

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

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

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

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

Commission file number: 000-13091

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

RHODE ISLAND	05-0404671
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

23 BROAD STREET WESTERLY, RHODE ISLAND	02891
(Address of principal executive offices)	(Zip Code)

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

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

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

COMMON STOCK, \$.0625 PAR VALUE PER SHARE

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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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.

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

Indicate by check mark whether the registrant is a shell company (as defined in Exchange Act Rule 12b-2) Yes No

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

Table of Contents

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

TABLE OF CONTENTS

Description	Page Number
<u>Part I</u>	
<u>Item 1</u> <u>Business</u>	3
<u>Item 1A</u> <u>Risk Factors</u>	12
<u>Item 1B</u> <u>Unresolved Staff Comments</u>	13
<u>Item 2</u> <u>Properties</u>	13
<u>Item 3</u> <u>Legal Proceedings</u>	14
<u>Item 4</u> <u>Submission of Matters to a Vote of Security Holders</u>	14
	<u>Executive Officers of the Registrant</u> 14
<u>Part II</u>	
<u>Item 5</u> <u>Market for the Registrant's Common Stock, Related Stockholder Matters</u>	16
<u>Item 6</u> <u>Selected Financial Data</u>	18
<u>Item 7</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 7A</u> <u>Quantitative and Qualitative Disclosures about Market Risk</u>	44
<u>Item 8</u> <u>Financial Statements and Supplementary Data</u>	44
<u>Item 9</u> <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	92
<u>Item 9A</u> <u>Controls and Procedures</u>	92
<u>Item 9B</u> <u>Other Information</u>	92
<u>Part III</u>	
<u>Item 10</u> <u>Directors and Executive Officers of the Registrant</u>	92
<u>Item 11</u> <u>Executive Compensation</u>	93
<u>Item 12</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	93
<u>Item 13</u> <u>Certain Relationships and Related Transactions</u>	94
<u>Item 14</u> <u>Principal Accounting Fees and Services</u>	94
<u>Item 15</u> <u>Exhibits and Financial Statement Schedules</u>	94
<u>Signatures</u> -	98
<u>Exhibit</u>	
<u>10.44</u> <u>Second Amendment to 2003 Stock Incentive Plan</u>	
<u>Exhibit</u>	
<u>10.45</u> <u>Amended and Restated Nonqualified Deferred Compensation Plan</u>	
<u>Exhibit 23.1</u> <u>Consent of Independent Accountants</u>	
<u>Exhibit 31.1</u> <u>Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes- Oxley Act of 2002</u>	
<u>Exhibit 31.2</u> <u>Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>	
<u>Exhibit 32.1</u> <u>Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>	

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

-2-

Table of Contents

PART I

ITEM 1. Business

Washington Trust Bancorp, Inc.

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

Through its subsidiaries, the Bancorp offers a broad range of financial services to individuals and businesses, including wealth management, through its offices in Rhode Island, Massachusetts and southeastern Connecticut, ATMs, and its Internet website (www.washtrust.com). The Bancorp’s common stock is traded on the NASDAQ Global Market⁰ under the symbol “WASH.”

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

Commercial Banking

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

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

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

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

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

products including merchant credit card processing and cash management services.

Wealth Management Services

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

-3-

Table of Contents

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

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

Business Segments

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

Acquisitions

The following summarizes Washington Trust’s acquisition history:

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

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

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

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

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

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

Subsidiaries

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

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

The Washington Trust Company

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

-4-

Table of Contents

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

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

Weston Securities Corporation

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

Market Area and Competition

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

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

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

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

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

Employees

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

-5-

Table of Contents

Supervision and Regulation

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

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

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

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

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

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

-6-

Table of Contents

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

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

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

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

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

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

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

-7-

Table of Contents

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

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

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

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

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

The Federal Reserve Board risk-based guidelines define a three-tier capital framework. Tier 1 capital includes common shareholders’ equity, perpetual preferred stock and trust preferred securities (both subject to certain limitations and in the case of the latter, to specific limitations on the kind and amount of such securities that may be included as Tier 1 capital), and minority interest in the equity accounts of consolidated subsidiaries, less goodwill and other adjustments. Tier 2 capital consists of preferred stock not qualifying as Tier 1 capital, mandatory convertible debt, limited amounts of subordinated debt, other qualifying term debt and the allowance for loan losses up to 1.25% of risk-weighted assets. Tier 3 capital includes subordinated debt that is unsecured, fully paid, has an original maturity of at least two years, is not redeemable before maturity without prior approval by the Federal Reserve Board and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing

bank's risk-based capital ratio to fall or remain below the required minimum. The sum of Tier 1 and Tier 2 capital less investments in unconsolidated subsidiaries represents qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The

-8-

Table of Contents

minimum Tier 1 capital ratio is 4% and the minimum total risk-based capital (Tier 1 and Tier 2) is 8%. At December 31, 2006, the Corporation's net risk-weighted assets amounted to \$1.5 billion, its Tier 1 capital ratio was 9.60% and its total risk-based capital ratio was 11.00%.

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

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

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

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

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

such rules on its risk capital requirements.

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

-9-

Table of Contents

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

- § In the case of one such affiliate, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 10% of the capital stock and surplus of the insured depository institution.
- § In the case of all affiliates, the aggregate amount of covered transactions of the insured depository institution and its subsidiaries cannot exceed 20% of the capital stock and surplus of the insured depository institution.

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

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

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

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

USA Patriot Act of 2001 (the “Patriot Act”). The Patriot Act, designed, among other things, to deny terrorists and others the ability to obtain anonymous access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act, together with the regulations implemented by various federal regulatory agencies, requires financial institutions, including the Bank, to implement new policies and procedures or amend existing policies or procedures with respect to, among other matters, anti-money laundering compliance, suspicious activity and currency transaction reporting,

and due diligence on customers. The Patriot Act and underlying regulations also permit information sharing for counter-terrorist purposes between federal law enforcement agencies and financial institutions, as well as among financial institutions, subject to certain conditions, and require the Federal Reserve Board to evaluate the effectiveness of an applicant in combating money laundering activities when considering applications filed under

-10-

Table of Contents

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

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

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

- § The creation of an independent accounting oversight board;
- § Auditor independence provisions that restrict non-audit services that accountants may provide to their audit clients;
- § Additional corporate governance and responsibility measures, including the requirement that the principal executive officer and principal financial officer of a public company certify financial statements;
- § The forfeiture of bonuses or other incentive-based compensation and profits from the sale of a public company’s securities by directors and senior officers in the twelve month period following initial publication of any financial statements that later require restatement;
- § An increase in the oversight of, and enhancement of certain requirements relating to, audit committees of public companies and how they interact with the company’s independent auditors;
- § Requirements that audit committee members be independent and are barred from accepting consulting, advisory or other compensatory fees from public companies;
- § Requirements that public companies disclose whether at least one member of the audit committee is a “financial expert” (as such term is defined by the SEC) and if not, why not;
- § Expanded disclosure requirements for corporate insiders, including accelerated reporting of stock transactions by insiders and a prohibition on insider trading during pension blackout periods;
- § A prohibition on personal loans to directors and officers, except certain loans made by insured financial institutions, such as the Bank, on nonpreferential terms and in compliance with other bank regulatory requirements;
- § Disclosure of a code of ethics and filing a Form 8-K for a change to or waiver of such code; and

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

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

-11-

Table of Contents

Securities and Exchange Commission Availability of Filings

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

Item 1A Risk Factors

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

Interest Rate Volatility May Reduce Our Profitability

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

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

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

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

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

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

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

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

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

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

-12-

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

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

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

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

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

ITEM 1B. Unresolved Staff Comments

None.

GUIDE 3 Statistical Disclosures

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

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

ITEM 2. Properties

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

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

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

-13-

Table of Contents

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

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

ITEM 3. Legal Proceedings

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

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

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

Executive Officers of the Registrant

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

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

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Elizabeth B. Eckel Senior Vice President - Marketing of the Bank 46 15

William D. Gibson Senior Vice President - Credit Administration of the Bank 60 8

Barbara J. Perino, Senior Vice President - Operations and Technology of the Bank 45 18

James M. Vesey Senior Vice President and Chief Credit Officer of the Bank 59 8

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

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

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

-14-

Table of Contents

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

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

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

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

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

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

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

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

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

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

Table of Contents**PART II****ITEM 5. Market for the Registrant's Common Stock, Related Stockholder Matters**

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

-17-

Table of Contents**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.

(Dollars in thousands, except per share amounts)

Selected Operating Data and Financial Ratios:

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

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

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

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

-18-

Table of Contents**Selected Balance Sheet Data:**

(Dollars in thousands)

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

Table of Contents**Selected Quarterly Financial Data**

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

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

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

-20-

Table of Contents

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

Selected Quarterly Financial Data

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

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

-21-

Table of Contents

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

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

Forward-Looking Statements

This report contains statements that are “forward-looking statements.” We may also make written or oral forward-looking statements in other documents we file with the SEC, in our annual reports to shareholders, in press releases and other written materials, and in oral statements made by our officers, directors or employees. You can identify forward-looking statements by the use of the words “believe,” “expect,” “anticipate,” “intend,” “estimate,” “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 or regional economic conditions, changes in interest rates, reductions in the market value of wealth management assets under administration, reductions in loan demand, reductions in deposit levels necessitating increased borrowing to fund loans and investments, changes in loan defaults and charge-off rates, changes in the size and nature of the Corporation’s competition, changes in legislation or regulation and accounting principles, policies and guidelines and changes in the assumptions used in making such forward-looking statements. In addition, the factors described under “Risk Factors” in Item 1A of this Annual Report on Form 10-K may result in these differences. You should carefully review all of these factors, and you should be aware that there may be other factors that could cause these differences. These forward-looking statements were based on information, plans and estimates at the date of this report, and we do not promise to update any forward-looking statements to reflect changes in underlying assumptions or factors, new information, future events or other changes.

Application of Critical Accounting Policies and Estimates

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

Allowance for Loan Losses

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

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

-22-

Table of Contents

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

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

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

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

Other-Than-Temporary Impairment

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

Defined Benefit Pension Obligations

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

Interest Income Recognition

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

-23-

Table of Contents

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

Tax Estimates

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

Results of Operations**Overview**

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

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

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

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

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

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

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

-24-

Table of Contents

Net Interest Income

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

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

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

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

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

Table of Contents**Average Balances/Net Interest Margin (Fully Taxable Equivalent Basis)**

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

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

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

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

(Dollars in thousands)

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

-26-

Table of Contents**Volume/Rate Analysis - Interest Income and Expense (Fully Taxable Equivalent Basis)**

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

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

Provision and Allowance for Loan Losses

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

Noninterest Income

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

Table of Contents

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

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

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

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

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

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

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

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

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

-28-

Table of Contents

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

Noninterest Expense

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

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

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

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

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

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

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

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

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

-29-

Table of Contents

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

Taxes

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

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

Comparison of 2005 with 2004

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

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

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

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

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

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

-30-

Table of Contents

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

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

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

(Dollars in thousands)	2005	2004	\$ Change	% Change
Noninterest income:				
Wealth management services:				
Trust and investment advisory fees	\$ 14,407	\$ 12,385	\$ 2,022	16.3%
Mutual fund fees	1,336	-	1,336	100.0
Financial planning, commissions and other service fees	919	663	256	38.6
Wealth management services	16,662	13,048	3,614	27.7
Service charges on deposit accounts	4,502	4,483	19	0.4
Merchant processing fees	5,203	4,259	944	22.2
Income from BOLI	1,110	1,175	(65)	(5.5)
Net gains on loan sales	1,679	1,901	(222)	(11.7)
Other income	1,433	1,791		