrictions on the advance of funds or payment of dividends by the Bank to the Bancorp is included in Note 12 to the Consolidated Financial Statements.

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At February 25, 2011 there were 1,910 holders of record of the Bancorp’s common stock.

See additional disclosures on Equity Compensation Plan Information in Part III, Item 12 “Security Ownership of Certain Beneficial Owners and Management.”

The Bancorp did not repurchase any shares during the fourth quarter of 2010.

Stock Performance Graph

Set forth below is a line graph comparing the cumulative total shareholder return on the Corporation's common stock against the cumulative total return of the NASDAQ Bank Stocks index and the NASDAQ Stock Market (U.S.) for the five years ended December 31. The historical information set forth below is not necessarily indicative of future performance.

The results presented assume that the value of the Corporation's common stock and each index was $100.00 on December 31, 2005. The total return assumes reinvestment of dividends.

Washington Trust Bancorp, Inc. – Total Return Performance

For the period ending December 31	2005	2006	2007	2008	2009	2010
Washington Trust Bancorp, Inc.	$ 100.00	$ 109.59	$ 102.20	$ 82.95	$ 68.69	$ 100.68
NASDAQ Bank Stocks	$ 100.00	$ 113.82	$ 91.16	$ 71.52	$ 59.87	$ 68.34
NASDAQ Stock Market (U.S.)	$ 100.00	$ 110.39	$ 122.15	$ 73.32	$ 106.57	$ 125.91

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ITEM 6. Selected Financial Data.

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

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

At or for the years ended December 31,	2010	2009	2008	2007	2006
Financial Results:					
Interest income	$ 123,254	$ 129,630	$ 140,662	$ 136,434	$ 131,134
Interest expense	46,063	63,738	75,149	76,490	69,660
Net interest income	77,191	65,892	65,513	59,944	61,474
Provision for loan losses	6,000	8,500	4,800	1,900	1,200
Net interest income after provision for loan losses	71,191	57,392	60,713	58,044	60,274
Noninterest income:					
Net realized gains on sales of securities	729	314	2,224	455	443
Net other-than-temporary impairment losses on securities	(417)	(3,137)	(5,937)	–	–
Other noninterest income	48,161	45,476	44,550	45,294	41,950
Total noninterest income	48,473	42,653	40,837	45,749	42,393
Noninterest expense	85,311	77,603	72,059	69,146	65,545
Income before income taxes	34,353	22,442	29,491	34,647	37,122
Income tax expense	10,302	6,346	7,319	10,847	12,091
Net income	$ 24,051	$ 16,096	$ 22,172	$ 23,800	$ 25,031
Per share information ($):					
Earnings per share:					
Basic	1.49	1.01	1.59	1.78	1.86
Diluted	1.49	1.00	1.57	1.75	1.82
Cash dividends declared (1)	0.84	0.84	0.83	0.80	0.76
Book value	16.63	15.89	14.75	13.97	12.89
Market value - closing stock price	21.88	15.58	19.75	25.23	27.89
Performance Ratios (%):					
Return on average assets	0.82	0.55	0.82	0.99	1.04
Return on average shareholders' equity	9.09	6.56	11.12	13.48	14.99
Average equity to average total assets	9.08	8.40	7.35	7.33	6.93
Dividend payout ratio (2)	56.38	84.00	52.87	45.71	41.76
Asset Quality Ratios (%):					
Total past due loans to total loans	1.27	1.64	0.96	0.45	0.49
Nonperforming loans to total loans	0.93	1.43	0.42	0.27	0.19

Nonperforming assets to total assets	0.79	1.06	0.30	0.17	0.11
Allowance for loan losses to nonaccrual loans	154.42	99.75	305.07	471.12	693.87
Allowance for loan losses to total loans	1.43	1.43	1.29	1.29	1.29
Net charge-offs (recoveries) to average loans	0.24	0.25	0.08	0.03	0.02
Capital Ratios (%):					
Tier 1 leverage capital ratio	8.25	7.82	7.53	6.09	6.01
Tier 1 risk-based capital ratio	11.53	11.14	11.29	9.10	9.57
Total risk-based capital ratio	12.79	12.40	12.54	10.39	10.96

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

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Selected Financial Data (Dollars in thousands)

December 31,	2010	2009	2008	2007	2006
Assets:					
Cash and cash equivalents	$ 92,736	$ 57,260	$ 58,190	$ 41,112	$ 71,909
Total securities	594,100	691,484	866,219	751,778	703,851
FHLBB stock	42,008	42,008	42,008	31,725	28,727
Loans:					
Commercial and other	1,027,065	984,550	880,313	680,266	587,397
Residential real estate	645,020	605,575	642,052	599,671	588,671
Consumer	323,553	329,543	316,789	293,715	283,918
Total loans	1,995,638	1,919,668	1,839,154	1,573,652	1,459,986
Less allowance for loan losses	28,583	27,400	23,725	20,277	18,894
Net loans	1,967,055	1,892,268	1,815,429	1,553,375	1,441,092
Investment in bank-owned life insurance	51,844	44,957	43,163	41,363	39,770
Goodwill and other intangibles	65,966	67,057	68,266	61,912	57,374
Other assets	95,816	89,439	72,191	58,675	56,442
Total assets	$ 2,909,525	$ 2,884,473	$ 2,965,466	$ 2,539,940	$ 2,399,165
Liabilities:					
Deposits:					
Demand deposits	$ 228,437	$ 194,046	$ 172,771	$ 175,542	$ 186,533
NOW accounts	241,974	202,367	171,306	164,944	175,479
Money market accounts	396,455	403,333	305,879	321,600	286,998
Savings accounts	220,888	191,580	173,485	176,278	205,998
Time deposits	948,576	931,684	967,427	807,841	822,989
Total deposits	2,036,330	1,923,010	1,790,868	1,646,205	1,677,997
FHLBB advances	498,722	607,328	829,626	616,417	474,561
Junior subordinated debentures	32,991	32,991	32,991	22,681	22,681
Other borrowings	23,359	21,501	26,743	32,560	14,684
Other liabilities	49,259	44,697	50,127	35,564	36,186
Shareholders' equity	268,864	254,946	235,111	186,513	173,056
Total liabilities and shareholders’ equity	$ 2,909,525	$ 2,884,473	$ 2,965,466	$ 2,539,940	$ 2,399,165
Asset Quality:					
Nonaccrual loans	$ 18,510	$ 27,470	$ 7,777	$ 4,304	$ 2,723
Nonaccrual investment securities	806	1,065	633	–	–
Property acquired through foreclosure or repossession	3,644	1,974	392	–	–
Total nonperforming assets	$ 22,960	$ 30,509	$ 8,802	$ 4,304	$ 2,723

Wealth Management Assets:					
Market value of assets under administration	$ 4,123,011	$ 3,770,193	$ 3,147,649	$ 4,014,352	$ 3,609,180

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

2010		Q1	Q2	Q3	Q4	Year
Interest income:						
Interest and fees on loans		$ 23,968	$ 24,180	$ 25,076	$ 24,846	$ 98,070
Income on securities:	Taxable	6,051	5,837	5,227	4,709	21,824
	Nontaxable	769	770	769	769	3,077
Dividends on corporate stock and FHLBB stock		55	54	55	34	198
Other interest income		21	13	25	26	85
Total interest income		30,864	30,854	31,152	30,384	123,254
Interest expense:						
Deposits		5,769	5,331	4,747	4,465	20,312
FHLBB advances		6,219	6,000	5,574	4,993	22,786
Junior subordinated debentures		630	447	484	428	1,989
Other interest expense		242	243	246	245	976
Total interest expense		12,860	12,021	11,051	10,131	46,063
Net interest income		18,004	18,833	20,101	20,253	77,191
Provision for loan losses		1,500	1,500	1,500	1,500	6,000
Net interest income after provision for loan losses		16,504	17,333	18,601	18,753	71,191
Noninterest income:						
Wealth management services:						
Trust and investment advisory fees		5,017	5,153	5,052	5,448	20,670
Mutual fund fees		1,110	1,105	1,084	1,124	4,423
Financial planning, commissions and other service fees		179	505	349	266	1,299
Wealth management services		6,306	6,763	6,485	6,838	26,392
Service charges on deposit accounts		849	913	904	921	3,587
Merchant processing fees		1,606	2,406	3,050	2,094	9,156
Card interchange fees		389	487	507	592	1,975
Income from bank-owned life insurance		439	474	486	488	1,887
Net gains on loan sales and commissions on loans originated for others		560	318	1,011	2,163	4,052
Net realized gains on securities		–	–	737	(8)	729
Net unrealized gains on interest rate swap contracts		68	(121)	(60)	77	(36)
Equity in losses of unconsolidated subsidiaries		(52)	(50)	(95)	(140)	(337)
Other income		365	323	414	383	1,485
Noninterest income, excluding other-than-temporary impairment losses		10,530	11,513	13,439	13,408	48,890
Total other-than-temporary impairment losses on securities		(2)	(243)	–	–	(245)
Portion of loss recognized in other comprehensive income (before taxes)		(61)	(111)	–	–	(172)
Net impairment losses recognized in earnings		(63)	(354)	–	–	(417)

Total noninterest income		10,467	11,159	13,439	13,408	48,473
Noninterest expense:						
Salaries and employee benefits		11,501	11,726	12,067	12,135	47,429
Net occupancy		1,224	1,237	1,202	1,188	4,851
Equipment		997	1,014	1,037	1,051	4,099
Merchant processing costs		1,357	2,057	2,606	1,802	7,822
Outsourced services		840	855	769	840	3,304
FDIC deposit insurance costs		794	784	861	724	3,163
Legal, audit and professional fees		518	408	438	449	1,813
Advertising and promotion		364	419	467	383	1,633
Amortization of intangibles		291	290	273	237	1,091
Foreclosed property costs		36	87	203	515	841
Debt prepayment penalties		–	–	752	–	752
Other expenses		1,755	2,106	2,180	2,472	8,513
Total noninterest expense		19,677	20,983	22,855	21,796	85,311
Income before income taxes		7,294	7,509	9,185	10,365	34,353
Income tax expense		2,122	2,211	2,815	3,154	10,302
Net income		$ 5,172	$ 5,298	$ 6,370	$ 7,211	$ 24,051
Weighted average common shares outstanding - basic		16,057.7	16,104.6	16,131.4	16,160.6	16,113.9
Weighted average common shares outstanding - diluted		16,063.9	16,111.3	16,136.3	16,182.7	16,122.5
Per share information:	Basic earnings per common share	$ 0.32	$ 0.33	$ 0.39	$ 0.44	$ 1.49
	Diluted earnings per common share	$ 0.32	$ 0.33	$ 0.39	$ 0.44	$ 1.49
	Cash dividends declared per share	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.84

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

2009		Q1	Q2	Q3	Q4	Year
Interest income:						
Interest and fees on loans		$ 24,139	$ 24,147	$ 24,303	$ 24,207	$ 96,796
Income on securities:	Taxable	8,449	7,588	7,028	6,358	29,423
	Nontaxable	780	778	781	777	3,116
Dividends on corporate stock and FHLBB stock		72	55	63	55	245
Other interest income		17	9	13	11	50
Total interest income		33,457	32,577	32,188	31,408	129,630
Interest expense:						
Deposits		9,547	8,481	7,577	7,033	32,638
FHLBB advances		7,227	7,112	7,094	6,739	28,172
Junior subordinated debentures		479	479	545	444	1,947
Other interest expense		245	244	246	246	981
Total interest expense		17,498	16,316	15,462	14,462	63,738
Net interest income		15,959	16,261	16,726	16,946	65,892
Provision for loan losses		1,700	3,000	1,800	2,000	8,500
Net interest income after provision for loan losses		14,259	13,261	14,926	14,946	57,392
Noninterest income:						
Wealth management services:						
Trust and investment advisory fees		4,122	4,402	4,717	4,887	18,128
Mutual fund fees		915	993	1,089	1,143	4,140
Financial planning, commissions and other service fees		376	559	243	340	1,518
Wealth management services		5,413	5,954	6,049	6,370	23,786
Service charges on deposit accounts		857	900	939	971	3,667
Merchant processing fees		1,349	2,086	2,619	1,790	7,844
Card interchange fees		338	406	442	442	1,628
Income from bank-owned life insurance		444	447	451	452	1,794
Net gains on loan sales and commissions on loans originated for others		1,044	1,552	591	1,165	4,352
Net realized gains on securities		57	257	–	–	314
Net unrealized gains (losses) on interest rate swap contracts		60	341	92	204	697
Other income		419	465	445	379	1,708
Noninterest income, excluding other-than-temporary impairment losses		9,981	12,408	11,628	11,773	45,790
Total other-than-temporary impairment losses on securities		(4,244)	–	(2,293)	(113)	(6,650)
Portion of loss recognized in other comprehensive income (before taxes)		2,253	–	1,826	(566)	3,513
Net impairment losses recognized in earnings		(1,991)	–	(467)	(679)	(3,137)
Total noninterest income		7,990	12,408	11,161	11,094	42,653
Noninterest expense:						
Salaries and employee benefits		10,475	10,359	10,416	10,667	41,917

Net occupancy		1,226	1,122	1,232	1,210	4,790
Equipment		975	1,036	916	990	3,917
Merchant processing costs		1,143	1,780	2,213	1,516	6,652
FDIC deposit insurance costs		651	2,143	808	795	4,397
Outsourced services		868	673	807	821	3,169
Legal, audit and professional fees		675	664	546	558	2,443
Advertising and promotion		301	491	422	473	1,687
Amortization of intangibles		308	308	303	290	1,209
Foreclosed property costs		8	42	4	18	72
Other expenses		1,842	1,816	1,649	2,043	7,350
Total noninterest expense		18,472	20,434	19,316	19,381	77,603
Income before income taxes		3,777	5,235	6,771	6,659	22,442
Income tax expense		1,107	1,470	1,858	1,911	6,346
Net income		$ 2,670	$ 3,765	$ 4,913	$ 4,748	$ 16,096
Weighted average common shares outstanding - basic		15,942.7	15,983.6	16,016.8	16,035.4	15,994.9
Weighted average common shares outstanding - diluted		15,997.8	16,037.4	16,074.5	16,082.0	16,040.9
Per share information:	Basic earnings per common share	$ 0.17	$ 0.24	$ 0.31	$ 0.30	$ 1.01
	Diluted earnings per common share	$ 0.17	$ 0.23	$ 0.31	$ 0.30	$ 1.00
	Cash dividends declared per share	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.84

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.
The following analysis is intended to provide the reader with a further understanding of the consolidated financial condition and results of operations of the Corporation for the periods shown. For a full understanding of this analysis, it should be read in conjunction with other sections of this Annual Report on Form 10-K, including Part I, "Item 1. Business", Part II, "Item 6. Selected Financial Data" and Part II, "Item 8. Financial Statements and Supplementary Data." Certain prior year amounts have been reclassified to conform to current year classification.

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

Some of the factors that might cause these differences include the following: changes in general national, regional or international economic conditions or conditions affecting the banking or financial services industries or financial capital markets, volatility and disruption in national and international financial markets, government intervention in the U.S. financial system, reductions in net interest income resulting from interest rate volatility as well as changes in the balance and mix of loans and deposits, reductions in the market value of wealth management assets under administration, changes in the value of securities and other assets, reductions in loan demand, changes in loan collectibility, default and charge-off rates, changes in the size and nature of the Corporation's competition, changes in legislation or regulation and accounting principles, policies and guidelines such as the recently-enacted Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under "Risk Factors" in Item 1A of this Annual Report on Form 10-K may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we assume no obligation to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Critical Accounting Policies
Accounting policies involving significant judgments, estimates and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact income are considered critical accounting policies. The Corporation considers the following to be its critical accounting policies: allowance for loan losses, review of goodwill and intangible assets for impairment and valuation of investment securities for impairment.

Allowance for Loan Losses
Determining an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology includes three elements:

(1) Loss allocations are identified for individual loans deemed to be impaired in accordance with GAAP. Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due according to the

contractual terms of the loan agreements and all 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. Impairment is 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.

(2) Loss allocation factors are used for non-impaired loans based on credit grade, loss experience, delinquency factors and other similar economic indicators.

Individual commercial loans and commercial mortgage loans not deemed to be impaired are evaluated using an internal rating system and the application of loss allocation factors. The loan rating system is described under the caption “Credit Quality Indicators” in Note 5 to the Consolidated Financial Statements. 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. We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. We analyze historical loss experience over periods deemed to be relevant to the inherent risk of loss in the commercial loans and commercial mortgage loan portfolios as of the balance sheet date. We adjust loss allocations for various factors including trends in real estate values, continued weakness in general economic conditions, and our assessments of credit risk associated with industry concentrations and an ongoing trend toward larger credit relationships.

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. We analyze historical loss experience over periods deemed to be relevant to the inherent risk of loss in residential mortgage and consumer loan portfolios as of the balance sheet date. We periodically update these analyses and adjust the loss allocations for various factors that we believe are not adequately presented in historical loss experience including trends in real estate values, changes in unemployment levels and increases in delinquency levels. These factors are also evaluated taking into account the geographic location of the underlying loans.

(3) 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, such as interest rates and energy costs.

Because the methodology is based upon historical loss 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. In addition, various regulatory agencies periodically review the allowance for loans losses. Such agencies may require additions to the allowance based on their judgments about information available to them at the time of their examination. Adversely different conditions or assumptions could lead to increases in the allowance. As of December 31, 2010, management believes that the allowance is adequate and consistent with asset quality and delinquency indicators.

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

Review of Goodwill and Identifiable Intangible Assets for Impairment

Goodwill is recorded as part of the Corporation’s acquisitions of businesses where the purchase price exceeds the fair market value of the net tangible and identifiable intangible assets. Goodwill is not amortized, but rather is subject to

ongoing periodic impairment tests at least annually or more frequently upon the occurrence of significant adverse events. See Part I, Item 1A, "Risk Factors" for additional information. Goodwill was reviewed in 2010 by performing a discounted cash flow analysis ("income approach") and by estimates of selected market information ("market approach") for both the commercial banking and the wealth management segments of the Corporation. The values determined using the income approach and the market approach were weighted equally for each segment. The results of the 2010 review indicated that the fair value exceeded the carrying value for both segments.

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For acquisitions accounted for using the purchase method of accounting, assets acquired and liabilities assumed are required to be recorded at their fair value. Intangible assets acquired are primarily comprised of wealth management advisory contracts and core deposit intangibles. The values of these intangible assets were estimated using valuation techniques, based on discounted cash flow analysis. These intangible assets are being amortized over the period the assets are expected to contribute to the cash flows of the Corporation, which reflect the expected pattern of benefit. These intangible assets are amortized based upon the projected cash flows the Corporation will receive from the customer relationships during the estimated useful lives. These intangible assets are subject to impairment tests in accordance with GAAP. The carrying value of the wealth management advisory contracts and other identifiable intangibles are reviewed for impairment on an annual basis, or sooner, whenever events or changes in circumstances indicate that their carrying amount may not be fully recoverable. Wealth management assets under administration are analyzed to determine if there has been a reduction since acquisition that could indicate possible impairment of the advisory contracts. Impairment would be recognized if the carrying value exceeded the sum of the undiscounted expected future cash flows from the intangible assets. Impairment would result in a write-down to the estimated fair value based on the anticipated discounted future cash flows. The remaining useful life of an intangible asset that is being amortized is also evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

The Corporation makes certain estimates and assumptions that affect the determination of the expected future cash flows from the advisory contracts and other identifiable intangibles. These estimates and assumptions include account attrition, market appreciation for wealth management assets under administration and anticipated fee rates, projected costs and other factors. Significant changes in these estimates and assumptions could cause a different valuation for the intangible assets. Changes in the original assumptions could change the amount of the intangible recognized and the resulting amortization. Subsequent changes in assumptions could result in recognition of impairment of the intangible assets.

These assumptions used in the impairment tests of goodwill and intangible assets are susceptible to change based on changes in economic conditions and other factors. Significant assumptions used to test goodwill for impairment include estimated discount rates and the timing and amount of projected cash flows. Any change in the estimates which the Corporation uses to determine the carrying value of the Corporation's goodwill and identifiable intangible assets, or which otherwise adversely affects their value or estimated lives could adversely affect the Corporation's results of operations. See Note 8 to the Consolidated Financial Statements for additional information.

Valuation of Investment Securities for Impairment

Securities available for sale are carried at fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in shareholders' equity. The fair values of securities are based on either quoted market prices, third party pricing services or third party valuation specialists. When the fair value of an investment security is less than its amortized cost basis, the Corporation assesses whether the decline in value is other-than-temporary. The Corporation considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for impairment, the severity and duration of the impairment, changes in the value subsequent to the reporting date, forecasted performance of the issuer, changes in the dividend or interest payment practices of the issuer, changes in the credit rating of the issuer or the specific security, and the general market condition in the geographic area or industry the issuer operates in.

Future adverse changes in market conditions, continued poor operating results of the issuer, projected adverse changes in cash flows which might impact the collection of all principal and interest related to the security, or other factors could result in further losses that may not be reflected in an investment's current carrying value, possibly requiring an

additional impairment charge in the future.

Equity Securities:
In determining whether an other-than-temporary impairment has occurred for common equity securities, the Corporation also considers whether it has the ability and intent to hold the investment until a market price recovery in the foreseeable future. Management evaluates the near-term prospects of the issuers in relation to the severity and duration of the impairment. If necessary, the investment is written down to its current fair value through a charge to earnings at the time the impairment is deemed to have occurred.

With respect to perpetual preferred stocks, the Corporation's assessment of other-than-temporary impairment is made using an impairment model (including an anticipated recovery period) similar to a debt security, provided there has been no evidence of a deterioration in credit of the issuer.

Debt Securities:
In determining whether an other-than-temporary impairment has occurred for debt securities, the Corporation compares the present value of cash flows expected to be collected from the security with the amortized cost of the security. If the present value of expected cash flows is less than the amortized cost of the security, then the entire amortized cost of the security will not be recovered; that is, a credit loss exists, and an other-than-temporary impairment shall be considered to have occurred.

With respect to holdings of collateralized debt obligations representing pooled trust preferred debt securities, estimates of cash flows are evaluated upon consideration of information including, but not limited to, past events, current conditions, and reasonable and supporting forecasts for the respective holding. Such information generally includes the remaining payment terms of the security, prepayment speeds, the financial condition of the issuer(s), expected defaults, and the value of any underlying collateral. The estimated cash flows shall be discounted at a rate equal to the current yield used to accrete the beneficial interest.

When an other-than-temporary impairment has occurred, the amount of the other-than-temporary impairment recognized in earnings for a debt security depends on whether the Corporation intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost less any current period credit loss. If the Corporation intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost, the other-than-temporary impairment shall be recognized in earnings equal to the entire difference between the amortized cost and fair value of the security. If the Corporation does not intend to sell or more likely than not will not be required to sell the security before recovery of its amortized cost, the amount of the other-than-temporary impairment related to credit loss shall be recognized in earnings and the noncredit-related portion of the other-than-temporary impairment shall be recognized in other comprehensive income.

Overview
Washington Trust offers a comprehensive product line of financial services to individuals and businesses including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its offices in Rhode Island, eastern Massachusetts and southeastern Connecticut, ATMs, and its Internet website (www.washtrust.com).

Our largest source of operating income is net interest income, the difference between interest earned on loans and securities and interest paid on deposits and other borrowings. In addition, we generate noninterest income from a number of sources including wealth management services, deposit services, merchant credit card processing, bank-owned life insurance, loan sales, commissions on loans originated for others and sales of investment securities. Our principal noninterest expenses include salaries and employee benefits, occupancy and facility-related costs, merchant processing costs, FDIC deposit insurance costs, technology and other administrative expenses.

Our financial results are affected by interest rate volatility, changes in economic and market conditions, competitive conditions within our market area and changes in legislation, regulation and/or accounting principles. Since the latter part of 2008, market and economic conditions have been severely impacted by deterioration in credit conditions. Concerns about future economic growth, lower consumer confidence, contraction of credit availability and relatively lower corporate earnings continue to challenge the economy. The rate of unemployment remained at its highest level in several years.

Management believes that overall credit quality continues to be affected by weaknesses in national and regional economic conditions. These conditions, including high unemployment levels, may continue for the next few quarters.

Opportunities and Risks

A significant portion of the Corporation's commercial banking and wealth management business is conducted in the Rhode Island and greater southern New England area. Management recognizes that substantial competition exists in this marketplace and views this as a key business risk. A substantial portion of the banking industry market share in this region is held by much larger financial institutions with greater resources and larger delivery systems than the

Bank. Market competition also includes the expanded commercial banking presence of credit unions and savings banks. While these competitive forces will continue to present risk, we have been successful in growing our commercial banking base and wealth management business, and management believes that the breadth of our product line and our size provide opportunities to compete effectively in our marketplace.

Significant challenges also exist with respect to credit risk, interest rate risk, the condition of the financial markets and related impact on wealth management assets, and operational risk.

Credit risk is the risk of loss due to the inability of borrower customers to repay loans or lines of credit. Credit risk on loans is reviewed below under the heading "Asset Quality." Credit risk also exists with respect to debt instrument investment securities, which is reviewed below under the heading "Investment Securities."

Interest rate risk exists because the repricing frequency and magnitude of interest earning assets and interest bearing liabilities are not identical. This risk is reviewed in more detail below under the heading "Asset/Liability Management and Interest Rate Risk."

Wealth management service revenues, which represented approximately 21% of total revenues in 2010, are substantially dependent on the market value of wealth management assets under administration. These values may be negatively affected by changes in economic conditions and volatility in the financial markets.

Operational risk is the risk of loss resulting from data processing system failures and errors, inadequate or failed internal processes, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. Operational risk is discussed above under Item 1A. "Risk Factors."

For additional factors that could adversely impact Washington Trust's future results of operations and financial condition, see the section labeled "Risk Factors" in Item 1A of this Annual Report on Form 10-K.

Composition of Earnings

Comparison of 2010 with 2009

Net income for the year ended December 31, 2010 amounted to $24.1 million, or $1.49 per diluted share, up by 49% from the $16.1 million, or $1.00 per diluted share, reported for 2009. The returns on average equity and average assets for 2010 were 9.09% and 0.82%, respectively, compared to 6.56% and 0.55%, respectively, for 2009.

The increase in profitability in 2010 was mainly attributable to higher net interest income, improvement in wealth management revenues, a lower loan loss provision, lower levels of credit-related impairment losses on investments securities and the charge incurred in 2009 for a special FDIC assessment levied on all banks, which were partially offset by increases in noninterest expenses and income tax expense.

Net interest income increased by $11.3 million, or 17%, in 2010, reflecting improvement in the net interest margin (fully taxable equivalent net interest income as a percentage of average interest-earning assets.) The net interest margin increased by 45 basis points in 2010, due in large part to lower funding costs. The cost of interest-bearing liabilities for 2010 declined by 68 basis points from 2009.

The loan loss provision charged to earnings in 2010 was $6.0 million, down from $8.5 million from 2009. In 2010, net charge-offs totaled $4.8 million, or 0.24% of average total loans, compared to $4.8 million, or 0.25% of average total loans, in 2009. Management believes that the change in the provision for loan losses has been consistent with the trend in asset quality and delinquency indicators. 2009 was a period of worsening asset quality, as indicated by

increases in delinquencies and nonaccrual loans. In 2010, the pace of loans becoming delinquent or classified as nonaccrual has slowed somewhat and total delinquencies and nonaccrual loans have declined.

Revenue from wealth management services, our primary source of noninterest income, increased by $2.6 million, or 11%, from 2009. The increase in this revenue source reflected higher valuations in the financial markets in 2010, compared to 2009. Wealth management assets under administration reached an all-time high in the fourth quarter of 2010 and totaled $4.1 billion at December 31, 2010, up by $353 million, or 9%, from December 31, 2009.

Due to strong residential mortgage refinancing and sales activity in response to a low mortgage interest rate environment, net gains on loan sales and commissions on loans originated for others amounted to $4.1 million and

$4.4 million, respectively, in 2010 and 2009. Mortgage refinancing activity has recently slowed as a result of a rise in market interest rates in the latter part of the fourth quarter of 2010.

Credit-related impairment losses charged to earnings for investment securities deemed to be other-than-temporarily impaired amounted to $417 thousand in 2010, compared to $3.1 million in 2009. Also included in noninterest income in the years ended December 31, 2010 and 2009, were net realized gains on sales of securities of $729 thousand and $314 thousand, respectively.

Noninterest expenses were up by $7.7 million, or 10%, from 2009. Included in 2010 noninterest expenses were $752 thousand in debt prepayment penalty charges associated with the third quarter 2010 balance sheet deleveraging transaction. See additional discussion on the balance deleveraging transaction in the "Financial Condition" section under the caption "Borrowings." There were no debt prepayment penalty charges recognized in 2009. Included in 2009 noninterest expenses was a second quarter special FDIC assessment of $1.35 million ($869 thousand, after tax, or 5 cents per diluted share). Excluding the 2010 debt prepayment penalties and the 2009 special FDIC assessment, year-to-date noninterest expenses increased by $8.3 million, or 11%, due largely to increases in salaries and employee benefit costs as well as credit, collection and foreclosed property costs.

Income tax expense amounted to $10.3 million in 2010, an increase of $4.0 million from 2009. The effective tax rate for 2010 was 30.0%, compared to 28.3% in 2009.

Comparison of 2009 with 2008

Net income for the year ended December 31, 2009 amounted to $16.1 million, or $1.00 per diluted share, compared to $22.2 million, or $1.57 per diluted share, for 2008. The returns on average equity and average assets for 2009 were 6.56% and 0.55%, respectively, compared to 11.12% and 0.82%, respectively, for 2008. Earnings in 2009 were influenced by several factors as described below.

Net interest income increased by $379 thousand, or 1%, in 2009. No dividend was received from the FHLBB in 2009. Dividend income on the Corporation's investment in FHLBB stock totaled to $1.3 million for 2008. The net interest margin declined 16 basis points in 2009. This decrease in net interest margin reflects the elimination of FHLBB dividend income and margin compression, in general, on core deposit rates, as well as the impact of higher levels of nonaccrual loans in 2009 compared to 2008.

The loan loss provision charged to earnings in 2009 was $8.5 million, an increase of $3.7 million from 2008. The provision for loan losses was based on management's assessment of economic and credit conditions, with particular emphasis on commercial and commercial real estate categories, as well as growth in the loan portfolio. In 2009, net charge-offs totaled $4.8 million, or 0.25% of average total loans, compared to $1.4 million, or 0.08% of average total loans, in 2008.

Revenue from wealth management services is largely dependent on the value of assets under administration. For 2009, wealth management revenues decreased by $4.5 million, or 16%, from 2008. The decline in the revenue source was primarily due to lower valuations in the financial markets in 2009, compared to 2008. While the balance of assets under administration at December 31, 2009 was approximately 20% higher than the balance a year earlier, the average balance for the year ended December 31, 2009 was lower than the comparable average balance in 2008.

Due to strong residential mortgage refinancing and sales activity, net gains on loan sales and commissions on loans originated for others for 2009 increased by $3.0 million from 2008.

Credit-related impairment losses of $3.1 million were charged to earnings in 2009 for investment securities deemed to be other-than-temporarily impaired. Impairment losses of $5.9 million were recognized in earnings in 2008. Also included in noninterest income in the year ended December 31, 2009 and 2008, were net realized gains on sales of securities of $314 thousand and $2.2 million, respectively.

Noninterest expenses were up by $5.5 million, or 8%, from 2008, which included a $3.4 million increase in FDIC deposit insurance costs. In the second quarter of 2009, the Corporation recognized a FDIC special assessment of $1.35 million ($869 thousand after tax). In addition to the special assessment, the year over year increase in FDIC deposit insurance costs also reflects higher assessment rates.

Income tax expense amounted to $6.3 million in 2009, a decrease of $973 thousand from 2008. The effective tax rate for 2009 was 28.3%, compared to 24.8% in 2008. In 2008, income tax benefits of $1.4 million, or 10 cents per diluted share were recognized resulting from a change in state corporate income tax legislation and the resolution of certain state tax positions. Excluding these income tax benefits, the effective income tax rate for 2008 was 29.6%.

Results of Operations

Segment Reporting

Washington Trust manages its operations through two business segments, Commercial Banking and Wealth Management Services. Activity not related to the segments, such as the investment securities portfolio, wholesale funding activities and administrative units are considered Corporate. See Note 17 to the Consolidated Financial Statements for additional disclosure related to business segments.

Comparison of 2010 with 2009

The Commercial Banking segment reported net income of $22.4 million in 2010, up by $5.1 million, or 30%, from 2009. Commercial Banking net interest income amounted to $73.8 million in 2010, up by 14% over 2009 amounts, reflecting improvement in the net interest margin. Noninterest income derived from the Commercial Banking segment totaled $19.8 million in 2010, compared to $19.6 million in 2009. The loan loss provision decreased by $2.5 million in 2010. Commercial Banking other noninterest expenses amounted to $53.4 million for 2010, up by 8% from 2009. This increase reflects higher commissions and incentives, which were being recognized at lower levels in 2009, and higher staffing levels related to our new Sharon, Massachusetts residential mortgage lending office and our new branch in Warwick, Rhode Island. Both of these locations were opened in the second half of 2009.

The Wealth Management Services segment reported net income of $3.8 million in 2010, an increase of $835 thousand, or 28%, from 2009. Noninterest income derived from the Wealth Management Services segment was $26.4 million in 2010, up by $2.6 million, or 11%, from 2009. This revenue is dependent to a large extent on the value of assets under administration and is closely tied to the performance of the financial markets. Wealth management assets under administration totaled $4.1 billion at December 31, 2010, up by $353 million, or 9%, in 2010. Noninterest expenses for the Wealth Management Services segment totaled $20.2 million in 2010, up by $1.2 million, or 6%, from 2009, reflecting increases in commissions and incentives, which was being recognized at lower levels in 2009.

Comparison of 2009 with 2008

The Commercial Banking segment reported net income of $17.0 million in 2009, down by $2.9 million, or 14%, from 2008. Net interest income increased by 3% over 2008 amounts, reflecting growth in average loan balances and declines in deposit costs, offset in part by the impact of higher levels of nonaccrual loans in 2009. Noninterest income derived from the Commercial Banking segment increased by 33% over 2008 reported amounts largely due to increases in net gains on loan sales and commissions on loans originated for others. The increases in net interest income and noninterest income were offset by a higher loan loss provision and an increase in Commercial Banking other noninterest expenses in 2009, as compared to 2008. The increase in other noninterest expenses was attributable to increases in staffing and higher FDIC deposit insurance costs, including the second quarter 2009 special FDIC assessment.

The Wealth Management Services segment reported net income of $3.0 million in 2009, a decrease of $1.9 million, or 39%, from net income in 2008. Noninterest income derived from the Wealth Management Services segment was $23.8 million in 2009, down by $4.5 million, or 16%, from 2008, primarily due to lower valuations in the financial markets in 2009. Noninterest expenses for the Wealth Management Services segment also declined in 2009, as compared to 2008, reflecting lower incentive-based compensation.

Net Interest Income

Comparison of 2010 with 2009

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and continues to be the primary source of Washington Trust's operating income. Net interest income is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are loan prepayment fees and certain other fees, such as late charges.

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The following discussion presents net interest income on a fully taxable equivalent ("FTE") basis by adjusting income and yields on tax-exempt loans and securities to be comparable to taxable loans and securities. For more information see the section entitled "Average Balances / Net Interest Margin - Fully Taxable Equivalent (FTE) Basis" below.

FTE net interest income for 2010 amounted to $79.0 million, an increase of $11.3 million, or 17%, over 2009. The net interest margin for 2010 amounted to 2.93%, up by 45 basis points from 2009. The increase in the net interest margin in 2010 was due in large part to lower funding costs, as indicated by a 68 basis point decline in the cost of interest-bearing liabilities in 2010.

Average interest-earning assets decreased by $34 million, or 1%, in 2010. A decrease in total average securities was partially offset by growth in the loan portfolio. Total average securities for the year 2010 decreased by $143 million from 2009, due to partially to the third quarter 2010 balance sheet deleveraging transaction which included the sale of $63 million in mortgage-backed securities and prepayment of $65 million in FHLBB advances. The decline in average securities also reflected maturities and pay-downs on mortgage-backed securities, offset, in part, by purchases of debt securities. The FTE rate of return on securities for the year 2010 decreased by 22 basis points, from 2009. The decrease in the total yield on securities reflects lower yields on variable rate securities tied to short-term interest rates. Total average loans for the year 2010 increased $87 million from 2009 largely due to growth in the commercial loan portfolio. The yield on total loans for the year 2010 decreased by 16 basis points from 2009, reflecting declines in short-term interest rates. The contribution of loan prepayment and other fees to the yield on total loans was 4 basis points and 1 basis point in 2010 and 2009, respectively.

Average interest-bearing liabilities decreased by $56 million, or 2%, in 2010. Declines in average FHLBB advances and out-of-market brokered certificates of deposit were offset, in part, by growth in in-market deposits. The average balance of FHLBB advances for the year 2010 decreased by $139 million, or 20%, from 2009. The average rate paid on such advances for the year 2010 increased 6 basis points from 2009. See additional discussion on FHLBB advance modifications and the third quarter 2010 balance deleveraging transaction in the "Financial Condition" section under the caption "Borrowings." Average interest-bearing deposits increased by $84 million in 2010, while the average rate paid on interest-bearing deposits decreased by 78 basis points. Interest-bearing deposits include out-of-market brokered certificates of deposit, which are utilized by the Corporation as part of its overall funding program along with FHLBB advances and other sources. Average out-of-market brokered certificates of deposit for 2010 decreased by $56 million from 2009, with a 35 basis point decline in the average rate paid. Excluding out-of-market brokered certificates of deposit, average in-market interest-bearing deposits increased by $139 million in 2010 while the average rate paid on in-market interest-bearing deposits decreased by 71 basis points. See additional discussion on brokered certificates of deposit in the "Financial Condition" section under the caption "Deposits."

Comparison of 2009 with 2008

Net interest income for 2009 totaled $65.9 million, up by $379 thousand, or 1%, from 2008. Included in net interest income in the year ended December 31, 2008 was dividend income on the Corporation's investment in FHLBB stock of $1.3 million. No dividend was received from FHLBB in 2009.

FTE net interest income for 2009 amounted to $67.7 million, an increase of $370 thousand from 2008. The net interest margin for 2009 amounted to 2.48%, compared to 2.64% for 2008. The 16 basis point decline in the net interest margin was primarily attributable to the elimination of the FHLBB dividend income, margin compression, in general, on core deposit rates following the Federal Reserve's actions to reduce short-term interest rates in late 2008 and early 2009, and the impact of higher levels of nonaccrual loans in 2009 compared to 2008.

Average interest-earning assets increased by $186 million, or 7%, in 2009. The increase primarily reflects growth in the loan portfolio. Total average loans for the year 2009 increased $197 million from 2008 largely due to growth in the commercial loan portfolio. The yield on total loans for the year 2009 decreased by 84 basis points from 2008, reflecting declines in short-term interest rates. The contribution of loan prepayment and other fees to the yield on total loans was 1 basis point and 3 basis points in 2009 and 2008, respectively. Total average securities for the year 2009 decreased by $12 million from 2008, due to maturities and pay-downs on mortgage-backed securities. The FTE rate of return on securities for the year 2009 decreased by 60 basis points, from 2008. The decrease in the total yield on securities reflects lower yields on variable rate securities tied to short-term interest rates.

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Average interest-bearing liabilities increased by $137 million or 6% in 2009 primarily due to growth in deposits, offset in part by declines in FHLBB advances. The increase in deposits includes the successful first quarter 2009 transition of wealth management client money market deposits previously held in outside money market funds to fully insured and collateralized deposits. This resulted in a $45 million increase in average interest-bearing deposits. Average interest-bearing deposits increased by $190 million from 2009 to 2008, while the average rate paid on interest-bearing deposits decreased by 81 basis points. Average out-of-market brokered certificates of deposit for 2009 decreased by $26 million from 2008, with a 14 basis point decline in the average rate paid. Excluding out-of-market brokered certificates of deposit, average in-market interest-bearing deposits for the year 2009 increased by $216 million from 2008 while the average rate paid on in-market interest-bearing deposits decreased by 81 basis points.

The growth in deposits enabled the Corporation to reduce its level of FHLBB advances in 2009. The average balance of FHLBB advances for the year 2009 decreased by $51 million from 2008. The average rate paid on such advances for the year 2009 decreased 9 basis points from 2008.

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

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

Years ended December 31,		2010			2009			2008	
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Commercial and other loans	$ 1,019,304	$ 53,628	5.26	$ 941,833	$ 50,092	5.32	$ 782,825	$ 50,589	6.46
Residential real estate loans, including mortgage loans held for sale	634,735	31,609	4.98	629,035	33,410	5.31	613,367	33,954	5.54
Consumer loans	327,770	13,062	3.99	323,576	13,494	4.17	301,653	16,584	5.50
Total loans	1,981,809	98,299	4.96	1,894,444	96,996	5.12	1,697,845	101,127	5.96
Cash, federal funds sold and other short-term investments	41,407	85	0.21	20,201	50	0.25	21,515	334	1.55
FHLBB stock	42,008	–	–	42,008	–	–	39,282	1,345	3.42
Taxable debt securities	553,531	21,824	3.94	694,248	29,423	4.24	700,812	34,382	4.91
Nontaxable debt securities	79,491	4,618	5.81	80,629	4,662	5.78	81,046	4,583	5.65
Corporate stocks	3,595	274	7.62	4,420	339	7.68	9,160	740	8.08

Total securities	636,617	26,716	4.20	779,297	34,424	4.42	791,018	39,705	5.02
Total interest-earning assets	2,701,841	125,100	4.63	2,735,950	131,470	4.81	2,549,660	142,511	5.59
Noninterest-earning assets	213,644			185,345			163,730		
Total assets	$ 2,915,485			$ 2,921,295			$ 2,713,390		
Liabilities and Shareholders' Equity:									
NOW accounts	$ 220,875	$ 268	0.12	$ 181,171	$ 327	0.18	$ 165,479	$ 306	0.18
Money market accounts	403,489	1,918	0.48	375,175	3,960	1.06	310,445	6,730	2.17
Savings accounts	205,767	318	0.15	187,862	530	0.28	173,840	1,059	0.61
Time deposits	955,222	17,808	1.86	957,449	27,821	2.91	861,814	33,100	3.84
FHLBB advances	547,974	22,786	4.16	687,210	28,172	4.10	737,830	30,894	4.19
Junior subordinated debentures	32,991	1,989	6.03	32,991	1,947	5.90	30,259	1,879	6.21
Other	21,321	976	4.58	21,476	981	4.57	26,678	1,181	4.43
Total interest-bearing liabilities	2,387,639	46,063	1.93	2,443,334	63,738	2.61	2,306,345	75,149	3.26
Demand deposits	221,350			187,800			177,032		
Other liabilities	41,804			44,712			30,618		
Shareholders' equity	264,692			245,449			199,395		
Total liabilities and shareholders' equity	$ 2,915,485			$ 2,921,295			$ 2,713,390		
Net interest income		$ 79,037			$ 67,732			$ 67,362	
Interest rate spread			2.70			2.20			2.33
Net interest margin			2.93			2.48			2.64

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

(Dollars in thousands)

Years ended December 31,	2010	2009	2008
Commercial and other loans	$ 229	$ 200	$ 188
Nontaxable debt securities	1,541	1,546	1,458
Corporate stocks	76	94	203
Total	$ 1,846	$ 1,840	$ 1,849

Volume/Rate Analysis - Interest Income and Expense (Fully Taxable Equivalent Basis)

The following table presents certain information on a FTE basis regarding changes in our interest income and interest expense for the periods indicated. The net change attributable to both volume and rate has been allocated proportionately.

	2010/2009			2009/2008		
(Dollars in thousands)	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest on interest-earning assets:						
Commercial and other loans	$ 4,105	$ (569)	$ 3,536	$ 9,285	$ (9,782)	$ (497)
Residential real estate loans, including mortgage loans held for sale	299	(2,100)	(1,801)	867	(1,411)	(544)
Consumer loans	176	(608)	(432)	1,140	(4,230)	(3,090)
Cash, federal funds sold and other short-term investments	45	(10)	35	(19)	(265)	(284)
FHLBB stock	–	–	–	87	(1,432)	(1,345)
Taxable debt securities	(5,632)	(1,967)	(7,599)	(319)	(4,640)	(4,959)
Nontaxable debt securities	(67)	23	(44)	(24)	103	79
Corporate stocks	(63)	(2)	(65)	(365)	(36)	(401)
Total interest income	(1,137)	(5,233)	(6,370)	10,652	(21,693)	(11,041)
Interest on interest-bearing liabilities:						
NOW accounts	63	(122)	(59)	22	(1)	21
Money market accounts	280	(2,322)	(2,042)	1,194	(3,964)	(2,770)
Savings accounts	47	(259)	(212)	80	(609)	(529)
Time deposits	(64)	(9,949)	(10,013)	3,378	(8,657)	(5,279)
FHLBB advances	(5,792)	406	(5,386)	(2,073)	(649)	(2,722)
Junior subordinated debentures	–	42	42	164	(96)	68
Other	(8)	3	(5)	(236)	36	(200)
Total interest expense	(5,474)	(12,201)	(17,675)	2,529	(13,940)	(11,411)
Net interest income	$ 4,337	$ 6,968	$ 11,305	$ 8,123	$ (7,753)	$ 370

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's periodic assessment of the adequacy of the allowance for loan losses which, in turn, is based on such interrelated factors as the composition of the loan portfolio and its inherent risk characteristics, the level of nonperforming loans and net charge-offs, both current and historic, local economic and

credit conditions, the direction of real estate values, and regulatory guidelines. The provision for loan losses is charged against earnings in order to maintain an allowance for loan losses that reflects management's best estimate of probable losses inherent in the loan portfolio at the balance sheet date.

The provision for loan losses charged to earnings amounted to $6.0 million in 2010, compared to $8.5 million in 2009 and $4.8 million in 2008. Net charge-offs were $4.8 million, or 0.24% of average loans, in 2010. This compares to $4.8 million or 0.25% of average loans, in 2009 and $1.4 million, or 0.08% of average loans, in 2008.

Management believes that the change in the provision for loan losses has been consistent with the trend in asset quality and delinquency indicators. 2009 was a period of worsening asset quality, as indicated by increases in delinquencies and nonaccrual loans. Total delinquencies and nonaccrual loans increased from $17.6 million and $7.8 million, respectively, at the end of 2008 to $31.6 million and $27.5 million, respectively, at the end of 2009. In

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2010, the pace of loans becoming delinquent or classified as nonaccrual has slowed somewhat and total delinquencies and nonaccrual loans have declined by $6.3 million and $9.0 million, respectively.

The allowance for loan losses was $28.6 million, or 1.43% of total loans, at December 31, 2010, compared to $27.4 million, or 1.43% of total loans, at December 31, 2009. Management will continue to assess the adequacy of its allowance for loan losses in accordance with its established policies. See additional discussion under the caption "Asset Quality" for further information on the Allowance for Loan Losses.

Noninterest Income

Noninterest income is an important source of revenue for Washington Trust. The principal categories of noninterest income are shown in the following table.

(Dollars in thousands)				2010/2009		2009/2008	
	Years Ended December 31,			Change		Change	
	2010	2009	2008	$	%	$	%
Noninterest income:							
Wealth management services:							
Trust and investment advisory fees	$ 20,670	$ 18,128	$ 20,316	$ 2,542	14 %	$ (2,188)	(11)%
Mutual fund fees	4,423	4,140	5,205	283	7	(1,065)	(20)
Financial planning, commissions and other service fees	1,299	1,518	2,752	(219)	(14)	(1,234)	(45)
Wealth management services	26,392	23,786	28,273	2,606	11	(4,487)	(16)
Service charges on deposit accounts	3,587	3,667	3,636	(80)	(2)	31	1
Merchant processing fees	9,156	7,844	6,900	1,312	17	944	14
Card interchange fees	1,975	1,628	1,462	347	21	166	11
Income from bank-owned life insurance	1,887	1,794	1,800	93	5	(6)	–
Net gains on loan sales and commissions on loans originated for others	4,052	4,352	1,396	(300)	(7)	2,956	212
Net realized gains on securities	729	314	2,224	415	132	(1,910)	(86)
Net gains (losses) on interest rate swap contracts	(36)	697	(542)	(733)	(105)	1,239	(229)
Equity in losses of unconsolidated subsidiaries	(337)	–	–	(337)	–	–	–
Other income	1,485	1,708	1,625	(223)	(13)	83	5
Noninterest income, excluding other-than-temporary impairment losses	48,890	45,790	46,774	3,100	7	(984)	(2)
Total other-than-temporary impairment losses on securities	(245)	(6,650)	(5,937)	6,405	(96)	(713)	12
Portion of loss recognized in other comprehensive income (before taxes)	(172)	3,513	–	(3,685)	(105)	3,513	–
Net impairment losses recognized in earnings	(417)	(3,137)	(5,937)	2,720	(87)	2,800	(47)

Total noninterest income	$ 48,473	$ 42,653	$ 40,837	$ 5,820	14 %	$ 1,816	4 %

Revenue from wealth management services is our largest source of noninterest income. It is largely dependent on the value of wealth management assets under administration and is closely tied to the performance of the financial markets. The following table presents the changes in wealth management assets under administration for the years ended December 31, 2010, 2009 and 2008:

(Dollars in thousands)	2010	2009	2008
Wealth Management Assets Under Administration:			
Balance at the beginning of period	$ 3,770,193	$ 3,147,649	$ 4,014,352
Net investment appreciation (depreciation) & income	334,473	547,091	(980,909)
Net client cash flows	18,345	75,453	114,206
Balance at the end of period	$ 4,123,011	$ 3,770,193	$ 3,147,649

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Noninterest Income Analysis

Comparison of 2010 with 2009

Wealth management revenues for 2010 increased by $2.6 million, or 11%, over 2009. Wealth management assets under administration rose to its highest level ever in the fourth quarter of 2010 and totaled $4.123 billion at December 31, 2010. Assets under administration were up by $353 million, or 9%, from December 31, 2009, reflecting net investment appreciation and income of $334 million and net client cash inflows of $18 million.

Service charges on deposit accounts were $3.6 million in 2010, down $80 thousand, or 2%, compared to 2009. The largest component of this category is overdraft and non-sufficient funds fees, which is largely driven by customer activity. Overdraft and non-sufficient funds fees were down by $206 thousand in 2010, due to regulatory changes which became effective in the third quarter of 2010. Effective July 1, 2010, the FRB now prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions. Consumers must be provided a notice that explains the financial institution's overdraft services, including the fees associated with these services, and the consumer's choices. Washington Trust cannot provide any assurance as to the ultimate impact of this rule on the amount of overdraft/insufficient funds charges that the Bank may earn in future periods.

Merchant processing fees represents charges to merchants for credit card transactions processed. Merchant processing fees increased by $1.3 million, or 17%, in 2010 primarily due to increases in the volume of transactions processed for existing and new customers. See discussion on the corresponding increase in merchant processing costs under the caption "Noninterest Expense."

Card interchange fees represent fees related to debit card transactions. Card interchange fees increased by $347 thousand, or 21%, in 2010 primarily due to volume and increased interchange fee rates.

Income from bank owned life insurance ("BOLI") amounted to $1.9 million and $1.8 million for 2010 and 2009, respectively. BOLI represents life insurance on the lives of certain employees who have consented to allowing the Bank to be the beneficiary of such policies. The Corporation expects to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The BOLI investment provides a means to mitigate increasing employee benefit costs. See additional discussion under the caption "Financial Condition" for further information on the investment in BOLI.

We originate residential mortgage loans for sale in the secondary market and also originate loans for various investors in a broker capacity, including conventional mortgages and reverse mortgages. This revenue source is subject to market volatility and dependent on mortgage origination volume, which is sensitive to rates and the condition of housing markets. Washington Trust experienced strong levels of residential mortgage refinancing and sales activity in 2010 and 2009 in response to a low mortgage interest rate environment. Net gains on loan sales and commissions on loans originated for others for 2010 and 2009 amounted to $4.1 million and $4.4 million, respectively.

Net realized gains on securities amounted to $729 thousand in 2010, compared to $314 thousand in 2009. See discussion below under the caption "Noninterest Expenses" for additional information on 2010 balance sheet deleveraging transaction.

Net losses on interest rate swap contracts for 2010 totaled $36 thousand and reflected decreases in the fair value of certain interest rate swap contracts due to declines in interest rates. See discussion on 2009 net gains on interest rate swap contracts below under the caption "Comparison of 2009 with 2008."

Equity in losses of unconsolidated subsidiaries amounted to $337 thousand in 2010 and consisted primarily of losses generated by real estate limited partnerships. As of December 31, 2010, Washington Trust has investments in two real estate limited partnerships and accounts for its investment in these partnerships using the equity method. Losses generated by the partnerships are recorded as a reduction in other assets in the Consolidated Balance Sheets and as a reduction of noninterest income in the Consolidated Statements of Income. Tax credits generated by the partnerships are recorded as a reduction in the income tax provision.

Other income consists of mortgage servicing fees, non-customers ATM fees, safe deposit rents, wire transfer fees, fees on letters of credit and other fees. Other income in 2010 and 2009 totaled $1.5 million and $1.7 million, respectively.

Net other-than-temporary impairment losses charged to earnings amounted to $417 thousand ($268 thousand after tax, or 2 cents per diluted share) in 2010 and $3.1 million ($2.0 million after tax, or 13 cents per diluted share) in 2009. See additional discussion in the "Financial Condition" section under the caption "Securities."

Comparison of 2009 with 2008
Revenue from wealth management services decreased $4.5 million or 16% in 2009. This included a decline of approximately $3.3 million in revenues primarily derived from the fair value of assets under administration. Assets under administration totaled $3.770 billion at December 31, 2009, up $623 million, or 20%, from December 31, 2008, reflecting net investment appreciation and income of $547 million and net client cash inflows of $75 million. While the balance of assets under administration at December 31, 2009 was 20% higher than the balance a year earlier, financial market declines in the latter part of 2008 and early part of 2009 caused the average balance for the year 2009 to be approximately 12% lower than the comparable average balance for 2008. Wealth management related fees from sources that are not primarily derived from the value of assets under administration, including financial planning fees, commissions and other services, declined by $1.2 million, or 45%, from 2008 due largely to lower commissions earned on annuity and insurance contracts.

Merchant processing fees represents charges to merchants for credit card transactions processed. This revenue source increased by $944 thousand, or 14%, in 2009 primarily due to increases in the volume of transactions processed for existing and new customers. See discussion on the corresponding increase in merchant processing costs under the caption "Noninterest Expense."

Due to strong residential mortgage refinancing and sales activity in response to a low interest rate environment, net gains on loan sales and commissions on loans originated for others increased by $3.0 million from 2008.

In 2009, Washington Trust recognized net realized gains of $256 thousand on the sale of equity securities and $58 thousand on the sale of a U.S. government-sponsored enterprise debt security. Net realized gains on securities amounted to $2.2 million in 2008 and included $315 thousand of gains resulting from a charitable contribution of appreciated equity securities to our charitable foundation. Also in 2008, Washington Trust recognized net realized gains of $1.7 million on the sale of equity securities and $232 thousand on the sale of commercial debt securities.

Net gains on interest rate swap contracts totaled $697 thousand in 2009, compared to net losses of $542 thousand in 2008. The 2009 and 2008 amounts included $580 thousand and $96 thousand, respectively, of gains attributable to interest rate swap contracts executed by Washington Trust 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. The 2009 and 2008 amounts also included $117 thousand of gains and $638 thousand of losses, respectively, on another interest rate swap contract executed in April 2008 with Lehman Brothers Special Financing, Inc. See additional discussion on this interest rate swap contract under the caption "Off-Balance Sheet Arrangements."

Other-than-temporary impairment losses on investment securities amounted to $3.1 million ($2.0 million after tax, or 13 cents per diluted share) in 2009 and $5.9 million ($3.8 million after tax, or 27 cents per diluted share) in 2008. See additional discussion in the "Financial Condition" section under the caption "Securities."

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Noninterest Expense

The following table presents a noninterest expense comparison for the years ended December 31, 2010, 2009 and 2008:

	Years Ended December 31,			2010/2009 Change		2009/2008 Change	
	2010	2009	2008	$	%	$	%
Noninterest expense							
Salaries and employee benefits	$ 47,429	$ 41,917	$ 41,037	$ 5,512	13 %	$ 880	2 %
Net occupancy	4,851	4,790	4,536	61	1	254	6
Equipment	4,099	3,917	3,838	182	5	79	2
Merchant processing costs	7,822	6,652	5,769	1,170	18	883	15
Outsourced services	3,304	3,169	3,176	135	4	(7)	–
FDIC deposit insurance costs	3,163	4,397	1,044	(1,234)	(28)	3,353	321
Legal, audit and professional fees	1,813	2,443	2,325	(630)	(26)	118	5
Advertising and promotion	1,633	1,687	1,729	(54)	(3)	(42)	(2)
Amortization of intangibles	1,091	1,209	1,281	(118)	(10)	(72)	(6)
Foreclosed property costs	841	72	65	769	1,068	7	11
Debt prepayment penalties	752	–	–	752	–	–	–
Other	8,513	7,350	7,259	1,163	16	91	1
Total noninterest expense	$ 85,311	$ 77,603	$ 72,059	$ 7,708	10 %	$ 5,544	8 %

Noninterest Expense Analysis

Comparison of 2010 with 2009

Salaries and employee benefits expense, the largest component of total noninterest expense, increased by $5.5 million, or 13%, in 2010. This increase reflects higher commissions and incentives, which were being recognized at lower levels in 2009, and higher staffing levels related to our new Sharon, Massachusetts residential mortgage lending office and our new branch in Warwick, Rhode Island. Both of these locations were opened in the second half of 2009.

Merchant processing costs increased by $1.2 million, or 18%, in 2010 primarily due to increases in the volume of transactions processed for existing and new customers. Merchant processing costs represent third-party costs incurred that are directly attributable to handling merchant credit card transactions. See discussion on the corresponding increase in merchant processing fees under the caption “Noninterest Income.”

FDIC deposit insurance costs decreased by $1.2 million, or 28%, in 2010. A special FDIC assessment of $1.35 million ($869 thousand after tax) was recorded in the second quarter of 2009.

Legal, audit and professional fees for 2010 were down by $630 thousand, or 26%, from 2009. The decrease was attributable to lower recruitment costs and legal costs associated with general corporate matters.

Foreclosed property costs amounted to $841 thousand for 2010, up by $769 thousand from 2009 due largely to valuation adjustments on OREO properties.

In the third quarter of 2010, a balance sheet deleveraging transaction was consummated, which consisted of the sale of $63 million in mortgage-backed securities and the prepayment of $65 million in FHLBB advances. As a result, $800 thousand of net realized gains on securities and a $752 thousand debt prepayment charge were recognized in 2010. There were no debt prepayment penalty charges recognized in 2009.

Other noninterest expenses increased by $1.2 million, or 16%, in 2010. The increase includes a $383 thousand increase in credit and collection costs, a $352 thousand increase in charitable contributions to Washington Trust's charitable foundation and a $326 thousand increase in various deposit product costs.

Comparison of 2009 with 2008

Salaries and employee benefits expense increased by $880 thousand, or 2%, in 2009. This increase reflects increases in staffing and higher defined benefit pension costs due to the discount rate and asset value changes in effect at the end of 2008 offset in part by lower profitability-based incentive costs.

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Net occupancy expense increased by $254 thousand, or 6%, in 2009 largely due to increased rental expense for premises leased by the Bank.

Merchant processing costs increased by $883 thousand, or 15%, in 2009 primarily due to increases in the volume of transactions processed for existing and new customers.

FDIC deposit insurance costs were up by $3.4 million from 2008. A special FDIC assessment of $1.35 million ($869 thousand after tax) was recorded in the second quarter of 2009. In addition to the special assessment, the year over year increase in FDIC deposit insurance costs also reflects higher assessment rates.

Included in other noninterest expenses in 2009 was a $250 thousand charge incurred in the first quarter of 2009 in connection with the repositioning of investment options in the Corporation's 401(k) Plan. The increase in other noninterest expenses in 2009 also included an increase of $331 thousand in credit and collection costs. These increases were offset for the most part by the results of efforts to control operating costs.

Income Taxes

Income tax expense for 2010, 2009 and 2008 totaled $10.3 million, $6.3 million and $7.3 million, respectively. The effective tax rates for the years ended December 31, 2010, 2009 and 2008 were 30.0%, 28.3% and 24.8%, respectively. The change in the effective tax rate for 2010 in comparison to 2009 was primarily due to a higher portion of taxable income to pretax book income. In 2008, the Corporation recognized $1.4 million in income tax benefits (as described in the following paragraph). Excluding these income tax benefits, the effective tax rate for 2008 was 29.6%. The effective tax rates differed from the federal rate of 35.0% due primarily to the benefits of tax-exempt income, the dividends received deduction and income from BOLI.

On July 3, 2008, the Commonwealth of Massachusetts enacted a law that included reducing the tax rate on net income applicable to financial institutions and requiring combined income tax reporting. The rate will be reduced from the rate of 10.5% to 10.0% for 2010, 9.5% for 2011 and 9.0% for 2012 and thereafter. Previously, certain Washington Trust subsidiaries were subject to Massachusetts income tax on a separate return basis. Under the new legislation, effective January 1, 2009, Washington Trust, as a consolidated tax group, is subject to income tax in the Commonwealth of Massachusetts. Washington Trust analyzed the impact of this law and, as a result of revaluing its net deferred tax asset, recognized an income tax benefit of $841 thousand in the third quarter of 2008. In addition, the Corporation recognized an income tax benefit of $556 thousand in the fourth quarter of 2008 resulting primarily from the resolution of certain state tax positions (see Note 9).

The Corporation's net deferred tax asset amounted to $12.4 million at December 31, 2010, compared to $12.0 million at December 31, 2009. The Corporation has determined that a valuation allowance is not required for any of the deferred tax assets since it is more likely than not that these assets will be realized primarily through future reversals of existing taxable temporary differences or carryback to taxable income in prior years. See Note 9 to the Consolidated Financial Statements for additional information regarding income taxes.

Financial Condition

Summary

Total assets amounted to $2.9 billion at December 31, 2010, essentially unchanged from the end of 2009. Total loans amounted to $2.0 billion, or 69% of total assets, at December 31, 2010. During 2010, total loans grew by $76 million, or 4%, since December 31, 2009, with a $43 million increase in the commercial loan portfolio, a $39 million increase in the residential real estate portfolio and a $6.0 million decline in consumer loans.

Nonaccrual loans at December 31, 2010 and 2009, totaled $18.5 million and $27.5 million, respectively, down by $9.0 million in 2010. Total delinquencies amounted to $25.3 million, or 1.27% of total loans, at December 31, 2010, down by $6.3 million in 2010. Loans classified as troubled debt restructurings amounted to $22.4 million at December 31, 2010, up by $12.1 million from the balance at December 31, 2009. Overall credit quality continues to be affected by weaknesses in national and regional economic conditions. These conditions, including high unemployment levels, may continue for the next few quarters.

The investment securities portfolio amounted to $594.1 million at December 31, 2010, or 20% of total assets. During 2010, the investment securities portfolio declined by $97.4 million reflecting the third quarter 2010 balance

sheet deleveraging transaction and maturities and pay-downs on mortgage-backed securities offset, in part, by purchases of debt securities.

Total liabilities increased by $11 million in 2010, with an increase of $113 million in total deposits and a decrease of $109 million in FHLBB advances. Total deposits, which included brokered certificates of deposit, were up by 6% from the balance at December 31, 2009. Excluding out-of-market brokered certificates of deposit, in-market

deposits grew by $155 million, or 8%, in 2010. At December 31, 2010, Washington Trust had $52 million in out-of-market brokered certificates of deposit and $499 million in FHLBB advances compared to $94 million and $607 million, respectively, at December 31, 2009.

Shareholders' equity totaled $269 million at December 31, 2010, compared to $255 million at the end of 2009. As of December 31, 2010, the Corporation is categorized as "well-capitalized" under the regulatory framework for prompt corrective action.

Securities

Washington Trust's securities portfolio is managed to generate interest income, to implement interest rate risk management strategies, and to provide a readily available source of liquidity for balance sheet management. Securities are designated as either available for sale, held to maturity or trading at the time of purchase. The Corporation does not currently maintain portfolios of held to maturity or trading securities. Securities available for sale may be sold in response to changes in market conditions, prepayment risk, rate fluctuations, liquidity, or capital requirements. Securities available for sale are reported at fair value, with any unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of tax, until realized. See Note 4 to the Consolidated Financial Statements for additional information.

As noted in Note 14 to the Consolidated Financial Statements, a majority of our fair value measurements utilize Level 2 inputs, which utilize 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 input assumptions are observable in active markets. Our Level 2 financial instruments consist primarily of available for sale debt securities. These debt securities were initially valued at their transaction price and subsequently valued based on matrix pricing with market data inputs such as reportable trades, benchmark yields, broker/dealer quotes, bids, offers, issuers spreads, credit ratings and other industry and economic events. Such inputs are observable in the market or can be derived principally from or corroborated by observable market data. When necessary, we validate our valuation techniques by reviewing the underlying basis for the models used by pricing sources and obtaining market values from other pricing sources. Level 3 financial instruments utilize valuation techniques in which one or more significant input assumptions are unobservable in the markets and which reflect the Corporation's market assumptions. As of December 31, 2010 and 2009, our Level 3 financial instruments consisted primarily of two available for sale pooled trust preferred securities, which were not actively traded.

As of December 31, 2010, the Corporation concluded that the low level of trading activity for our Level 3 pooled trust preferred securities continued to indicate that quoted market prices were 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 highly limited sales evidenced by an 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 referenced sources and utilized by the Corporation are consistent with GAAP. If Washington Trust was required to sell these securities in an un-orderly fashion, actual proceeds received could potentially be significantly less than their fair values.

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

(Dollars in thousands) December 31,	2010 Amount	%	2009 Amount	%	2008 Amount	%
Securities Available for Sale:						
Obligations of U.S. government-sponsored enterprises	$ 40,994	7 %	$ 45,240	7 %	$ 64,377	7 %
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	429,771	72 %	523,446	75 %	683,619	80 %
States and political subdivisions	81,055	14 %	82,062	12 %	81,213	9 %
Trust preferred securities:						
Individual name issuers	23,275	4 %	20,586	3 %	16,793	2 %
Collateralized debt obligations	806	– %	1,065	– %	1,940	– %
Corporate bonds	15,212	3 %	14,706	2 %	13,576	2 %
Common stocks	809	– %	769	– %	992	– %
Perpetual preferred stocks	2,178	– %	3,610	1 %	3,709	– %
Total securities available for sale	$ 594,100	100%	$ 691,484	100%	$ 866,219	100%

At December 31, 2010 the investment portfolio totaled $594 million, down by $97 million from the balance at December 31, 2009, partially due to the third quarter 2010 balance sheet deleveraging transaction in which $63 million in mortgage-backed securities were sold to prepay $65 million in FHLBB advances. As a result of this deleveraging transaction, $800 thousand of net realized gains on securities and a $752 thousand debt prepayment charge were recognized in the third quarter of 2010. See the Corporation's Consolidated Statements of Cash Flows for additional information.

The largest component of the securities portfolio is mortgage-backed securities, all of which are issued by U.S. Government agencies or U.S. Government-sponsored enterprises.

At December 31, 2010, the net unrealized gain position on the investment securities portfolio was $15.2 million, including $11.7 million in gross unrealized losses. Nearly all of these gross unrealized losses at December 31, 2010 were concentrated in variable rate trust preferred securities issued by financial services companies. The net unrealized gain position on the investment securities portfolio was $13.8 million at December 31, 2009, which included gross unrealized losses of $14.7 million.

The Bank owns trust preferred security holdings of seven individual name issuers in the financial industry and two pooled trust preferred securities in the form of collateralized debt obligations. The following tables present information concerning the named issuers and pooled trust preferred obligations, including credit ratings. The Corporation's Investment Policy contains rating standards that specifically reference ratings issued by Moody's and S&P.

Individual Issuer Trust Preferred Securities
(Dollars in thousands)

		December 31, 2010			Credit Ratings			
					December 31, 2010		Form 10-K Filing Date	
Named Issuer (parent holding company)	(a)	Amortized Cost (b)	Fair Value	Unrealized Loss	Moody's	S&P	Moody's	S&P

JPMorgan Chase & Co.	2	$9,725	$7,763	$(1,962)	A2	BBB+		A2	BBB+	
Bank of America Corporation	3	5,734	4,031	(1,703)	Baa3	BB+	(c)	Baa3	BB+	(c)
Wells Fargo & Company	2	5,108	4,068	(1,040)	A3/Baa1	A-		A3/Baa1	A-	
SunTrust Banks, Inc.	1	4,166	3,115	(1,051)	Baa3	BB	(c)	Baa3	BB	(c)
Northern Trust Corporation	1	1,980	1,592	(388)	A3	A-		A3	A-	
State Street Corporation	1	1,969	1,567	(402)	A3	BBB+		A3	BBB+	
Huntington Bancshares Incorporated	1	1,919	1,139	(780)	Ba1 (c)	BB-	(c)	Ba1 (c)	BB-	(c)
Totals	11	$30,601	$23,275	$(7,326)						

(a) Number of separate issuances, including issuances of acquired institutions.

(b) Net of other-than-temporary impairment losses recognized in earnings, other than such noncredit-related amounts reversed on January 1, 2009. See Note 4 to the Consolidated Financial Statements

(c) Rating is below investment grade.

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The Corporation's evaluation of the impairment status of individual name trust preferred securities includes various considerations in addition to the degree of impairment and the duration of impairment. We review the reported regulatory capital ratios of the issuer and, in all cases, the regulatory capital ratios were deemed to be in excess of the regulatory minimums. Credit ratings were also taken into consideration, 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. We noted no additional downgrades to below investment grade between the reporting period date and the filing date of this report. Where available, credit ratings from multiple rating agencies are obtained and rating downgrades are specifically analyzed. Our review process for these credit-sensitive holdings also includes a periodic review of relevant financial information for each issuer, such as quarterly financial reports, press releases and analyst reports. This information is used to evaluate the current and prospective financial condition of the issuer in order to assess the issuer's ability to meet its debt obligations. Through the filing date of this report, each of the individual name issuer securities was current with respect to interest payments. Based on our evaluation of the facts and circumstances relating to each issuer, management concluded that all principal and interest payments for these individual issuer trust preferred securities would be collected according to their contractual terms and 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 at maturity. Therefore, management does not consider these investments to be other-than-temporarily impaired at December 31, 2010.

Pooled Trust Preferred Obligations

(Dollars in thousands)	December 31, 2010					Credit Ratings			
						December 31, 2010		Form 10-K Filing Date	
Deal Name	Amortized Cost	Fair Value	Unrealized Loss	No. of Cos. in Issuance	Deferrals and Defaults (a)	Moody's	S&P	Moody's	S&P
Tropic CDO 1, tranche A4L (d)	$3,183	$679	$(2,504)	38	38.8%	Ca (c)	(b)	Ca (c)	(b)
Preferred Term Securities [PreTSL] XXV, tranche C1 (e)	1,283	127	$(1,156)	73	35.9%	C (c)	(b)	C (c)	(b)
Totals	$4,466	$806	$(3,660)						

(a) Percentage of pool collateral in deferral or default status.

(b) Not rated by S&P.

(c) Rating is below investment grade.

(d) The instrument was downgraded to a below investment grade rating of "Caa3" by Moody's on March 27, 2009 and was placed on nonaccrual status as of March 31, 2009. On October 30, 2009, Moody's downgraded this security to a rating of "Ca." This credit rating status has been considered by management in its assessment of the impairment status of this security. During the quarter ended March 31, 2009, an adverse change occurred in the expected cash flows for this instrument indicating that, based on cash flow forecasts with regard to timing of deferrals and potential future recovery of deferred payments, default rates, and other matters, the Corporation would not receive all contractual amounts due under the instrument and would not recover the entire cost basis of the security. The Corporation had concluded that these conditions warranted a conclusion of other-than-temporary impairment for this holding as of March 31, 2009 and recognized an other-than-temporary impairment charge of $3.6 million

pursuant to the provisions of Accounting Standards Codification ("ASC") 320. The credit loss portion of the impairment charge, representing the amount by which the present value of cash flows expected to be collected is less than the amortized cost basis of the debt security, was $1.4 million. In April 2010, the tranche instrument held by the Corporation began deferring a portion of interest payments. During the quarter ended June 30, 2010 an adverse change occurred in the expected cash flows for this security and resulted in an additional credit-related impairment loss of $354 thousand charged to earnings in the second quarter of 2010. The analysis of the expected cash flows for this security at December 31, 2010 did not negatively affect the amount of credit-related impairment losses previously recognized on this security. Based on information available as of the filing date of this report 17 of the 38 institutions have invoked their original contractual right to defer interest payments. A total of $116.5 million of the underlying collateral pool was in deferral or default status, or 38.8% of the total original collateral balance of $300 million.

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(e) In December 2008, this security began deferring interest payments until future periods and the Corporation placed this security on nonaccrual status and recognized an other-than-temporary impairment charge in the amount of $1.9 million. Pursuant to the provisions of ASC 320 adopted effective January 1, 2009 and based on Washington Trust's assessment of the facts associated with this instrument, the Corporation concluded that there was no credit loss portion of the other-than-temporary impairment charge as of December 31, 2008. Washington Trust reclassified this noncredit-related other-than-temporary impairment loss for this security previously recognized in earnings in the fourth quarter of 2008 as a cumulative effect adjustment as of January 1, 2009 in the amount of $1.2 million after taxes ($1.9 million before taxes) with an increase in retained earnings and a decrease in accumulated other comprehensive loss. In addition, the amortized cost basis of this security was increased by the amount of the cumulative effect adjustment before taxes. The instrument was downgraded to a below investment grade rating of "Ca" by Moody's on March 27, 2009. During the quarter ended September 30, 2009, an adverse change occurred in the expected cash flows for this instrument indicating that, based on cash flow forecasts with regard to timing of deferrals and potential future recovery of deferred payments, default rates, and other matters, the Corporation would not receive all contractual amounts due under the instrument and would not recover the entire cost basis of the security. The Corporation had concluded that these conditions warranted a conclusion of other-than-temporary impairment for this holding as of September 30, 2009 and recognized an other-than-temporary impairment charge of $2.3 million pursuant to the provisions of ASC 320. The credit loss portion of the impairment charge, representing the amount by which the present value of cash flows expected to be collected is less than the amortized cost basis of the debt security, was $467 thousand. The analysis of the expected cash flows for this security as of December 31, 2009 resulted in an additional credit-related impairment loss of $679 thousand being recognized in earnings in the fourth quarter of 2009. In the first quarter of 2010, an additional credit-related impairment loss of $63 thousand was recognized in earnings based on the analysis of expected cash flows for this security as of March 31, 2010. This security was downgraded to a rating of "C" by Moody's on June 24, 2010. 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 at December 31, 2010 did not negatively affect the amount of credit-related impairment losses previously recognized on this security. Based on information available as of the filing date of this report, 24 of the 73 pooled institutions have invoked their original contractual right to defer interest payments. A total of $314.6 million of the underlying collateral pool was in deferral or default status, or 35.9% of the total original collateral pool of $877.4 million.

The following table summarizes other-than-temporary impairment losses on securities recognized in earnings in the periods indicated:

(Dollars in thousands)

Years ended December 31,	2010	2009	2008
Pooled trust preferred securities			
Tropic CDO 1, tranche A4L	$ 354	$ 1,350	$ –
Preferred Term Securities [PreTSL] XXV, tranche C1	63	1,146	1,859
Common and perpetual preferred stocks			
Fannie Mae and Freddie Mac perpetual preferred stocks	–	–	1,470
Other perpetual preferred stocks (financials)	–	495	2,173
Other common stocks (financials)	–	146	435
Other-than-temporary impairment losses recognized in earnings	$ 417	$ 3,137	$ 5,937

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 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.

See Note 4 to the Consolidated Financial Statements for additional discussion on securities.

Federal Home Loan Bank Stock

As of December 31, 2010 and 2009, the Corporation's investment in FHLBB stock totaled $42.0 million. The FHLBB is a cooperative that provides services, including funding in the form of advances, to its member banking institutions. The Corporation is required to maintain a level of investment in FHLBB stock based on the level of its FHLBB advances, which is viewed as a necessary long-term investment for the purpose of balance sheet liquidity and not for investment return. At December 31, 2010, the Corporation's investment in FHLBB stock exceeded its required investment by $15.3 million. No market exists for shares of the FHLBB. FHLBB stock may be redeemed at par value five years following termination of FHLBB membership, subject to limitations which may be imposed by the FHLBB or its regulator, the Federal Housing Finance Agency, to maintain capital adequacy of the FHLBB. While the Corporation currently has no intentions to terminate its FHLBB membership, the ability to redeem its investment in FHLBB stock is subject to the conditions imposed by the FHLBB. In 2008, the FHLBB announced to its members that it is focusing on preserving capital in response to ongoing market volatility including the extension of a moratorium on excess stock repurchases and in 2009 announced the suspension of its quarterly dividends. On February 22, 2011, the FHLBB declared a modest cash dividend payable to its members on March 2, 2011. The FHLBB also announced that it expects to continue to declare modest cash dividends through 2011.

On February 22, 2011, the FHLBB also announced its unaudited financial results for the quarter ended December 31, 2010. The FHLBB reported net income of $23.6 million and $106.6 million for the quarter and year ended December 31, 2010 compared to net income of $6.3 million and a net loss of $186.8 million for the same periods a year earlier. Additionally, it reported total capital of $3.3 billion at December 31, 2010, compared to $2.8 billion at December 31, 2009. The increase in earnings and capital largely reflected lower levels of credit losses on securities deemed to be other-than-temporarily impaired. The FHLBB continues to exceed the regulatory capital requirements promulgated by the Federal Home Loan Banks Act and the Federal Housing Finance Agency. The FHLBB's primary source of funding is debt issued by the FHLB system. The FHLB system continues to demonstrate the ability to continue to issue additional debt. As of the filing date of this report, debt obligations issued by the FHLB System continue to be rated Aaa by Moody's and AAA by Standard & Poor's. If needed, the FHLB system also has the ability to secure funding available to government-sponsored entities through the U.S. Treasury. Based on the capital adequacy and the liquidity position of the FHLBB, management believes there is no impairment related to the carrying amount of the Corporation's FHLBB stock as of December 31, 2010. Further deterioration of the FHLBB's capital levels may require the Corporation to deem its restricted investment in FHLBB stock to be other-than-temporarily impaired. If evidence of impairment exists in the future, the FHLBB stock would reflect fair value using either observable or unobservable inputs.

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

BOLI amounted to $51.8 million and $45.0 million at December 31, 2010 and 2009, respectively. During the second quarter of 2010, the Corporation purchased an additional $5 million in BOLI. BOLI provides a means to mitigate increasing employee benefit costs. The Corporation expects to benefit from the BOLI contracts as a result of the tax-free growth in cash surrender value and death benefits that are expected to be generated over time. The purchase of the life insurance policy results in an income-earning asset on the Consolidated Balance Sheet that provides monthly tax-free income to the Corporation. The largest risk to the BOLI program is credit risk of the insurance carriers. To mitigate this risk, annual financial condition reviews are completed on all carriers. BOLI is invested in the "general account" of quality insurance companies. All such general account carriers were rated "A" or better by A.M. Best and "A2" or better by Moody's at December 31, 2010. BOLI is included in the Consolidated Balance Sheets at its cash surrender value. Increases in BOLI's cash surrender value are reported as a component of noninterest income in the Consolidated Statements of Income.

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Loans

Total loans amounted to $2.0 billion at December 31, 2010. In 2010, loans grew by $76 million, or 4%, with a $43 million increase in the commercial loan portfolio, a $39 million increase in the residential real estate portfolio and a $6.0 million decline in consumer loans.

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

(Dollars in thousands) December 31,	2010		2009		2008		2007		2006	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial:										
Mortgages (1)	$518,623	26 %	$496,996	26 %	$407,904	22 %	$278,821	18 %	$282,019	19 %
Construction & development	47,335	2 %	72,293	4 %	49,599	3 %	60,361	4 %	32,233	2 %
Other (2)	461,107	23 %	415,261	21 %	422,810	23 %	341,084	21 %	273,145	19 %
Total commercial	1,027,065	51 %	984,550	51 %	880,313	48 %	680,266	43 %	587,397	40 %
Residential real estate:										
Mortgages	634,739	31 %	593,981	31 %	626,663	34 %	588,628	37 %	577,522	40 %
Homeowner construction	10,281	1 %	11,594	1 %	15,389	1 %	11,043	1 %	11,149	– %
Total residential real estate	645,020	32 %	605,575	32 %	642,052	35 %	599,671	38 %	588,671	40 %
Consumer:										
Home equity lines	218,288	11 %	209,801	11 %	170,662	9 %	144,429	9 %	145,676	10 %
Home equity loans	50,624	3 %	62,430	3 %	89,297	5 %	99,827	6 %	93,947	6 %
Other (3)	54,641	3 %	57,312	3 %	56,830	3 %	49,459	4 %	44,295	4 %
Total consumer loans	323,553	17 %	329,543	17 %	316,789	17 %	293,715	19 %	283,918	20 %
Total loans	$1,995,638	100%	$1,919,668	100%	$1,839,154	100%	$1,573,652	100%	$1,459,986	100%

(1) Amortizing mortgages and lines of credit, primarily secured by income producing property.
(2) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.
(3) Other consumer loans include personal installment loans and loans to individuals secured by general aviation aircraft and automobiles.

An analysis of the maturity and interest rate sensitivity of Real Estate Construction and Other Commercial loans as of December 31, 2010 follows:

(Dollars in thousands) Matures in:	1 Year or Less	1 to 5 Years	After 5 Years	Totals

Construction and development (1)	$ 19,930	$ 5,833	$ 31,853	$ 57,616
Commercial - other	170,948	202,576	87,583	461,107
	$ 190,878	$ 208,409	$ 119,436	$ 518,723

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

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

(Dollars in thousands)	Predetermined Rates	Floating or Adjustable Rates	Totals
Principal due after one year	$ 241,380	$ 86,465	$ 327,845

Commercial Loans

Commercial loans fall into two major categories, commercial real estate and other commercial loans (commercial and industrial). Commercial real estate loans consist of commercial mortgages and construction and development loans made for the purpose of acquiring, developing, constructing, improving or refinancing commercial real estate where the property is the primary collateral securing the loan, and the income generated from the property is the primary repayment source. Commercial and industrial loans primarily provide working capital, equipment financing, financing for leasehold improvements and financing for expansion. Commercial and industrial loans are frequently collateralized by equipment, inventory, accounts receivable, and/or general business assets. A significant portion of the Bank's commercial and industrial loans are also collateralized by real estate, but are not classified as commercial real restate loans because such loans are not made for the purpose of acquiring, developing, constructing, improving

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or refinancing the real estate securing the loan, nor is the repayment source income generated directly from such real property.

In light of weak national and regional economic conditions including such matters as market interest rates, energy prices, trends in real estate values, and employment levels, management has continued to refine its underwriting standards. Based on management's assessment of these matters, underwriting standards and credit monitoring activities were enhanced from time to time in response to changes in these conditions. Examples of such revisions and monitoring activities include clarification of debt service ratio calculations, modifications to loan to value standards for real estate collateral, formalized watch list criteria, and enhancements to monitoring of commercial construction loans. Management expects to continue to evaluate underwriting standards in response to continuing changes in national and regional economic conditions.

Commercial Real Estate Loans

Commercial real estate loans at December 31, 2010 amounted to $566 million, including $47 million in commercial construction loans, down by $3 million, or 1%, from December 31, 2009. These loans are secured by a variety of property types, with approximately 81% of the total at December 31, 2010 composed of retail facilities, office buildings, lodging, commercial mixed use, multi-family dwellings, healthcare facilities and industrial & warehouse properties.

The following table presents a geographic summary of commercial real estate loans, including commercial construction, by property location.

(Dollars in thousands)	December 31, 2010		December 31, 2009	
	Amount	% of Total	Amount	% of Total
Rhode Island, Connecticut, Massachusetts	$ 512,173	91 %	$ 512,748	90 %
New York, New Jersey, Pennsylvania	40,232	7 %	40,485	7 %
New Hampshire, Maine	11,846	2 %	14,342	3 %
Other	1,707	– %	1,714	– %
Total	$ 565,958	100 %	$ 569,289	100 %

Other Commercial Loans

Other commercial loans amounted to $461 million at December 31, 2010, up by $46 million, or 11%, from the balance at the end of 2009, primarily due to originations in our general market area of southern New England. This portfolio includes loans to a variety of business types. Approximately 75% of the total is composed of retail trade, owner occupied & other real estate, health care/social assistance, manufacturing, construction businesses, accommodation & food services, other services and wholesale trade businesses.

Residential Real Estate Mortgages

Residential real estate mortgages amounted to $645 million at December 31, 2010, up by $39 million, or 7%, from the balance at December 31, 2009. Washington Trust originates residential real estate mortgages within our general market area of Southern New England for portfolio and for sale in the secondary market. The majority of loans originated for sale are sold with servicing released. Washington Trust also originates residential real estate mortgages for various investors in a broker capacity, including conventional mortgages and reverse mortgages. As a result of the low interest rate environment, Washington Trust experienced strong levels of residential mortgage refinancing and mortgage sales activity in both 2009 and 2010. Total residential real estate mortgage loan originations, including brokered loans as agent, amounted to $418 million in 2010 and $414 million in 2009. Of these amounts, $237 million and $284 million, respectively, were originated for sale in the secondary market, including brokered loans as agent. Mortgage refinancing and sales activity has recently slowed as a result of a rise in market interest rates in the

latter part of the fourth quarter of 2010.

When selling a residential real estate mortgage loan or acting as originating agent on behalf of a third party, Washington Trust generally makes various representations and warranties relating to, among other things, the following: ownership of the loan, the validity of the lien securing the loan, the absence of delinquent taxes or liens against the property securing the loan, the effectiveness of title insurance, compliance with applicable loan criteria established by the buyer, compliance with applicable local, state and federal laws, and the absence of fraud on the part of parties involved in the origination. The specific representations and warranties depend on the nature of the transaction and the requirements of the buyer. Contractual liability may arise when the representations and

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warranties are breached. In the event of a breach of these representations and warranties, Washington Trust may be required to either repurchase the residential real estate mortgage loan (generally at unpaid principal balance plus accrued interest) with the identified defects or indemnify ("make-whole") the investor for their losses.

In the case of a repurchase, Washington Trust will bear any subsequent credit loss on the residential real estate mortgage loan. Washington Trust has experienced an insignificant number of repurchase demands over a period of many years. The unpaid principal balance of loans repurchased due to representation and warranty claims as of December 31, 2010 was $249 thousand. As of December 31, 2010, Washington Trust has recorded a $125 thousand reserve for its exposure to losses from the obligation to repurchase previously sold residential real estate mortgage loans. This reserve is included in other liabilities in the Consolidated Balance Sheets and any change in the estimate is recorded in net gains on loan sales and commissions on loans originated for others in the Consolidated Statements of Income.

From time to time Washington Trust purchases one- to four-family residential mortgages originated in other states as well as southern New England from other financial institutions. All residential mortgage loans purchased from other financial institutions have been individually underwritten using standards similar to those employed for Washington Trust's self-originated loans. Purchased residential mortgage balances totaled $92 million and $130 million, respectively, as of December 31, 2010 and 2009.

The following is a geographic summary of residential mortgages by property location.

(Dollars in thousands)	December 31, 2010		December 31, 2009	
	Amount	% of Total	Amount	% of Total
Rhode Island, Connecticut, Massachusetts	$ 612,419	95 %	$ 555,455	92 %
New York, Virginia, New Jersey, Maryland, Pennsylvania, District of Columbia	13,921	2 %	18,908	3 %
Ohio	8,086	1 %	13,700	2 %
California, Washington, Oregon	4,562	1 %	8,140	1 %
Colorado, Texas, New Mexico, Utah	2,613	1 %	5,038	1 %
Georgia	1,680	– %	2,519	1 %
New Hampshire	1,263	– %	1,333	– %
Wyoming	476	– %	482	– %
Total	$ 645,020	100 %	$ 605,575	100 %

Consumer Loans

Consumer loans amounted to $324 million at December 31, 2010, down $6 million, or 2%, in 2010. Our consumer portfolio is predominantly home equity lines and home equity loans, representing 83% of the total consumer portfolio at December 31, 2010. Consumer loans also include personal installment loans and loans to individuals secured by general aviation aircraft and automobiles.

Asset Quality

The Board of Directors of the Bank monitors credit risk management through two committees, the Finance Committee and the Audit Committee. The Finance Committee has primary oversight responsibility for the credit granting function including approval authority for credit granting policies, review of management's credit granting activities and approval of large exposure credit requests. The Audit Committee oversees management's system and procedures to monitor the credit quality of the loan portfolio, conduct a loan review program, maintain the integrity of the loan rating system and determine the adequacy of the allowance for loan losses. These committees report the results of

their respective oversight functions to the bank's Board of Directors. In addition, the Board receives information concerning asset quality measurements and trends on a monthly basis.

Nonperforming Assets

Nonperforming assets include nonaccrual loans, nonaccrual investment securities and property acquired through foreclosure or repossession.

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The following table presents nonperforming assets and additional asset quality data for the dates indicated:

(Dollars in thousands)

December 31,	2010	2009	2008	2007	2006
Nonaccrual loans:					
Commercial mortgages	$ 6,624	$ 11,588	$ 1,942	$ 1,094	$ 981
Commercial construction and development	–	–	–	–	–
Other commercial	5,259	9,075	3,845	1,781	831
Residential real estate mortgages	6,414	6,038	1,754	1,158	721
Consumer	213	769	236	271	190
Total nonaccrual loans	18,510	27,470	7,777	4,304	2,723
Nonaccrual investment securities	806	1,065	633	–	–
Property acquired through foreclosure or repossession, net	3,644	1,974	392	–	–
Total nonperforming assets	$ 22,960	$ 30,509	$ 8,802	$ 4,304	$ 2,723
Nonperforming assets to total assets	0.79 %	1.06 %	0.30 %	0.17 %	0.11 %
Nonaccrual loans to total loans	0.93 %	1.43 %	0.42 %	0.27 %	0.19 %
Total past due loans to total loans	1.27 %	1.64 %	0.96 %	0.45 %	0.49 %
Accruing loans 90 days or more past due	$ –	$ –	$ –	$ –	$ –

Nonperforming assets totaled $23.0 million, or 0.79% of total assets, at December 31, 2010 compared to $30.5 million, or 1.06% of total assets, at December 31, 2009.

Total nonaccrual loans totaled $18.5 million at December 31, 2010, down by $9.0 million in 2010. While loans have continued to migrate to nonaccrual status during 2010, the aggregate amount of loans paid down, charged-off, or returned to accruing status has been greater, thus resulting in the net reduction of nonaccrual loans in 2010.

Nonaccrual commercial mortgages decreased by $5.0 million from the balance at the end of 2009. This decline included the resolution of a commercial real estate relationship with a carrying value of $2.2 million at December 31, 2009. During the first quarter of 2010, this credit was settled with a payment of $2.0 million and a charge-off of the remaining balance. The decline in nonaccrual commercial mortgages from the balance at December 31, 2009 also included $1.7 million in payments received on another commercial real estate relationship.

Nonaccrual other commercial loans were down by $3.8 million from the balance at the end of 2009. Included in this decrease was a $2.5 million commercial relationship secured by an auto dealership that was returned to accruing status in the third quarter of 2010 based on the borrower's performance and creditworthiness.

Nonaccrual investment securities at December 31, 2010 and 2009 and were comprised of two pooled trust preferred securities. See additional information herein under the caption "Securities." Property acquired through foreclosure or repossession amounted to $3.6 million at December 31, 2010, compared to $2.0 million at the end of 2009. The balance at December 31, 2010 consisted of six commercial properties, five residential properties and one repossessed asset.

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 past due 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 uncollected, is reversed against current period income. Subsequent cash receipts on nonaccrual loans are recognized as interest income, or recorded as a reduction of principal if full collection of the loan is doubtful or if impairment of the collateral is identified. Loans are removed from nonaccrual status when they have been current as to principal and

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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 Corporation has made no changes in its practices or policies during 2010 concerning the placement of loans or investment securities into nonaccrual status.

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at December 31, 2010.

Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms was approximately $1.3 million, $2.0 million and $615 thousand in 2010, 2009 and 2008, respectively. Interest income attributable to these loans included in the Consolidated Statements of Income amounted to approximately $831 thousand, $1.0 million and $497 thousand in 2010, 2009 and 2008, respectively.

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

(Dollars in thousands)	December 31, 2010			December 31, 2009		
	Days Past Due			Days Past Due		
	Over 90	Under 90	Total	Over 90	Under 90	Total
Commercial:						
Mortgages	$ 5,322	$ 1,302	$ 6,624	$ 11,227	$ 361	$ 11,588
Construction and development	–	–	–	–	–	–
Other commercial	3,376	1,883	5,259	4,829	4,246	9,075
Residential real estate mortgages	4,041	2,373	6,414	4,028	2,010	6,038
Consumer	11	202	213	164	605	769
Total nonaccrual loans	$ 12,750	$ 5,760	$ 18,510	$ 20,248	$ 7,222	$ 27,470

As of December 31, 2010, the largest nonaccrual relationship in the commercial mortgage category totaled $4.7 million and is secured by several properties including office, light industrial and retail space. Based on management's assessment of the operating condition of the borrower, a $316 thousand loss allocation on this relationship was deemed necessary at December 31, 2010. The Bank has additional accruing commercial real estate and residential mortgage loans totaling $4.8 million to this borrower. These additional loans have performed in accordance with terms of the loans, were not past due as of December 31, 2010 and management has concluded that these loans have properly been classified as accruing. The second largest nonaccrual relationship in this category totaled $826 thousand as of December 31, 2010, secured by affordable housing condominium units and was current with its restructured terms as of December 31, 2010. Based on management's assessment of the operating condition of the borrower, no loss allocation on this relationship was deemed necessary at December 31, 2010.

The largest nonaccrual relationship in the other commercial loan category amounted to $705 thousand and was current with its terms as of December 31, 2010. This relationship is collateral dependent and secured by a retail building. Based on the fair value of the underlying collateral, no loss allocation on this relationship was deemed necessary as of December 31, 2010. The Bank has additional accruing home equity line and residential real estate mortgage loans of $290 thousand to this borrower. These additional loans have performed in accordance with terms

of the loans, were not past due as of December 31, 2010 and management has concluded that these loans have properly been classified as accruing. The second largest relationship in this category amounted to $694 thousand and was included in the over 90 days past due category as of December 31, 2010. This relationship is collateral dependent and secured by two retail buildings. Based on the fair value of the underlying collateral, no loss allocation on this relationship was deemed necessary as of December 31, 2010.

Nonaccrual residential mortgages increased slightly from the balance at the end of 2009. There are a total of 23 loans included in $6.4 million of nonaccrual residential mortgages as of December 31, 2010. The loss allocation on total nonaccrual residential mortgages was $1.1 million at December 31, 2010. $4.7 million of the nonaccrual residential mortgages were located in Rhode Island, Massachusetts and Connecticut. Included in total nonaccrual residential mortgages were 14 loans purchased for portfolio and serviced by others amounting to $4.6 million.

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Management monitors the collection efforts of its third party servicers as part of its assessment of the collectibility of nonperforming loans.

Past Due Loans

The following tables present past due loans by category as of the dates indicated:

(Dollars in thousands) December 31,	2010				2009			
		Amount	%	(1)		Amount	%	(1)
Commercial mortgages	$	8,021	1.42	%	$	14,784	2.60	%
Other commercial loans		6,191	1.34	%		6,952	1.67	%
Residential real estate mortgages		8,591	1.33	%		7,820	1.29	%
Consumer loans		2,464	0.76	%		2,013	0.61	%
Total past due loans	$	25,267	1.27	%	$	31,569	1.64	%

(1) Percentage of past due loans to the total loans outstanding within the respective category.

At December 31, 2010, total delinquencies amounted to $25.3 million, or 1.27% of total loans, down $6.3 million from December 31, 2009. Included in past due loans as of December 31, 2010 and 2009, were nonaccrual loans of $14.9 million and $22.8 million, respectively. All loans 90 days or more past due at December 31, 2010 and December 31, 2009 were classified as nonaccrual.

Commercial mortgage delinquencies decreased by $6.8 million in 2010. Included in this decrease was the resolution of a commercial real estate relationship with a carrying value of $2.2 million at December 31, 2009. For additional information refer to the caption "Nonperforming Assets." Also included in commercial mortgage delinquencies at December 31, 2009 was a commercial real estate relationship with a carrying value of $2.5 million. During 2010, this borrower made payments totaling $1.7 million and was current with its restructured terms as of December 31, 2010.

Other commercial loan delinquencies declined by $761 thousand from the end of 2009. Significant delinquency relationships in this category were described above under the caption "Nonaccrual Loans."

Residential mortgage loan delinquencies consisted of 30 loans totaling $8.6 million, or 1.33% of residential mortgage loans, at December 31, 2010. $5.9 million of residential mortgage loan delinquencies were in nonaccrual status at December 31, 2010.

Consumer loan delinquencies consisted of 67 loans totaling $2.5 million, or 0.76% of total consumer loans, at December 31, 2010 and primarily included home equity lines and loans which were less than 90 days past due.

We use various techniques to monitor credit deterioration in the portfolios of residential mortgage loans and home equity lines and loans. Among these techniques, the Corporation periodically tracks loans with an updated FICO score and an estimated loan to value ("LTV") ratio, with LTV 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. This information and trends associated with this information is considered by management in its assessment of the allocation of loss exposure in the residential mortgage loan portfolio.

Troubled Debt Restructurings

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

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

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

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

At December 31, 2010, there were no significant commitments to lend additional funds to borrowers whose loans had been restructured.

The following table sets forth information on troubled debt restructured loans as of the dates indicated:

(Dollars in thousands)

December 31,	2010	2009	2008	2007	2006
Accruing troubled debt restructured loans:					
Commercial mortgages	$ 11,736	$ 5,566	$ –	$ 1,717	$ –
Other commercial	4,594	540	–	–	–
Residential real estate mortgages	2,863	2,736	263	–	–
Consumer	509	858	607	–	–
Accruing troubled debt restructured loans	19,702	9,700	870	1,717	–
Nonaccrual troubled debt restructured loans:					
Commercial mortgages	1,302	–	–	–	–
Other commercial	431	228	–	–	–
Residential real estate mortgages	948	336	–	–	–
Consumer	41	45	–	–	–
Nonaccrual troubled debt restructured loans	2,722	609	–	–	–
Total troubled debt restructured loans	$ 22,424	$ 10,309	$ 870	$ 1,717	$ –

As a result of weakened economic conditions, the Corporation continues to experience troubled debt restructuring events involving commercial and residential borrowers. Loans classified as troubled debt restructurings amounted to $22.4 million at December 31, 2010, up by $12.1 million from the balance at December 31, 2009.

The increase in troubled debt restructured loans included an accruing commercial mortgage loan relationship with a carrying value of $5.7 million at December 31, 2010, secured by mixed use property. This loan restructuring included a modification of certain payment terms and a reduction of the stated interest rate on approximately $1.7 million of the loan balance. Also included in the increase in troubled debt restructured loans was a commercial loan relationship with a carrying value of $1.7 million at December 31, 2010, predominantly secured by retail properties, which was granted a concession in the form of interest only payments for a six month period. The increase in troubled debt restructured loans in 2010 also included a commercial loan relationship with a carrying value of $962 thousand at December 31, 2010, secured by retail property and business assets, which was granted a concession in the form of interest only payments for a three month period.

Potential Problem Loans

The Corporation classifies certain loans as "substandard," "doubtful," or "loss" based on criteria consistent with guidelines provided by banking regulators. Potential problem loans consist of classified accruing commercial loans that were less than 90 days past due at December 31, 2010 and other loans for which known information about possible credit problems of the related borrowers causes management to have doubts as to the ability of such borrowers to comply with the present loan repayment terms and which may result in disclosure of such loans as nonperforming at some time in the future. These loans are not included in the amounts of nonaccrual or restructured loans presented above. Management cannot predict the extent to which economic conditions may worsen or other factors which may impact borrowers and the potential problem loans. Accordingly, there can be no assurance that other loans will not become 90 days or more past due, be placed on nonaccrual, become restructured, or require increased allowance coverage and provision for loan losses. The Corporation has identified approximately

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$6.7 million in potential problem loans at December 31, 2010, as compared to $8.0 million at December 31, 2009. Approximately 81% of the potential problem loans at December 31, 2010 consisted of six commercial lending relationships, which have been classified based on our evaluation of the financial condition of the borrowers. The Corporation's loan policy provides guidelines for the review and monitoring of such loans in order to facilitate collection.

Allowance for Loan Losses

Establishing an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. The Corporation uses a methodology to systematically measure the amount of estimated loan loss exposure inherent in the loan portfolio for purposes of establishing a sufficient allowance for loan losses. See additional discussion regarding the allowance for loan losses under the caption "Critical Accounting Policies" and in Note 6 to the Consolidated Financial Statements.

The allowance for loan losses is management's best estimate of the probable loan losses inherent 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 Bank's general practice is to identify problem credits early and recognize full or partial charge-offs as promptly as practicable when it is determined that the collection of loan principal is unlikely. The Bank recognizes full or partial charge-offs on collateral dependent impaired loans when the collateral is deemed to be insufficient to support the carrying value of the loan. The Bank does not recognize a recovery when an updated appraisal indicates a subsequent increase in value.

At December 31, 2010, the allowance for loan losses was $28.6 million, or 1.43% of total loans, which compares to an allowance of $27.4 million, or 1.43% of total loans at December 31, 2009. The status of nonaccrual loans, delinquent loans and performing loans were all taken into consideration in the assessment of the adequacy of the allowance for loans losses. In addition, the balance and trends of credit quality indicators, including the commercial loan categories of Pass, Special Mention and Classified, are integrated into the process used to determine the allocation of loss exposure. See Note 5 to the Consolidated Financial Statements for additional information under the caption "Credit Quality Indicators." Management believes that the allowance for loan losses is adequate and consistent with asset quality and delinquency indicators.

The estimation of loan loss exposure inherent in the loan portfolio includes, among other procedures, (1) identification of loss allocations for individual loans deemed to be impaired in accordance with GAAP, (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". We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. We analyze 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. Revisions to loss allocation factors are not retroactively applied.

The methodology to measure the amount of estimated loan loss exposure includes an analysis of individual loans deemed to be impaired. Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreements and all 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. Impairment is 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. The following is a summary of impaired loans by measurement type:

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(Dollars in thousands)	December 31, 2010	December 31, 2009
Collateral dependent impaired loans (1)	$ 14,872	$ 15,640
Impaired loans measured on discounted cash flow method (2)	18,756	15,914
Total impaired loans	$ 33,628	$ 31,554

(1) Net of partial charge-offs of $2.3 million at December 31, 2010 and $3.3 million at December 31, 2009.
(2) Net of partial charge-offs of $1.5 million at December 31, 2010 and $503 thousand at December 31, 2009.

Impaired loans consist of nonaccrual commercial loans, troubled debt restructured loans and other loans classified as impaired. See Note 5 to the Consolidated Financial Statements for additional disclosure on impaired loans. The loss allocation on impaired loans amounted to $2.1 million and $2.5 million, respectively, at December 31, 2010 and December 31, 2009. Various loan loss allowance coverage ratios are affected by the timing and extent of charge-offs, particularly with respect to impaired collateral dependent loans. For such loans the Bank generally recognizes a partial charge-off equal to the identified loss exposure, therefore the remaining allocation of loss is minimal.

Other individual commercial loans and commercial mortgage loans not deemed to be impaired are evaluated using the internal rating system and the application of loss allocation factors. The loan rating system is described under the caption "Credit Quality Indicators" in Note 5 to the Consolidated Financial Statements. 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. During 2010, we have continued to periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. We have continued to adjust loss allocations for various factors including trends in real estate values, continued weakness in general economic conditions and our assessments of credit risk associated with industry concentrations and an ongoing trend toward larger credit relationships. The loss allocation factor associated with industry concentrations and an ongoing trend toward larger credit relationships was classified in the unallocated portion of the allowance for loan losses maintained for general loss allocations for environmental factors in financial reporting periods prior to 2010. We believe that the periodic reassessment and revision of the loss allocation factors during 2010 have not resulted in a material impact on the allocation of total loan loss exposure.

Appraisals are generally obtained with values determined on an "as is" basis from independent appraisal firms for real estate collateral dependent commercial loans in the process of collection or when warranted by other deterioration in the borrower's credit status. Updates to appraisals are obtained when management believes it is warranted. The Corporation has continued to maintain appropriate professional standards regarding the professional qualifications of appraisers and has an internal review process to monitor the quality of appraisals.

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. During 2010, the Corporation has continued to update these analyses and has continued to adjust its loss allocations for various factors that it believes are not adequately presented in historical loss experience including declining trends in real estate values, changes in unemployment levels and increases in delinquency levels. These factors are also evaluated taking into account the geographic location of the underlying loans. We believe that the updated analyses and related adjustments to loss factors during 2010 have not resulted in a material impact on the allocation of loan loss exposure.

For residential mortgages and real estate collateral dependent consumer loans that are in the process of collection, valuations are obtained from independent appraisal firms with values determined on an "as is" basis or, in some cases, broker price opinions.

For the years ended December 31, 2010 and 2009, the loan loss provision totaled $6.0 million and $8.5 million, respectively. The provision for loan losses was based on management's assessment of economic and credit conditions, with particular emphasis on commercial and commercial real estate categories, as well as growth in the loan portfolio. Net charge-offs were $4.8 million, or 0.24% of average loans, in 2010 and $4.8 million or 0.25% of

average loans, in 2009. Commercial and commercial real estate loan net charge-offs amounted to 82% of total net charge-offs in 2010 and 88% in 2009.

Management believes that overall credit quality continues to be affected by weaknesses in national and regional economic conditions. These conditions, including high unemployment levels, may continue for the next few quarters. While management believes that the level of allowance for loan losses at December 31, 2010 is appropriate, management will continue to assess the adequacy of the allowance for loan losses in accordance with its established policies.

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

(Dollars in thousands)

December 31,	2010	2009	2008	2007	2006
Balance at beginning of year	$ 27,400	$ 23,725	$ 20,277	$ 18,894	$ 17,918
Charge-offs:					
Commercial:					
Mortgages	1,284	1,615	185	26	–
Construction and development	–	–	–	–	–
Other	2,983	2,907	1,044	506	295
Residential:					
Mortgages	646	417	104	–	–
Homeowner construction	–	–	–	–	–
Consumer	489	223	260	246	133
Total charge-offs	5,402	5,162	1,593	778	428
Recoveries:					
Commercial:					
Mortgages	132	37	68	–	–
Construction and development	–	–	–	–	–
Other	196	251	48	203	171
Residential:					
Mortgages	233	28	–	–	–
Homeowner construction	–	–	–	–	–
Consumer	24	21	125	58	33
Total recoveries	585	337	241	261	204
Net charge-offs (recoveries)	4,817	4,825	1,352	517	224
Provision charged to earnings	6,000	8,500	4,800	1,900	1,200
Balance at end of year	$ 28,583	$ 27,400	$ 23,725	$ 20,277	$ 18,894
Net charge-offs (recoveries) to average loans	0.24 %	0.25 %	0.08 %	0.03 %	0.02 %

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

(Dollars in thousands)

December 31,	2010		2009		2008		2007		2006	
Commercial:										
Mortgages	$ 7,330		$ 7,360		$ 4,904		$ 5,218		$ 4,408	
% of these loans to all loans	26	%	26	%	22	%	18	%	19	%
Construction and development	723		874		784		1,445		589	
% of these loans to all loans	2	%	4	%	3	%	4	%	2	%
Other	6,495		6,423		6,889		4,229		4,200	
% of these loans to all loans	23	%	21	%	23	%	21	%	19	%
Residential:										
Mortgages	4,081		3,638		2,111		1,681		1,619	
% of these loans to all loans	31	%	31	%	34	%	37	%	40	%
Homeowner construction	48		43		84		55		56	
% of these loans to all loans	1	%	1	%	1	%	1	%	–	%
Consumer	1,903		1,346		2,231		2,027		1,882	
% of these loans to all loans	17	%	17	%	17	%	19	%	20	%
Unallocated	8,003		7,716		6,722		5,622		6,140	
Balance at end of year	$ 28,583		$ 27,400		$ 23,725		$ 20,277		$ 18,894	
	100	%	100	%	100	%	100	%	100	%

Sources of Funds

Our sources of funds include deposits, brokered certificates of deposit, FHLBB borrowings, other borrowings and proceeds from the sales, maturities and payments of loans and investment securities. Washington Trust uses funds to originate and purchase loans, purchase investment securities, conduct operations, expand the branch network and pay dividends to shareholders.

Management's preferred strategy for funding asset growth is to grow low cost deposits (demand deposit, NOW savings accounts). Asset growth in excess of low cost deposits is typically funded through higher cost deposits (certificates of deposit and money market accounts), brokered certificates of deposit, FHLBB borrowings, and securities portfolio cash flow.

Deposits

Washington Trust offers a wide variety of deposit products to consumer and business customers. Deposits provide an important source of funding for the Bank as well as an ongoing stream of fee revenue.

Total deposits amounted to $2.0 billion at December 31, 2010, up by $113 million, or 6%, from the balance at December 31, 2009. Excluding out-of-market brokered certificates of deposit, in-market deposits were up by $155 million, or 8%, in 2010.

Demand deposits amounted to $228 million at December 31, 2010, up by $34 million, or 18%, from December 31, 2009. NOW account balances increased by $40 million, or 20%, in 2010 and totaled $242 million at December 31, 2010.

Money market account balances totaled $396 million at December 31, 2010, compared to $403 million at December 31, 2009. During 2010, savings deposits increased by $29 million, or 15%, and amounted to $221 million at December 31, 2010.

Time deposits (including brokered certificates of deposit) amounted to $949 million at December 31, 2010, up by $17 million from the balance at December 31, 2009. The Corporation utilizes out-of-market brokered time deposits as part of its overall funding program along with other sources. Out-of-market brokered time deposits amounted to $52 million at December 31, 2010, compared to $94 million at December 31, 2009. Excluding out-of-market

brokered certificates of deposit, in-market time deposits grew by $58 million, or 7%, in 2010. Washington Trust is a member of the Certificate of Deposit Account Registry Service ("CDARS") network. Included in in-market time deposits at December 31, 2010 are CDARS reciprocal time deposits of $266 million, which were up by $89 million from December 31, 2009.

Borrowings

Federal Home Loan Bank Advances

The Corporation utilizes advances from the FHLBB as well as other borrowings as part of its overall funding strategy. FHLBB advances were used to meet short-term liquidity needs, to purchase securities and to purchase loans from other institutions. FHLBB advances decreased by $109 million during the year and amounted to $499 million at December 31, 2010. Included in the December 31, 2010 balance are $13 million of callable advances, with maturity dates ranging from January 2011 to December 2013 and call dates that reset quarterly.

In connection with the Corporation's ongoing interest rate risk management efforts, in January, April and October 2010, the Corporation modified the terms to extend the maturity dates of certain FHLBB advances totaling $151 million with original maturity dates in 2010, 2011 and 2012. As a result, the Corporation realized total interest expense savings of approximately $527 thousand in the year 2010.

In the third quarter of 2010, a balance sheet deleveraging transaction was consummated, which consisted of the sale of $63 million in mortgage-backed securities and the prepayment of $65 million in FHLBB advances. As a result, $800 thousand of net realized gains on securities and a $752 thousand debt prepayment charge were recognized in the third quarter of 2010. There were no debt prepayment penalty charges recognized in 2009.

See Note 11 to the Consolidated Financial Statements for additional information on borrowings.

Other Borrowings

Other borrowings largely consist of securities sold under repurchase agreements. Other borrowings amounted to $23.4 million at December 31, 2010, compared to $21.5 million at December 31, 2009.

See Note 11 to the Consolidated Financial Statements for additional information on borrowings.

Liquidity and Capital Resources

Liquidity Management

Liquidity is the ability of a financial institution to meet maturing liability obligations and customer loan demand. Washington Trust's primary source of liquidity is deposits, which funded approximately 69% of total average assets in 2010. While the generally preferred funding strategy is to attract and retain low cost deposits, the ability to do so is affected by competitive interest rates and terms in the marketplace. Other sources of funding include discretionary use of purchased liabilities (e.g., FHLBB term advances and other borrowings), cash flows from the Corporation's securities portfolios and loan repayments. Securities designated as available for sale may also be sold in response to short-term or long-term liquidity needs although management has no intention to do so at this time.

Washington Trust has a detailed liquidity funding policy and a contingency funding plan that provide for the prompt and comprehensive response to unexpected demands for liquidity. Management employs stress testing methodology to estimate needs for contingent funding that could result from unexpected outflows of funds in excess of "business as usual" cash flows. In management's estimation, risks are concentrated in two major categories (1) runoff of in-market deposit balances; and (2) unexpected drawdown of loan commitments. Of the two categories, potential runoff of deposit balances would have the most significant impact on contingent liquidity. Our stress test scenarios, therefore,

emphasize attempts to quantify deposits at risk over selected time horizons. In addition to these unexpected outflow risks, several other "business as usual" factors enter into the calculation of the adequacy of contingent liquidity including (1) payment proceeds from loans and investment securities; (2) maturing debt obligations; and (3) maturing time deposits. Washington Trust has established collateralized borrowing capacity with the Federal Reserve Bank of Boston and also maintains additional collateralized borrowing capacity with the FHLBB in excess of levels used in the ordinary course of business.

The ALCO establishes and monitors internal liquidity measures to manage liquidity exposure. Liquidity remained well within target ranges established by the ALCO during 2010. Based on its assessment of the liquidity

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considerations described above, management believes the Corporation's sources of funding will meet anticipated funding needs.

For 2010, net cash used by financing activities amounted to $5.1 million. Total deposits increased by $113 million, while FHLBB advances decreased by $109 million and cash dividends paid totaled $13.6 million in 2010. See additional disclosure regarding FHLBB advances under the caption "Borrowings". Net cash provided by investing activities totaled $10.1 million for 2010. Proceeds from the sale of securities as well as maturities and principal payments were offset, in part, by loan growth and the purchase of BOLI in the second quarter of 2010. In addition, in 2010 Washington Trust made investments in two real estate limited partnerships to renovate and operate two low-income housing complexes. As of December 31, 2010, Washington Trust has invested $2.1 million in the limited partnerships and has additional contingent funding commitments of $449 thousand. Net cash provided by operating activities amounted to $30.4 million for 2010, most of which was generated by net income. See the Corporation's Consolidated Statements of Cash Flows for further information about sources and uses of cash.

Capital Resources

Total shareholders' equity amounted to $269 million at December 31, 2010, compared to $255 million at December 31, 2009.

The Corporation's 2006 Stock Repurchase Plan authorizes the repurchase of up to 400,000 shares. As of December 31, 2010, a cumulative total of 185,400 shares have been repurchased. All of these shares of stock were repurchased in 2007 at a total cost of $4.8 million.

The ratio of total equity to total assets amounted to 9.2% at December 31, 2010. This compares to a ratio of 8.8% at December 31, 2009. Book value per share at December 31, 2010 and 2009 amounted to $16.63 and $15.89, respectively.

The Bancorp and the Bank are subject to various regulatory capital requirements. As of December 31, 2010, the Bancorp and the Bank are categorized as "well-capitalized" under the regulatory framework for prompt corrective action. See Note 12 to the Consolidated Financial Statements for additional discussion of capital requirements.

Contractual Obligations and Commitments

The Corporation has entered into numerous contractual obligations and commitments. The following table summarizes our contractual cash obligations and other commitments at December 31, 2010.

(Dollars in thousands)	Payments Due by Period				
	Total	Less Than 1 Year (1)	1-3 Years	4-5 Years	After 5 Years
Contractual Obligations:					
FHLBB advances (2)	$ 498,722	$ 54,039	$ 221,899	$ 158,872	$ 63,912
Junior subordinated debentures	32,991	–	–	–	32,991
Operating lease obligations	8,104	1,362	2,339	2,015	2,388
Software licensing arrangements	1,354	1,346	8	–	–
Treasury, tax and loan demand note	1,207	1,207	–	–	–
Other borrowings	22,152	2,395	19,579	93	85
Total contractual obligations	$ 564,530	$ 60,349	$ 243,825	$ 160,980	$ 99,376

(1) Maturities or contractual obligations are considered by management in the administration of liquidity and are routinely refinanced in the ordinary course of business.
(2) All FHLBB advances are shown in the period corresponding to their scheduled maturity. Some FHLBB advances are callable at earlier dates. See Note 11 to the Consolidated Financial Statements for additional information.

(Dollars in thousands)	Amount of Commitment Expiration – Per Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Other Commitments:					
Commercial loans	$ 176,436	$ 137,669	$ 21,879	$ 2,816	$ 14,072
Home equity lines	182,260	440	–	–	181,820
Other loans	23,971	21,562	50	2,359	–
Standby letters of credit	9,510	2,771	6,739	–	–
Forward loan commitments to:					
Originate loans	10,893	10,893	–	–	–
Sell loans	24,901	24,901	–	–	–