WASHINGTON TRUST BANCORP INC
Form 10-Q
November 09, 2007

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

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended **SEPTEMBER 30, 2007** 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: 000-13091

WASHINGTON TRUST BANCORP, INC.

(Exact name of registrant as specified in its charter)

RHODE ISLAND (State or other jurisdiction of incorporation or organization)	**05-0404671** (I.R.S. Employer Identification No.)
23 BROAD STREET **WESTERLY, RHODE ISLAND** (Address of principal executive offices)	**02891** (Zip Code)
(401) 348-1200 (Registrant's telephone number, including area code)	

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

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

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

oYes xNo

The number of shares of common stock of the registrant outstanding as of October 31, 2007 was 13,351,231.

FORM 10-Q
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
For the Quarter Ended September 30, 2007

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Exhibit 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley act of 2002

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES

(Dollars in thousands)

CONSOLIDATED BALANCE SHEETS (Unaudited)

	As Restated September 30, 2007	December 31, 2006
Assets:		
Cash and due from banks	$ 31,521	$ 54,337
Federal funds sold	21,975	16,425
Other short-term investments	1,516	1,147
Mortgage loans held for sale	2,095	2,148
Securities:		
Available for sale, at fair value; amortized cost $691,836 in 2007 and $525,966 in 2006	688,709	526,396
Held to maturity, at cost; fair value $175,369 in 2006	–	177,455
Total securities	688,709	703,851
Federal Home Loan Bank stock, at cost	28,727	28,727
Loans:		
Commercial and other	650,023	587,397
Residential real estate	578,816	588,671
Consumer	285,654	283,918
Total loans	1,514,493	1,459,986
Less allowance for loan losses	19,472	18,894
Net loans	1,495,021	1,441,092
Premises and equipment, net	25,790	24,307
Accrued interest receivable	12,030	11,268
Investment in bank-owned life insurance	40,936	39,770
Goodwill	50,479	44,558
Identifiable intangible assets, net	11,759	12,816
Other assets	21,204	18,719
Total assets	$ 2,431,762	$ 2,399,165
Liabilities:		
Deposits:		
Demand deposits	$ 182,830	$ 186,533
NOW accounts	172,378	175,479
Money market accounts	312,257	286,998
Savings accounts	189,157	205,998
Time deposits	799,265	822,989
Total deposits	1,655,887	1,677,997
Dividends payable	2,676	2,556
Federal Home Loan Bank advances	502,265	474,561
Junior subordinated debentures	22,681	22,681
Other borrowings	36,403	14,684
Accrued expenses and other liabilities	33,953	33,630
Total liabilities	2,253,865	2,226,109
Shareholders' Equity:		
Common stock of $.0625 par value; authorized 30,000,000 shares; issued 13,492,110 in 2007 and 2006	843	843

Paid-in capital	34,821	35,893
Retained earnings	151,537	141,548
Accumulated other comprehensive loss	(5,587)	(3,515)
Treasury stock, at cost; 141,646 shares in 2007 and 62,432 shares in 2006	(3,717)	(1,713)
Total shareholders’ equity	177,897	173,056
Total liabilities and shareholders’ equity	$ 2,431,762	$ 2,399,165

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

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

	Three Months		As Restated Nine Months	
Periods ended September 30,	2007	2006	2007	2006
Interest income:				
Interest and fees on loans	$ 25,032	$ 23,430	$ 73,380	$ 68,457
Interest on securities:				
Taxable	7,565	8,493	23,196	25,553
Nontaxable	781	405	2,208	1,104
Dividends on corporate stock and Federal Home Loan Bank stock	669	1,197	2,072	2,124
Interest on federal funds sold and other short-term investments	275	252	650	517
Total interest income	34,322	33,777	101,506	97,755
Interest expense:				
Deposits	13,140	12,473	39,332	33,872
Federal Home Loan Bank advances	5,243	5,011	15,323	16,115
Junior subordinated debentures	338	338	1,014	1,014
Other	291	89	730	256
Total interest expense	19,012	17,911	56,399	51,257
Net interest income	15,310	15,866	45,107	46,498
Provision for loan losses	300	300	900	900
Net interest income after provision for loan losses	15,010	15,566	44,207	45,598
Noninterest income:				
Wealth management services:				
Trust and investment advisory fees	5,336	4,727	15,626	14,036
Mutual fund fees	1,386	1,229	4,000	3,573
Financial planning, commissions and other service fees	456	509	1,915	2,033
Wealth management services	7,178	6,465	21,541	19,642
Service charges on deposit accounts	1,214	1,312	3,559	3,667
Merchant processing fees	2,252	2,125	5,285	4,828
Income from bank-owned life insurance	376	389	1,166	1,014
Net gains on loan sales and commissions on loans originated for others	431	417	1,205	1,029
Net realized (losses) gains on securities	–	(365)	336	459
Other income	399	440	1,129	1,111
Total noninterest income	11,850	10,783	34,221	31,750
Noninterest expense:				
Salaries and employee benefits	10,098	9,651	30,195	29,100
Net occupancy	1,021	934	3,076	2,906
Equipment	871	872	2,564	2,552
Merchant processing costs	1,916	1,796	4,493	4,090
Outsourced services	556	490	1,610	1,504
Advertising and promotion	466	371	1,467	1,489
Legal, audit and professional fees	444	563	1,298	1,342
Amortization of intangibles	341	398	1,057	1,209
Debt prepayment penalties	–	–	1,067	–

Other	1,599	1,536	5,354	5,403
Total noninterest expense	17,312	16,611	52,181	49,595
Income before income taxes	9,548	9,738	26,247	27,753
Income tax expense	2,992	3,160	8,234	8,925
Net income	$ 6,556	$ 6,578	$ 18,013	$ 18,828
Weighted average shares outstanding - basic	13,323.6	13,436.6	13,358.1	13,414.6
Weighted average shares outstanding - diluted	13,564.1	13,726.3	13,612.7	13,708.2
Per share information:				
Basic earnings per share	$ 0.49	$ 0.49	$ 1.35	$ 1.40
Diluted earnings per share	$ 0.48	$ 0.48	$ 1.32	$ 1.37
Cash dividends declared per share	$ 0.20	$ 0.19	$ 0.60	$ 0.57

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(Dollars in thousands)

Nine months ended September 30,		As Restated 2007	2006
Cash flows from operating activities:			
Net income		$ 18,013	$ 18,828
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses		900	900
Depreciation of premises and equipment		2,209	2,287
Loss on disposal of premises and equipment		23	–
Net amortization of premium and discount		466	1,070
Net amortization of intangibles		1,057	1,209
Share-based compensation		427	535
Non-cash charitable contribution		520	513
Earnings from bank-owned life insurance		(1,166)	(1,014)
Net gains on loan sales		(1,205)	(1,029)
Net realized gains on sales of securities		(336)	(459)
Proceeds from sales of loans		47,313	29,395
Loans originated for sale		(46,496)	(31,076)
Increase in accrued interest receivable, excluding purchased interest		(731)	(724)
Increase in other assets		(1,211)	(2,483)
Increase in accrued expenses and other liabilities		533	2,233
Other, net		(3)	10
Net cash provided by operating activities		20,313	20,195
Cash flows from investing activities:			
Purchases of:	Mortgage-backed securities available for sale	(143,774)	(31,820)
	Other investment securities available for sale	(39,290)	(58,561)
	Other investment securities held to maturity	(12,882)	(17,682)
Proceeds from sale of:	Mortgage-backed securities available for sale	47,938	45,249
	Other investment securities available for sale	10,160	12,251
	Mortgage-backed securities held to maturity	38,501	–
	Other investment securities held to maturity	21,698	–
Maturities and principal payments of:	Mortgage-backed securities available for sale	50,042	69,613
	Other investment securities available for sale	14,957	1,999
	Mortgage-backed securities held to maturity	3,191	12,873
		20,490	8,490

Other investment securities held to maturity		
Remittance of Federal Home Loan Bank stock	–	3,000
Net increase in loans	(48,704)	(1,557)
Purchases of loans, including purchased interest	(5,841)	(25,309)
Purchases of premises and equipment	(3,715)	(2,619)
Purchases of bank-owned life insurance	–	(8,000)
Payment of deferred acquisition obligation	(6,720)	–
Net cash (used in) provided by investing activities	(53,949)	7,927
Cash flows from financing activities:		
Net (decrease) increase in deposits	(22,110)	60,929
Net increase in other borrowings	22,518	559
Proceeds from Federal Home Loan Bank advances	532,463	382,529
Repayment of Federal Home Loan Bank advances	(504,729)	(463,668)
Purchases of treasury stock, including deferred compensation plan activity	(5,211)	(117)
Proceeds from the issuance of common stock under dividend reinvestment plan	–	911
Proceeds from the exercise of share options	989	611
Tax benefit from share option exercises	723	259
Cash dividends paid	(7,904)	(7,513)
Net cash provided by (used in) financing activities	16,739	(25,500)
Net (decrease) increase in cash and cash equivalents	(16,897)	2,622
Cash and cash equivalents at beginning of year	71,909	66,163
Cash and cash equivalents at end of period	$ 55,012	$ 68,785

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

WASHINGTON TRUST BANCORP, INC. AND SUBSIDIARIES **(Dollars in thousands)**
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) **(Continued)**

Nine months ended September 30,		As Restated 2007	2006
Noncash Investing and Financing Activities:			
Loans charged off		$ 553	$ 325
Increase to deferred acquisition obligation		5,921	4,595
Held to maturity securities transferred to available for sale		162,997	–
Supplemental Disclosures:	Interest payments	56,792	50,868
	Income tax payments	8,965	10,327

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

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

General

Washington Trust Bancorp, Inc. (the "Bancorp") is a publicly-owned registered bank holding company and financial holding company. The Bancorp owns all of the outstanding common stock of The Washington Trust Company (the "Bank"), a Rhode Island chartered commercial bank founded in 1800. Through its subsidiaries, the Bancorp offers a complete product line of financial services to individuals and businesses including commercial, residential and consumer lending, retail and commercial deposit products, and wealth management services through its branch offices in Rhode Island, Massachusetts and southeastern Connecticut, ATMs, and its Internet web site (www.washtrust.com).

(1) Basis of Presentation

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

The accounting and reporting policies of the Corporation conform to U.S. generally accepted accounting principles ("GAAP") and to general practices of the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to near-term change are the determination of the allowance for loan losses and tax estimates.

In the opinion of management, the accompanying consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) and disclosures necessary to present fairly the Corporation's financial position as of September 30, 2007 and December 31, 2006, respectively, and the results of operations and cash flows for the interim periods presented. Interim results are not necessarily reflective of the results of the entire year. The unaudited consolidated financial statements of the Corporation presented herein have been prepared pursuant to the rules of the Securities and Exchange Commission ("SEC") for quarterly reports on Form 10-Q and do not include all of the information and note disclosures required by GAAP. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in Washington Trust's Annual Report on Form 10-K for the year ended December 31, 2006.

On October 30, 2007, we announced that we identified accounting errors related to sales of certain held-to-maturity investment securities conducted in the second quarter of 2007. Based on our assessment of the provisions of Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Liabilities" ("SFAS No. 159"), on April 12, 2007 we had decided to implement early adoption of SFAS No. 159. In connection with this, we selected the fair value option for certain U.S. Government sponsored agency and mortgage-backed securities with lower coupons and slower prepayment characteristics in the held-to-maturity portfolio totaling approximately $61.9 million. A portfolio restructuring plan was also undertaken to reduce interest rate risk and improve net interest margin, which included the sale of these securities. On Friday April 13, 2007 we executed sale trades for these held-to-maturity securities. At the time of the sales transactions the historical amortized cost basis of the sold securities exceeded the total sales price by $1.7 million. On Monday April 16, 2007 additional information became available regarding clarifications of the interpretation of the application of SFAS No. 159 by applicable regulatory and accounting industry bodies that led us to conclude that the application of SFAS No. 159 to our transactions might be inconsistent with the intent and spirit of SFAS No. 159. Consequently, we decided not to early-adopt SFAS No. 159.

In connection with that decision, we were able to promptly execute purchase trade transactions for the identical securities prior to the sales settlement date for approximately $49.9 million of the $61.9 million total, with the intent that, in substance, the sale transaction would be offset for these securities. The reacquired securities were retained in the held-to-maturity portfolio at the original pre-sale amortized cost and a $1.4 million loss on the sale of the reacquired securities was not recognized. The sale and reacquisition of the $49.9 million in held-to-maturity securities as well as certain other investing and financing transactions conducted in connection with the portfolio restructuring strategy were similarly treated in an offset manner and these transaction amounts were incorrectly omitted from the

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES **(Continued)**
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

consolidated statement of cash flows for the period ended June 30, 2007; the correction for these other investing and financing transactions had no effect on net income. For the reacquired securities, the reacquisition price exceeded the selling price by $153 thousand and an expense of this amount was recognized in other noninterest expense in the second quarter of 2007. Also in the second quarter of 2007, a realized securities loss in the amount of $261 thousand was recognized on the securities that were sold but not reacquired. We discussed the accounting treatment described above with KPMG LLP, our independent registered public accounting firm, in connection with its quarterly review process.

Based on a recent review of these transactions, in consultation with KPMG, we have determined that the offsetting of the April 13, 2007 sales and subsequent reacquisition of identical securities was incorrect and that the sale transactions should have been recognized with a $1.4 million realized securities loss and corresponding reduction in the carrying value of the reacquired securities.

Also, we have determined that the remaining held-to-maturity portfolio should have been reclassified to the available-for-sale category. This reclassification has been recognized as of April 13, 2007. Accordingly, the effect on the June 30, 2007 consolidated balance sheet was to reclassify the portfolio of held-to-maturity securities to the available-for-sale category, which resulted in a $1.6 million reduction in shareholders' equity. We will not be able to classify securities in the held-to-maturity category for a period of two years from the April 13, 2007 sales date as a result of this action.

The correction to reduce the cost basis of the reacquired securities results in a change to the accretion of discount for these securities, which is recognized in interest income until their maturity dates. The resulting additional amount of accretion income recognized on these securities was $79 thousand in each of the quarters ended June 30, 2007 and September 30, 2007.

For the quarter ended June 30, 2007, the accounting corrections for these transactions, including recognition of the realized loss on the sales transactions and other related changes, result in an after-tax reduction in net income of $828 thousand, or 6 cents per diluted share, from $6.3 million, or 46 cents per diluted share, to $5.5 million, or 40 cents per diluted share. For the six-month period ended June 30, 2007 the accounting corrections result in a reduction in net income from $12.3 million, or 90 cents per diluted share, to $11.5 million, or 84 cents per diluted share.

All applicable amounts related to this restatement have been reflected in this Form 10-Q, including the Consolidated Financial Statements and Notes thereto.

On October 24, 2007, management, in consultation with KPMG, concluded that the Corporation's interim financial statements for the period ended June 30, 2007 should be restated and that the Corporation's financial statements for the quarter ended June 30, 2007 should no longer be relied upon. The Audit Committee of our Board of Directors has thoroughly reviewed this matter and, on October 26, 2007, approved management's conclusion.

The Corporation will file an amended Form 10-Q for the quarter ended June 30, 2007 reflecting the necessary adjustments with the SEC as soon as practicable. The Corporation will also file an amended Form 10-Q for the quarter ended March 31, 2007 with the SEC as soon as practicable to add a subsequent event footnote to disclose the second quarter 2007 transactions described above.

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **(Continued)**

The following tables summarize the effect of the restatement adjustments on the consolidated financial statements as of and for the three and six months ended June 30, 2007:

Consolidated Balance Sheet (unaudited)	**As of June 30, 2007**		
(Dollars in thousands)	As Reported	Adjustment	As Restated
Available for sale securities	$ 525,688	$ 150,516	$ 676,204
Held to maturity securities	154,171	(154,171)	–
Total securities	679,859	(3,655)	676,204
Other assets	21,063	1,237	22,300
Total assets	2,396,300	(2,418)	2,393,882
Retained earnings	148,485	(828)	147,657
Accumulated other comprehensive loss	(6,519)	(1,590)	(8,109)
Shareholders’ equity	173,606	(2,418)	171,188
Total liabilities and shareholders’ equity	2,396,300	(2,418)	2,393,882

Consolidated Statement of Income (unaudited)	**Three Months Ended June 30, 2007**		
(Dollars in thousands, except per share amounts)	As Reported	Adjustment	As Restated
Interest income on taxable securities	$ 7,709	$ 130	$ 7,839
Interest expense on Federal Home Loan Bank advances	5,063	49	5,112
Net interest income	14,846	81	14,927
Net interest income after provision for loan losses	14,546	81	14,627
Net realized gains (losses) on securities	705	(1,405)	(700)
Total noninterest income	12,528	(1,405)	11,123
Other noninterest expense	2,274	(115)	2,159
Total noninterest expense	17,875	(115)	17,760
Income before taxes	9,199	(1,209)	7,990
Income tax expense	2,889	(381)	2,508
Net income	6,310	(828)	5,482
Basic earnings per share	$ 0.47	$ (0.06)	$ 0.41
Diluted earnings per share	$ 0.46	$ (0.06)	$ 0.40

Consolidated Statement of Income (unaudited)	**Six Months Ended June 30, 2007**		
(Dollars in thousands, except per share amounts)	As Reported	Adjustment	As Restated
Interest income on taxable securities	$ 15,501	$ 130	$ 15,631
Interest expense on FHLB advances	10,031	49	10,080
Net interest income	29,716	81	29,797
Net interest income after provision for loan losses	29,116	81	29,197
Net realized gains on securities	1,741	(1,405)	336
Total noninterest income	23,776	(1,405)	22,371
Other noninterest expense	3,870	(115)	3,755
Total noninterest expense	34,984	(115)	34,869
Income before taxes	17,908	(1,209)	16,699

Income tax expense		5,623		(381)		5,242
Net income		12,285		(828)		11,457
Basic earnings	$	0.92	$	(0.06)	$	0.86
Diluted earnings	$	0.90	$	(0.06)	$	0.84

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **(Continued)**

Consolidated Statement of Cash Flows (unaudited) **Six Months Ended June 30, 2007**

(Dollars in thousands)	As Reported	Adjustment	As Restated
Cash flows from operating activities:			
Net income	$ 12,285	$ (828)	$ 11,457
Adjustments to reconcile net income to net cash provided by operating activities:			
Net amortization of premium and discount	433	(79)	354
Net realized gains on sales of securities	(1,741)	1,405	(336)
Increase in other assets	(607)	(380)	(987)
Net cash provided by operating activities	9,434	118	9,552
Cash flows from investing activities:			
Purchases of:			
Mortgage-backed securities available for sale	(29,065)	(84,584)	(113,649)
Other investment securities available for sale	(18,865)	(15,031)	(33,896)
Mortgage-backed securities held to maturity	–	–	–
Other investment securities held to maturity	(16,011)	3,129	(12,882)
Proceeds from sale of:			
Mortgage-backed securities available for sale	–	47,938	47,938
Other investment securities available for sale	9,438	–	9,438
Mortgage-backed securities held to maturity	1,954	36,547	38,501
Other investment securities held to maturity	9,815	11,883	21,698
Maturities and principal payments of:			
Mortgage-backed securities available for sale	29,542	3,041	32,583
Other investment securities available for sale	5,982	450	6,432
Mortgage-backed securities held to maturity	6,232	(3,041)	3,191
Other investment securities held to maturity	20,940	(450)	20,490
Net cash used in investing activities	(19,376)	(118)	(19,494)
Cash flows from financing activities:			
Proceeds from Federal Home Loan Bank advances	344,719	47,000	391,719
Repayment of Federal Home Loan Bank advances	(350,433)	(47,000)	(397,433)
Net cash provided by financing activities	(3,951)	–	(3,951)
Net decrease in cash and cash and cash equivalents	(13,893)	–	(13,893)

(2) New Accounting Pronouncements

In February 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140" ("SFAS No. 155"). SFAS No. 155 eliminates the exemption from applying SFAS No. 133 to interests in securitized financial assets so that similar instruments are accounted for similarly regardless of the form of the instruments. SFAS No. 155 also allows a preparer to elect fair value measurement at acquisition, at issuance, or when a previously recognized financial instrument is subject to a remeasurement event, on an instrument-by-instrument basis, in cases in which a derivative would otherwise have to be bifurcated. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. Provisions of SFAS No. 155 may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. Prior periods should not be restated. The adoption of SFAS No. 155 did not have a material impact on the Corporation's financial position or results of operations.

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140" ("SFAS No. 156"). SFAS No. 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value. SFAS No. 156 permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. An entity that used derivative instruments to mitigate the risks inherent in servicing assets and servicing liabilities is required to account for those derivative instruments at fair value. SFAS No. 156 is effective as of the beginning of the first fiscal year that begins

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

after September 15, 2006. The adoption of SFAS No. 156 did not have a material impact on the Corporation's financial position or results of operations.

Effective January 1, 2007, the Corporation adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. In addition, FIN 48 provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 did not have a material impact on the Corporation's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures of fair value measurements. SFAS No. 157 applies to the accounting principles that currently use fair value measurement, and does not require any new fair value measurements. The expanded disclosures focus on the inputs used to measure fair value as well as the effect of the fair value measurements on earnings. SFAS No. 157 is effective as of the beginning of the first fiscal year beginning after November 15, 2007 and interim periods within that fiscal year. The Corporation believes the adoption of SFAS No. 157 will not have a material impact on the Corporation's financial position or results of operations.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132R)" ("SFAS No. 158"). The recognition and disclosure provisions of SFAS No. 158 were adopted by the Corporation for the fiscal year ended December 31, 2006. Upon adoption, the funded status of an employer's postretirement benefit plan was recognized in the statement of financial position and the changes in funded status of the defined benefit plan, including actuarial gains and losses and prior service costs and credits were recognized in comprehensive income. The requirement to measure the plan' assets and obligations as of the employers fiscal year end is effective for fiscal years ending after December 15, 2008. The Corporation is currently evaluating the impact the measurement date provisions of SFAS No. 158 will have on its consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. The fair value option (i) may be applied instrument-by-instrument with certain exceptions, (ii) is irrevocable (unless a new election date occurs) and (iii) is applied only to entire instruments and not to portions of instruments. SFAS No. 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption was permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elected to apply the provisions of SFAS No. 157, "Fair Value Instruments." Based on our assessment of the provisions of SFAS 159, on April 12, 2007 we decided to implement early adoption of SFAS 159. In connection with this adoption, we selected the fair value option for certain U.S. Government sponsored agency and mortgage-backed securities with lower coupons and slower prepayment characteristics in the held-to-maturity portfolio totaling approximately $61.9 million. A portfolio restructuring plan was also undertaken to reduce interest rate risk and improve net interest margin, which included the sale of these securities. On Friday April 13, 2007 we executed sale trades for these held-to-maturity securities. At the time of the sales transactions the historical amortized cost basis of the sold securities exceeded the total sales price by $1.7 million. On Monday April 16, 2007 additional information became available regarding clarifications of the interpretation of the application of SFAS 159 by applicable regulatory and accounting industry bodies that led us to conclude that the application of SFAS 159 to our transactions might be inconsistent with the intent and spirit of SFAS 159. Consequently, we decided not to early-adopt SFAS 159. See further discussion regarding the restatement in Note 1 and Note 3 to the Consolidated Financial Statements.

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES **(Continued)**
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(3) Securities
Securities available for sale are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2007 (As Restated)				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	$ 173,396	$ 1,381	$ (89)	$ 174,688
Mortgage-backed securities issued by U.S. government-sponsored agencies	369,718	1,099	(4,858)	365,959
States and political subdivision	80,640	85	(746)	79,979
Trust preferred securities	38,010	–	(2,410)	35,600
Corporate bonds	16,954	38	(28)	16,964
Corporate stocks	13,118	3,120	(719)	15,519
Total	691,836	5,723	(8,850)	688,709
December 31, 2006				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	157,383	778	(876)	157,285
Mortgage-backed securities issued by U.S. government-sponsored agencies	298,038	923	(5,174)	293,787
Trust preferred securities	30,571	208	(205)	30,574
Corporate bonds	24,998	83	(47)	25,034
Corporate stocks	14,976	4,915	(175)	19,716
Total	$ 525,966	$ 6,907	$ (6,477)	$ 526,396

Securities held to maturity are summarized as follows:

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2006				
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	$ 42,000	$ –	$ (422)	$ 41,578
Mortgage-backed securities issued by U.S. government-sponsored agencies	69,340	440	(1,604)	68,176
States and political subdivisions	66,115	88	(588)	65,615
Total	$ 177,455	$ 528	$ (2,614)	$ 175,369

In connection with a planned early adoption of SFAS No. 159, the Corporation sold twelve held to maturity securities with an amortized cost of $61.9 million on April 13, 2007. The Corporation subsequently decided not to early-adopt SFAS No. 159 and realized securities losses of $1.7 million were recognized in the second quarter of 2007 (as restated). In addition, the remaining held-to-maturity portfolio was reclassified to the available-for-sale category as of the April 13, 2007 sale date of the securities. The Corporation will not be able to classify securities in the held-to-maturity category for a period of two years from the April 13, 2007 sales date as a result of this action. See additional discussion regarding the restatement in Note 1 to the Consolidated Financial Statements.

Securities available for sale with a fair value of $528.9 million and securities available for sale and held to maturity with a fair value of $557.4 million were pledged in compliance with state regulations concerning trust powers and to secure Treasury Tax and Loan deposits, borrowings, and certain public deposits at September 30, 2007 and December 31, 2006, respectively. In addition, securities available for sale with a fair value of $8.3 million and securities available for sale and held to maturity with a fair value of $9.6 million were collateralized for the discount window at the Federal Reserve Bank at September 30, 2007 and December 31, 2006, respectively. There were no borrowings with the Federal Reserve Bank at either date. Securities available for sale with a fair value of $1.9 million and $2.1 million were designated in a rabbi trust for a nonqualified retirement plan at September 30, 2007 and

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006. As of September 30, 2007, securities available for sale with a fair value of $21.5 million were pledged as collateral to secure securities sold under agreements to repurchase.

At September 30, 2007 and December 31, 2006, the securities portfolio included $3.1 million and $1.7 million of net pretax unrealized losses, respectively. Included in these net amounts were gross unrealized losses amounting to $8.9 million and $9.1 million at September 30, 2007 and December 31, 2006, respectively.

The following tables summarize, for all securities in an unrealized loss position at September 30, 2007 and December 31, 2006, respectively, the aggregate fair value and gross unrealized loss by length of time those securities have been continuously in an unrealized loss position.

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
(As Restated)		Fair	Unrealized		Fair	Unrealized		Fair	Unrealized
At September 30, 2007	#	Value	Losses	#	Value	Losses	#	Value	Losses
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	–	$ –	$ –	5	$ 27,162	$ 89	5	$ 27,162	$ 89
Mortgage-backed securities issued by U.S. government-sponsored agencies	19	79,778	704	62	185,462	4,154	81	265,240	4,858
States and political subdivisions	69	57,400	567	13	8,134	179	82	65,534	746
Trust preferred securities	8	24,572	1,381	5	11,029	1,029	13	35,601	2,410
Corporate bonds	2	6,120	18	1	2,993	10	3	9,113	28
Subtotal, debt securities	98	167,870	2,670	86	234,780	5,461	184	402,650	8,131
Corporate stocks	6	6,632	620	3	938	99	9	7,570	719
Total temporarily impaired securities	104	$ 174,502	$ 3,290	89	$ 235,718	$ 5,560	193	$ 410,220	$ 8,850

(Dollars in thousands)	Less than 12 Months			12 Months or Longer			Total		
		Fair	Unrealized		Fair	Unrealized		Fair	Unrealized
At December 31, 2006	#	Value	Losses	#	Value	Losses	#	Value	Losses
U.S. Treasury obligations and obligations of U.S. government-sponsored agencies	8	$ 52,751	$ 211	14	$ 94,393	$ 1,087	22	$ 147,144	$ 1,298
Mortgage-backed securities issued by U.S. government-sponsored agencies	7	20,620	122	69	240,457	6,656	76	261,077	6,778
States and political subdivisions	61	45,948	419	12	6,747	169	73	52,695	588
Trust preferred securities	–	–	–	7	14,840	205	7	14,840	205

Corporate bonds	2	6,130	34	1	3,006	13	3	9,136	47
Subtotal, debt securities	78	125,449	786	103	359,443	8,130	181	484,892	8,916
Corporate stocks	5	5,823	110	4	1,494	65	9	7,317	175
Total temporarily impaired securities	83	$ 131,272	$ 896	107	$ 360,937	$ 8,195	190	$ 492,209	$ 9,091

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For those debt securities whose amortized cost exceeds fair value, the primary cause is related to the movement of interest rates. The Corporation believes that the nature and duration of impairment on its debt security holdings are primarily a function of interest rate movements and changes in investment spreads, and does not consider full repayment of principal on the reported debt obligations to be at risk. The Corporation has the ability and intent to hold these investments to full recovery of the cost basis. The debt securities in an unrealized loss position at September 30, 2007 consisted of 184 debt security holdings. The largest loss percentage of any single holding was 11.45% of its amortized cost.

Causes of conditions whereby the fair value of corporate stock equity securities is less than cost include the timing of purchases and changes in valuation specific to individual industries or issuers. The relationship between the level of market interest rates and the dividend rates paid on individual equity securities may also be a contributing factor. The Corporation believes that the nature and duration of impairment on its equity securities holdings are considered to be a function of general financial market movements and industry conditions. The equity securities in an unrealized loss position at September 30, 2007 consisted of 9 holdings of financial and commercial entities.

(4) Loan Portfolio
The following is a summary of loans:

(Dollars in thousands)	September 30, 2007		December 31, 2006	
	Amount	%	Amount	%
Commercial:				
Mortgages (1)	$ 276,995	18%	$ 282,019	19%
Construction and development (2)	48,899	3%	32,233	2%
Other (3)	324,129	22%	273,145	19%
Total commercial	650,023	43%	587,397	40%
Residential real estate:				
Mortgages (4)	566,776	37%	577,522	39%
Homeowner construction	12,040	1%	11,149	1%
Total residential real estate	578,816	38%	588,671	40%
Consumer:				
Home equity lines	139,732	9%	145,676	10%
Home equity loans	99,798	7%	93,947	6%
Other	46,124	3%	44,295	4%
Total consumer	285,654	19%	283,918	20%
Total loans (5)	$ 1,514,493	100%	$ 1,459,986	100%

(1) Amortizing mortgages, primarily secured by income producing property.
(2) Loans for construction of residential and commercial properties and for land development.
(3) Loans to businesses and individuals, a substantial portion of which are fully or partially collateralized by real estate.
(4) A substantial portion of these loans is used as qualified collateral for FHLB borrowings (See Note 8 for additional discussion of FHLB borrowings).
(5) Net of unamortized loan origination fees, net of costs, totaling $92 thousand and $277 thousand at September 30, 2007 and December 31, 2006, respectively. Also includes $130 thousand and $342 thousand of premium, net of

discount, on purchased loans at September 30, 2007 and December 31, 2006, respectively.

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES **(Continued)**
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(5) Allowance for Loan Losses
The following is an analysis of the allowance for loan losses:

(Dollars in thousands)

	Three Months		Nine Months	
Periods ended September 30,	2007	2006	2007	2006
Balance at beginning of period	$ 19,327	$ 18,480	$ 18,894	$ 17,918
Provision charged to expense	300	300	900	900
Recoveries of loans previously charged off	27	39	231	152
Loans charged off	(182)	(174)	(553)	(325)
Balance at end of period	$ 19,472	$ 18,645	$ 19,472	$ 18,645

(6) Goodwill and Other Intangibles
The changes in the carrying value of goodwill and other intangible assets for the nine months ended September 30, 2007 are as follows:

Goodwill

(Dollars in thousands)	Commercial Banking Segment	Wealth Management Service Segment	Total
Balance at December 31, 2006	$ 22,591	$ 21,967	$ 44,558
Additions to goodwill during the period	–	5,921	5,921
Impairment recognized	–	–	–
Balance at September 30, 2007	$ 22,591	$ 27,888	$ 50,479

During the third quarter of 2007, the Corporation recognized a liability of $5.9 million, with a corresponding increase in goodwill, related to the acquisition of Weston Financial Group, Inc. (“Weston Financial”) in August 2005. This amount represents the 2007 obligation under the terms of the acquisition agreement, which provides for a contingent payment earn-out in each year during the three-year period ending December 31, 2008.

Other Intangible Assets

	Core Deposit Intangible	Advisory Contracts	Non-compete Agreements	Total
Balance at December 31, 2006	$ 650	$ 11,937	$ 229	$ 12,816
Amortization	109	911	37	1,057
Balance at September 30, 2007	$ 541	$ 11,026	$ 192	$ 11,759

Amortization of intangible assets for the nine months ended September 30, 2007 totaled $1.1 million. Estimated annual amortization expense of current intangible assets with finite useful lives, absent any impairment or change in estimated useful lives, is summarized below.

(Dollars in thousands)

	Core Deposits	Advisory Contracts	Non-compete Agreements	Total
Estimated amortization expense:				

2007 (full year)	$ 140	$ 1,194	$ 49	$ 1,383
2008	120	1,111	49	1,280
2009	120	1,040	49	1,209
2010	120	922	49	1,091
2011	120	768	33	921

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of intangible assets at September 30, 2007 are as follows:

(Dollars in thousands)

	Core Deposits	Advisory Contracts	Non-compete Agreements	Total
Gross carrying amount	$ 2,997	$ 13,657	$ 1,147	$ 17,801
Accumulated amortization	2,456	2,631	955	6,042
Net amount	$ 541	$ 11,026	$ 192	$ 11,759

(7) Income Taxes
Effective January 1, 2007, the Corporation adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). The adoption of FIN 48 did not result in any adjustment to retained earnings as of January 1, 2007.

As of the adoption date, the Corporation had gross tax affected unrecognized tax benefits of $1.2 million. If recognized, this amount would be recorded as a component of income tax expense. There have been no significant changes to this during the nine months ended September 30, 2007.

The Corporation recognizes potential accrued interest related to unrecognized tax benefits in income tax expense in the Consolidated Statements of Income. As of the adoption date of January 1, 2007, accrued interest amounted to $70 thousand. To the extent interest is not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision. Penalties, if incurred, would be recognized as a component of income tax expense.

The Corporation files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Corporation is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2003. With a few exceptions, the Corporation is no longer subject to state income tax examinations by tax authorities for years before 2000.

(8) Borrowings
Federal Home Loan Bank Advances
Advances payable to the Federal Home Loan Bank ("FHLB") are summarized as follows:

(Dollars in thousands)

	September 30, 2007	December 31, 2006
FHLB advances	$ 502,265	$ 474,561

During the first quarter of 2007, the Corporation prepaid $26.5 million in advances payable to the FHLB resulting in a debt prepayment penalty charge, recorded in noninterest expense, of $1.1 million. See additional discussion in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the caption "Noninterest Expense."

In addition to outstanding advances, the Corporation also has access to an unused line of credit amounting to $8.0 million at September 30, 2007. Under an agreement with the FHLB, the Corporation is required to maintain qualified collateral, free and clear of liens, pledges, or encumbrances that, based on certain percentages of book and market values, has a value equal to the aggregate amount of the line of credit and outstanding advances ("FHLB borrowings"). The FHLB maintains a security interest in various assets of the Corporation including, but not limited to, residential mortgages loans, U.S. government or agency securities, U.S. government-sponsored agency securities, and amounts maintained on deposit at the FHLB. The Corporation maintained qualified collateral in excess of the amount required to collateralize the line of credit and outstanding advances at September 30, 2007. Included in the collateral were securities available for sale with a fair value of $402.4 million and securities available for sale and held to maturity with a fair value of $451.5 million that were specifically pledged to secure FHLB borrowings at September 30, 2007 and December 31, 2006, respectively. Unless there is an event of default under the agreement

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

with the FHLB, the Corporation may use, encumber or dispose of any portion of the collateral in excess of the amount required to secure FHLB borrowings, except for that collateral that has been specifically pledged.

Other Borrowings
The following is a summary of other borrowings:

(Dollars in thousands)	September 30, 2007	December 31, 2006
Treasury, Tax and Loan demand note balance	$ 6,742	$ 3,863
Deferred acquisition obligations	9,772	10,372
Securities sold under repurchase agreements	19,500	–
Other	389	449
Other borrowings	$ 36,403	$ 14,684

In the first quarter of 2007, securities sold under repurchase agreements of $19.5 million were executed. The securities sold under agreements to repurchase are callable at the issuer's option, at one time only, in one year and mature in five years. The securities underlying the agreements are held in safekeeping by the counterparty in the name of the Corporation and are repurchased when the agreement matures. Accordingly, these underlying securities are included in securities available for sale and the obligations to repurchase such securities are reflected as a liability.

The Stock Purchase Agreement for the August 2005 acquisition of Weston Financial provides for the payment of contingent purchase price amounts based on operating results in each of the years in the three-year earn-out period ending December 31, 2008. Contingent payments are added to goodwill and recorded as deferred acquisition liabilities at the time the payments are determinable beyond a reasonable doubt. Deferred acquisition obligations amounted to $9.8 million at September 30, 2007 compared to $10.4 million at December 31, 2006. During the third quarter of 2007 the Corporation recognized a liability of $5.9 million, representing the 2007 portion of the earn-out period. In the first quarter of 2007 the Corporation paid approximately $6.7 million, which represented the 2006 earn-out payment.

(9) Shareholders' Equity
Stock Repurchase Plan:
Under the Corporation's 2006 Stock Repurchase Plan, 185,400 shares of stock were repurchased at a total cost of $4.8 million during the nine months ended September 30, 2007. In addition, 14,785 shares were acquired in the same period pursuant to the Nonqualified Deferred Compensation Plan.

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **(Continued)**

Regulatory Capital Requirements:
The following table presents the Corporation's and the Bank's actual capital amounts and ratios at September 30, 2007 and December 31, 2006, as well as the corresponding minimum regulatory amounts and ratios:

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of September 30, 2007: (As Restated)						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 163,269	10.43%	$ 125,220	8.00%	$ 156,525	10.00%
Bank	$ 170,327	10.89%	$ 125,141	8.00%	$ 156,426	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	$ 142,621	9.11%	$ 62,610	4.00%	$ 93,915	6.00%
Bank	$ 149,691	9.57%	$ 62,570	4.00%	$ 93,856	6.00%
Tier 1 Capital (to Average Assets): (1)						
Corporation	$ 142,621	6.11%	$ 93,330	4.00%	$ 116,662	5.00%
Bank	$ 149,691	6.42%	$ 93,282	4.00%	$ 116,602	5.00%
As of December 31, 2006:						
Total Capital (to Risk-Weighted Assets):						
Corporation	$ 161,076	10.96%	$ 117,538	8.00%	$ 146,922	10.00%
Bank	$ 168,235	11.46%	$ 117,465	8.00%	$ 146,832	10.00%
Tier 1 Capital (to Risk-Weighted Assets):						
Corporation	$ 140,568	9.57%	$ 58,769	4.00%	$ 88,153	6.00%
Bank	$ 147,738	10.06%	$ 58,733	4.00%	$ 88,099	6.00%
Tier 1 Capital (to Average Assets): (1)						
Corporation	$ 140,568	6.01%	$ 93,487	4.00%	$ 116,858	5.00%
Bank	$ 147,738	6.32%	$ 93,437	4.00%	$ 116,797	5.00%

(1) Leverage ratio

The Corporation's capital ratios at September 30, 2007 place the Corporation in the "well-capitalized" category according to regulatory standards.

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

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to manage the Corporation's exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, financial guarantees, and commitments to originate and commitments to sell fixed rate mortgage loans. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Corporation's Consolidated Balance Sheets. The contract or notional amounts of these instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The contractual and notional amounts of financial instruments with off-balance sheet risk are as follows:

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **(Continued)**

(Dollars in thousands)	September 30, 2007	December 31, 2006
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commercial loans	$ 151,229	$ 122,376
Home equity lines	179,300	185,483
Other loans	26,814	10,671
Standby letters of credit	8,941	9,401
Financial instruments whose notional amounts exceed the amount of credit risk:		
Forward loan commitments:		
Commitments to originate fixed rate mortgage loans to be sold	2,870	2,924
Commitments to sell fixed rate mortgage loans	4,966	5,066

Commitments to Extend Credit

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

Standby Letters of Credit

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Under the standby letters of credit, the Corporation is required to make payments to the beneficiary of the letters of credit upon request by the beneficiary contingent upon the customer's failure to perform under the terms of the underlying contract with the beneficiary. Standby letters of credit extend up to five years. At September 30, 2007 and December 31, 2006, the maximum potential amount of undiscounted future payments, not reduced by amounts that may be recovered, totaled $8.9 million and $9.4 million, respectively. At September 30, 2007 and December 31, 2006, there was no liability to beneficiaries resulting from standby letters of credit. Fee income on standby letters of credit for the nine months ended September 30, 2007 and 2006 totaled $75 thousand and $86 thousand, respectively.

At September 30, 2007, a substantial portion of the standby letters of credit were supported by pledged collateral. The collateral obtained is determined based on management's credit evaluation of the customer. Should the Corporation be required to make payments to the beneficiary, repayment from the customer to the Corporation is required.

Forward Loan Commitments

Commitments to originate and commitments to sell fixed rate mortgage loans are derivative financial instruments. Accordingly, the fair value of these commitments is recognized in other assets on the balance sheet and changes in fair value of such commitments are recorded in current earnings in the income statement. The carrying value of such commitments as of September 30, 2007 and December 31, 2006 and the respective changes in fair values for the nine months ended September 30, 2007 and 2006 were insignificant.

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES (Continued)
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(11) Defined Benefit Pension Plans

Components of Net Periodic Benefit Costs:

(Dollars in thousands)	Qualified Pension Plan		Non-Qualified Retirement Plans	
Nine months ended September 30,	2007	2006	2007	2006
Service cost	$ 1,508	$ 1,551	$ 259	$ 264
Interest cost	1,386	1,238	389	351
Expected return on plan assets	(1,488)	(1,350)	-	-
Amortization of transition asset	(4)	(4)	-	-
Amortization of prior service cost	(25)	(26)	47	46
Recognized net actuarial loss	140	238	163	160
Net periodic benefit cost	$ 1,517	$ 1,647	$ 858	$ 821

Assumptions:
The measurement date and weighted-average assumptions used to determine net periodic benefit cost for the nine months ended September 30, 2007 and 2006 were as follows:

	Qualified Pension Plan		Non-Qualified Retirement Plans	
	2007	2006	2007	2006
Measurement date	Sept. 30, 2006	Sept. 30, 2005	Sept. 30, 2006	Sept. 30, 2005
Discount rate	5.90%	5.50%	5.90%	5.50%
Expected long-term return on plan assets	8.25%	8.25%	-	-
Rate of compensation increase	4.25%	4.25%	4.25%	4.25%

As discussed in Note 2, the SFAS No. 158 requirement to measure the plan's assets and obligations as of the employer's fiscal year end is effective December 31, 2008.

Employer Contributions:
The Corporation previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute $1.3 million to its qualified pension plan and $369 thousand in benefit payments to its non-qualified retirement plans in 2007. During the nine month period ended September 30, 2007, approximately $1.9 million of contributions were made to the qualified pension plan and no further contributions are expected for 2007. The increase in the qualified pension plan contribution over the amount estimated at December 31, 2006 was the result of further analysis by the Corporation and included an additional discretionary contribution in excess of statutory requirements. During the nine month period ended September 30, 2007, $251 thousand in benefit payments have been made to the non-qualified retirement plans. The Corporation presently anticipates contributing an additional $84 thousand in benefit payments to the non-qualified retirement plans in 2007.

WASHINGTON TRUST BANCORP INC. AND SUBSIDIARIES CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS **(Continued)**

(12) Business Segments

Washington Trust segregates financial information in assessing its results among two operating segments: Commercial Banking and Wealth Management Services. The amounts in the Corporate column include activity not related to the segments, such as the investment securities portfolio, wholesale funding activities and administrative units. The Corporate column is not considered to be an operating segment. The methodologies and organizational hierarchies that define the business segments are periodically reviewed and revised. Results may be restated, when necessary, to reflect changes in organizational structure or allocation methodology. The following tables present the statement of operations and total assets for Washington Trust's reportable segments.

(Dollars in thousands)

	Commercial Banking		Wealth Management Services		Corporate		Consolidated Total	
Three months ended September 30,	2007	2006	2007	2006	2007	2006	2007	2006
Net interest income (expense)	$ 13,797	$ 13,371	$ (18)	$ (23)	$ 1,531	$ 2,518	$ 15,310	$ 15,866
Noninterest income	4,295	4,262	7,178	6,465	377	56	11,850	10,783
Total income	18,092	17,633	7,160	6,442	1,908	2,574	27,160	26,649
Provision for loan losses	300	300	–	–	–	–	300	300
Depreciation and amortization expense	618	551	423	416	45	204	1,086	1,171
Other noninterest expenses	10,076	9,461	4,420	4,204	1,730	1,775	16,226	15,440
Total noninterest expenses	10,994	10,312	4,843	4,620	1,775	1,979	17,612	16,911
Income before income taxes	7,098	7,321	2,317	1,822	133	595	9,548	9,738
Income tax expense (benefit)	2,495	2,558	898	719	(401)	(117)	2,992	3,160
Net income	$ 4,603	$ 4,763	$ 1,419	$ 1,103	$ 534	$ 712	$ 6,556	$ 6,578
Total assets at period end	1,587,328	1,521,785	44,254	38,934	800,180	842,547	2,431,762	2,403,266
Expenditures for long-lived assets	123	461	38	72	81	49	242	