WASHINGTON TRUST BANCORP INC
Form 10-K
March 01, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

(Mark One)
x Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended DECEMBER 31, 2009 or
o Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from ____________ to ____________

Commission file number: 001-32991

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the

preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
o Yes o No

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

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

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2009 was $242,452,804 based on a closing sales price of $17.83 per share as reported for the NASDAQ Global Select Market, which includes $9,105,139 held by The Washington Trust Company under trust agreements and other instruments.

The number of shares of the registrant's common stock, $.0625 par value per share, outstanding as of February 25, 2010 was 16,066,181.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement dated March 11, 2010 for the Annual Meeting of Shareholders to be held April 27, 2010 are incorporated by reference into Part III of this Form 10-K.

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WASHINGTON TRUST BANCORP, INC.
For the Year Ended December 31, 2009

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PART I

ITEM 1. Business

Washington Trust Bancorp, Inc.

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

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

The accounting and reporting policies of the Bancorp and its subsidiaries (collectively, the "Corporation" or "Washington Trust") are in accordance with U. S. generally accepted accounting principles ("GAAP") and conform to general practices of the banking industry. At December 31, 2009, Washington Trust had total assets of $2.9 billion, total deposits of $1.9 billion and total shareholders' equity of $254.9 million.

Commercial Banking

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

Residential mortgages	Consumer installment loans	Merchant credit card services
Reverse mortgages	Commercial and consumer demand deposits	Telephone banking services
Commercial loans	Savings, NOW and money market deposits	Internet banking services
Construction loans	Certificates of deposit	Cash management services
Home equity lines of credit	Retirement accounts	Remote deposit capture
Home equity loans	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 southern New England and, to a lesser extent, 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 both for 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. We also originate residential loans for various investors in a broker capacity, including conventional mortgages and reverse mortgages.

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 investment management, trust and financial planning services. Washington Trust provides personal trust services, including services as executor, trustee, administrator, custodian and guardian. Institutional trust services are also provided, including services as trustee for pension and profit sharing plans. Investment management and financial planning services are provided for both personal and institutional clients.

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At December 31, 2009 and 2008, wealth management assets under administration totaled $3.8 billion and $3.1 billion, respectively. These assets are not included in the Consolidated Financial Statements.

Business Segments

Segment reporting information is presented in Note 17 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 Group, Inc. ("Weston Financial"), a Registered Investment Adviser and financial planning company located in Wellesley, Massachusetts, with broker-dealer and insurance agency subsidiaries. Pursuant to the Stock Purchase Agreement, dated March 18, 2005, as amended December 24, 2008, the acquisition was effected by the Bancorp's acquisition of all of Weston Financial's outstanding capital stock. (1)

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

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

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

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

Subsidiaries

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

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

The Washington Trust Company

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

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

The Bank's subsidiary, Weston Financial, is a Registered Investment Adviser and financial planning company located in Wellesley, Massachusetts, with an insurance agency subsidiary. In addition, the Bank has other passive investment

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subsidiaries whose primary functions are to provide servicing on passive investments, such as residential and consumer loans acquired from the Bank and investment securities. In 2009, the Bank made an investment in a real estate limited partnership to renovate and operate a low-income housing complex in the Bank's market area. In connection with this investment, in 2009 the Bank formed a limited liability company subsidiary to serve as a special limited partner responsible for certain administrative responsibilities.

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 eighteen branch offices in Washington County, Rhode Island. As of June 30, 2009, based upon information reported in the FDIC's Deposit Market Share Report, the Bank had 48% of total deposits reported by all financial institutions for Washington County. We have excluded our out-of-market brokered certificates of deposit from this measurement to provide a more representative measurement of our market share. Out-of-market brokered certificates of deposit are utilized by the Corporation as part of its overall funding program along with other sources. The closest competitor held 23%, and the second closest competitor held 9% of total deposits in Washington County. We believe that being the largest commercial banking institution headquartered within this market area provides a competitive advantage over other financial institutions.

The Bank's remaining eight branch offices are located in Providence and Kent Counties in Rhode Island and New London County in southeastern Connecticut. In November 2009, the Bank opened a de novo branch in Kent County (Warwick), bringing the total number of the Bank's branch offices to eighteen. We continue to expand our branch footprint and broaden our presence in Providence and Kent Counties. Both the population and number of businesses in Providence and Kent Counties far exceed those in Washington County.

Washington Trust has a commercial lending office located in the financial district of Providence. In addition, in August 2009, Washington Trust opened a mortgage lending office in Sharon, Massachusetts, representing the Bank's first residential lending office in Massachusetts.

Washington Trust provides wealth management services from its main office and offices located in Providence and Narragansett, Rhode Island and Wellesley, Massachusetts. 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, 2009, Washington Trust had 465 full-time and 47 part-time and other employees. Washington Trust maintains a comprehensive employee benefit program providing, among other benefits, group medical and dental insurance, life insurance, disability insurance, a pension plan and a 401(k) plan. Management considers relations with its employees to be good. See Note 15 to the Consolidated Financial Statements for additional information on certain employee benefit programs.

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Supervision and Regulation

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

Set forth below is a brief description of certain laws and regulations that relate to the regulation of Washington Trust. In response to the deterioration of the financial markets in 2008, comprehensive financial regulatory reform proposals are pending in both the U.S. House of Representatives and the U.S. Senate, which may be adopted in whole or in part in 2010. These proposals, if adopted, would restructure the regulatory regime for financial institutions and impose significant additional regulatory requirements and restrictions on banks and bank holding companies. 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 "FRB"), and the State of Rhode Island, Department of Business Regulation, Division of Banking (the "Rhode Island Division of Banking").

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

In 2005, the Bancorp elected financial holding company status pursuant to the provisions of the Gramm-Leach-Bliley Act of 1999 ("GLBA"). As a financial holding company, the Bancorp is authorized to engage in certain financial activities in which a bank holding company may not engage. "Financial activities" is broadly defined to include not only banking, insurance and securities activities, but also merchant banking and additional activities that the FRB, in consultation with the Secretary of the Treasury, determines to be financial in nature, incidental to such financial activities, or complementary activities that do not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. Currently, pursuant to its authority as a financial holding company, the Bancorp engages, through WSC, in broker-dealer activities pursuant to this authority. If a financial holding company fails to remain well capitalized and well managed, the company and its affiliates may not commence any new activity that is authorized particularly for financial holding companies. If a financial holding company remains out of compliance for 180 days or such longer period as the FRB permits, the FRB may require the financial holding company to divest either its insured depository institution or all of its nonbanking subsidiaries engaged in activities not permissible for a bank holding company. If a financial holding company fails to maintain a "satisfactory" or better record of performance under the Community Reinvestment Act, it will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities, or acquiring companies other than bank holding companies, banks or savings associations, except that the Bancorp could engage in new activities, or acquire companies engaged in activities that are closely related to banking under the BHCA. In addition, if the FRB finds that the Bank is not well capitalized or well managed, the Bancorp would be required to enter into an agreement with the FRB to comply with all applicable capital and management requirements and which may contain additional limitations or conditions. Until corrected, the Bancorp would not be able to engage in any new activity or acquire companies engaged in activities that

are not closely related to banking under the BHCA without prior FRB approval. If the Bancorp fails to correct any such condition within a prescribed period, the FRB could order the Bancorp to divest its banking subsidiary or, in the alternative, to cease engaging in activities other than those closely related to banking under the BHCA.

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

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

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

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

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

As an investment advisor, Weston Financial is subject to the Investment Advisers Act and any regulations promulgated thereunder, including fiduciary, recordkeeping, operational and disclosure obligations. Each of the

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

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

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

Insurance of Accounts and FDIC Regulation. The Bank pays deposit insurance premiums to the FDIC based on an assessment rate established by the FDIC. For most banks and savings associations, including the Bank, FDIC rates depend upon a combination of CAMELS component ratings and financial ratios. CAMELS ratings reflect the applicable bank regulatory agency's evaluation of the financial institution's capital, asset quality, management, earnings, liquidity and sensitivity to risk. For large banks and savings associations that have long-term debt issuer ratings, assessment rates will depend upon such ratings, and CAMELS component ratings. For institutions, such as the Bank, which are in the lowest risk category, assessment rates vary initially from ten (10) to sixteen (16) basis points of insured deposits with additional adjustments which could result in total base assessment rates of seven (7) to twenty-four (24) basis points of insured deposits. In November 2009, the FDIC issued a final rule that mandated that insured depository institutions prepay their quarterly risk-based assessments to the FDIC for the fourth quarter of 2009 and for all of 2010, 2011, and 2012 on December 30, 2009. The Bank recorded the entire amount of its prepayment as an asset (a prepaid expense). The prepaid assessments bear a zero-percent risk weight for risk-based capital purposes. The prepaid assessment base for the Bank was calculated using its third quarter 2009 assessment rate (using its CAMELS rating on that date). That assessment base will be adjusted quarterly with an estimated 5 percent annual growth in the assessment base through the end of 2012. The prepaid assessment rate for the fourth quarter of 2009 and for 2010 is based on the Bank's total base assessment rate for the third quarter of 2009, adjusted as if the assessment rate in effect on September 30, 2009 had been in effect for the entire third quarter. Further, the prepaid assessment rate for 2011 and 2012 is equal to the adjusted third quarter 2009 total base assessment rate plus 3 basis points. As of December 31, 2009, and each quarter thereafter, the Bank will record an expense for its regular quarterly assessment for the quarter and a corresponding credit to the prepaid assessment until the asset is exhausted. The FDIC will not refund or collect additional prepaid assessments because of a decrease or growth in deposits over the next three years. However, if the prepaid assessment is not exhausted after collection of the amount due on June 30, 2013, the remaining amount of the prepayment will be returned to the institution. In 2008, FDIC deposit insurance was temporarily increased from $100,000 to $250,000 per depositor through December 31, 2013. The Bank's FDIC deposit insurance costs totaled $4.4 million in 2009, which included a second quarter 2009 FDIC special assessment of $1.35 million. The FDIC has the power to adjust the assessment rates at any time. We cannot predict whether, as a result of the adverse change in U.S. economic conditions and, in particular, declines in the value of real estate in certain markets served by the Bank, the FDIC will in the future require further increases to deposit insurance assessment levels.

Bank Holding Company Support to Subsidiary Bank. Under FRB 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 Federal Deposit Insurance Act, the FDIC can hold any FDIC-insured depository institution liable for any loss suffered or anticipated by the FDIC in connection with (1) the "default" of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution "in danger of default." The Bank is a FDIC-insured depository institution.

Regulatory Capital Requirements. The FRB and the FDIC have issued substantially similar risk-based and leverage capital guidelines applicable to United States banking organizations. In addition, these regulatory agencies may from

time to time require that a banking organization maintain capital above the minimum levels, whether because of its financial condition or actual or anticipated growth.

The FRB risk-based guidelines define a three-tier capital framework. Tier 1 capital includes common shareholders' equity and qualifying preferred stock, 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 FRB and includes a lock-in clause precluding payment of either interest or principal if the payment would cause the issuing bank's risk-based capital ratio to fall or remain below the required minimum. The sum of Tier 1 and Tier 2 capital less investments in unconsolidated subsidiaries represents qualifying total capital. Risk-based capital ratios are calculated by dividing Tier 1 and total capital by risk-weighted assets. Assets and off-balance sheet exposures are assigned to one of four categories of risk-weights, based primarily on relative credit risk. The minimum Tier 1 capital ratio is 4% and the minimum total risk-based capital is 8%. At December 31, 2009, the Corporation's Tier 1 capital ratio was 11.14% and its total risk-based capital ratio was 12.40%.

The leverage ratio is determined by dividing Tier 1 capital by adjusted average total assets. Although the stated minimum ratio is 3%, as a matter of policy the actual minimum is 100 to 200 basis points above 3%. Banking organizations must maintain a ratio of at least 5% to be classified as "well-capitalized." The Corporation's leverage ratio was 7.82% as of December 31, 2009.

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 banking agencies (the "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 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 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 bank generally shall be deemed to be:

§ "well-capitalized" if it has a total risk-based capital ratio of 10.0% or greater, has a Tier 1 risk-based capital ratio of 6.0% or more, has a leverage ratio of 5.0% or greater and is not subject to any written agreement, order or capital directive or prompt corrective action directive;

§ "adequately capitalized" if it has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or more, and a leverage ratio of 4.0% or greater (3.0% under certain circumstances) and does not meet the

definition of a “well-capitalized bank;”

§ “undercapitalized” if it has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio that is less than 4.0% or a leverage ratio that is less than 4.0% (3.0% under certain circumstances);

§ “significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6.0%, a Tier 1 risk-based capital ratio that is less than 3.0% or a leverage ratio that is less than 3.0%; and

§ “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2.0%.

Regulators also must take into consideration (1) concentrations of credit risk; (2) 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 (3) risks from non-traditional activities, as well as an institution's ability to manage those risks, when determining the adequacy of an institution's capital. This evaluation will be made as a part of the institution's regular safety and soundness examination. 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, 2009, the Bank's capital ratios placed it in the well-capitalized category. Reference is made to Note 12 to the Consolidated Financial Statements for additional discussion of the Corporation's regulatory capital requirements.

An institution generally must file a written capital restoration plan which meets specified requirements with an appropriate FDIC regional director within 45 days of the date that the institution receives notice or is deemed to have notice that it is undercapitalized, significantly undercapitalized or critically undercapitalized. An institution that is required to submit a capital restoration plan must concurrently submit a performance guaranty by each company that controls the institution. A critically undercapitalized institution generally is to be placed in conservatorship or receivership within 90 days unless the FDIC formally determines that forbearance from such action would better protect the deposit insurance fund. Immediately upon becoming undercapitalized, an institution becomes subject to the provisions of Section 38 of the Federal Deposit Insurance Act, including for example, (i) restricting the payment of capital distributions and management fees, (ii) requiring that the FDIC monitor the condition of the institution and its efforts to restore its capital, (iii) requiring submission of a capital restoration plan, (iv) restricting growth of the institution's assets and (v) requiring prior approval of certain expansion proposals.

The Agencies issued a final rule entitled "Risk-Based Capital Standards: Advanced Capital Adequacy Framework - Basel II" ("Basel II"), which became effective on April 1, 2008 and "core banks" ("core banks" are the approximately 15 largest U.S. bank holding companies) were required to adopt a board-approved plan to implement Basel II by October 1, 2008. Basel II will result in significant changes to the risk based capital standards for "core banks" subject to Basel II and other banks that elect to use such rules to calculate their risk-based capital requirements. Furthermore, it is possible that Basel II will be revised to reflect new proposals. In connection with Basel II, the Agencies published a joint notice of proposed rulemaking entitled "Risk-Based Capital Guidelines; Capital Adequacy Guidelines: Standardized Framework" on July 29, 2008 (the "Standardized Approach Proposal"). The Standardized Approach Proposal, if adopted by the Agencies, would provide all non-core banks with an optional framework, based upon the standardized approach under the international Basel II Accord, for calculating their risk-based capital requirements. The Bank does not currently expect to calculate its capital ratios under Basel II or in accordance with the Standardized Approach Proposal. 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 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 FRB, 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.

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

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

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

Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the "USA Patriot Act"). The USA Patriot Act, designed to deny terrorists and others the ability to obtain anonymous access to the U.S. financial system, has significant implications for depository institutions, broker-dealers, mutual funds, insurance companies and businesses of other types involved in the transfer of money. The USA Patriot Act, together with the implementing regulations of various federal regulatory agencies, has caused financial institutions, including banks, to adopt and implement additional, or amend existing, policies and procedures with respect to, among other things, anti-money laundering compliance, suspicious activity and currency transaction reporting, customer identity verification and customer risk analysis. The statute and its 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 FRB (and other federal banking agencies) to evaluate the effectiveness of an applicant and a target institution in combating money laundering activities when considering applications filed under Section 3 of the BHCA or the Bank Merger Act. In 2006, final regulations under the USA Patriot Act were issued requiring financial institutions, including the Bank, 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 USA 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 FRB must take into account the record of performance of banks in meeting the credit needs of the entire community served, including low and moderate income neighborhoods. The Bank has achieved a rating of “Satisfactory” on its most recent examination dated August 31, 2009. Rhode Island and Connecticut also have enacted substantially similar community reinvestment requirements.

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Regulation R. The FRB approved Regulation R implementing the bank broker push out provisions under Title II of the GLBA. GLBA provided 11 exceptions from the definition of "broker" in the Exchange Act that permit banks not registered as broker-dealers with the SEC to effect securities transactions under certain conditions. Regulation R implements certain of these exceptions. In 2007, the SEC also approved Regulation R. The Bank began complying with Regulation R on the first day of the bank's fiscal quarter starting after September 30, 2008. The FRB and SEC have stated that they will jointly issue any interpretations or no-action letters/guidance regarding Regulation R and consult with each other and the appropriate federal banking agency with respect to formal enforcement actions pursuant to Regulation R.

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

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

Fair Credit Reporting Affiliate Marketing Regulations. In 2007, the Agencies published final rules to implement the affiliate marketing provisions in Section 214 of the FACT Act, which amends the Fair Credit Reporting Act. The final rules generally prohibit a person from using information received from an affiliate to make a solicitation for marketing purposes to a consumer, unless the consumer is given notice and a reasonable opportunity and a reasonable and simple method to opt out of the making of such solicitations. These rules became effective January 1, 2008 and the Bank had to begin complying with the rules by October 1, 2008.

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

Securities and Exchange Commission Availability of Filings

Under Sections 13 and 15(d) of the Exchange Act, periodic and current reports must be filed or furnished with the SEC. You may read and copy any reports, statements or other information filed by Washington Trust with the SEC at its public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Washington Trust's filings are also available to the public from commercial document retrieval services and at the website maintained by the SEC at http://www.sec.gov. In addition, Washington Trust makes available free of charge on the Investor Relations section of its website (www.washtrust.com) its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and exhibits and amendments to those reports as soon as reasonably practicable after it electronically files such

material with, or furnishes it to, the SEC. Information on the Washington Trust website is not incorporated by reference into this Annual Report on Form 10-K.

Item 1A. Risk Factors.
In addition to the other information contained or incorporated by reference in this Annual Report on Form 10-K, you should consider the following factors relating to the business of the Corporation.

Interest Rate Volatility May Reduce Our Profitability
Our consolidated results of operations depend, to a large extent, on the level of net interest income, which is the difference between interest income from interest-earning assets, such as loans and investments, and interest expense on interest-bearing liabilities, such as deposits and borrowings. If interest rate fluctuations cause the cost of interest-bearing liabilities to increase faster than the yield on interest-earning assets, then our net interest income will decrease. If the cost of interest-bearing liabilities declines faster than the yield on interest-earning assets, then our net interest income will increase.

We are unable to predict future fluctuations in interest rates or the specific impact thereof. The market values of most of our financial assets are sensitive to fluctuations in market interest rates. Fixed-rate investments, mortgage-backed securities and mortgage loans typically decline in value as interest rates rise. Prepayments on mortgage-backed securities may adversely affect the value of such securities and the interest income generated by them.

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

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

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

The Market Value of Wealth Management Assets Under Administration May Be Negatively Affected by Changes in Economic and Market Conditions
Revenues from wealth management services represented 22% of our total revenues for 2009. A substantial portion of these fees are dependent on the market value of wealth management assets under administration, which are primarily marketable securities. Changes in domestic and foreign economic conditions, volatility in financial markets, and general trends in business and finance, all of which are beyond our control, could adversely impact the market value of these assets and the fee revenues derived from the management of these assets.

We May Not Be Able to Attract and Retain Wealth Management Clients at Current Levels
Due to strong competition, our wealth management division may not be able to attract and retain clients at current levels. Competition is strong because there are numerous well-established and successful investment management and wealth advisory firms including commercial banks and trust companies, investment advisory firms, mutual fund

companies, stock brokerage firms, and other financial companies. Many of our competitors have greater resources than we have.

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

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

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

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

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

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

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

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

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

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

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

particularly sensitive to negative economic events. As of December 31, 2009, commercial loans represent 51% of our loan portfolio.

We Have Credit Risk Inherent in Our Securities Portfolio

We maintain a diversified securities portfolio, which includes mortgage-backed securities issued by U.S. government agencies and U.S. government-sponsored enterprises, obligations of the U.S. Department of the Treasury and U.S. government-sponsored agencies, securities issued by state and political subdivisions, trust preferred debt securities issued primarily by financial service companies, and corporate debt securities. We also invest in capital securities,

which include common and perpetual preferred stocks. We seek to limit credit losses in our securities portfolios by generally purchasing only highly-rated securities.

The current economic environment increases the difficulty of assessing investment securities impairment, which increases the risk of potential impairment of these assets. During the year ended December 31, 2009, other-than-temporary impairment losses on investment securities amounted to $3.1 million. Further declines in fair value may occur and additional material other-than-temporary impairments may be charged to income in future periods, resulting in realized losses.

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

Applicable accounting standards require us to use the purchase method of accounting for all business combinations. Under purchase accounting, if the purchase price of an acquired company exceeds the fair value of the company's net assets, the excess is carried on the acquirer's balance sheet as goodwill. At December 31, 2009, the Corporation had approximately $58 million of goodwill on its balance sheet. Goodwill must be evaluated for impairment at least annually. Write-downs of the amount of any impairment, if necessary, are to be charged to the results of operations in the period in which the impairment occurs. There can be no assurance that future evaluations of goodwill will not result in findings of impairment and related write-downs, which would have an adverse effect on the Corporation's financial condition and results of operations.

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

We compete with larger bank and non-bank financial institutions for loans and deposits in the communities we serve, and we may face even greater competition in the future due to legislative, regulatory and technological changes and continued consolidation. Many of our competitors have significantly greater resources and lending limits than we have. Banks and other financial services firms can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service. In addition, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automated transfer and automatic payment systems. Many competitors have fewer regulatory constraints and may have lower cost structures than we do. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can. Our long-term success depends on the ability of the Bank to compete successfully with other financial institutions in the Bank's service areas.

We May Be Unable to Attract and Retain Key Personnel

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

Changes in the National and Local Economy May Affect Our Future Growth Possibilities

National and local economic conditions have an impact on the banking and financial services industry. Our operating results depend to a large extent on providing products and services to customers in our local market area. Unemployment rates, real estate values, demographic changes, property tax rates, and local and state governments have an impact on local and regional economic conditions. An increase in unemployment, a decrease in real estate values, an increase in property tax rates, or decrease in population could weaken the local economies in which we operate. Weak economic conditions could lead to credit quality concerns related to repayment ability and

collateral protection. These conditions could also affect our ability to retain or grow deposits.

Our Stock Price Can Be Volatile

The price of our common stock can fluctuate widely in response to a variety of factors. These include, but are not limited to, actual or anticipated variations in reported operating results, recommendations by securities analysts, the level of trading activity in our common stock, new services or delivery systems offered by competitors, business combinations involving our competitors, operating and stock price performance of companies that investors deem to

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be comparable to Washington Trust, news reports relating to trends or developments in the credit, mortgage and housing markets as well as the financial services industry, and changes in government regulations.

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

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

Changes in Laws and Regulations May Adversely Affect Our Results of Operations

We are subject to extensive federal and state laws and regulations and are subject to supervision, regulation and examination by various federal and state bank regulatory agencies. The restrictions imposed by such laws and regulations limit the manner in which we may conduct business. 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 our results of operations. See the section entitled "Supervision and Regulation" in Item 1 of this Annual Report on Form 10-K.

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

We May Need To Raise Additional Capital in the Future and Such Capital May Not Be Available When Needed.

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

ITEM 1B. Unresolved Staff Comments.

None.

GUIDE 3 Statistical Disclosures

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

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I.	Distribution of Assets, Liabilities and Stockholder Equity; Interest Rates and Interest Differentials	32-33
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IV.	Summary of Loan Loss Experience	51-54, 89
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ITEM 2. Properties.

The Corporation conducts its business from eighteen offices, including its headquarters located at 23 Broad Street, Westerly, Rhode Island and offices located within Washington, Providence and Kent Counties in Rhode Island and New London County in southeastern Connecticut. In addition, Washington Trust has a commercial lending office located in the financial district of Providence, Rhode Island and a residential lending office in Sharon, Massachusetts. Washington Trust also provides wealth management services from its main office and offices located in Providence

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and Narragansett, Rhode Island and Wellesley, Massachusetts. The Bank also has two operations facilities and an additional corporate office located in Westerly, Rhode Island. At December 31, 2009, eleven of the Corporation's facilities were owned, thirteen were leased and one branch office was owned on leased land. Lease expiration dates range from sixteen months to thirteen years with renewal options on certain leases of two to twenty-five years. All of the Corporation's properties are considered to be in good condition and adequate for the purpose for which they are used.

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

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

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

ITEM 3. Legal Proceedings.

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

PART II

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

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

The quarterly common stock price ranges and dividends paid per share for the years ended December 31, 2009 and 2008 are presented in the following table. The stock prices are based on the high and low sales prices during the respective quarter.

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

2008 Quarters	1	2	3	4
Stock prices:				
High	$26.50	$26.49	$33.34	$27.30
Low	21.84	19.70	18.43	16.33
Cash dividend declared per share	$0.20	$0.21	$0.21	$0.21

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

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

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At February 25, 2010 there were 1,966 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."

The Bancorp did not repurchase any shares during the fourth quarter of 2009.

Stock Performance Graph

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

The results presented assume that the value of the Corporation's common stock and each index was $100.00 on December 31, 2004. The total return assumes reinvestment of dividends.

Washington Trust Bancorp, Inc. – Total Return Performance

For the period ending December 31	2004	2005	2006	2007	2008	2009
Washington Trust Bancorp, Inc.	$100.00	$91.72	$100.51	$93.73	$76.08	$63.00
NASDAQ Bank Stocks	$100.00	$95.67	$106.20	$82.76	$62.96	$51.31
NASDAQ Stock Market (U.S.)	$100.00	$101.37	$111.03	$121.92	$72.49	$104.31

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ITEM 6. Selected Financial Data.

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

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

At or for the years ended December 31,	2009	2008	2007	2006	2005
Financial Results:					
Interest income	$129,630	$140,662	$136,434	$131,134	$115,693
Interest expense	63,738	75,149	76,490	69,660	55,037
Net interest income	65,892	65,513	59,944	61,474	60,656
Provision for loan losses	8,500	4,800	1,900	1,200	1,200
Net interest income after provision for loan losses	57,392	60,713	58,044	60,274	59,456
Noninterest income:					
Net realized gains on sales of securities	314	2,224	455	443	389
Net other-than-temporary impairment losses on securities	(3,137)	(5,937)	–	–	(32)
Other noninterest income	45,041	44,233	45,054	41,740	30,589
Total noninterest income	42,218	40,520	45,509	42,183	30,946
Noninterest expense	77,168	71,742	68,906	65,335	56,393
Income before income taxes	22,442	29,491	34,647	37,122	34,009
Income tax expense	6,346	7,319	10,847	12,091	10,985
Net income	$16,096	$22,172	$23,800	$25,031	$23,024
Per share information ($):					
Earnings per share:					
Basic	1.01	1.59	1.78	1.86	1.73
Diluted	1.00	1.57	1.75	1.82	1.69
Cash dividends declared (1)	0.84	0.83	0.80	0.76	0.72
Book value	15.89	14.75	13.97	12.89	11.86
Market value - closing stock price	15.58	19.75	25.23	27.89	26.18
Performance Ratios (%):					
Return on average assets	0.55	0.82	0.99	1.04	0.98
Return on average shareholders' equity	6.56	11.12	13.48	14.99	14.80
Average equity to average total assets	8.40	7.35	7.33	6.93	6.62
Dividend payout ratio (2)	84.00	52.87	45.71	41.76	42.60
Asset Quality Ratios (%):					
Total past due loans to total loans	1.64	0.96	0.45	0.49	0.27
Nonperforming loans to total loans	1.43	0.42	0.27	0.19	0.17
Nonperforming assets to total assets	1.06	0.30	0.17	0.11	0.10
Allowance for loan losses to nonaccrual loans	99.75	305.07	471.12	693.87	742.25
Allowance for loan losses to total loans	1.43	1.29	1.29	1.29	1.28
Net charge-offs (recoveries) to average loans	0.25	0.08	0.03	0.02	(0.01)
Capital Ratios (%):					
Tier 1 leverage capital ratio	7.82	7.53	6.09	6.01	5.45

Tier 1 risk-based capital ratio	11.14	11.29	9.10	9.57	9.06
Total risk-based capital ratio	12.40	12.54	10.39	10.96	10.51

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

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

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Selected Financial Data (Dollars in thousands)

December 31,	2009	2008	2007	2006	2005
Assets:					
Cash and cash equivalents	$57,260	$58,190	$41,112	$71,909	$66,163
Total securities	691,484	866,219	751,778	703,851	783,941
FHLBB stock	42,008	42,008	31,725	28,727	34,966
Loans:					
Commercial and other	984,550	880,313	680,266	587,397	554,734
Residential real estate	605,575	642,052	599,671	588,671	582,708
Consumer	329,543	316,789	293,715	283,918	264,466
Total loans	1,919,668	1,839,154	1,573,652	1,459,986	1,401,908
Less allowance for loan losses	27,400	23,725	20,277	18,894	17,918
Net loans	1,892,268	1,815,429	1,553,375	1,441,092	1,383,990
Investment in bank-owned life insurance	44,957	43,163	41,363	39,770	30,360
Goodwill and other intangibles	67,057	68,266	61,912	57,374	54,372
Other assets	89,439	72,191	58,675	56,442	48,211
Total assets	$2,884,473	$2,965,466	$2,539,940	$2,399,165	$2,402,003
Liabilities:					
Deposits:					
Demand deposits	$194,046	$172,771	$175,542	$186,533	$196,102
NOW accounts	202,367	171,306	164,944	175,479	178,677
Money market accounts	403,333	305,879	321,600	286,998	223,255
Savings accounts	191,580	173,485	176,278	205,998	212,499
Time deposits	931,684	967,427	807,841	822,989	828,725
Total deposits	1,923,010	1,790,868	1,646,205	1,677,997	1,639,258
FHLBB advances	607,328	829,626	616,417	474,561	545,323
Junior subordinated debentures	32,991	32,991	22,681	22,681	22,681
Other borrowings	21,501	26,743	32,560	14,684	9,774
Other liabilities	44,697	50,127	35,564	36,186	26,521
Shareholders' equity	254,946	235,111	186,513	173,056	158,446
Total liabilities and shareholders' equity	$2,884,473	$2,965,466	$2,539,940	$2,399,165	$2,402,003
Asset Quality:					
Nonaccrual loans	$27,470	$7,777	$4,304	$2,723	$2,414
Nonaccrual investment securities	1,065	633	–	–	–
Property acquired through foreclosure or repossession	1,974	392	–	–	–
Total nonperforming assets	$30,509	$8,802	$4,304	$2,723	$2,414
Wealth Management Assets:					
Market value of assets under administration	$3,770,193	$3,147,649	$4,014,352	$3,609,180	$3,215,763

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

2009	Q1	Q2	Q3	Q4	Year
Interest income:					
Interest and fees on loans	$ 24,139	$ 24,147	$ 24,303	$ 24,207	$ 96,796
Income on securities:					
Taxable	8,449	7,588	7,028	6,358	29,423
Nontaxable	780	778	781	777	3,116
Dividends on corporate stock and FHLBB stock	72	55	63	55	245
Other interest income	17	9	13	11	50
Total interest income	33,457	32,577	32,188	31,408	129,630
Interest expense:					
Deposits	9,547	8,481	7,577	7,033	32,638
FHLBB advances	7,227	7,112	7,094	6,739	28,172
Junior subordinated debentures	479	479	545	444	1,947
Other interest expense	245	244	246	246	981
Total interest expense	17,498	16,316	15,462	14,462	63,738
Net interest income	15,959	16,261	16,726	16,946	65,892
Provision for loan losses	1,700	3,000	1,800	2,000	8,500
Net interest income after provision for loan losses	14,259	13,261	14,926	14,946	57,392
Noninterest income:					
Wealth management services:					
Trust and investment advisory fees	4,122	4,402	4,717	4,887	18,128
Mutual fund fees	915	993	1,089	1,143	4,140
Financial planning, commissions and other service fees	376	559	243	340	1,518
Wealth management services	5,413	5,954	6,049	6,370	23,786
Service charges on deposit accounts	1,113	1,201	1,257	1,289	4,860
Merchant processing fees	1,349	2,086	2,619	1,790	7,844
Income from bank-owned life insurance	444	447	451	452	1,794
Net gains on loan sales and commissions on loans originated for others	1,044	1,552	591	1,165	4,352
Net realized gains on securities	57	257	–	–	314
Net unrealized gains on interest rate swap contracts	60	341	92	204	697
Other income	419	465	445	379	1,708
Noninterest income, excluding other-than-temporary impairment losses	9,899	12,303	11,504	11,649	45,355
Total other-than-temporary impairment losses on securities	(4,244)	–	(2,293)	(113)	(6,650)
Portion of loss recognized in other comprehensive income (before taxes)	2,253	–	1,826	(566)	3,513
	(1,991)	–	(467)	(679)	(3,137)

Net impairment losses recognized in earnings						
Total noninterest income		7,908	12,303	11,037	10,970	42,218
Noninterest expense:						
Salaries and employee benefits		10,475	10,359	10,416	10,667	41,917
Net occupancy		1,226	1,122	1,232	1,210	4,790
Equipment		975	1,036	916	990	3,917
Merchant processing costs		1,143	1,780	2,213	1,516	6,652
FDIC deposit insurance costs		651	2,143	808	795	4,397
Outsourced services		786	568	683	697	2,734
Legal, audit and professional fees		675	664	546	558	2,443
Advertising and promotion		301	491	422	473	1,687
Amortization of intangibles		308	308	303	290	1,209
Other expenses		1,850	1,858	1,653	2,061	7,422
Total noninterest expense		18,390	20,329	19,192	19,257	77,168
Income before income taxes		3,777	5,235	6,771	6,659	22,442
Income tax expense		1,107	1,470	1,858	1,911	6,346
Net income		$ 2,670	$ 3,765	$ 4,913	$ 4,748	$ 16,096
Weighted average shares outstanding - basic		15,942.7	15,983.6	16,016.8	16,035.4	15,994.9
Weighted average shares outstanding - diluted		15,997.8	16,037.4	16,074.5	16,082.0	16,040.9
Per share information:	Basic earnings per share	$ 0.17	$ 0.24	$ 0.31	$ 0.30	$ 1.01
	Diluted earnings per share	$ 0.17	$ 0.23	$ 0.31	$ 0.30	$ 1.00
	Cash dividends declared per share	$ 0.21	$ 0.21	$ 0.21	$ 0.21	$ 0.84

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

2008	Q1	Q2	Q3	Q4	Year
Interest income:					
Interest and fees on loans	$ 24,970	$ 24,406	$ 25,520	$ 26,043	$ 100,939
Income on securities:					
Taxable	8,416	8,302	8,504	9,160	34,382
Nontaxable	780	786	778	781	3,125
Dividends on corporate stock and FHLBB stock	620	489	407	366	1,882
Other interest income	140	50	128	16	334
Total interest income	34,926	34,033	35,337	36,366	140,662
Interest expense:					
Deposits	11,899	9,248	9,884	10,164	41,195
FHLBB advances	7,299	7,794	8,011	7,790	30,894
Junior subordinated debentures	338	509	524	508	1,879
Other interest expense	314	275	274	318	1,181
Total interest expense	19,850	17,826	18,693	18,780	75,149
Net interest income	15,076	16,207	16,644	17,586	65,513
Provision for loan losses	450	1,400	1,100	1,850	4,800
Net interest income after provision for loan losses	14,626	14,807	15,544	15,736	60,713
Noninterest income:					
Wealth management services:					
Trust and investment advisory fees	5,342	5,321	5,238	4,415	20,316
Mutual fund fees	1,341	1,445	1,383	1,036	5,205
Financial planning, commissions and other service fees	575	884	570	723	2,752
Wealth management services	7,258	7,650	7,191	6,174	28,273
Service charges on deposit accounts	1,160	1,208	1,215	1,198	4,781
Merchant processing fees	1,272	1,914	2,221	1,493	6,900
Income from bank-owned life insurance	447	453	452	448	1,800
Net gains on loan sales and commissions					
on loans originated for others	491	433	239	233	1,396
Net realized gains on securities	813	1,096	–	315	2,224
Net unrealized gains (losses) on interest rate swap contracts	119	26	(24)	(663)	(542)
Other income	342	528	278	477	1,625
Noninterest income, excluding other-than-temporary impairment losses	11,902	13,308	11,572	9,675	46,457
Total other-than-temporary impairment losses on securities	(858)	(1,149)	(982)	(2,948)	(5,937)
Portion of loss recognized in other comprehensive					
income (before taxes)	–	–	–	–	–
	(858)	(1,149)	(982)	(2,948)	(5,937)

Net impairment losses recognized in earnings						
Total noninterest income		11,044	12,159	10,590	6,727	40,520
Noninterest expense:						
Salaries and employee benefits		10,343	10,411	10,580	9,703	41,037
Net occupancy		1,138	1,064	1,123	1,211	4,536
Equipment		944	977	956	961	3,838
Merchant processing costs		1,068	1,598	1,857	1,246	5,769
FDIC deposit insurance costs		256	251	265	272	1,044
Outsourced services		636	742	700	781	2,859
Legal, audit and professional fees		543	430	626	726	2,325
Advertising and promotion		386	467	376	500	1,729
Amortization of intangibles		326	326	320	309	1,281
Other expenses		1,502	1,788	1,668	2,366	7,324
Total noninterest expense		17,142	18,054	18,471	18,075	71,742
Income before income taxes		8,528	8,912	7,663	4,388	29,491
Income tax expense		2,712	2,817	1,623	167	7,319
Net income		$ 5,816	$ 6,095	$ 6,040	$ 4,221	$ 22,172
Weighted average shares outstanding - basic		13,358.1	13,381.1	13,409.5	15,765.4	13,981.9
Weighted average shares outstanding - diluted		13,560.6	13,566.7	13,588.3	15,871.6	14,146.3
Per share information:	Basic earnings per share	$ 0.44	$ 0.45	$ 0.45	$ 0.27	$ 1.59
	Diluted earnings per share	$ 0.43	$ 0.45	$ 0.44	$ 0.27	$ 1.57
	Cash dividends declared per share	$ 0.20	$ 0.21	$ 0.21	$ 0.21	$ 0.83

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

The following analysis is intended to provide the reader with a further understanding of the consolidated financial condition and results of operations of the Corporation for the periods shown. For a full understanding of this analysis, it should be read in conjunction with other sections of this Annual Report on Form 10-K, including Part I, "Item 1. Business", Part II, "Item 6. Selected Financial Data" and Part II, "Item 8. Financial Statements and Supplementary Data."

Forward-Looking Statements

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

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

Critical Accounting Policies

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact income are considered critical accounting policies. The Corporation considers the following to be its critical accounting policies: allowance for loan losses, accounting for acquisitions and review of goodwill and intangible assets for impairment, and other-than-temporary impairment of investment securities. As a result of the early adoption of provisions of the Financial Accounting Standard Board ("FASB") Accounting Standards CodificationTM ("Codification" or "ASC") ASC 320, "Investments – Deb and Equity Securities," effective January 1, 2009, the Corporation has revised its critical accounting policy pertaining to other-than-temporary impairment of investment securities. These provisions applied to existing and new debt securities held by the Corporation as of January 1, 2009, the beginning of the interim period in which it was adopted. Therefore, the revised accounting policy below under the caption "Valuation of Investment Securities for Impairment" represents the only significant change in the Corporation's critical accounting policies from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008 and applies prospectively beginning January 1, 2009.

Allowance for Loan Losses

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

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

according to the contractual terms of the loan agreements and loans restructured in a troubled debt restructuring. Impaired loans do not include large groups of smaller-balance homogenous loans that are collectively evaluated for impairment, which consist of most residential mortgage loans and consumer loans. Impairment is measured on a discounted cash flow method based upon the loan's contractual effective interest rate, or at the loan's observable market price, or at the fair value of the collateral if the loan is collateral dependent. Impairment is measured based on the fair value of the collateral less costs to sell if it is determined that foreclosure is probable. For collateral dependent loans, management may adjust appraised values to reflect estimated market value declines or apply other discounts to appraised values for unobservable factors resulting from its knowledge of circumstances associated with the property.

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

Individual commercial loans and commercial mortgage loans not deemed to be impaired are evaluated using an internal rating system and the application of loss allocation factors. The loan rating system and the related loss allocation factors take into consideration parameters including the borrower's financial condition, the borrower's performance with respect to loan terms, and the adequacy of collateral. We periodically reassess and revise the loss allocation factors used in the assignment of loss exposure to appropriately reflect our analysis of migrational loss experience. We adjust loss allocations for various factors including declining trends in real estate values and deterioration in general economic conditions.

Portfolios of more homogenous populations of loans including residential mortgages and consumer loans are analyzed as groups taking into account delinquency ratios and other indicators and our historical loss experience for each type of credit product. We periodically update these analyses and adjust the loss allocations for various factors that we believe are not adequately presented in historical loss experience including declining trends in real estate values, changes in unemployment levels and increases in delinquency levels.

(3) 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 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, portfolio composition, including a trend toward somewhat larger credit relationships, and other changes in the portfolio are also considered.

Because the methodology is based upon historical experience and trends, current economic data as well as management's judgment, factors may arise that result in different estimations. Significant factors that could give rise to changes in these estimates may include, but are not limited to, changes in economic conditions in our market area, concentration of risk, and declines in local property values. Adversely different conditions or assumptions could lead to increase the allowance. As of December 31, 2009, management believes that the allowance is adequate and consistent with asset quality and delinquency indicators.

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

Review of Goodwill and Identifiable Intangible Assets for Impairment

Goodwill is recorded as part of the Corporation's acquisitions of businesses where the purchase price exceeds the fair market value of the net tangible and identifiable intangible assets. Goodwill is not amortized, but rather is subject to ongoing periodic impairment tests at least annually or more frequently upon the occurrence of significant adverse events. See Part I, Item 1A, "Risk Factors" for additional information. Goodwill was reviewed in 2009 by performing a discounted cash flow analysis ("income approach") and by estimates of selected market information ("market approach") for both the commercial banking and the wealth management segments of the Corporation. The

values determined using the income approach and the market approach were weighted equally for each segment. The results of the 2009 review indicated that the fair value exceeded the carrying value for both segments.

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

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

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

Valuation of Investment Securities for Impairment

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

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

Equity securities:
In determining whether an other-than-temporary impairment has occurred for common equity securities, the Corporation also considers whether it has the ability and intent to hold the investment until a market price recovery in the foreseeable future. Management evaluates the near-term prospects of the issuers in relation to the severity and

duration of the impairment. If necessary, the investment is written down to its current fair value through a charge to earnings at the time the impairment is deemed to have occurred.

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

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

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

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

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

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

Our financial results are affected by interest rate volatility, changes in economic and market conditions, competitive conditions within our market area and changes in legislation, regulation and/or accounting principles. During the latter part of 2008 and continuing into 2009, market and economic conditions have been severely impacted by deterioration in credit conditions as well as illiquidity with respect to various parts of the financial markets and

elevated levels of volatility. Concerns about future economic growth, lower consumer confidence, contraction of credit availability and lower corporate earnings continue to challenge the economy. The rate of unemployment continued to increase, reaching its highest level in several years. Corporate and related counterparty credit spreads widened and heightened concerns about numerous financial services companies adversely impacted the financial markets. As a result of these unparalleled market conditions, federal government agencies initiated several intervening actions in the U.S. financial services industry.

Management believes that the downturn in the local and national economies negatively impacted the credit quality of our loans, particularly in our commercial portfolio. We have increased the allowance for loan losses in response to

this condition as well as growth in the commercial portfolio. In response to these conditions, the Corporation has continued to refine its loan underwriting standards and has continued to enhance its credit monitoring and collection practices. The weakness in the financial markets described above also contributed to declines in the values of portions of our investment securities portfolio. In addition, wealth management revenues are largely dependent on the value of assets under administration and are closely tied to the performance of the financial markets.

Opportunities and Risks

A significant portion of the Corporation's commercial banking and wealth management business is conducted in the Rhode Island and greater southern New England area. Management recognizes that substantial competition exists in this marketplace and views this as a key business risk. A substantial portion of the banking industry market share in this region is held by much larger financial institutions with greater resources and larger delivery systems than the Bank. Market competition also includes the expanded commercial banking presence of credit unions and savings banks. While these competitive forces will continue to present risk, we have been successful in growing our commercial banking base and wealth management business, and management believes that the breadth of our product line and our size provide opportunities to compete effectively in our marketplace.

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

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

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

Wealth management service revenues, which represented approximately 22% of total revenues in 2009, are substantially dependent on the market value of wealth management assets under administration. These values may be negatively affected by changes in economic conditions and volatility in the financial markets.

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

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

Composition of Earnings

Comparison of 2009 with 2008

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

Net interest income increased by $379 thousand, or 1%, in 2009. No dividend was received from the Federal Home Loan Bank of Boston ("FHLBB") in 2009. Dividend income on the Corporation's investment in FHLBB stock totaled to $1.3 million for 2008. The net interest margin (fully taxable equivalent net interest income as a percentage of average

interest-earning assets) declined 16 basis points in 2009. This decrease in net interest margin reflects the elimination of FHLBB dividend income and margin compression, in general, on core deposit rates, as well as the impact of higher levels of nonaccrual loans in 2009 compared to 2008.

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

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

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

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

Noninterest expenses were up by $5.4 million, or 8%, from 2008, which included a $3.4 million increase in FDIC deposit insurance costs. In the second quarter of 2009, the Corporation recognized a FDIC special assessment of $1.35 million ($869 thousand after tax). In addition to the special assessment, the year over year increase in FDIC deposit insurance costs also reflects higher assessment rates, which are generally expected to continue in effect for the foreseeable future.

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

Comparison of 2008 with 2007

Net income for 2008 amounted to $22.2 million, or $1.57 per diluted share, compared to $23.8 million, or $1.75 per diluted share, for 2007. The rates of return on average equity and average assets for 2008 were 11.12% and 0.82%, respectively. Comparable amounts for 2007 were 13.48% and 0.99%, respectively. The $1.6 million, or 6.8%, decrease in net income in 2008 as compared to 2007 was attributable to several factors as described below.

Net interest income increased by $5.6 million, or 9.3%, in 2008, reflecting higher interest-earning asset levels and lower deposit costs. The net interest margin declined 12 basis points in 2008 primarily due to compression of asset yields and funding costs resulting from the 450 basis point aggregate impact of FRB rate-cutting actions from October 2007 through December 2008.

The loan loss provision charged to earnings in 2008 was $4.8 million, up by $2.9 million from 2007 largely due to growth in the loan portfolio as well as our ongoing evaluation of credit quality and general economic conditions. Asset quality remained manageable during the year with net charge-offs of only 0.08% of average total loans in 2008, compared to a ratio of 0.03% in 2007.

Noninterest income amounted to $40.5 million in 2008, down $5.0 million, or 11.0%, from 2007. This decline in noninterest income was largely due to the recognition of losses on write-downs of investment securities to fair value of $5.9 million ($3.8 million after tax, or 27 cents per diluted share). Wealth management revenues are largely dependent on the value of wealth management assets under administration and are closely tied to the performance of the financial markets. Revenues from wealth management services declined by $743 thousand, or 2.6%, in 2008. Wealth management assets under administration were down $866.7 million, or 21.6%, from December 31,

2007.

Noninterest expenses totaled $71.7 million for 2008, up by $2.8 million, or 4.1%, from 2007. Noninterest expenses for 2007 included $1.1 million in debt prepayment charges recorded as a result of prepayments of higher cost FHLBB advances in the first quarter of 2007. There were no debt prepayment penalty charges recognized in 2008. Excluding the 2007 debt prepayment charge, noninterest expenses rose by $3.9 million, or 5.8%. Approximately 40% of the 2008 increase, on this basis, represents costs attributable to our wealth management business, an increase in FDIC deposit insurance costs and operating expenses related to a de novo branch opened in June 2007.

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Income tax expense amounted to $7.3 million in 2008, a decrease of $3.5 million from 2007. Income tax benefits of $1.4 million, or 10 cents per diluted share, were recognized in 2008 resulting from a change in state corporate income tax legislation and the resolution of certain state tax positions. Excluding these income tax benefits, the Corporation's effective income tax rate for 2008 was 29.6%, as compared to 31.3% in 2007.

Results of Operations

Segment Reporting

Washington Trust manages its operations through two business segments, Commercial Banking and Wealth Management Services. The Commercial Banking segment includes commercial, commercial real estate, residential and consumer lending activities; mortgage banking, secondary market and loan servicing activities; deposit generation; merchant credit card services; cash management activities; and direct banking activities, which include the operation of ATMs, telephone and internet banking services and customer support and sales. Wealth Management Services includes asset management services provided for individuals and institutions; personal trust services, including services as executor, trustee, administrator, custodian and guardian; corporate trust services, including services as trustee for pension and profit sharing plans; and other financial planning and advisory services. All other activity, such as the investment securities portfolio, wholesale funding activities and administrative units, are not related to the segments and are considered Corporate. See Note 17 to the Consolidated Financial Statements for additional disclosure related to business segments.

Comparison of 2009 with 2008

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

The Wealth Management Services segment reported net income of $3.0 million in 2009, a decrease of $1.9 million, or 39%, from net income in 2008. Noninterest income derived from the Wealth Management Services segment was $23.8 million in 2009, down by $4.5 million, or 16%, from 2008. This revenue is dependent to a large extent on the value of assets under administration and is closely tied to the performance of the financial markets. Noninterest expenses for the Wealth Management Services segment also declined in 2009, as compared to 2008, reflecting lower incentive-based compensation.

Comparison of 2008 with 2007

The Commercial Banking segment reported net income of $19.9 million in 2008, up by $2.1 million, or 12%, from 2007, primarily due to higher net interest income. Net interest income was up by $8.7 million, or 16%, driven by growth in average loan balances and lower deposit costs. This increase in net interest income was partially offset by a $2.9 million increase in the loan loss provision and $2.7 million increase in Commercial Banking noninterest expenses in 2008. Higher noninterest expenses reflected increases in FDIC deposit insurance costs and operating expenses related to a de novo branch opened in June 2007.

The Wealth Management Services segment reported net income of $4.9 million in 2008, a decrease of $796 thousand, or 14%, from net income in 2007. Noninterest income derived from the Wealth Management Services segment was $28.3 million in 2008, down by $743 thousand, or 3%, from 2007. Lower noninterest income resulted from declines

in wealth management assets under administration due to lower valuations in the financial markets. In 2008, noninterest expenses for the Wealth Management Services segment amounted to $20.1 million, up by $451 thousand, or 2%, from 2007. This increase was attributable to higher outsourced services expenses for wealth management platform and product support costs.

Net Interest Income

Comparison of 2009 with 2008

Net interest income is the difference between interest earned on loans and securities and interest paid on deposits and other borrowings, and continues to be the primary source of Washington Trust's operating income. Net interest

income is affected by the level of interest rates, changes in interest rates and changes in the amount and composition of interest-earning assets and interest-bearing liabilities. Included in interest income are loan prepayment fees and certain other fees, such as late charges.

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

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

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

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

Average interest-bearing liabilities increased by $137 million or 6% in 2009 primarily due to growth in deposits, offset in part by declines in FHLBB advances. The increase in deposits includes the successful first quarter 2009 transition of wealth management client money market deposits previously held in outside money market funds to fully insured and collateralized deposits. This resulted in a $45 million increase in average interest-bearing deposits. Average interest-bearing deposits increased by $190 million from 2009 to 2008, while the average rate paid on interest-bearing deposits decreased by 81 basis points. Interest-bearing deposits include out-of-market brokered certificates of deposit, which are utilized by the Corporation as part of its overall funding program along with FHLBB advances and other sources. Average out-of-market brokered certificates of deposit for 2009 decreased by $26 million from 2008, with a 14 basis point decline in the average rate paid. Excluding out-of-market brokered certificates of deposit, average in-market interest-bearing deposits for the year 2009 increased by $216 million from 2008 while the average rate paid on in-market interest-bearing deposits decreased by 81 basis points. See additional discussion on brokered certificates of deposit in the "Financial Condition" section under the caption "Deposits."

The growth in deposits enabled the Corporation to reduce its level of FHLBB advances in 2009. The average balance of FHLBB advances for the year 2009 decreased by $51 million from 2008. The average rate paid on such advances for the year 2009 decreased 9 basis points from 2008. In connection with the Corporation's ongoing interest rate risk management efforts, in January 2010, the Corporation modified the terms to extend the maturity dates of FHLBB advances totaling $50 million with original maturity dates in 2011 and 2012. As a result, the Corporation expects interest expense savings of approximately $212 thousand in 2010.

Comparison of 2008 with 2007

Net interest income for 2008 totaled $65.5 million, up $5.6 million, or 9%, from the amount reported for 2007. The increase in net interest income reflected growth in interest-earning assets and lower deposit costs.

FTE net interest income for 2008 amounted to $67.4 million, up $5.6 million, or 9%, from 2007. The net interest margin for 2008 amounted to 2.64%, compared to 2.76% for 2007. The 12 basis point decline in the net interest margin was primarily attributable to lower yields on variable rate commercial and consumer loans resulting from

Federal Reserve actions to reduce short-term interest rates, with less commensurate reduction in deposit and other funding rates.

Average interest-earning assets increased by $308 million, or 14%, in 2008, including the reinvestment of the $46.7 million in net proceeds received from the issuance of Common Stock in October 2008. The increase in average interest-earning assets was largely due to growth in the loan portfolio. Average loan balances grew $198 million, or 13%, primarily due to growth in the commercial loan category. The yield on total loans decreased 63 basis points in 2008, reflecting declines in short-term interest rates. The contribution of loan prepayment and other fees to the yield on total loans was 3 basis points and 4 basis points in 2008 and 2007, respectively. Total average securities increased by $94 million, or 14%, in 2008, largely due to purchases of mortgage-backed securities issued by U.S. government agencies and government-sponsored enterprises during a period of substantial spread widening for these and many other classes of investment securities. The FTE rate of return on securities decreased 24 basis points in 2008, reflecting lower yields on variable rate securities tied to short-term interest rates

In 2008, average interest-bearing liabilities increased by $284 million, or 14%, while cost of funds decreased 52 basis points. The increase in average interest-bearing liabilities was largely due to increases in FHLBB advances. The balance of average FHLBB advances increased $249 million in 2008, while the average rate paid on FHLBB advances decreased 23 basis points. In addition, the increase in average interest-bearing liabilities included a $40 million increase in time deposits. Time deposits include out-of-market brokered certificates of deposit, which are utilized by the Corporation as part of its overall funding program along with FHLBB advances and other sources. Average out-of-market brokered certificates of deposit increased $10 million, or 7%, in 2008. See Note 11 to the Consolidated Financial Statements for additional discussion on junior subordinated debentures issued in the second quarter of 2008.

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

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

Years ended December 31,		2009			2008			2007	
	Average		Yield/	Average		Yield/	Average		Yield/
(Dollars in thousands)	Balance	Interest	Rate	Balance	Interest	Rate	Balance	Interest	Rate
Assets:									
Commercial and other loans	$ 941,833	$ 50,092	5.32	$ 782,825	$ 50,589	6.46	$ 626,309	$ 47,713	7.62
Residential real estate loans, including mortgage loans held for sale	629,035	33,410	5.31	613,367	33,954	5.54	589,619	31,540	5.35
Consumer loans	323,576	13,494	4.17	301,653	16,584	5.50	283,873	19,634	6.92
Total loans	1,894,444	96,996	5.12	1,697,845	101,127	5.96	1,499,801	98,887	6.59
Cash, federal funds sold and other short-term investments	20,201	50	0.25	21,515	334	1.55	16,759	831	4.96
FHLBB stock	42,008	–	–	39,282	1,345	3.42	28,905	1,915	6.62
Taxable debt securities	693,050	29,423	4.25	700,546	34,382	4.91	605,443	31,163	5.15
Nontaxable debt securities	80,629	4,662	5.78	81,046	4,583	5.65	77,601	4,368	5.63
Corporate stocks	5,618	339	6.05	9,426	740	7.85	13,639	1,132	8.29
Total securities	779,297	34,424	4.42	791,018	39,705	5.02	696,683	36,663	5.26
Total interest-earning assets	2,735,950	131,470	4.81	2,549,660	142,511	5.59	2,242,148	138,296	6.17
Noninterest-earning assets	185,345			163,730			165,561		
Total assets	$ 2,921,295			$ 2,713,390			$ 2,407,709		
Liabilities and shareholders' equity:									
NOW accounts	$ 181,171	$ 327	0.18	$ 165,479	$ 306	0.18	$ 166,580	$ 285	0.17
Money market accounts	375,175	3,960	1.06	310,445	6,730	2.17	303,138	11,846	3.91
Savings accounts	187,862	530	0.28	173,840	1,059	0.61	194,342	2,619	1.35
Time deposits	957,449	27,821	2.91	861,814	33,100	3.84	821,951	37,672	4.58

FHLBB advances	687,210	28,172	4.10	737,830	30,894	4.19	489,229	21,641	4.42
Junior subordinated debentures	32,991	1,947	5.90	30,259	1,879	6.21	22,681	1,352	5.96
Other	21,476	981	4.57	26,678	1,181	4.43	23,990	1,075	4.48
Total interest-bearing liabilities	2,443,334	63,738	2.61	2,306,345	75,149	3.26	2,021,911	76,490	3.78
Demand deposits	187,800			177,032			177,342		
Other liabilities	44,712			30,618			31,886		
Shareholders' equity	245,449			199,395			176,570		
Total liabilities and shareholders' equity	$ 2,921,295			$ 2,713,390			$ 2,407,709		
Net interest income		$ 67,732			$ 67,362			$ 61,806	
Interest rate spread			2.20			2.33			2.39
Net interest margin			2.48			2.64			2.76

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,	2009	2008	2007
Commercial and other loans	$ 200	$ 188	$ 167
Nontaxable debt securities	1,546	1,458	1,385
Corporate stocks	94	203	310
Total	$ 1,840	$ 1,849	$ 1,862

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

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

(Dollars in thousands)	2009/2008 Volume	2009/2008 Rate	2009/2008 Net Change	2008/2007 Volume	2008/2007 Rate	2008/2007 Net Change
Interest on interest-earning assets:						
Commercial and other loans	$ 9,285	$ (9,782)	$ (497)	$ 10,817	$ (7,941)	$ 2,876
Residential real estate loans, including mortgage loans held for sale	867	(1,411)	(544)	1,284	1,130	2,414
Consumer loans	1,140	(4,230)	(3,090)	1,172	(4,222)	(3,050)
Cash, federal funds sold and other short-term investments	(19)	(265)	(284)	189	(686)	(497)
FHLBB stock	87	(1,432)	(1,345)	546	(1,116)	(570)
Taxable debt securities	(366)	(4,593)	(4,959)	4,724	(1,505)	3,219
Nontaxable debt securities	(24)	103	79	198	17	215
Corporate stocks	(255)	(146)	(401)	(335)	(57)	(392)
Total interest income	10,715	(21,756)	(11,041)	18,595	(14,380)	4,215
Interest on interest-bearing liabilities:						
NOW accounts	22	(1)	21	(1)	22	21
Money market accounts	1,194	(3,964)	(2,770)	279	(5,395)	(5,116)
Savings accounts	80	(609)	(529)	(252)	(1,308)	(1,560)
Time deposits	3,378	(8,657)	(5,279)	1,753	(6,325)	(4,572)
FHLBB advances	(2,073)	(649)	(2,722)	10,435	(1,182)	9,253
Junior subordinated debentures	164	(96)	68	468	59	527
Other	(236)	36	(200)	119	(13)	106
Total interest expense	2,529	(13,940)	(11,411)	12,801	(14,142)	(1,341)
Net interest income	$ 8,186	$ (7,816)	$ 370	$ 5,794	$ (238)	$ 5,556

Provision and Allowance for Loan Losses

The provision for loan losses is based on management's periodic assessment of the adequacy of the allowance for loan losses which, in turn, is based on such interrelated factors as the composition of the loan portfolio and its inherent risk characteristics, the level of nonperforming loans and charge-offs, both current and historic, local economic and credit conditions, the direction of real estate values, and regulatory guidelines. The provision for loan losses is charged against earnings in order to maintain an allowance for loan losses that reflects management's best estimate of probable losses inherent in the loan portfolio at the balance sheet date.

The provision for loan losses charged to earnings amounted to $8.5 million in 2009, compared to $4.8 million in 2008 and $1.9 million in 2007. The increase in the provision was based on management's assessment of various factors affecting the loan portfolio, including, among others, our ongoing evaluation of credit quality, with particular emphasis on the commercial portfolio, general economic conditions and growth in the loan portfolio. Net charge-offs were $4.8 million in 2009, $1.4 million in 2008 and $517 thousand in 2007. Commercial loan net charge-offs amounted to $4.2 million, or 88% of total net charge-offs, in 2009. This compares to commercial loan net charge-offs of $1.1 million, or 82% of total net charge-offs, in 2008 and $329 thousand, or 64% in 2007.

The allowance for loan losses was $27.4 million, or 1.43% of total loans, at December 31, 2009, compared to $23.7 million, or 1.29% of total loans, at December 31, 2008.

The Corporation will continue to assess the adequacy of its allowance for loan losses in accordance with its established policies. See additional discussion under the caption "Asset Quality" for further information on the Allowance for Loan Losses.

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Noninterest Income

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

	Years Ended December 31,			2009/2008 Change		2008/2007 Change	
	2009	2008	2007	$	%	$	%
Noninterest income:							
Wealth management services:							
Trust and investment advisory fees	$ 18,128	$ 20,316	$ 21,124	$ (2,188)	(11)%	$ (808)	(4)%
Mutual fund fees	4,140	5,205	5,430	(1,065)	(20)	(225)	(4)
Financial planning, commissions and other service fees	1,518	2,752	2,462	(1,234)	(45)	290	12
Wealth management services	23,786	28,273	29,016	(4,487)	(16)	(743)	(3)
Service charges on deposit accounts	4,860	4,781	4,713	79	2	68	1
Merchant processing fees	7,844	6,900	6,710	944	14	190	3
Income from bank-owned life insurance	1,794	1,800	1,593	(6)	–	207	13
Net gains on loan sales and commissions on loans originated for others	4,352	1,396	1,493	2,956	212	(97)	(6)
Net realized gains on securities	314	2,224	455	(1,910)	(86)	1,769	389
Net gains (losses) on interest rate swap contracts	697	(542)	27	1,239	(229)	(569)	(2,107)
Other income	1,708	1,625	1,502	83	5	123	8
Noninterest income, excluding other-than-temporary impairment losses	45,355	46,457	45,509	(1,102)	(2)	948	2
Total other-than-temporary impairment losses on securities	(6,650)	(5,937)	–	(713)	12	(5,937)	–
Portion of loss recognized in other comprehensive income (before taxes)	3,513	–	–	3,513	–	–	–
Net impairment losses recognized in earnings	(3,137)	(5,937)	–	2,800	(47)	(5,937)	–
Total noninterest income	$ 42,218	$ 40,520	$ 45,509	$ 1,698	4 %	$ (4,989)	(11)%

Revenue from wealth management services is our largest source of noninterest income. It is largely dependent on the value of wealth management assets under administration and is closely tied to the performance of the financial

markets. The following table presents the changes in wealth management assets under administration for the years ended December 31, 2009, 2008 and 2007:

(Dollars in thousands)	2009	2008	2007
Wealth Management Assets Under Administration:			