WASHINGTON TRUST BANCORP INC
Form 10-K
March 07, 2012

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, 2011 or

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

Commission file number: 001-32991
WASHINGTON TRUST BANCORP, INC.
(Exact name of registrant as specified in its charter)

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

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). xYes oNo

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 Rule 12b-2 of the Act). oYes xNo

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2011 was $320,177,914 based on a closing sales price of $22.97 per share as reported for the NASDAQ Global Select Market, which includes $12,498,653 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 24, 2012 was 16,347,372.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement dated March 12, 2012 for the Annual Meeting of Shareholders to be held April 24, 2012 are incorporated by reference into Part III of this Form 10-K.

FORM 10-K
WASHINGTON TRUST BANCORP, INC.
For the Year Ended December 31, 2011

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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 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, 2011, Washington Trust had total assets of $3.1 billion, total deposits of $2.1 billion and total shareholders' equity of $281.4 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, Massachusetts and Connecticut.

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 loans. The Bank

has sought to selectively expand its commercial lending relationships with new and existing customers 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 43% of total loans at December 31, 2007 to 52% at December 31, 2011. 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 33% of total loans at December 31, 2011. 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. Since 2009, Washington Trust has experienced strong residential mortgage refinancing activity in response to the low mortgage interest rate environment. In 2011, Washington Trust originated a record $452.4 million in residential mortgage loans, including brokered loans as agent.

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, 2011, the purchased portfolio made up 10% and 3% 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 15% of total loans as of December 31, 2011. 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, 2011. All home equity lines and home equity loans were originated by Washington Trust in its general market area. The Bank estimates that approximately 60% 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 $28.3 million in 2011, 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, 2011 and 2010, wealth management assets under administration totaled $3.9 billion and $4.0 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, 2011. 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 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 PierBank, Inc. ("PierBank"), 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 PierBank 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 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. As of December 31, 2011, the Bank has ten branch offices located in southern Rhode Island (Washington County), six branch offices located in the greater Providence area in Rhode Island and two branch offices located in southeastern Connecticut. In 2012, the Bank plans to open a third full-service branch in Cranston, Rhode Island, which is a continuation of our expansion into the greater Providence area. Both the population and number of businesses in this area far exceed those in southern Rhode Island.

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, Rhode Island. In recent years, we expanded our residential mortgage lending market area by opening three residential mortgage lending offices located in Sharon and Burlington, Massachusetts, and Glastonbury, Connecticut. In February 2012, the Bank opened a fourth mortgage lending office in Warwick, Rhode Island.

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, 2011, Washington Trust had 558 employees consisting of 518 full-time and 40 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. Federal and state 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
The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) comprehensively reformed the regulation of financial institutions, products and services.

Among other things, the Dodd-Frank Act:

- grants the FRB increased supervisory authority and codifies the source of strength doctrine, as discussed in more detail in “Bank Holding Company Support to the Bank” below;
- provides for new capital standards applicable to the Corporation, as discussed in more detail in “Regulatory Capital Requirements” below;
- modifies deposit insurance coverage discussed in “FDIC Deposit Insurance" below;
- 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, as

discussed in “Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds” below;

- established new corporate governance and proxy disclosure requirements, as discussed in “Corporate Governance and Executive Compensation” below;

- established the Bureau of Consumer Financial Protection (the “CFPB”), as discussed in “Consumer Protection Regulation” below;
- established new minimum mortgage underwriting standards for residential mortgages; as discussed in “Mortgage Reform” below;
- authorizes the FRB to regulate interchange fees for debit card transactions. The FRB has issued a rule governing the interchange fees charged on debit cards which caps the fees a bank may charge on a debit card transactions and shifts such interchange fees from a percentage of the transaction amount to a per transaction fee. Although the 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;
- permits the payment of interest on business demand deposit accounts;
- established and empowered the Financial Stability Oversight Council to designate certain activities as posing a risk to the U.S. financial system and recommend new or heightened standards and safeguards for financial institutions engaging in such activities; and
- established the Office of Financial Research, which has the power to require reports from financial services companies such as the Bancorp.

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, as a financial holding company, the Bancorp engages, through WSC, in broker-dealer activities pursuant to this authority.

If a financial holding company fails to remain well capitalized and well managed, the company and its affiliates may not commence any new activity that is authorized particularly for financial holding companies. If a financial holding company remains out of compliance for 180 days or such longer period as the FRB permits, the FRB 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.

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, 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.

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.

Bank Holding Company Support to the 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.

Dividend Restrictions

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.

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.

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. Future issuances of trust preferred securities have been disallowed as Tier 1 qualifying capital by the Dodd-Frank Act, although the Bancorp's currently outstanding trust preferred securities have been grandfathered for Tier 1 eligibility. 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%. The Dodd-Frank Act requires the FRB to establish minimum risk-based capital requirements that may not be lower than those in effect on July 21, 2010. As of December 31, 2011, the Corporation’s Tier 1 capital ratio was 11.61% and its total risk-based capital ratio was 12.86%. The Bancorp is currently considered “well capitalized” under all regulatory definitions.

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. Dodd-Frank Act requires the FRB to establish minimum leverage capital requirements that may not be lower than those in effect on July 21, 2010. 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 Corporation’s leverage ratio was 8.70% as of December 31, 2011.

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."

The FDIC 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, 2011, 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 currently expect, to calculate its risk-based capital requirements under either the "advanced or standard" approach of the Basel II capital accords. The Basel Committee on Banking Supervision has also released new capital requirements, known as Basel III, with higher capital requirements, enhanced risk coverage, a global leverage ratio, liquidity standards and a provision for counter-cyclical capital. The FRB has not yet adopted Basel III, and when it is implemented in the United States, it may be with some modifications or adjustments. Additionally, the timetable for the adoption and implementation of Basel III is expected to last for several years. Accordingly, the Bancorp is not yet in a position to determine the effect of Basel III on its capital requirements.

FDIC Deposit Insurance

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, deposit premiums are based on assets rather than insurable deposits. To determine its actual deposit insurance premiums, the Bank computes the base amount on its average consolidated assets less its average tangible equity (defined as the amount of Tier 1 capital) and its applicable assessment rate.

Pursuant to an FDIC rule issued in November 2009, the Bank prepaid its 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), which bears a zero-percent risk weight for risk-based capital purposes. Each quarter the Bank records 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; 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 Bank.

The Dodd-Frank Act permanently increased the FDIC deposit insurance limit to $250,000 per depositor. 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 $2.0 million in 2011. 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.

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 conform to the 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.

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 at least a "Satisfactory" rating could inhibit an institution or its holding company from undertaking certain activities, including engaging in activities newly permitted as a financial holding company under GLBA and acquisitions of other financial institutions. The 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.

Acquisitions and Branching

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.

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.

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. This change did not affect the Corporation's existing identification of affiliates within its corporate structure. “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.

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.

Volcker Rule Restrictions on Proprietary Trading and Sponsorship of Hedge Funds and Private Equity Funds

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. Hedge funds and private equity funds are described by the Dodd-Frank Act as funds that would be registered under the Investment Company Act but for certain enumerated exemptions. The Volcker Rule restrictions apply to the Bancorp, the Bank and all of their subsidiaries and affiliates.

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.

Corporate Governance and Executive Compensation

Under the Dodd-Frank Act, the SEC has adopted rules granting 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.

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.

Privacy and Customer Information Security
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 Bank must provide its customers with an annual disclosure that explains its policies and procedures regarding the disclosure of such nonpublic personal information, and, except as otherwise required or permitted by law, the Bank is prohibited from disclosing such information except as provided in such policies and procedures. The GLBA also requires that the Bank develop, implement and maintain a comprehensive written information security program designed to ensure the security and confidentiality of customer information (as defined under GLBA), to protect against anticipated threats or hazards to the security or integrity of such information; and to protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer. The Bank is also required to send a notice to customers whose “sensitive information” has been compromised if unauthorized use of this information is “reasonably possible.” Most of the states, including the states where the Bank operates, have enacted legislation concerning breaches of data security and the duties of the Bank in response to a data breach. Congress continues to consider federal legislation that would require consumer notice of data security breaches. Pursuant to the Fair and Accurate Credit Transactions Act of 2003 (the “FACT Act”), the Bank must also develop and implement a written identity theft prevention program to detect, prevent, and mitigate identity theft in connection with the opening of certain accounts or certain existing accounts. Additionally, the FACT Act amends the Fair Credit Reporting Act to 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.

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 Washington Trust.

Consumer Protection Regulation

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.

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.

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.

Before making any investment decision with respect to our common stock, you should carefully consider the risks described below, in addition to the other information contained in this report and in our other filings with the SEC. The risks and uncertainties described below and in our other filings are not the only ones facing us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business. If any of these known or unknown risks or uncertainties actually occurs, our business, financial condition and results of operations could be impaired. In that event, the market price for our common stock could decline and you may lose your investment. This report is qualified in its entirety by these risk factors.

Our allowance for loan losses may not be adequate to cover actual loan losses.

We are exposed to the risk that our borrowers may default on their obligations. A borrower's default on its obligations under one or more loans may result in lost principal and interest income and increased operating expenses as a result

of the allocation of management time and resources to the collection and work-out of the loan. In certain situations, where collection efforts are unsuccessful or acceptable work-out arrangements cannot be reached, Washington Trust may have to write off the loan in whole or in part. In such situations, Washington Trust may acquire real estate or other assets, if any, that secure the loan through foreclosure or other similar available remedies, and often the amount owed under the defaulted loan exceeds the value of the assets acquired.

We periodically make a determination of an allowance for loan losses based on available information, including, but not

limited to, the quality of the loan portfolio, certain economic conditions, the value of the underlying collateral and the level of nonaccrual and criticized loans. We rely on our loan quality reviews, our experience and our evaluation of economic conditions, among other factors, in determining the amount of provision required for the allowance for loan losses. Provisions to this allowance result in an expense for the period. If, as a result of general economic conditions, changes to previous assumptions, or an increase in defaulted loans, we determine that additional increases in the allowance for loan losses are necessary, we will incur additional expenses.

Determining the allowance for loan losses inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. At any time, there are likely to be loans in our portfolio that will result in losses but that have not been identified as nonperforming or potential problem credits. We cannot be sure that we will be able to identify deteriorating credits before they become nonperforming assets or that we will be able to limit losses on those loans that are identified. We have in the past been, and in the future may be, required to increase our allowance for loan losses for any of several reasons. Federal and state regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance for loan losses. In addition, if charge-offs in future periods exceed our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and could have an adverse effect on our financial condition and results of operations.

For a more detailed discussion on the allowance for loan losses, see additional information disclosed in “Management's Discussion and Analysis of Financial Condition and Results of Operations-Application of Critical Accounting Policies and Estimates.”

Interest rate volatility may reduce our profitability.
Our consolidated results of operations depend, to a large extent, on 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. These rates are highly sensitive to many factors beyond our control, including general economic conditions, both domestic and foreign, and the monetary and fiscal policies of various governmental and regulatory authorities. Washington Trust has adopted asset and liability management policies to minimize the potential adverse effects of changes in interest rates on net interest income, primarily by altering the mix and maturity of loans, investments funding sources, and derivatives. However, even with these policies in place, a change in interest rates can impact our results of operations or financial condition.

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 "Management's Discussion and Analysis of Financial Condition and Results of Operations - “Asset / Liability Management and Interest Rate Risk.”

Our loan portfolio includes commercial loans, which are generally riskier than other types of loans.
At December 31, 2011, commercial loans represented 52% of our loan portfolio. Commercial loans generally carry larger loan balances and involve a higher risk of nonpayment or late payment than residential mortgage loans. These loans may lack standardized terms and may include a balloon payment feature. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions and prevailing interest rates. Repayment of these loans is generally more dependent on the economy and the successful operation of a business. Because of the risks associated with commercial loans, we may experience higher rates of default than if the portfolio were more heavily weighted toward residential mortgage loans. Higher rates of default could have an adverse effect on our financial condition and results of operations.

Environmental liability associated with our lending activities could result in losses.
In the course of business, we may acquire, through foreclosure, properties securing loans we have originated that are in default. While we believe that our credit granting process incorporates appropriate procedures for the assessment of environmental contamination risk, there is a risk that hazardous substances could be discovered on these properties, particularly in commercial real estate lending. In this event, we might be required to remove these substances from the affected properties at our sole cost and expense. The cost of this removal could substantially exceed the value of affected properties. We may not have adequate remedies against the prior owner or other responsible parties and could find it difficult or impossible to sell the affected properties. These events could have an adverse effect on our financial condition and results of operations.

Our wealth management business is highly regulated, and the regulators have the ability to limit or restrict our activities and impose fines or suspensions on the conduct of our business.
We offer wealth management services through the Bank and its subsidiary, Weston Financial, a registered investment adviser under the Investment Advisers Act of 1940. The Investment Advisers Act imposes numerous obligations on registered investment advisers, including fiduciary, record keeping, operational and disclosure obligations. We are also subject to the provisions and regulations of ERISA to the extent that we act as a “fiduciary” under ERISA with respect to certain of our clients. ERISA and the applicable provisions of the federal tax laws impose a number of duties on persons who are fiduciaries under ERISA and prohibit certain transactions involving the assets of each ERISA plan which is a client, as well as certain transactions by the fiduciaries (and certain other related parties) to such plans. In addition, applicable law provides that all investment contracts with mutual fund clients may be terminated by the clients, without penalty, upon no more than 60 days notice. Investment contracts with institutional and other clients are typically terminable by the client, also without penalty, upon 30 days notice. Changes in these laws or regulations could have a material adverse impact on our profitability and mode of operations.

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 2011. 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.

We are subject to liquidity risk.
Liquidity is the ability to meet cash flow needs on a timely basis at a reasonable cost. Our liquidity is used principally to originate or purchase loans, to repay deposit liabilities and other liabilities when they come due, and to fund operating costs. Customer demand for non-maturity deposits can be difficult to predict. Changes in market interest rates, increased competition within our markets, and other factors may make deposit gathering more difficult. Disruptions in the capital markets or interest rate changes may make the terms of wholesale funding sources - which include FHLBB advances, brokered certificates of deposit, federal funds purchased and securities sold under repurchase agreements - less favorable and may make it difficult to sell securities when needed to provide additional liquidity. As a result, there is a risk that the cost of funding will increase or that we will not have sufficient funds to meet our obligations when they come due.

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, 2011, we had $58.1 million of goodwill on our 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 our 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 Washington Trust to compete successfully with other financial institutions in the Washington Trust'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.

Damage to our reputation could significantly harm our business, including our competitive position and business prospects.
Our ability to attract and retain customers and employees could be adversely affected if our reputation is damaged. Our actual or perceived failure to address various issues could give rise to reputational risk that could cause harm to us and our business prospects. These issues also include, but are not limited to, legal and regulatory requirements; properly maintaining customer and employee personal information; record keeping; money-laundering; sales and trading practices; ethical issues; appropriately addressing potential conflicts of interest; and the proper identification of the legal, reputational, credit, liquidity and market risks inherent in our products. Failure to appropriately address any of these issues could also give rise to additional regulatory restrictions and legal risks, which could, among other consequences, increase the size and number of litigation claims and damages asserted or subject us to enforcement actions, fines and penalties and cause us to incur related costs and expenses.

Difficult market conditions and economic trends in the real estate market have adversely affected our industry and our business.
We are particularly affected by downturns in the U.S. real estate market. Declines in the real estate market over the past several years, with decreasing property values and increasing delinquencies and foreclosures, may have a negative impact on the credit performance of commercial and construction, mortgage, and consumer loan portfolios resulting in significant write-downs of assets by many financial institutions as the values of real estate collateral supporting many loans have declined significantly. In addition, general downward economic trends and continued high levels of unemployment, among other factors, have led to erosion of customer confidence, a reduction in general business activity and increased market volatility. The resulting economic pressure on consumers and businesses and the lack of confidence in the financial markets have adversely affected our business, financial condition, results of operations and stock price. A worsening of these economic conditions would likely exacerbate the adverse effects of these difficult market conditions on us and others in the industry. Our ability to properly assess the creditworthiness of customers and to estimate the losses inherent in our credit exposure is made more complex by these difficult market and economic conditions. Accordingly, if these market conditions and trends continue, we may experience increases in foreclosures, delinquencies, write-offs and customer bankruptcies, as well as more restricted access to funds.

Deterioration in the southern New England economy could adversely affect our financial condition and results of operations.
Washington Trust primarily serves individuals and businesses located in southern New England. As a result, a significant portion of our earnings are closely tied to the economy of that region. Deterioration in Washington Trust's market could result in the following consequences:

- loan delinquencies may increase;
- problem assets and foreclosures may increase;
- demand for our products and services may decline;
- collateral for our loans may decline in value, in turn reducing a customer's borrowing power and reducing the value of collateral securing a loan; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

We operate in a highly regulated industry, and laws and regulations, or changes in them, could limit or restrict our activities and could have an adverse impact in our operations.
We are subject to regulation and supervision by the FRB, and the Bank is subject to regulation and supervision by the Rhode Island Division of Banking and the FDIC, as the insurer of the Bank's deposits. The FDIC and the Rhode Island Division of Banking have the power to issue cease and desist orders to prevent or remedy unsafe or unsound

practices or violations of law by banks subject to their regulation, and the FRB possesses similar powers with respect to bank holding companies.

The Dodd-Frank Act comprehensively reformed the regulation of financial institutions, products and services. Because many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over several years, it is difficult to forecast the impact that such rulemaking will have on us, our customers or the financial industry. Certain provisions of the Dodd-Frank Act that affect deposit insurance assessments, the payment of interest on demand deposits and interchange fees could increase the costs associated with the Bank's deposit-generating activities, as well as place limitations on the revenues that those deposits may generate. For example, while the FRB has proposed rules pursuant to the Dodd-Frank Act governing debit card interchange fees that apply to institutions with greater than $10 billion in assets, market forces may effectively require all banks to adopt debit card interchange fee structures that comply with these rules.

Among other things, the Dodd-Frank Act established the Consumer Financial Protection Bureau, or the “CFPB,” as an independent bureau of the FRB. The CFPB has the authority to prescribe rules for all depository institutions governing the provision of consumer financial products and services, which may result in rules and regulations that reduce the profitability of such products and services or impose greater costs on us and our subsidiaries. The Bank will continue to be examined by the FDIC for compliance with such rules. The Dodd-Frank Act established new minimum mortgage underwriting standards for residential mortgages and the regulatory agencies have focused on the examination and supervision of mortgage lending and servicing activities. Over the past year there has been a heightened regulatory scrutiny of consumer fees, which may result in new disclosure requirements or regulations regarding the fees that the Bank may charge for products and services.

Regulators may raise capital requirements above current levels in connection with the implementation of Basel III, the Dodd-Frank Act or otherwise, which may require us and our banking subsidiary to hold additional capital that could limit the manner in which we and the Bank conduct our business and obtain financing. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III in the United States, or otherwise, could result in us and the Bank having to lengthen the term of our funding, restructure our business models, and/or increase our holdings of liquid assets. If the federal banking agencies implement a capital conservation buffer and/or a countercyclical capital buffer, as proposed in Basel III, a failure by us or the Bank to satisfy the applicable buffer's requirements would limit our ability to make distributions, including paying out dividends or buying back shares.

The FDIC's restoration plan and the related increased assessment rate could adversely affect our financial condition and results of operations.
The FDIC insures deposits at FDIC-insured depository institutions, such as Washington Trust, up to applicable limits. As a result of recent economic conditions and the enactment of the Dodd-Frank Act, the FDIC has increased the assessment of deposit insurance premiums on the banking industry. If deposit insurance premiums are insufficient for the deposit insurance fund of the FDIC to meet its funding requirements, there may need to be further special assessments or increases in deposit insurance premiums. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the current levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums may materially adversely affect results of operations, including by reducing our profitability or limiting our ability to pursue certain business opportunities.

Changes in accounting standards can materially impact our financial statements.
Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the Financial Accounting Standards Board 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 our restating prior period financial statements.

We are a holding company and depend on The Washington Trust Company for dividends, distributions and other payments.

We are a separate and distinct legal entity from The Washington Trust Company and depend on dividends, distributions and other payments from the Bank to fund dividend payments on our common stock. The Bank is subject to laws that authorize regulatory bodies to block or reduce the payment of cash dividends or other distributions from it to us. Regulatory action of that kind could impede access to funds we need to make payments on our dividend payments. Additionally, if the Bank's earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, we may

not be able to make dividend payments to our common shareholders.

Holders of our common stock are entitled to receive dividends only when, as and if declared by our board of directors. Although we have historically declared cash dividends on our common stock, we are not required to do so and our Board of Directors may reduce or eliminate our common stock dividend in the future. Further, the FRB has issued guidelines for evaluating proposals by large bank holding companies to increase dividends or repurchase or redeem shares, which includes a requirement for such firms to develop a capital distribution plan. The FRB has indicated that it is considering expanding these requirements to cover all bank holding companies, which may in the future restrict our ability to pay dividends. A reduction or elimination of dividends could adversely affect the market price of our common stock.

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.

Our common stock is not insured by any governmental entity.
Our common stock is not a deposit account or other obligation of any bank and is not insured by the FDIC or any other governmental entity.

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 may need to raise additional capital in the future and such capital may not be available when needed.
As a bank, we are required by regulatory authorities to maintain adequate levels of capital to support our operations. 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 subject us to certain activity restrictions or to a variety of enforcement remedies available to the regulatory authorities, including limitations on our ability to pay dividends or pursue acquisitions, the issuance by regulatory authorities of a capital directive to increase capital and the termination of deposit insurance by the FDIC.

Certain provisions of our articles of incorporation may have an anti-takeover effect.

Provisions of our articles of incorporation and regulations and federal banking laws, including regulatory approval requirements, could make it more difficult for a third party to acquire us, even if doing so would be perceived to be beneficial to our shareholders. The combination of these provisions may inhibit a non-negotiated merger or other business combination, which, in turn, could adversely affect the market price of our common stock.

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.

	Description	Page
I.	Distribution of Assets, Liabilities and Stockholder Equity; Interest Rates and Interest Differentials	37-38
II.	Investment Portfolio	44-47, 89
III.	Loan Portfolio	48-56, 90
IV.	Summary of Loan Loss Experience	56-59, 100
V.	Deposits	37, 105
VI.	Return on Equity and Assets	26
VII.	Short-Term Borrowings	107

ITEM 2. Properties.

Washington Trust is headquartered at 23 Broad Street, Westerly, Rhode Island. As of December 31, 2011, the Bank has ten branch offices located in southern Rhode Island (Washington County), six branch offices located in the greater Providence area in Rhode Island and two branch offices located in southeastern Connecticut. In addition, Washington Trust has a commercial lending office located in the financial district of Providence, Rhode Island, and three residential mortgage lending offices located in Sharon and Burlington, Massachusetts and Glastonbury, Connecticut. 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.

At December 31, 2011, ten of the Corporation’s facilities were owned, seventeen were leased and one branch office was owned on leased land. Lease expiration dates range from four months to twenty-four 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 eight months and is currently under negotiation for renewal.

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 primarily in Rhode Island, and to a lesser extent in southeastern Connecticut and southeastern Massachusetts.

For additional information regarding premises and equipment and lease obligations see Notes 7 and 19 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. Mine Safety Disclosures.

Not applicable.

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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, 2011 and 2010 are presented in the following table. The stock prices are based on the high and low sales prices during the respective quarter.

2011	Quarters	1	2	3	4
Stock prices:					
High		$24.96	$24.00	$23.65	$24.72
Low		19.83	21.50	18.67	18.62
Cash dividend declared per share		$0.22	$0.22	$0.22	$0.22
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

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.

At February 24, 2012 there were 1,883 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 2011.

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, 2006. The total return assumes reinvestment of dividends.

Washington Trust Bancorp, Inc. – Total Return Performance

For the period ending December 31,	2006	2007	2008	2009	2010	2011
Washington Trust Bancorp, Inc.	$100.00	$93.25	$75.69	$62.68	$91.87	$104.19
NASDAQ Bank Stocks	$100.00	$80.09	$62.84	$52.60	$60.04	$53.74
NASDAQ Stock Market (U.S.)	$100.00	$110.66	$66.42	$96.54	$114.06	$113.16

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,	2011	2010	2009	2008	2007
Financial Results:					
Interest income	$121,346	$123,254	$129,630	$140,662	$136,434
Interest expense	36,391	46,063	63,738	75,149	76,490
Net interest income	84,955	77,191	65,892	65,513	59,944
Provision for loan losses	4,700	6,000	8,500	4,800	1,900
Net interest income after provision for loan losses	80,255	71,191	57,392	60,713	58,044
Noninterest income:					
Net realized gains on sales of securities	698	729	314	2,224	455
Net other-than-temporary impairment losses on securities	(191)	(417)	(3,137)	(5,937)	—
Other noninterest income	52,257	48,161	45,476	44,550	45,294
Total noninterest income	52,764	48,473	42,653	40,837	45,749
Noninterest expense	90,373	85,311	77,603	72,059	69,146
Income before income taxes	42,646	34,353	22,442	29,491	34,647
Income tax expense	12,922	10,302	6,346	7,319	10,847
Net income	$29,724	$24,051	$16,096	$22,172	$23,800
Per share information ($):					
Earnings per share:					
Basic	1.82	1.49	1.01	1.59	1.78
Diluted	1.82	1.49	1.00	1.57	1.75
Cash dividends declared (1)	0.88	0.84	0.84	0.83	0.80
Book value	17.27	16.63	15.89	14.75	13.97
Market value - closing stock price	23.86	21.88	15.58	19.75	25.23
Performance Ratios (%):					
Return on average assets	1.02	0.82	0.55	0.82	0.99
Return on average shareholders' equity	10.61	9.09	6.56	11.12	13.48
Average equity to average total assets	9.57	9.08	8.40	7.35	7.33
Dividend payout ratio (2)	48.35	56.38	84.00	52.87	45.71
Asset Quality Ratios (%):					
Total past due loans to total loans	1.22	1.27	1.64	0.96	0.45
Nonperforming loans to total loans	0.99	0.93	1.43	0.42	0.27
Nonperforming assets to total assets	0.81	0.79	1.06	0.30	0.17
Allowance for loan losses to nonaccrual loans	140.33	154.42	99.75	305.07	471.12
Allowance for loan losses to total loans	1.39	1.43	1.43	1.29	1.29
Net charge-offs to average loans	0.17	0.24	0.25	0.08	0.03
Capital Ratios (%):					
Tier 1 leverage capital ratio	8.70	8.25	7.82	7.53	6.09
Tier 1 risk-based capital ratio	11.61	11.53	11.14	11.29	9.10
Total risk-based capital ratio	12.86	12.79	12.40	12.54	10.39

(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.

Selected Financial Data	(Dollars in thousands)				
December 31,	2011	2010	2009	2008	2007
Assets:					
Cash and cash equivalents	$87,020	$92,736	$57,260	$58,190	$41,112
Total securities	593,392	594,100	691,484	866,219	751,778
FHLBB stock	42,008	42,008	42,008	42,008	31,725
Loans:					
Commercial and other	1,124,628	1,027,065	984,550	880,313	680,266
Residential real estate	700,414	645,020	605,575	642,052	599,671
Consumer	322,117	323,553	329,543	316,789	293,715
Total loans	2,147,159	1,995,638	1,919,668	1,839,154	1,573,652
Less allowance for loan losses	29,802	28,583	27,400	23,725	20,277
Net loans	2,117,357	1,967,055	1,892,268	1,815,429	1,553,375
Investment in bank-owned life insurance	53,783	51,844	44,957	43,163	41,363
Goodwill and other intangibles	65,015	65,966	67,057	68,266	61,912
Other assets	105,523	95,816	89,439	72,191	58,675
Total assets	$3,064,098	$2,909,525	$2,884,473	$2,965,466	$2,539,940
Liabilities:					
Deposits:					
Demand deposits	$339,809	$228,437	$194,046	$172,771	$175,542
NOW accounts	257,031	241,974	202,367	171,306	164,944
Money market accounts	406,777	396,455	403,333	305,879	321,600
Savings accounts	243,904	220,888	191,580	173,485	176,278
Time deposits	878,794	948,576	931,684	967,427	807,841
Total deposits	2,126,315	2,036,330	1,923,010	1,790,868	1,646,205
FHLBB advances	540,450	498,722	607,328	829,626	616,417
Junior subordinated debentures	32,991	32,991	32,991	32,991	22,681
Other borrowings	19,758	23,359	21,501	26,743	32,560
Other liabilities	63,233	49,259	44,697	50,127	35,564
Shareholders' equity	281,351	268,864	254,946	235,111	186,513
Total liabilities and shareholders’ equity	$3,064,098	$2,909,525	$2,884,473	$2,965,466	$2,539,940

Asset Quality:					
Nonaccrual loans	$21,237	$18,510	$27,470	$7,777	$4,304
Nonaccrual investment securities	887	806	1,065	633	—
Property acquired through foreclosure or repossession	2,647	3,644	1,974	392	—
Total nonperforming assets	$24,771	$22,960	$30,509	$8,802	$4,304

Wealth Management Assets:					
Market value of assets under administration	$3,900,061	$3,967,207	$3,735,646	$3,097,729	$3,636,831

Selected Quarterly Financial Data		(Dollars and shares in thousands, except per share amounts)				
2011		Q1	Q2	Q3	Q4	Year
Interest income		$29,892	$30,413	$30,534	$30,507	$121,346
Interest expense		9,565	9,349	8,985	8,492	36,391
Net interest income		20,327	21,064	21,549	22,015	84,955
Provision for loan losses		1,500	1,200	1,000	1,000	4,700
Net interest income after provision for loan losses		18,827	19,864	20,549	21,015	80,255
Noninterest income:						
Net realized gains on sales of securities		(29)	226	—	501	698
Net other-than-temporary impairment losses on securities		(33)	—	(158)	—	(191)
Other noninterest income		11,759	13,059	13,114	14,325	52,257
Total noninterest income		11,697	13,285	12,956	14,826	52,764
Noninterest expense		20,740	22,264	22,595	24,774	90,373
Income before income taxes		9,784	10,885	10,910	11,067	42,646
Income tax expense		2,984	3,320	3,328	3,290	12,922
Net income		$6,800	$7,565	$7,582	$7,777	$29,724
Weighted average common shares outstanding - basic		16,197.2	16,251.6	16,277.8	16,288.1	16,254.0
Weighted average common shares outstanding - diluted		16,229.8	16,284.3	16,293.7	16,326.5	16,283.9
Per share information:	Basic earnings per common share	$0.42	$0.46	$0.46	$0.48	$1.82
	Diluted earnings per common share	$0.42	$0.46	$0.46	$0.47	$1.82
	Cash dividends declared per share	$0.22	$0.22	$0.22	$0.22	$0.88

Selected Quarterly Financial Data	(Dollars and shares in thousands, except per share amounts)				
2010	Q1	Q2	Q3	Q4	Year
Interest income	$30,864	$30,854	$31,152	$30,384	$123,254
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:					
Net realized gains on sales of securities	—	—	737	(8)	729
Net other-than-temporary impairment losses on securities	(63)	(354)	—	—	(417)
Other noninterest income	10,530	11,513	12,702	13,416	48,161
Total noninterest income	10,467	11,159	13,439	13,408	48,473
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
	16,063.9	16,111.3	16,136.3	16,182.7	16,122.5

Weighted average common shares outstanding - diluted						
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

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," "assume," "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 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 and Estimates
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 homogeneous 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, trends in rental rates on commercial real estate, consideration of general economic conditions, and our assessments of credit risk associated with certain industries and an ongoing trend toward larger credit relationships.

Portfolios of more homogeneous populations of loans, including the various categories of 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.

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, 2011, 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 2011 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 2011 review indicated that the fair value significantly exceeded the carrying value for both segments.

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. The value of this intangible asset was estimated using valuation techniques, based on discounted cash flow analysis. This intangible asset is being amortized over the period the asset is expected to contribute to the cash flows of the Corporation, which reflect the expected pattern of benefit. This intangible asset is subject to an impairment test in accordance with GAAP. The carrying value of the wealth management advisory contracts is 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. 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 that the Corporation has the ability and intent to hold until maturity are classified as held-to-maturity and are accounted for using historical cost, adjusted for amortization of premium and accretion of discount. 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.

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.

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.

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 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. While the economic climate has been improving in recent quarters, uncertainty surrounding future economic growth, consumer confidence, credit availability and corporate earnings remains. Management believes that overall credit quality continues to be affected by weaknesses in national and regional economic conditions, including high unemployment levels.

During 2011, Washington Trust expanded with the opening of two mortgage lending offices and a new full-service branch. We believe that the Corporation's financial strength and stability, capital resources and reputation as the largest independent bank headquartered in Rhode Island, were key factors in the expansion of our retail and mortgage banking businesses and in delivering solid results in 2011. Going forward, we will leverage our strong, statewide

brand to build market share in Rhode Island whenever possible and bring select business lines to new markets with high-growth potential while remaining steadfast in our commitment to provide superior service. We opened a mortgage lending office in Warwick, Rhode Island in February 2012 and plan to open a full-service branch in Cranston, Rhode Island later in 2012.

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. Management believes that the breadth of our product line, our size and the continued flight of depositors and borrowers to community banks 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 2011, 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 2011 with 2010

Net income for the year ended December 31, 2011 amounted to $29.7 million, or $1.82 per diluted share, compared to $24.1 million, or $1.49 per diluted share, reported for 2010. On a diluted earnings per share basis, 2011 earnings were up by 22% over 2010. The returns on average equity and average assets for 2011 were 10.61% and 1.02%, respectively, compared to 9.09% and 0.82%, respectively, for 2010.

Contributing to the growth in 2011 earnings were increased net interest income, higher wealth management revenues, strong mortgage banking results and a lower loan loss provision, offset, in part, by increases in noninterest expenses and income tax expense. Also included in 2011 results was a gain on sale of bank property of $203 thousand ($141 thousand after tax; 1 cent per diluted share) recognized in the second quarter of 2011. Balance sheet management transactions consisting of sales of mortgage-backed securities and subsequent prepayment of FHLBB advances were conducted in the second and fourth quarters of 2011 and the third quarter of 2010. See the discussion under the caption "Noninterest Expense" below.

Net interest income increased by $7.8 million, or 10%, 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 was 3.20% for 2011, an increase of 27 basis points from 2010. This result was driven largely by a continued reduction in funding costs, as indicated by a 37 basis point decline in the cost of interest-bearing liabilities from 2010.

The loan loss provision charged to earnings for 2011 amounted to $4.7 million, a decrease of $1.3 million compared to 2010. In 2011, net charge-offs amounted to $3.5 million, or 0.17% of average total loans, down from $4.8 million, or 0.24% of average total loans, in 2010. Management believes that the level of the provision for loan losses has been consistent with the trend in asset quality and credit quality indicators.

Revenue from wealth management services, our largest source of noninterest income, increased by $1.9 million, or 7%, over 2010. Wealth management revenues are largely dependent on the value of the assets under administration. For the year 2011, the average balance of wealth management assets under administration was 7% higher than 2010, which contributed to the increase in revenues.

Mortgage banking revenues (net gains on loan sales and commissions on loans originated for others) totaled $5.1 million in 2011, up by $1.0 million, or 25%, from 2010 reflecting strong mortgage refinancing and sales activity fueled by the low interest rate environment and the recent expansion of our mortgage banking business.

Total noninterest expenses for 2011 increased by $5.1 million, or 6%, over 2010, largely due to increases in salaries and employee benefits costs, offset, in part, by a decline in FDIC deposit insurance costs. Included in noninterest expenses in 2011 and 2010 were debt prepayment penalties of $694 thousand and $752 thousand, respectively. See additional discussion regarding balance sheet management transactions under the caption “Noninterest Expense” below.

Income tax expense amounted to $12.9 million for 2011, up by $2.6 million from 2010. The effective tax rate for 2011 was 30.3%, compared to 30.0% for 2010.

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, which reflected 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 slowed somewhat and total delinquencies and nonaccrual loans 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 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.

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. 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.

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. The Corporate unit also includes the residual impact of methodology allocations such as funds transfer pricing offsets. Methodologies used to allocate income and expenses to business lines are periodically reviewed and revised. The Corporate unit's net interest income increased in 2011 as funding costs declined more than asset yields, reflecting the asset sensitive position of Washington Trust's balance sheet. See Note 17 to the Consolidated Financial Statements for additional disclosure related to business segments.

Comparison of 2011 with 2010

The Commercial Banking segment reported net income of $23.4 million in 2011, up by $1.0 million, or 5%, from 2010. Commercial Banking net interest income amounted to $76.0 million in 2011, up by 3% over 2010 amounts, reflecting continued improvement in the net interest margin. Noninterest income derived from the Commercial Banking segment totaled $22.0 million in 2011, up by $2.2 million, or 11%, from 2010, largely due to higher mortgage banking revenues and merchant processing fees. Commercial Banking noninterest expenses amounted to $62.8 million for 2011, up by $3.4 million, or 6% , from 2010. This increase was largely due to increases in salaries and benefits and merchant processing costs, partially offset by decreases in the provision for loan losses and FDIC insurance expenses.

The Wealth Management Services segment reported net income of $5.0 million in 2011, an increase of $1.1 million, or 30%, from 2010. Noninterest income derived from the Wealth Management Services segment was $28.3 million in 2011, up by $1.9 million, or 7%, from 2010. Noninterest expenses for the Wealth Management Services segment totaled $20.4 million in 2011, up by $159 thousand, or 1%, from 2010.

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. Wealth management assets under administration totaled $4.0 billion at December 31, 2010, up by $232 million, or 6%, 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.

Net Interest Income

Comparison of 2011 with 2010

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. 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 2011 increased by $7.9 million, or 10%, from 2010. The net interest margin for 2011 and 2010 amounted to 3.20% and 2.93%, respectively. The increase in the net interest margin primarily reflected lower funding costs, which declined by 37 basis points from 2010.

Average interest-earning assets amounted to $2.7 billion for 2011, essentially unchanged from 2010, with growth in the loan portfolio offsetting maturities and pay-downs in the investment securities portfolio. Total average loans for 2011 increased by $84.2 million compared to 2010, reflecting growth in the residential real estate mortgage and the commercial loan portfolios. The yield on total loans for 2011 decreased by 13 basis points from 2010, reflecting declines in short-term interest rates. Total average securities for 2011 decreased by $67.3 million from 2010 reflecting maturities and pay-downs on mortgage-backed securities offset, in part, by purchases of debt securities. The decline in average securities also reflects the balance sheet management transactions described under the caption "Noninterest Expense" below. The FTE rate of return on securities for 2011 decreased by 8 basis points from 2010.

Average interest-bearing liabilities for 2011 decreased by $61.3 million, or 3%, from 2010, largely due to a $55.3 million decline in the average balance of FHLBB advances. The average rate paid on such advances for 2011 decreased by 47 basis points compared to 2010. See additional discussion on FHLBB advance modifications and balance sheet management transactions in the "Financial Condition" section under the caption "Borrowings."

Average interest-bearing deposits for 2011 declined by $6.6 million, while average demand deposit (noninterest-bearing) balances increased by $56.8 million. The average rate paid on interest-bearing deposits for 2011 decreased by 26 basis points from 2010, reflecting declines of 33 basis points and 21 basis points, respectively in the rate paid on time deposits and money market accounts.

Comparison of 2010 with 2009

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 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.

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. 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."

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,	2011			2010			2009		
(Dollars in thousands)	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
Assets:									
Commercial and other loans	$1,063,322	$55,592	5.23	$1,019,304	$53,628	5.26	$941,833	$50,092	5.32
Residential real estate loans, including mortgage loans held for sale	678,697	31,447	4.63	634,735	31,609	4.98	629,035	33,410	5.31
Consumer loans	324,002	12,649	3.90	327,770	13,062	3.99	323,576	13,494	4.17
Total loans	2,066,021	99,688	4.83	1,981,809	98,299	4.96	1,894,444	96,996	5.12
Cash, federal funds sold and other short-term investments	35,625	69	0.19	41,407	85	0.21	20,201	50	0.25
FHLBB stock	42,008	124	0.30	42,008	—	—	42,008	—	—
Taxable debt securities	489,210	18,704	3.82	553,531	21,824	3.94	694,248	29,423	4.24
Nontaxable debt securities	77,634	4,555	5.87	79,491	4,618	5.81	80,629	4,662	5.78
Corporate stocks	2,456	177	7.21	3,595	274	7.62	4,420	339	7.68
Total securities	569,300	23,436	4.12	636,617	26,716	4.20	779,297	34,424	4.42
Total interest-earning assets	2,712,954	123,317	4.55	2,701,841	125,100	4.63	2,735,950	131,470	4.81
Noninterest-earning assets	214,214			213,644			185,345		
Total assets	$2,927,168			$2,915,485			$2,921,295		
Liabilities and Shareholders' Equity:									
NOW accounts	$232,545	$242	0.10	$220,875	$268	0.12	$181,171	$327	0.18
Money market accounts	392,002	1,051	0.27	403,489	1,918	0.48	375,175	3,960	1.06
Savings accounts	229,180	286	0.12	205,767	318	0.15	187,862	530	0.28
Time deposits	925,064	14,113	1.53	955,222	17,808	1.86	957,449	27,821	2.91
FHLBB advances	492,714	18,158	3.69	547,974	22,786	4.16	687,210	28,172	4.10
Junior subordinated debentures	32,991	1,568	4.75	32,991	1,989	6.03	32,991	1,947	5.90
Other	21,891	973	4.44	21,321	976	4.58	21,476	981	4.57

Total interest-bearing liabilities	2,326,387	36,391	1.56	2,387,639	46,063	1.93	2,443,334	63,738	2.61
Demand deposits	278,120			221,350			187,800		
Other liabilities	42,554			41,804			44,712		
Shareholders' equity	280,107			264,692			245,449		
Total liabilities and shareholders' equity	$2,927,168			$2,915,485			$2,921,295		
Net interest income		$86,926			$79,037			$67,732	
Interest rate spread			2.99			2.70			2.20
Net interest margin			3.20			2.93			2.48

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,	2011	2010	2009
Commercial and other loans	$369	$229	$200
Nontaxable debt securities	1,553	1,541	1,546
Corporate stocks	49	76	94
Total	$1,971	$1,846	$1,840

Volume/Rate Analysis - Interest Income and Expense (FTE 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.

	2011/2010			2010/2009		
(Dollars in thousands)	Volume	Rate	Net Change	Volume	Rate	Net Change
Interest on interest-earning assets:						
Commercial and other loans	$2,275	($311)	$1,964	$4,105	($569)	$3,536
Residential real estate loans, including mortgage loans held for sale	2,125	(2,287)	(162)	299	(2,100)	(1,801)
Consumer loans	(139)	(274)	(413)	176	(608)	(432)
Cash, federal funds sold and other short-term investments	(10)	(6)	(16)	45	(10)	35
FHLBB stock	—	124	124	—	—	—
Taxable debt securities	(2,472)	(648)	(3,120)	(5,632)	(1,967)	(7,599)
Nontaxable debt securities	(110)	47	(63)	(67)	23	(44)
Corporate stocks	(83)	(14)	(97)	(63)	(2)	(65)
Total interest income	1,586	(3,369)	(1,783)	(1,137)	(5,233)	(6,370)
Interest on interest-bearing liabilities:						
NOW accounts	15	(41)	(26)	63	(122)	(59)
Money market accounts	(53)	(814)	(867)	280	(2,322)	(2,042)
Savings accounts	33	(65)	(32)	47	(259)	(212)
Time deposits	(558)	(3,137)	(3,695)	(64)	(9,949)	(10,013)
FHLBB advances	(2,183)	(2,445)	(4,628)	(5,792)	406	(5,386)
Junior subordinated debentures	—	(421)	(421)	—	42	42
Other	26	(29)	(3)	(8)	3	(5)
Total interest expense	(2,720)	(6,952)	(9,672)	(5,474)	(12,201)	(17,675)
Net interest income	$4,306	$3,583	$7,889	$4,337	$6,968	$11,305

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.

Based on our analysis of trends in asset quality and credit quality indicators, as well as the absolute level of loan loss allocation, the provision for loan losses charged to earnings amounted to $4.7 million in 2011, compared to $6.0 million

in 2010 and $8.5 million in 2009. Net charge-offs were $3.5 million, or 0.17% of average loans, in 2011. This compares to $4.8 million, or 0.24% of average loans, in 2010 and $4.8 million, or 0.25% of average loans, in 2009.

For 2011, 48% of the $4.7 million provision for loan losses was provided on the commercial loan portfolio, primarily due to growth in the portfolio and an increase in the Special Mention credit quality category of commercial loans, while 26% was provided on the residential real estate portfolio and 23% was provided on the consumer loan portfolio. The provision reflects management's assessment of loss exposure associated with continued weakness in general economic conditions affecting these loan categories.

The allowance for loan losses was $29.8 million, or 1.39% of total loans, at December 31, 2011, compared to $28.6 million, or 1.43% of total loans, at December 31, 2010. 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.

	Years Ended December 31,			2011/2010 Change		2010/2009 Change	
(Dollars in thousands)	2011	2010	2009	$	%	$	%
Noninterest income:							
Wealth management services:							
Trust and investment advisory fees	$22,532	$20,670	$18,128	$1,862	9 %	$2,542	14 %
Mutual fund fees	4,287	4,423	4,140	(136)	(3)	283	7
Financial planning, commissions and other service fees	1,487	1,299	1,518	188	14	(219)	(14)
Wealth management services	28,306	26,392	23,786	1,914	7	2,606	11
Service charges on deposit accounts	3,455	3,587	3,667	(132)	(4)	(80)	(2)
Merchant processing fees	9,905	9,156	7,844	749	8	1,312	17
Card interchange fees	2,249	1,975	1,628	274	14	347	21
Income from bank-owned life insurance	1,939	1,887	1,794	52	3	93	5
Net gains on loan sales and commissions on loans originated for others	5,074	4,052	4,352	1,022	25	(300)	(7)
Net realized gains on securities	698	729	314	(31)	(4)	415	132
Net gains (losses) on interest rate swap contracts	6	(36)	697	42	(117)	(733)	(105)
Equity in losses of unconsolidated subsidiaries	(213)	(337)	—	124	(37)	(337)	—
Other income	1,536	1,485	1,708	51	3	(223)	(13)
Noninterest income, excluding other-than-temporary impairment losses	52,955	48,890	45,790	4,065	8	3,100	7
Total other-than-temporary impairment losses on securities	(54)	(245)	(6,650)	191	(78)	6,405	(96)
Portion of loss recognized in other comprehensive income (before taxes)	(137)	(172)	3,513	35	(20)	(3,685)	(105)
	(191)	(417)	(3,137)	226	(54)	2,720	(87)

Net impairment losses recognized in earnings									
Total noninterest income	$52,764	$48,473	$42,653	$4,291	9	%	$5,820	14	%

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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, 2011, 2010 and 2009. Amounts prior to 2011 have been revised to reflect current reporting practices. This revision did not result in any change to the reported amounts of wealth management revenues.

(Dollars in thousands)	2011	2010	2009
Wealth Management Assets Under Administration:			
Balance at the beginning of period	$3,967,207	$3,735,646	$3,097,729
Net investment (depreciation) appreciation & income	(12,324)	318,985	562,464
Net client cash flows	(47,412)	18,345	75,453
Other (1)	(7,410)	(105,769)	—
Balance at the end of period	$3,900,061	$3,967,207	$3,735,646

(1) Represents declassifications of largely low-fee paying assets from assets under administration due to a change in the nature of client relationships, regarding the scope and/or frequency of services provided by Washington Trust. The impact of this change on wealth management revenues was minimal.

Noninterest Income Analysis

Comparison of 2011 with 2010

Noninterest income increased by $4.3 million for the year ended December 31, 2011 compared to 2010, largely due to increases in wealth management services, net gains on loan sales and commissions on loans originated for others and merchant processing fees.

Wealth management revenues for 2011 increased by $1.9 million, or 7%, from 2010. Wealth management assets under administration totaled $3.9 billion at December 31, 2011 compared to $4.0 billion at December 31, 2010. While the balance of wealth management assets at December 31, 2011 was 2% lower than the balance at the end of 2010, the average balance of wealth management assets was 7% higher than the average balance for the same period in 2010.

Service charges on deposit accounts totaled $3.5 million and $3.6 million, respectively for 2011 and 2010. The largest component of this revenue source is overdraft and non-sufficient funds fees, which is largely driven by customer activity. Overdraft and non-sufficient funds fees for 2011 amounted to $2.0 million, down by $393 thousand compared to 2010. This decline, primarily due to regulatory changes which became effective in the third quarter of 2010, was mostly offset by increases in income from other deposit service charges.

Merchant processing fee revenue represents charges to merchants for credit card transactions processed. Merchant processing fees increased by $749 thousand, or 8%, over 2010 reflecting 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" below. In the fourth quarter of 2011, new regulatory changes became effective, which reduced fees on all debit cards issued by regulated banks, resulting in a modest decline in our merchant processing fee revenue, which was offset by a corresponding decline in merchant processing expenses.

Card interchange fees represent fees related to debit card transactions. Card interchange fees for 2011 increased by $274 thousand from 2010, primarily due to increases in the volume of transactions.

Net gains on loan sales and commissions on loans originated for others is dependent on mortgage origination volume, which is sensitive to interest rates and the condition of housing markets. This revenue source totaled $5.1 million for 2011, up by $1.0 million, or 25%, from 2010 reflecting strong mortgage refinancing and sales activity in response to a low interest rate environment and the recent expansion of our mortgage banking business. See additional discussion regarding the fair value option election on mortgage loans held for sale in Notes 13 and 14 to the Consolidated

Financial Statements under Item 8 “Financial Statements and Supplementary Data.”

Net realized gains on securities amounted to $698 thousand and $729 thousand, respectively, in 2011 and 2010. See discussion below under the caption “Noninterest Expenses” for additional information on balance sheet management

transactions and a 2011 contribution of appreciated equity securities.

Net impairment losses recognized in earnings on investment securities totaled $191 thousand for the year ended December 31, 2011 compared to $417 thousand for the year ended December 31, 2010. See additional discussion in the “Financial Condition” section under the caption “Securities” below.

Comparison of 2010 with 2009
Wealth management revenues for 2010 increased by $2.6 million, or 11%, over 2009. Wealth management assets under administration totaled $4.0 billion at December 31, 2010. Assets under administration were up by $232 million, or 6%, from December 31, 2009, reflecting net investment appreciation and income of $319 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. Overdraft and non-sufficient funds fees, the largest component of this category, were down by $206 thousand in 2010, due to regulatory changes which became effective in the third quarter of 2010 that prohibited financial institutions from charging consumers fees for paying overdrafts on automated teller machine and one-time debit card transactions, unless a consumer consented, or opted in, to the overdraft service for those types of transactions.

Merchant processing fees represent 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.

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 totaled $36 thousand in 2010, compared to net gains of $697 thousand in 2009, reflecting declines in the fair value of certain interest rate contracts due to declines in interest rates.

Equity in losses of unconsolidated subsidiaries amounted to $337 thousand in 2010 and consisted primarily of losses generated by real estate limited partnerships. 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.

Noninterest Expense

The following table presents a noninterest expense comparison for the years ended December 31, 2011, 2010 and 2009:

	Years Ended December 31,			2011/2010 Change		2010/2009 Change	
(Dollars in thousands)	2011	2010	2009	$	%	$	%
Noninterest expense:							
Salaries and employee benefits	$51,095	$47,429	$41,917	$3,666	8 %	$5,512	13 %
Net occupancy	5,295	4,851	4,790	444	9	61	1
Equipment	4,344	4,099	3,917	245	6	182	5
Merchant processing costs	8,560	7,822	6,652	738	9	1,170	18
Outsourced services	3,530	3,304	3,169	226	7	135	4
FDIC deposit insurance costs	2,043	3,163	4,397	(1,120)	(35)	(1,234)	(28)
Legal, audit and professional fees	1,927	1,813	2,443	114	6	(630)	(26)
Advertising and promotion	1,819	1,633	1,687	186	11	(54)	(3)
Amortization of intangibles	951	1,091	1,209	(140)	(13)	(118)	(10)
Foreclosed property costs	878	841	72	37	4	769	1,068
Debt prepayment penalties	694	752	—	(58)	(8)	752	—
Other	9,237	8,513	7,350	724	9	1,163	16
Total noninterest expense	$90,373	$85,311	$77,603	$5,062	6 %	$7,708	10 %

Noninterest Expense Analysis

Comparison of 2011 with 2010

Salaries and employee benefits expense, the largest component of noninterest expense, totaled $51.1 million in 2011, up by $3.7 million, or 8%, over 2010. The increase reflected higher staffing levels in mortgage banking, including two new residential mortgage lending offices opened in the first and fourth quarters of 2011, other selected staffing additions, higher amounts of commissions paid to mortgage originators and, to a lesser extent, an increase in stock-based compensation expense due to current year award grants.

Net occupancy expense increased by $444 thousand, or 9%, compared to 2010, reflecting increased rental expense for premises leased by Washington Trust and included occupancy costs associated with two residential mortgage lending offices and a de novo branch, which were opened in 2011.

Costs associated with branch expansion and business line growth were also reflected in equipment expenses, which increased 6%, or $245 thousand, in 2011. The increase is largely related to additional investments in technology and other equipment.

Merchant processing costs were up by $738 thousand, or 9%, in 2011, 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” above.

Outsourced services expense increased by $226 thousand, or 7%, in 2011, reflecting higher third party processing costs primarily due to increases in transaction volume.

FDIC deposit insurance costs declined $1.1 million, or 35%, from 2010, reflecting lower assessment rates and a statutory change in the calculation method that became effective for the second quarter of 2011.

In 2011 and 2010, Washington Trust recognized debt prepayment penalty charges resulting from balance sheet management transactions consisting of sales of mortgage-backed securities and the prepayment of FHLBB advances. During 2011, $9.7 million in mortgage-backed securities were sold and $9.0 million in FHLBB advances were prepaid, resulting in $368 thousand of net realized gains on securities and $694 thousand in debt prepayment penalty charges being recognized.

In the third quarter of 2010, the sale of $63 million in mortgage-backed securities and the prepayment of $65 million in FHLBB advances resulted in the recognition of $800 thousand of net realized gains on securities and a $752 thousand debt prepayment charge.

Other noninterest expenses amounted to $9.2 million in 2011, up by $724 thousand from 2010 largely due to a $338 thousand increase in charitable contribution expense. In 2011, Washington Trust made a contribution of appreciated equity securities to its charitable foundation. The cost of this contribution was $990 thousand. This contribution also resulted in a realized gain of $331 thousand on the disposition of the equity security, which was recorded in noninterest income.

Comparison of 2010 with 2009

Salaries and employee benefits expense increased by $5.5 million, or 13%, in 2010. This increase reflected higher commissions and incentives, which were being recognized at lower levels in 2009, and higher staffing levels related to our new residential mortgage lending office and our new full-service branch. 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. 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.

Income Taxes

Income tax expense for 2011, 2010 and 2009 totaled $12.9 million, $10.3 million and $6.3 million, respectively. The effective tax rates for the years ended December 31, 2011, 2010 and 2009 were 30.3%, 30.0% and 28.3%, respectively. The increase in the effective tax rate reflected a higher portion of taxable income to pretax book income. The effective tax rates differed from the federal rate of 35.0% due largely to the benefits of tax-exempt income, the dividends received deduction, income from BOLI and federal tax credits.

The Corporation's net deferred tax asset amounted to $16.4 million at December 31, 2011, compared to $12.3 million at December 31, 2010. 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 $3.1 billion at December 31, 2011, an increase of $154.6 million, or 5%, from the end of 2010. Total loans amounted to $2.1 billion, or 70% of total assets, at December 31, 2011. Total loans grew by

$151.5 million, or 8%, in 2011, led by growth in commercial loan portfolio.

Overall credit quality continues to be affected by weaknesses in national and regional economic conditions, including high unemployment levels. Nonaccrual loans at December 31, 2011 totaled $21.2 million, or 0.99% of total loans, up by $2.7 million in 2011. Total delinquencies amounted to $26.3 million, or 1.22% of total loans, at December 31, 2011, up by $1.0 million in 2011. The net increases in nonaccrual loans and past due loans in 2011 were concentrated in the residential mortgage portfolio and partially offset by net decreases in the commercial loan portfolio. Loans classified as troubled debt restructurings amounted to $19.6 million at December 31, 2011, down by $2.8 million from the balance at December 31, 2010.

The investment securities portfolio amounted to $593.4 million, or 19% of total assets, at December 31, 2011, essentially flat compared to the balance at the end of 2010.

Total liabilities increased by $142.1 million in 2011, reflecting increases of $90.0 million in total deposits and $41.7 million in FHLBB advances. The increase in total deposits in 2011 was was primarily in lower cost deposit categories, as indicated by a $111.4 million, or 49%, increase in demand deposits. The increases in deposits and FHLBB advances funded asset growth.

Shareholders' equity totaled $281.4 million at December 31, 2011, compared to $268.9 million at the end of 2010. As of December 31, 2011, 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 a portfolio of 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. 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, 2011 and 2010, 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, 2011, 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 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.

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

(Dollars in thousands)						
December 31,	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Securities Available for Sale:						
Obligations of U.S. government-sponsored enterprises	$32,833	6 %	$40,994	7 %	$45,240	7 %
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	389,658	72	429,771	72	523,446	75
States and political subdivisions	79,493	15	81,055	14	82,062	12
Trust preferred securities:						
Individual name issuers	22,396	4	23,275	4	20,586	3
Collateralized debt obligations	887	—	806	—	1,065	—
Corporate bonds	14,282	3	15,212	3	14,706	2
Common stocks	—	—	809	—	769	—
Perpetual preferred stocks	1,704	—	2,178	—	3,610	1
Total securities available for sale	$541,253	100 %	$594,100	100 %	$691,484	100 %

(Dollars in thousands)						
December 31,	2011		2010		2009	
	Amount	%	Amount	%	Amount	%
Securities Held to Maturity:						
Mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises	$52,139	100 %	$—	— %	$—	— %
Total securities held to maturity	$52,139	100 %	$—	— %	$—	— %

At December 31, 2011, the investment portfolio totaled $593.4 million, essentially flat in comparison to the balance at the end of 2010. See discussion regarding balance sheet management transactions in the “Results of Operations” section under the caption “Noninterest Expenses” and additional disclosure regarding investment activities in the Corporation's Consolidated Statements of Cash Flows.

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, 2011 and 2010, the net unrealized gain position on securities available for sale and held to maturity was $17.6 million and $15.2 million, respectively. Included in these amounts were gross unrealized losses of $12.2 million and $11.7 million, respectively. Nearly all of these gross unrealized losses were concentrated in variable rate trust preferred securities issued by financial services companies.

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.

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Individual Issuer Trust Preferred Securities

(Dollars in thousands) December 31, 2011

Named Issuer (parent holding company)	(a)	Amortized Cost (b)	Fair Value	Unrealized Loss	Credit Ratings December 31, 2011 Moody's	S&P		Form 10-K Filing Date Moody's	S&P	
JPMorgan Chase & Co.	2	$9,735	$7,036	($2,699)	A2	BBB		A2	BBB	
Bank of America Corporation	3	5,743	4,223	(1,520)	Ba1	BB+	(c)	Ba1	BB+	(c)
Wells Fargo & Company	2	5,117	3,874	(1,243)	A3/Baa1	A-/BBB+		A3/Baa1	A-/BBB+	
SunTrust Banks, Inc.	1	4,168	2,724	(1,444)	Baa3	BB+	(c)	Baa3	BB+	(c)
Northern Trust Corporation	1	1,982	1,515	(467)	A3	A-		A3	A-	
State Street Corporation	1	1,971	1,507	(464)	A3	BBB+		A3	BBB+	
Huntington Bancshares Incorporated	1	1,923	1,517	(406)	Baa3	BB+	(c)	Baa3	BB+	(c)
Totals	11	$30,639	$22,396	($8,243)						

(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.

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, 2011.

Pooled Trust Preferred Obligations

(Dollars in thousands) December 31, 2011

Deal Name	Amortized Cost	Fair Value	Unrealized Loss	No. of Cos. in Issuance	Deferrals and Defaults (a)	Credit Ratings December 31, 2011 Moody's	S&P	Form 10-K Filing Date Moody's	S&P

Tropic CDO 1, tranche A4L (d)	$2,993	$642	($2,351	)	38	40%	Ca	(c)	(b)	Ca	(c)	(b)
Preferred Term Securities [PreTSL] XXV, tranche C1 (e)	1,263	245	(1,018	)	73	34%	C	(c)	(b)	C	(c)	(b)
Totals	$4,256	$887	($3,369	)								

(a) Percentage of pool collateral in deferral or default status.
(b) Not rated by S&P.

(c) Rating is below investment grade.

(d) This security was placed on nonaccrual status in March 2009. The tranche instrument held by Washington Trust has been deferring a portion of interest payments since April 2010. The December 31, 2011 amortized cost was net of $1.9 million of credit-related impairment losses previously recognized in earnings reflective of payment deferrals and credit deterioration of the underlying collateral. Included in the $1.9 million, were credit-related impairment losses of $171 thousand recorded in 2011, reflecting adverse changes in the expected cash flows for this security. On January 24, 2012, one of the underlying issuers announced its intention to invoke its contractual right to defer quarterly interest payments beginning in April 2012. This subsequent adverse change in expected cash flows for this security resulted in a credit-related impairment loss of approximately $180 thousand. Management has concluded this was immaterial to the Corporation's 2011 consolidated financial position, results of operations and cash flows and this credit-related impairment loss will be recorded in the first quarter of 2012. As of December 31, 2011, this security has unrealized losses of $2.4 million and a below investment grade rating of “Ca” by Moody's Investors Service Inc. (“Moody's”). Through the filing date of this report, there have been no rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security.

(e) This security was placed on nonaccrual status in December 2008. The tranche instrument held by Washington Trust has been deferring interest payments since December 2008. The December 31, 2011 amortized cost was net of $1.2 million of credit-related impairment losses previously recognized in earnings reflective of payment deferrals and credit deterioration of the underlying collateral. Included in the $1.2 million, were credit-related impairment losses of $20 thousand recorded in 2011, reflecting a modest adverse change in the expected cash flows for this security. As of December 31, 2011, the security has unrealized losses of $1.0 million and a below investment grade rating of “C” by Moody's. Through the filing date of this report, there have been no rating changes on this security. This credit rating status has been considered by management in its assessment of the impairment status of this security.

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

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,	2011	2010	2009
Pooled trust preferred securities			
Tropic CDO 1, tranche A4L	$171	$354	$1,350
Preferred Term Securities [PreTSL] XXV, tranche C1	20	63	1,146
Common and perpetual preferred stocks			
Other perpetual preferred stocks (financials)	—	—	495
Other common stocks (financials)	—	—	146
Other-than-temporary impairment losses recognized in earnings	$191	$417	$3,137

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.

Investment in Bank-Owned Life Insurance (“BOLI”)

BOLI amounted to $53.8 million and $51.8 million at December 31, 2011 and 2010, respectively. During the second quarter of 2010, the Corporation purchased an additional $5.0 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, 2011. 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.

Loans

Total loans amounted to $2.1 billion at December 31, 2011. In 2011, loans grew by $151.5 million, or 8%, with a $97.6 million increase in the commercial loan portfolio, a $55.4 million increase in the residential real estate portfolio and a $1.4 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,	2011		2010		2009		2008		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial:										
Mortgages (1)	$624,813	29 %	$518,623	26 %	$496,996	26 %	$407,904	22 %	$278,821	18 %
Construction & development	10,955	1 %	47,335	2 %	72,293	4 %	49,599	3 %	60,361	4 %
Other (2)	488,860	22 %	461,107	23 %	415,261	21 %	422,810	23 %	341,084	21 %
Total commercial	1,124,628	52 %	1,027,065	51 %	984,550	51 %	880,313	48 %	680,266	43 %
Residential real estate:										
Mortgages	678,582	32 %	634,739	31 %	593,981	31 %	626,663	34 %	588,628	37 %
Homeowner construction	21,832	1 %	10,281	1 %	11,594	1 %	15,389	1 %	11,043	1 %
Total residential real estate	700,414	33 %	645,020	32 %	605,575	32 %	642,052	35 %	599,671	38 %
Consumer:										
Home equity lines	223,430	10 %	218,288	11 %	209,801	11 %	170,662	9 %	144,429	9 %
Home equity loans	43,121	2 %	50,624	3 %	62,430	3 %	89,297	5 %	99,827	6 %
Other (3)	55,566	3 %	54,641	3 %	57,312	3 %	56,830	3 %	49,459	4 %
Total consumer loans	322,117	15 %	323,553	17 %	329,543	17 %	316,789	17 %	293,715	19 %
Total loans	$2,147,159	100 %	$1,995,638	100 %	$1,919,668	100 %	$1,839,154	100 %	$1,573,652	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, 2011 follows:

(Dollars in thousands)

Matures in:	1 Year or Less	1 to 5 Years	After 5 Years	Totals
Construction and development (1)	$1,883	$1,393	$29,511	$32,787
Other commercial	184,434	223,626	80,800	488,860
	$186,317	$225,019	$110,311	$521,647

(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	$263,617	$71,713	$335,330

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

Management evaluates the appropriateness of the Corporation's underwriting standards in response to changes in national and regional economic conditions, including such matters as market interest rates, energy prices, trends in real estate values, and employment levels. Based on management’s assessment of these matters, underwriting standards and credit monitoring activities are enhanced from time to time in response to changes in these conditions. These assessments may result in 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.

Commercial Real Estate Loans

As of December 31, 2011, commercial real estate loans amounted to $635.8 million, up by $69.8 million, or 12%, from December 31, 2010. Included in these amounts were commercial construction loans of $11.0 million and $47.3 million, respectively. The decline in commercial construction loans reflected loans that have paid off or transitioned to commercial mortgages and overall less demand for commercial construction loans in 2011. The growth in commercial mortgages was in large part due to enhanced business cultivation efforts with new and existing borrowers.

Commercial real estate loans are secured by a variety of property types, with approximately 83% of the total at December 31, 2011 composed of retail facilities, office buildings, lodging, commercial mixed use, multi-family

dwellings 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, 2011			December 31, 2010		
	Amount	% of Total		Amount	% of Total	
Rhode Island, Connecticut, Massachusetts	$589,083	93	%	$512,173	91	%
New York, New Jersey, Pennsylvania	33,317	5	%	40,232	7	%
New Hampshire, Maine	11,668	2	%	11,846	2	%
Other	1,700	—	%	1,707	—	%
Total	$635,768	100	%	$565,958	100	%

Other Commercial Loans

Other commercial loans amounted to $488.9 million at December 31, 2011, up by $27.8 million, or 6%, from the balance at the end of 2010, primarily due to originations in our general market area of southern New England. This portfolio includes loans to a variety of business types. Approximately 73% 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 $700.4 million at December 31, 2011, up by $55.4 million, or 9%, from the balance at December 31, 2010. 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. Total residential real estate mortgage loan originations, including brokered loans as agent, amounted to $452.4 million in 2011 and $418.1 million in 2010. Of these amounts, $249.7 million and $236.7 million, respectively, were originated for sale in the secondary market, including brokered loans as agent. Since 2009, Washington Trust has experienced strong residential real estate mortgage refinancing and sales activity in response to the low mortgage interest rate environment.

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 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 its losses.

In the case of a repurchase, Washington Trust will bear any subsequent credit loss on the residential 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, 2011 was $773 thousand compared to $249 thousand at December 31, 2010. Washington Trust has recorded a reserve for its exposure to losses from the obligation to repurchase previously sold residential mortgage loans. This reserve is not material and 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 $71.4 million and $92.1 million, respectively, as of December 31, 2011 and 2010.

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

(Dollars in thousands)	December 31, 2011			December 31, 2010		
	Amount	% of Total		Amount	% of Total	
Rhode Island, Connecticut, Massachusetts	$675,935	97	%	$612,419	95	%
New York, Virginia, New Jersey, Maryland, Pennsylvania, District of Columbia	11,499	2	%	13,921	2	%
Ohio	5,665	1	%	8,086	1	%
California, Washington, Oregon	1,881	—	%	4,562	1	%
Colorado, Texas, New Mexico	1,079	—	%	2,613	1	%
Georgia	1,118	—	%	1,680	—	%
New Hampshire	2,767	—	%	1,263	—	%
Wyoming	470	—	%	476	—	%
Total	$700,414	100	%	$645,020	100	%

Consumer Loans

Consumer loans amounted to $322.1 million at December 31, 2011, down $1.4 million in 2011. Our consumer portfolio is predominantly home equity lines and home equity loans, representing 83% of the total consumer portfolio at December 31, 2011. 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 systems 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.

Asset quality in 2011 was characterized by modest increases in nonaccrual loans and past due loans. We noted, however, that the mix of nonperforming loans has shifted, with increases in residential mortgage loans representing a higher percentage and a reduction in the percentage attributable to commercial loans. The residential mortgage loan portfolio has historically had lower losses than the commercial loan portfolio.

Nonperforming Assets

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

The following table presents nonperforming assets and additional asset quality data for the dates indicated:
(Dollars in thousands)

December 31,	2011		2010		2009		2008		2007	
Nonaccrual loans:										
Commercial mortgages	$5,709		$6,624		$11,588		$1,942		$1,094	
Commercial construction and development	—		—		—		—		—	
Other commercial	3,708		5,259		9,075		3,845		1,781	
Residential real estate mortgages	10,614		6,414		6,038		1,754		1,158	
Consumer	1,206		213		769		236		271	
Total nonaccrual loans	21,237		18,510		27,470		7,777		4,304	
Nonaccrual investment securities	887		806		1,065		633		—	
Property acquired through foreclosure or repossession, net	2,647		3,644		1,974		392		—	
Total nonperforming assets	$24,771		$22,960		$30,509		$8,802		$4,304	
Nonperforming assets to total assets	0.81	%	0.79	%	1.06	%	0.30	%	0.17	%
Nonaccrual loans to total loans	0.99	%	0.93	%	1.43	%	0.42	%	0.27	%
Total past due loans to total loans	1.22	%	1.27	%	1.64	%	0.96	%	0.45	%
Accruing loans 90 days or more past due	$—		$—		$—		$—		$—	

Nonperforming assets totaled $24.8 million, or 0.81% of total assets, at December 31, 2011 compared to $23.0 million, or 0.79% of total assets, at December 31, 2010.

Nonaccrual loans totaled $21.2 million at December 31, 2011, up by $2.7 million in 2011, reflecting a $4.2 million net increase in nonaccrual residential real estate mortgages, partially offset by a $2.5 million net decrease in nonaccrual commercial loans. Property acquired through foreclosure or repossession amounted to $2.6 million at December 31, 2011, compared to $3.6 million at the end of 2010. The balance at December 31, 2011 consisted of eleven commercial properties, four residential properties and one repossessed asset.

Nonaccrual investment securities at December 31, 2011 and 2010 were comprised of two pooled trust preferred securities. See additional information herein under the caption “Securities.”

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 interest payments received on nonaccrual loans are recognized as interest income, or recorded as a reduction of principal if full collection of the loan is doubtful or if impairment of the collateral is identified. Loans are removed from nonaccrual status when they have been current as to principal and interest for a period of time, the borrower has demonstrated an ability to comply with repayment terms, and when, in management’s opinion, the loans are considered to be fully collectible.

The Corporation has made no changes in its practices or policies during 2011 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, 2011.

Interest income that would have been recognized if loans on nonaccrual status had been current in accordance with their original terms was approximately $1.7 million, $1.3 million and $2.0 million in 2011, 2010 and 2009, respectively. Interest income attributable to these loans included in the Consolidated Statements of Income amounted to approximately $505 thousand, $831 thousand and $1.0 million in 2011, 2010 and 2009, respectively.

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

(Dollars in thousands)	December 31, 2011			December 31, 2010		
	Days Past Due			Days Past Due		
	Over 90	Under 90	Total	Over 90	Under 90	Total
Commercial:						
Mortgages	$4,995	$714	$5,709	$5,322	$1,302	$6,624
Construction and development	—	—	—	—	—	—
Other commercial	633	3,075	3,708	3,376	1,883	5,259
Residential real estate mortgages	6,283	4,331	10,614	4,041	2,373	6,414
Consumer	874	332	1,206	11	202	213
Total nonaccrual loans	$12,785	$8,452	$21,237	$12,750	$5,760	$18,510

Nonaccrual commercial mortgage loans decreased by $915 thousand from the balance at the end of 2010. As of December 31, 2011, the $5.7 balance of nonaccrual commercial mortgage loans consisted of nine relationships. The loss allocation on total nonaccrual commercial mortgages was $329 thousand at December 31, 2011. All of the nonaccrual commercial mortgage loans were located in Rhode Island and Connecticut. As of December 31, 2011, the largest nonaccrual relationship in the commercial mortgage category totaled $4.2 million and is secured by several properties including office, light industrial and retail space. This relationship was collateral dependent and based on the fair value of the underlying collateral, a $201 thousand loss allocation on this relationship was deemed necessary at December 31, 2011. The bank has additional accruing commercial real estate and residential mortgages loans totaling $4.7 million to this borrower. These additional loans have performed in accordance with the terms of the loans and were not past due at December 31, 2011.

Nonaccrual other commercial loans amounted to $3.7 million at December 31, 2011, down by $1.6 million from the balance of $5.3 million at December 31, 2010. The loss allocation on these loans was $631 thousand at December 31, 2011. The largest nonaccrual relationship in the other commercial category was $1.7 million at December 31, 2011. This relationship was collateral dependent and secured by retail properties. Based on the fair value of the underlying collateral, a loss allocation of $260 thousand was deemed necessary as of December 31, 2011.

Nonaccrual residential mortgages increased by $4.2 million from the balance at the end of 2010. As of December 31, 2011, the $10.6 million balance of nonaccrual residential mortgages consisted of 38 loans, with approximately $8.7 million located in Rhode Island, Massachusetts and Connecticut. The loss allocation on total nonaccrual residential mortgages was $1.7 million at December 31, 2011. Included in total nonaccrual residential mortgages were 17 loans purchased for portfolio and serviced by others amounting to $5.4 million. Management monitors the collection efforts of its third party servicers as part of its assessment of the collectibility of nonperforming loans.

Nonaccrual consumer loans increased by $993 thousand from the balance at December 31, 2010. The increase primarily includes home equity lines and loans.

Past Due Loans

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

(Dollars in thousands)

December 31,	2011			2010		
	Amount	% (1)		Amount	% (1)	
Commercial mortgages	$6,931	1.09	%	$8,021	1.42	%
Other commercial loans	5,375	1.10	%	6,191	1.34	%
Residential real estate mortgages	11,757	1.68	%	8,591	1.33	%
Consumer loans	2,210	0.69	%	2,464	0.76	%
Total past due loans	$26,273	1.22	%	$25,267	1.27	%

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

As of December 31, 2011, total delinquencies amounted to $26.3 million, or 1.22% of total loans, compared to $25.3 million, or 1.27%, as of December 31, 2010.

Included in past due loans as of December 31, 2011 and 2010, were nonaccrual loans of $17.6 million and $14.9 million, respectively. All loans 90 days or more past due at December 31, 2011 and 2010 were classified as nonaccrual.

The increase in total delinquencies in 2011 was due to a $3.2 million net increase in residential real estate mortgage delinquencies, partially offset by a $1.9 million net decline in commercial mortgage and other commercial loan delinquencies.

As of December 31, 2011, the $11.8 million balance of residential real estate mortgage loan delinquencies consisted of 41 loans and included $8.8 million of loans already in nonaccrual status. Approximately $8.9 million of total residential real estate mortgage loan delinquencies were located in Rhode Island, Connecticut and Massachusetts.

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 in a troubled debt restructuring 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, 2011, 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. The amounts below do not include insignificant amounts of accrued interest on accruing troubled debt restructured loans. See Note 5 to the Consolidated Financial Statements for additional information.

(Dollars in thousands)

December 31,	2011	2010	2009	2008	2007
Accruing troubled debt restructured loans:					
Commercial mortgages	$6,389	$11,736	$5,566	$—	$1,717
Other commercial	6,625	4,594	540	—	—
Residential real estate mortgages	1,481	2,863	2,736	263	—
Consumer	171	509	858	607	—
Accruing troubled debt restructured loans	14,666	19,702	9,700	870	1,717
Nonaccrual troubled debt restructured loans:					
Commercial mortgages	91	1,302	—	—	—
Other commercial	2,154	431	228	—	—
Residential real estate mortgages	2,615	948	336	—	—
Consumer	106	41	45	—	—
Nonaccrual troubled debt restructured loans	4,966	2,722	609	—	—
Total troubled debt restructured loans	$19,632	$22,424	$10,309	$870	$1,717

At December 31, 2011, loans classified as troubled debt restructurings totaled $19.6 million, down by $2.8 million from the balance at December 31, 2010. The net decrease in troubled debt restructured loans reflects paydowns and declassifications from troubled debt restructuring status offset, in part, by loans restructured during the year.

Included in troubled debt restructured loans at December 31, 2011, was an accruing commercial mortgage loan relationship with a carrying value of $5.6 million, secured by mixed use property. This loan restructuring took place in the third quarter of 2010 and included a modification of certain payment terms and a below market interest rate concession for a portion of the loan. The borrower has performed in accordance with its restructured terms. Also included in troubled debt restructured loans at December 31, 2011, was an accruing other commercial loan relationship with a carrying value of $4.7 million, secured by real estate and marketable securities. This restructuring took place in the fourth quarter of 2011 and included a below market rate concession and modification of certain payment terms. In connection with this restructuring, a principal payment of $4.9 million was also received during the fourth quarter of 2011.

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, 2011 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 $7.4 million in potential problem loans at December 31, 2011, as compared to $6.7 million at December 31, 2010. Approximately 86% of the potential problem loans at December 31, 2011 consisted of eight commercial lending relationships, which have been

classified based on our evaluation of the financial condition of the borrowers. Potential problem loans are assessed for loss exposure using the methods described in Note 5 to the

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Consolidated Financial Statements under the caption "Credit Quality Indicators."

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 Estimates” 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.

As of December 31, 2011, the allowance for loan losses was $29.8 million, or 1.39% of total loans, which compares to an allowance of $28.6 million, or 1.43% of total loans at December 31, 2010. 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 loan 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 four basis point decline in allowance for loan losses as a percentage of total loans in 2011 was also consistent with the shift in mix of nonaccrual loans and delinquencies to a higher proportion of residential mortgages, which generally have lower loss experience results than commercial and commercial real estate loans.

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 homogeneous 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:

(Dollars in thousands)		
December 31,	2011	2010
Collateral dependent impaired loans (1)	$22,316	$14,872
Impaired loans measured on discounted cash flow method (2)	6,717	18,756
Total impaired loans	$29,033	$33,628

(1) Net of partial charge-offs of $2.3 million at both December 31, 2011 and 2010.
(2) Net of partial charge-offs of $328 thousand at December 31, 2011 and $1.5 million at December 31, 2010.

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 $1.8 million and $2.1 million, respectively, at December 31, 2011 and 2010. 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. 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 2011, we have continued to periodically reassess and revise the loss allocation factors and estimates used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience.

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 generally obtained for troubled or nonaccrual loans or 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.

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.

For the years ended December 31, 2011 and 2010, the loan loss provision totaled $4.7 million and $6.0 million, respectively. The provision for loan losses was based on management’s assessment of trends in asset quality and credit quality indicators, as well as the absolute level of loan loss allocation. The decline in the loan loss provision in 2011 was primarily due to a higher level of larger loan loss allocations on certain commercial loan relationships in 2010 compared to 2011, as well as a shift in 2011 towards a higher proportion of nonaccrual residential mortgage loans as a percentage of total nonaccrual loans. Net charge-offs were $3.5 million, or 0.17% of average loans in 2011 and $4.8 million, or 0.24% of average loans, in 2010. See additional discussion regarding the allocation of the provision under the caption "Provision and Allowance for Loan Losses."

Management believes that overall credit quality continues to be affected by weaknesses in national and regional economic conditions, including high unemployment levels. While management believes that the level of allowance for loan losses at December 31, 2011 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,	2011	2010	2009	2008	2007
Balance at beginning of year	$28,583	$27,400	$23,725	$20,277	$18,894
Charge-offs:					
Commercial:					
Mortgages	960	1,284	1,615	185	26
Construction and development	—	—	—	—	—
Other	1,685	2,983	2,907	1,044	506
Residential:					
Mortgages	641	646	417	104	—
Homeowner construction	—	—	—	—	—
Consumer	548	489	223	260	246
Total charge-offs	3,834	5,402	5,162	1,593	778
Recoveries:					
Commercial:					
Mortgages	7	132	37	68	—
Construction and development	—	—			