



Yale SCHOOL of MANAGEMENT

Washington Trust Bancorp (WASH)

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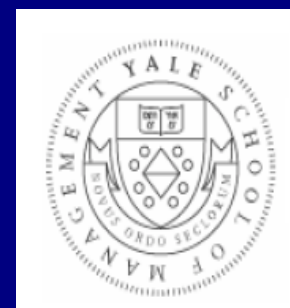
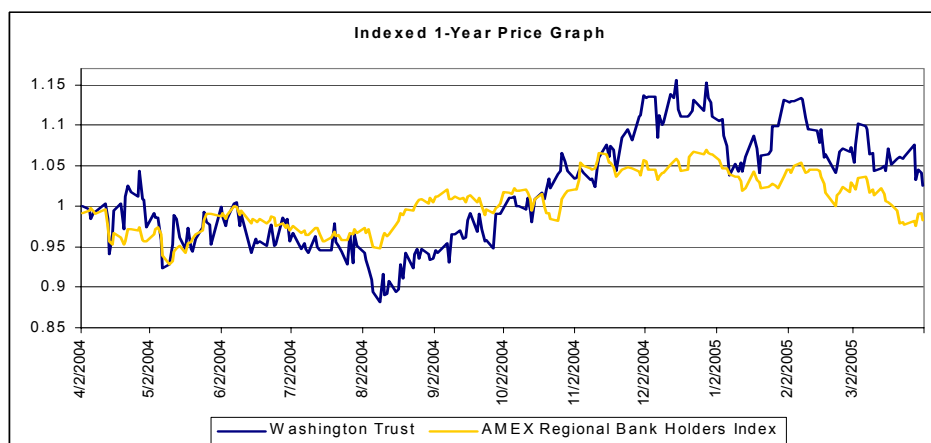
Trust Your Local Community Bank

Recommendation: Hold

- Conservative management with a realistic growth strategy has helped the company produce strong consistent income and asset growth.
- Attractive valuation, balanced business model, and strong reputation make Washington Trust an attractive acquisition target.
- With a target price of \$28.52 and an upside of 5.3%, we initiate coverage with a Hold rating.

Target Price	\$	28.52
%Chg		5.3%
Price	\$	27.08
Mkt Cap (M)	\$	360.60
52 Wk H	\$	30.50
52 Wk L	\$	23.20
Avg. Vol. (3m)		20,029
Shrs Out. (M)		13.3

As of April 1, 2005



Please see the disclaimer at back of this report for important information.

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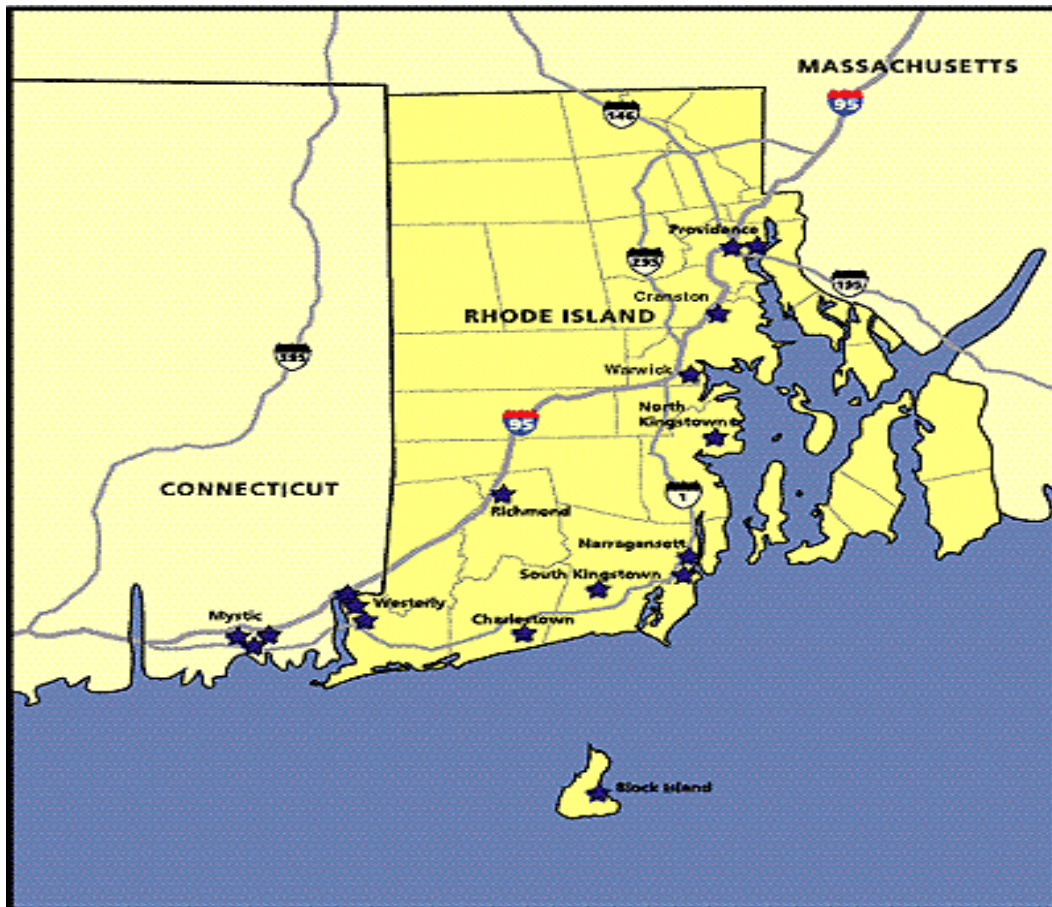
Company Overview

Company Description. Named after our nation's first president, Washington Trust Bank was founded in 1800 in Washington County, Rhode Island, and is therefore the oldest community bank in the country. Washington Trust Bancorp is a Bank Holding Company that provides banking and financial services to the New England region through its wholly owned subsidiary Washington Trust Bank. Major business lines include traditional banking products for both retail and commercial customers through mortgages, loans, and deposits, but also fee based activities primarily through trust and investment management services. The company has just under 400 employees that continue to focus on customer service in order to maintain the strong relationships at this truly "community" bank.

Recent Results. Washington Trust Bancorp had a strong year in 2004, reporting record Net Income of \$20.8 million, a growth of 10% over 2003. Basic EPS grew 9% to \$1.57. Return on Average Equity and Average Assets for 2004 were 14.4% and 0.97%, respectively. Last year's success was attributed to double-digit growth in all major business areas. Total loans grew 30% and total deposits grew about 21% from 2003. We will further explore the company's business model later in the report.

Expansion: Branches, Deposits, and Loans

Branch expansion continues to be a form of growth for the bank. The bank currently operates a total of 17 branches, 14 located throughout Rhode Island and 3 in Southeastern Connecticut. The following Exhibit maps out the current footprint of the bank.

Exhibit 1: Branch Locations

Source: Company Website

According to management, a branch takes approximately 24-36 months after opening in order to break even, and therefore they have a measured growth strategy of approximately 1 new branch every year or two. In order to become a premier bank throughout New England, we believe that they would need to expand this reach at least further into Connecticut and Massachusetts. However, management does not think that they need to be located in every state in New England in order to have a dominant presence, which therefore produces the strategy of measured growth.

Washington Trust has improved their market share within Rhode Island over the past few years through both *de novo* branch openings and acquisitions (see M&A section for further analysis). The bank has increased its deposit market share in Rhode Island from just under 3% in 1994 to 6.5% in 2004. They are the top ranked bank in Washington County, RI, where they are headquartered.¹ But, as you can see from the latest Census figures in the following Exhibit, Washington County only makes up 12% of the total population of Rhode Island, which is why there is a huge benefit to the bank to move into the northern counties of the state. For this reason, we believe they will continue to expand into those areas.

¹ www.FDIC.gov

Exhibit 2: Rhode Island Population

Annual Estimates of the Population for Counties of Rhode Island: April 1, 2000 to July 1, 2003						
Geographic Area	Population estimates				April 1, 2000	
	July 1, 2003	July 1, 2002	July 1, 2001	July 1, 2000	Estimates base	Census
Rhode Island	1,076,164	1,068,326	1,058,992	1,050,664	1,048,319	1,048,319
Bristol County	50,989	51,067	51,018	50,737	50,648	50,648
Kent County	171,297	169,974	168,929	167,500	167,090	167,090
Newport County	85,934	85,931	85,596	85,675	85,433	85,433
Providence County	639,442	634,195	628,034	622,739	621,602	621,602
Washington County	128,502	127,159	125,415	124,013	123,546	123,546

Note: The April 1, 2000 Population Estimates base reflects changes to the Census 2000 population from the Count Question Resolution program and geographic program revisions.

Suggested Citation:
Table 1: Annual Estimates of the Population for Counties of Rhode Island: April 1, 2000 to July 1, 2003 (CO-EST2003-01-44)
Source: Population Division, U.S. Census Bureau
Release Date: April 9, 2004

Source: www.census.gov

There is also a huge upside potential for deposit growth in Connecticut and Massachusetts, with currently only .08% and .07% deposit market share, respectively.² If management decides to more aggressively expand into these states, they should be able to gain some deposits from competitors. With this in mind, for our valuation we project deposit growth to remain steady.

Washington Trust has had tremendous loan growth recently in all products within their loan portfolio. Commercial loans and Residential Real Estate each make up about 40%, with Consumer loans making up the remainder of the portfolio. With an increase in consumers as noted above on deposits on the retail side, and an increase in commercial loans from competitors as detailed below, we feel that loans will continue to grow pretty strong in the future, possibly mitigated by a slowdown in the real estate market in the region. According to management, provisions for loan losses will remain pretty stable, which reflects the belief in good credit quality of loan customers. The provision as it stands now is about 0.05% of total loans, which is pretty low due to the excellent credit quality of customers. Over the past 10 years, the provision as a % of loans has averaged around 0.2%. We have incorporated this into our projections within the valuation section.

Non - Interest Income Growth

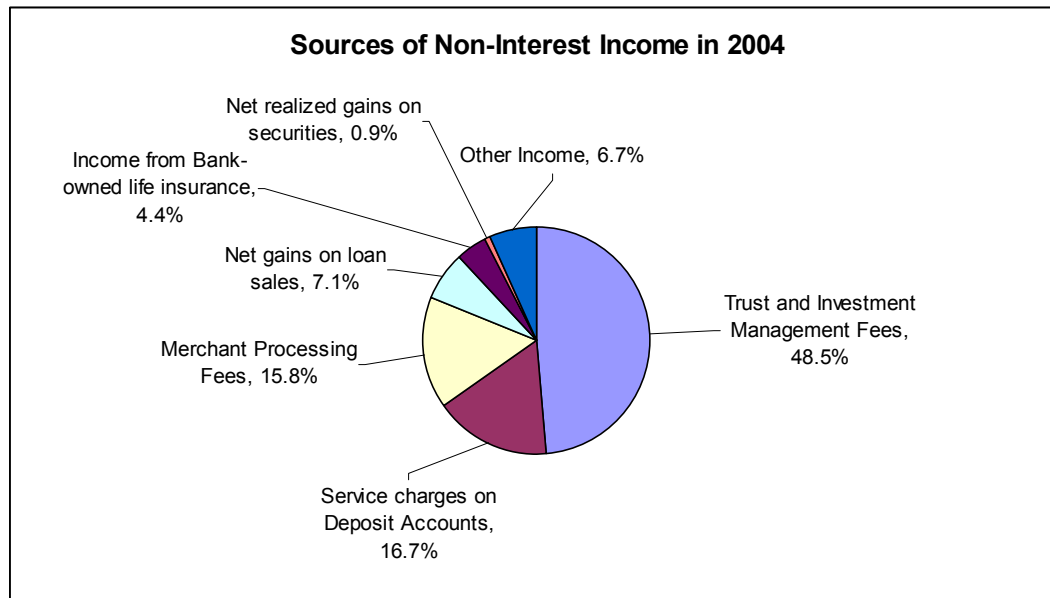
Trust and Investment Management. Washington Trust has tried to diversify away from the traditional banking model and inherent dependency on interest rates with additional fee revenue generated primarily from their valuable Trust and Investment Management division. Recent acquisitions and organic growth of assets under administration have increased the share of non-interest income as a percentage of operating revenues (net interest income plus non-interest income) from just over 23% in 1994 to about 1/3 in 2004. Although this proportion has remained fairly stable in the low-30% range over the past few years, we project this number to be around 40% in 2005

² www.FDIC.gov

with the recent addition of assets under administration from the Weston Financial acquisition.

This should also increase the portion of non-interest income that is categorized as Trust and Investment Management fees. Through organic growth and an increase in the securities markets, Trust and IM fees grew at 21% in 2004, and already made up almost half of the fee-based revenues, as you can see from the chart. The addition of Weston will only help fuel this growth.

Exhibit 3



Data Source: Company Reports

Service charges on deposit accounts is the second largest portion of non-interest income, but did suffer a loss of about 9% in 2004. We believe that competition from large money-center banks, especially in the retail segment, will continue to prevent growth in this item as we outline in the competition section.

Another potentially new form of fee revenue for future diversification and growth is in the insurance business. Although Weston Financial is primarily in financial planning and advisory, they also bring some insurance and annuity products to Washington Trust.

We believe the reason the Trust and Investment Management division will continue to be the main driver of non-interest income growth is twofold. First and foremost, management seems cautious in thinking about venturing out into unknown business areas and is comfortable with their current business diversification. This industry is something that the bank knows and something that they have continually done well with, which is why half of their recent acquisitions have been of Investment Management firms.

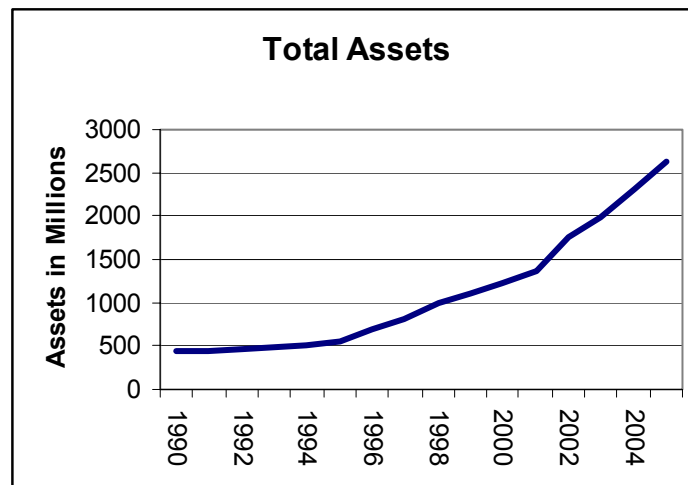
To detail the second reason, we want to bring up a study put out by the Federal Reserve Bank of Chicago in Q4 2004 that we discussed in our Commercial Banking industry report in February 2005. To recap, the study suggests that higher fee-based activities lead to higher accounting rates of return, but lower risk-adjusted returns due to the increased volatility in earnings. They continue with the argument that larger diversified banks have the economies of scale to benefit from additional fee based activities, and smaller community banks should focus on relationship based lending activities.³ However, they do suggest that some smaller banks can prosper, and we believe that Washington Trust has found its niche fee-based strategy with the success of their Trust and Investment Management services division, especially since this industry is highly relationship based. This model gives them a competitive advantage over other regional community banks that don't have such diversification.

Therefore, it is our belief that Washington Trust will continue to complement their traditional community banking business with the majority of diversification through Trust and Investment Management. As you will see in our valuation, we predict that revenue growth will be strong driven by this segment, and therefore Washington Trust's reliance on fee based activities for revenue will remain about 40% of the revenue base.

Mergers and Acquisitions

Washington Trust has steadily been growing since its listing on the NASDAQ in 1987. Since 1990, Assets have grown at an annualized rate of almost 13%, and almost all of this asset growth has been organic, which we discussed earlier in the report. There have only been four acquisitions by Washington Trust, two banks and two investment managers.

³ Robert DeYoung and Tara Rice, *How do Banks Make Money? The fallacies of fee income and A variety of business strategies* (4Q / 2004, The Federal Reserve Bank of Chicago Publications)

Exhibit 4

Data Source: Company Reports

In 1998, Washington Trust acquired PierBank, another community bank within Rhode Island. The acquisition, which became effective in 1999, increased assets by almost 6% (from \$1046MM to \$1106MM), and helped give Washington Trust a strong presence in the Narragansett/South Kingstown area. This acquisition however was also important because it not only eliminated the competition from PierBank, but prevented other competitors the opportunity to gain ground by acquiring PierBank. Asset growth in 1999 was just over 11%, but even without the acquisition growth would have still been just under 6%.

In 2000, Washington Trust expanded its recently created Trust and Investment Management services by acquiring Phoenix Investment Management Company, at the time Rhode Island's largest independent investment management company with assets under management of over \$1 billion. At this time, the acquisition doubled Washington Trust's assets under management.

In 2001 and completed in 2002, Washington Trust acquired First Financial and Providence, RI headquartered Bank and Trust. The acquisition helped raise Washington Trust's profile in Cranston and Providence, this acquisition while competitively strategic also complemented their planned expansion into Warwick. The acquisition added roughly 11% in assets (\$174MM), although their organic growth would have still been almost 15.5% versus the 28% growth experienced.

The only other acquisition by Washington Trust was announced on March 21, 2005. This acquisition of Weston Financial, a Wellseley, MA registered investment advisor with \$1.2 billion in assets under management, will likely be completed in the third quarter of 2005. The acquisition will increase Washington Trust's assets under management by 50% to approximately \$3.1 billion. This will increase their non-interest income to roughly 39% of revenues, which has been incorporated into our valuation.

In speaking with management, there does not appear to be any potential acquisition targets in the near term. While they are willing to look at acquisitions that might complement their growth strategies, we were under the impression there are not any being pursued at this time. One interesting development was in regards to geographic expansion. While obviously looking at Rhode Island and parts of Massachusetts and Connecticut, management also mentioned Florida as an area they might consider due to the popularity of Florida as a retirement destination for some of their current customer base. While acquisition in Florida is a slight possibility, it also made us wonder about their prospects of being acquired.

When asked about the prospect of being acquired, management did not give any indications. However, we felt there that their might be more to their answers than what they were able to offer. Combining this with the comment on Florida, we feel that Washington Trust is a possible acquisition target. However, we do not feel that any potential offer is imminent, and have thus not considered it for our valuation. Although, we did feel that if an offer were to be made it would have to be at a substantial premium in order to lure this historic community bank and its shareholders into selling. Historically, bank acquisitions have occurred at premiums close to 30%.⁴ Taking a look at two of the larger recent acquisitions, we see that Bank of America paid 43% to acquire FleetBoston and JPMorgan Chase acquired Bank One in 2004.⁵ Given these ranges and our discussion above, we think the minimum that might entice the company would be around 15-20% above market price.

Competition

The competitive landscape of the region has changed dramatically over the past few years with consolidation a major theme. With this new wave, the largest banks are no longer headquartered in the region. Washington Trust competes with both small-town banks and thrifts as well as money center banks with huge presence in the Northeast. Fleet (now owned by Bank of America) and Citizens are the top 2 banks within Rhode Island, Connecticut, and Massachusetts according to deposit market share. This competition from larger banks has hurt fee income from deposit accounts due to retail gimmicks like “totally free checking” and “no ATM fees”. It is hard for Washington Trust to compete with these larger banks due to their economies of scale, and thus their income has suffered. In our projections, we expect this slow down to mitigate the growth of non-interest income in the future.

As a side note, many analysts predicted that the merger of BofA and Fleet would produce many lost retail customers to local community banks, but the fact is that the integration of these two banks has gone well and retail consumers have not bailed. However, according to management, Washington Trust has gained unhappy commercial

⁴ <http://www.forbes.com/2001/08/01/0802wachovia.html>

⁵ Fortune Magazine – January 26, 2004

customers and they believe they will continue to see new commercial customers from this transition.

Exposure to Interest Rates

Since Washington Trust is primarily in the business of lending, it would figure that their sensitivity to interest rates would be stronger than large diversified commercial banks.

We compared Washington Trust's sensitivity to interest rates in terms of both their Net Interest Margin, which is the difference between the rate they receive on loans and the rate they pay on deposits, and also their stock performance.

Turning first to the Net Interest Margin, the absolute change in the Margin from one year to the next was compared to the absolute change in the margin between the 3-month Treasury Bill and the 10-year Treasury Note. The chart below shows the correlation of these two variables is quite low.

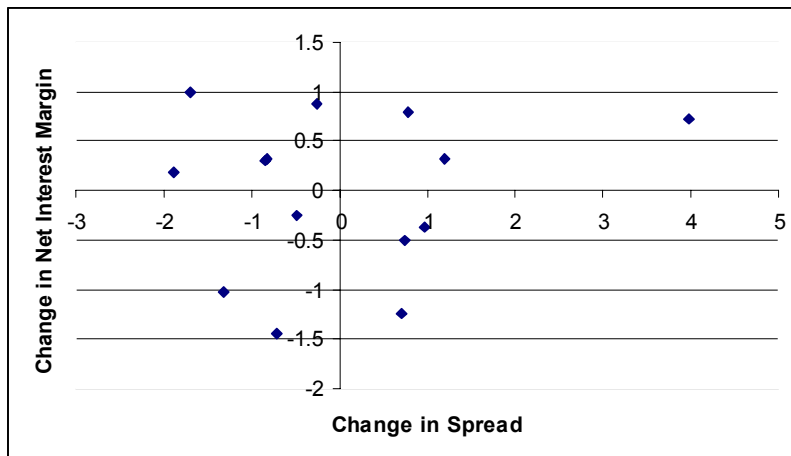
Exhibit 5

	<i>Change in NI Margin</i>	<i>Change in Spread</i>
Change in NI Margin	1	
Change in Spread	0.128	1

Data Source: Company Reports and Yahoo Finance

This low correlation can also be seen graphically between the change in spread and the change in margin.

Exhibit 6



Data Source: Company Reports and Yahoo Finance

A key reason for the low correlation is that Washington Trust manages their balance sheet for changes in interest rates. As of December 31, 2004 the effect of a parallel shift in the yield curve would have the following effect on Net Interest Income.

Exhibit 7

	<u>100 bps</u> <u>Increase</u>	<u>100 bps</u> <u>Decrease</u>
Change to Net Interest Income	1.26%	-1.31%

Source: Company Report

The reason for the negative impact of a decrease in rates is due to the difficulty of lowering rates paid to depositors below current levels, as well as increased prepayment of mortgages. It can also be seen that Washington Trust is actually poised to benefit from a rise in interest rates, as they can better manage their Net Interest Margin.

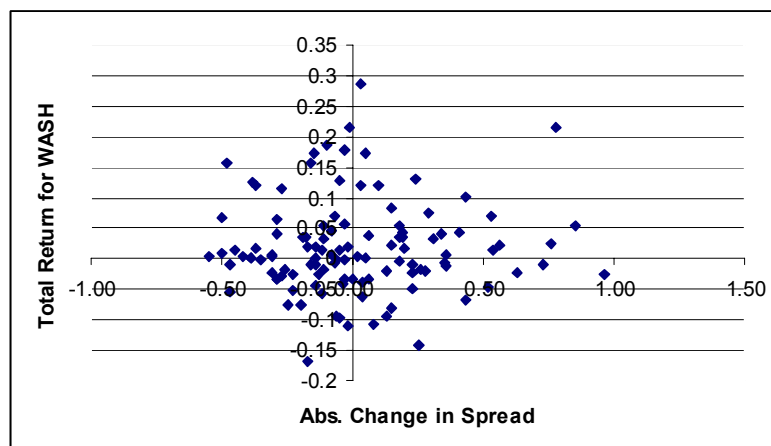
Secondly, we compare the affect of the Treasury spread on the total returns for Washington Trust stock. Looking at the correlation on the following chart, it can be seen that there is virtually no correlation between the spread and total return.

Exhibit 8

	<i>Total Return</i>	<i>Abs. Chng in Spread</i>
<i>Total Return</i>	1	
<i>Abs. Chng in Spread</i>	0.02	1

Data Source: Yahoo Finance

This can also be seen visually on the following chart which plots the total return of WASH against the absolute change in the Treasury Spread.

Exhibit 9

Data Source: Yahoo Finance

With there being very little correlation between interest rates and both net interest income and total returns for WASH, then we turn our attention to how various economic factors might effect both the income statement and market returns for Washington Trust.

Exposure to Economy

With the sensitivity of Washington Trust to interest rates being quite low, we decided to examine other factors that might have an influence on either net interest income, or their total stock market returns.

The next obvious place to look for a relationship was with economic factors. Given that Washington Trust conducts the majority of their business within Rhode Island, we chose to look at factors specific to Rhode Island. A listing of these factors is listed below. The highlighted factors are all components of Gross State Product.

Exhibit 10

Gross State Product
Compensation of Employees
Taxes on Production and Imports less Subsidies
Gross Operating Surplus
Quantity Indexes for Real GSP
Subsidies
Taxes on Production and Imports
 Personal income
 Population
 Employment

Running a correlation of these various factors against net interest income produced the following table.

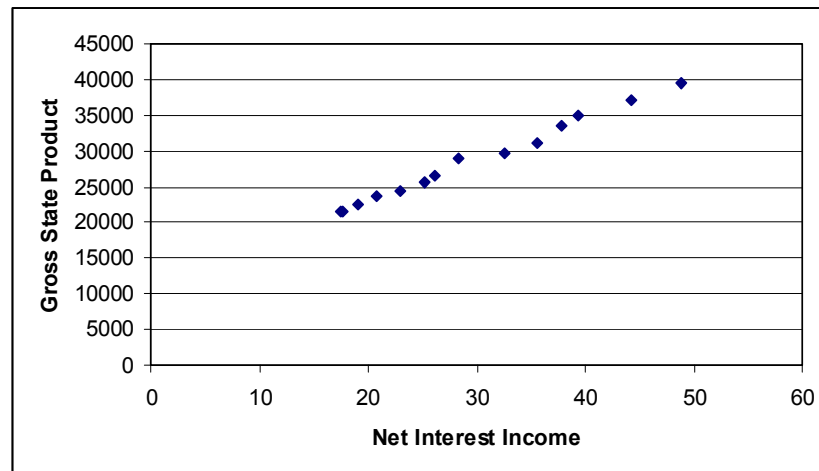
Exhibit 11

	<i>Net Interest Income</i>
Gross State Product	0.996
Compensation of Employees	0.99
Taxes on Production and Imports less Subsidies	0.968
Gross Operating Surplus	0.50
Quantity Indexes for Real GSP	0.977
Subsidies	-0.55
Taxes on Production and Imports	0.96
Personal income	0.99
Population	0.985
Employment	0.97

Data Source: Company Reports and BEA

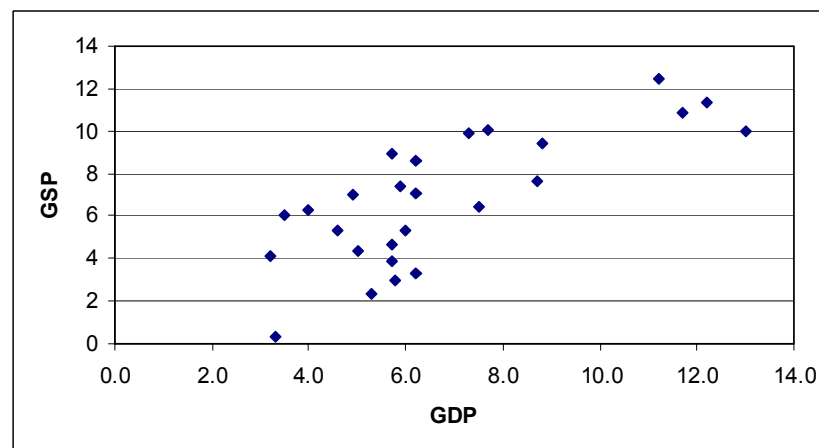
As can be seen, most of the factors have a high correlation to net interest income. However, the highest correlation given that it incorporates many of the other factors is the Gross State Product.

The relationship between the Gross State Product and net interest income can also be seen graphically below.

Exhibit 12

Data Source: Company Reports and BEA

Given this high relationship between GSP, we regressed GSP changes to nominal GDP changes. The chart below shows the relationship between GDP and GSP, which has a correlation of 76%.

Exhibit 13

Data Source: BEA

Running a regression of the predicted nominal GDP for 2005, which is 5.7%⁶ we have a predicted GSP for 2005 of 6.52%. Using a regression of GSP and net interest income, we predict net interest income for Washington Trust in 2005 to be \$58.07MM. We have a slightly lower number in our valuation, at \$56.75MM which is conservative given the potential for deviation in the regression.

Just to finish the analysis, we ran a correlation on the same economic factors and the total return of WASH. What we found was that there is little meaningful correlation. The strongest shown is a negative correlation between population of Rhode Island and the total market return, which given there is no meaningful reason for this relationship was dismissed as being coincidence. The table below shows these correlations.

⁶ Bloomberg

Exhibit 14

	<i>Total Return</i>
Gross State Product	-0.061
Personal income	0.020
Population	-0.785
Employment	-0.082

Data Source: BEA and Yahoo Finance

It is thus our conclusion that we can not simply look at interest rates or economic factors for determining the total market returns. Instead, it is more instructive to use the economic factors to build a basis for predicting net interest income, and build off this to predict the market performance.

Further explanation for how we incorporated this thesis into our recommendation is detailed in the section on valuation.

Valuation

Risks to estimation. Before beginning our discussion of our valuation process, we wanted to first address some of the risks that might cause a change in our valuation. Among many other things, our target price may change if there is an unexpected shift in interest rates, or any unexpected turn in the economy. This also includes the possibility of a big increase or decline in the stock market which would affect our Trust and Investment Management revenue since Assets Under Administration are linked to the market.

DCF Valuation. We used a DCF analysis for our target price and a multiple analysis for justification for our DCF valuation (please see below for details of multiple analysis). Using the DCF we have an estimated fair value for Washington Trust stock of \$28.52, which implies about 5.3% upside potential over Friday, April 1, 2005 closing price of \$27.08. Our projections imply a 9.93% annualized 5-year Revenue Growth translating into a 9.81% 5-year annualized growth in net income.

We list out here our assumptions for the DCF model according to our discussion in the previous sections of this report that draw the basis for the underlying growth rates and projections. Please see detailed valuation tables and historical financial statements in the exhibits after this discussion. As you will see in our historical tables, we looked at historical averages and ratios back from 1990 through the present for Washington Trust.

- Our discount rate of 8.0% was based off of the Cost of Equity using the CAPM and a Beta from Bloomberg.
- Net Interest Income we anticipate will continue to rise consistent with forecasts of GSP, as we outlined earlier in the report. Although we have net interest margin

tightening slightly in 2005 and then widening again after that, in the long run we have forecasted a lower net interest margin than the company's historical rate, due to the fact that we feel the company has reached a more mature stage and will face increased competitive pressure as they try to expand.

- We kept Provision for loan losses in the near term at stable levels based on management expectations as we stated in the report. We increased the rates in the longer term (2bps) due to anticipated loan portfolio growth and the rise in interest rates. Although we feel that the provision will remain low according to historical standards, we feel that management has improved their credit analysis from the past.
- We predict Washington Trust to increase their non-interest income more in the next few years particularly from the growth in their Trust and Investment Management services as outlined previously in the report. This would therefore bring the gap between net interest and non-interest income to 40-60.
- We anticipated a growth in expenses for 2005 due to the acquisition of Weston (Labor and Personnel is the majority non-interest expense), with some lagging effects of this acquisition into 2006. After this we anticipated expenses normalizing for the long term.
- We assumed a 32% effective tax rate based on historical averages.
- As detailed in the report, we expect moderate consumer and commercial loan growth. We have total loans growing at 8%, net of a consistent reserve for loan losses. This growth rate is on the higher range of management expectations for the next year due to our belief of stable residential loans.
- We have a conservative deposit growth in proportion to assets initially and keep it pretty stable for the long term.
- Short term borrowings and other liabilities are consistently around 49% of deposits, which is the funding mix between deposits and FHLB advances. However, according to management, they plan to rely more on deposits for funding in the future which is why we have that ratio decreasing slightly in the long term.
- Our Growth rate for the final year of our projections is 3%, and while we believe this rate could be sustained for a substantial time period, especially since it is below normal GDP growth of 3.25%, we used a sensitivity analysis of this terminal rate both raising and lowering it by 1%. Sensitivities to this Terminal rate are shown in Exhibit 13.

Multiples Valuation. We understand that DCF analysis for a financial stock has a number of moving parts and can sometimes get complicated, and we therefore wanted to also utilize price valuation ratios in order to validate our target price. You will be able to find the detailed comparable numbers at the end of this report, but here is the summary calculations, and results.

What we did was take a comparable report with many different items for about 14 banks located in Connecticut, Massachusetts, or Rhode Island, which we will now refer to as Washington Trust's Peer Group. Since finding comparables in just these states proved pretty difficult due to recent consolidation in the region, we also wanted to use the same metrics for the Eastern U.S. Commercial Banking Industry to give broader benchmarks to utilize (referred to as Industry).

In order to set a target value for the shares of Washington Trust, we took the forward one year EPS of \$1.72 for 2005, which flows through from our income projections in the DCF, and multiplied that by the current P/E of 17.2, for a target price of \$29.74. As you can see, this says that the current shares are undervalued by 9.8% and the target from the DCF is undervalued by 4.3%. Washington Trust's shares trade at about a 3-4% premium above the industry and the peer group, which we feel is justified from the detail in this report and the fact that historically they have traded at such a premium.

If we use P/B to value our shares with the same methodology, and multiply our estimated forward one year Book Value per share of \$12.04 by the current P/B of 2.4 we get a target of \$28.50, which again is consistent with the DCF. You will also notice that Washington Trust also trades at a premium according to this multiple, but is again justified by our discussion above and also the fact that their ROE is consistently higher than the industry and peer group, therefore validating a higher P/B ratio. You can see this higher ROE in the comparable table at the end from the current ROE as well as the 5-year average ROE.

Here is the summary of our target price projections, utilizing our estimates and the street's consensus estimates, along with the industry and peer group multiples.

Exhibit 15: Multiples Price Targets

	Our Estimates		Consensus
	P/E	P/B	P/E
WASH	29.74	28.50	28.89
Industry Avg	34.57	25.11	33.59
Industry Median	28.73	24.38	27.92
Peer Group Avg.	31.64	21.51	30.74
Peer Group Median	28.48	21.62	27.67

As already stated, Washington Trust's ROE is about 2% higher than comparables. Their efficiency ratio (non interest expense as a percent of revenues) is 1% lower than the industry and 10% lower than the peer group, showing the efficient expense control that

management has. Washington Trust also has a higher dividend yield than both the industry and peer group.

The following exhibits detail our projected financial statements, DCF analysis, and comparable valuation that we described above.

Appendix

Exhibit 16: Projected Balance Sheet

Ticker: WASH US Equity

Name: WASHINGTON TRUST BANCORP

Currency: USD

	2004	2005	2006	2007	2008	2009	2010	2011
	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
Total Loans	1249.68	1349.654	1457.627	1545.084	1637.789	1719.679	1771.269	1824.407
<i>YOY Growth</i>	<i>30.04%</i>	<i>8%</i>	<i>8%</i>	<i>6%</i>	<i>6%</i>	<i>5%</i>	<i>3%</i>	<i>3%</i>
Securities, Cash, and Other	1058.14	1111.047	1199.931	1295.925	1373.681	1456.102	1499.785	1544.778
<i>YOY Growth</i>	<i>4.47%</i>	<i>5%</i>	<i>8%</i>	<i>8%</i>	<i>6%</i>	<i>6%</i>	<i>3%</i>	<i>3%</i>
Total Assets	2307.82	2460.701	2657.558	2841.01	3011.47	3175.78	3271.054	3369.185
	<i>16.92%</i>	<i>6.62%</i>	<i>8.00%</i>	<i>6.90%</i>	<i>6.00%</i>	<i>5.46%</i>	<i>3.00%</i>	<i>3.00%</i>
Tot Deposits/Sec Deposits	1457.88	1559.932	1669.127	1769.274	1875.431	1969.202	2028.279	2089.127
<i>YOY Growth</i>	<i>20.87%</i>	<i>7%</i>	<i>7%</i>	<i>6%</i>	<i>6%</i>	<i>5%</i>	<i>3%</i>	<i>3%</i>
ST Borrowings and Other	698.09	740.9675	842.7421	893.3067	928.1507	935.1742	963.2295	992.1263
<i>As % of Deposits</i>	<i>47.88%</i>	<i>48%</i>	<i>50%</i>	<i>50%</i>	<i>49%</i>	<i>47%</i>	<i>47%</i>	<i>47%</i>
Total Liabilities	2155.97	2300.899	2511.869	2662.581	2803.582	2904.377	2991.508	3081.253
	<i>17.44%</i>	<i>6.72%</i>	<i>9.17%</i>	<i>6.00%</i>	<i>5.30%</i>	<i>3.60%</i>	<i>3.00%</i>	<i>3.00%</i>
Total Shareholders' Equity	151.85	159.8023	145.6886	178.4285	207.8885	271.4038	279.5459	287.9323
Total Liabilities and Equity	2307.82	2460.701	2657.558	2841.01	3011.47	3175.78	3271.054	3369.185

Exhibit 17: Projected Income Statement

Ticker: WASH US Equity

Name: WASHINGTON TRUST BANCORP

Currency: USD

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>	<u>Estimate</u>
Interest Income	96.85	111.35	131.19	150.65	163.78	171.97	177.13	182.44
<i>% Loans</i>	7.75%	8.25%	9.00%	9.75%	10.00%	10.00%	10.00%	10.00%
Interest Expense - Banks/Finance	42.41	54.60	66.77	79.62	89.08	93.54	96.34	99.23
<i>% Deposits</i>	2.91%	3.50%	4.00%	4.50%	4.75%	4.75%	4.75%	4.75%
Net Interest Income	54.44	56.75	64.42	71.03	74.70	78.43	80.78	83.21
Provision for Loan Losses	0.61	0.67	0.73	1.08	1.15	1.20	1.24	1.28
<i>As a % of Loans</i>	0.05%	0.05%	0.05%	0.07%	0.07%	0.07%	0.07%	0.07%
Net Int Inc Aft Prov	53.83	56.07	63.69	69.95	73.55	77.23	79.54	81.93
Non Interest Income	26.91	39.02	42.92	47.21	50.05	51.55	53.09	54.69
<i>YOY Growth</i>	0.64%	45%	10%	10%	6%	3%	3%	3%
Non Interest Expense	50.37	61.45	68.46	73.93	77.63	79.96	82.36	84.83
<i>YOY Growth</i>	7.88%	22%	11%	8%	5%	3%	3%	3%
Operating Income (Losses)	30.36	33.64	38.16	43.23	45.97	48.82	50.28	51.79
Income Tax Expenses (Credits)	9.53	10.77	12.21	13.83	14.71	15.62	16.09	16.57
<i>As a % of Pre-Tax Income</i>	31.39%	32%	32%	32%	32%	32%	32%	32%
Net Income/Net Profit (Losses)	20.83	22.88	25.95	29.39	31.26	33.19	34.19	35.22
	10.10%	9.83%	13.42%	13.29%	6.34%	6.20%	3.00%	3.00%
Basic EPS	1.57	1.72	1.96					

Exhibit 18: Discounted Cash Flow Analysis

Terminal Growth	3.00%
Cost of Equity	8.00%

Risk Free Rate	4.5%
WASH Beta (Bloomberg)	0.70
Market Risk Premium	5.00%
Cost of Equity	8.00%

	Sensitivity to Terminal Growth			
	2.00%		3.00%	
	\$	24.05	\$	28.52
Rate				4.00%
Price				\$ 33.89

	0	1	2	3	4	5	6	7
	2004	2005	2006	2007	2008	2009	2010	2011
	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate	Estimate
EBIT (operating inc)	30.36	33.64	38.16	43.23	45.97	48.82	50.28	51.79
Taxes on EBIT & int inc	9.53	10.77	12.21	13.83	14.71	15.62	16.09	16.57
Implied Effective tax rate	31%	32%	32%	32%	32%	32%	32%	32%
after-tax EBIT or NOPAT	20.83	22.88	25.95	29.39	31.26	33.19	34.19	35.22
Adjustments								
-Change in Uses	334.01	152.88	196.86	183.45	170.46	164.31	95.27	98.13
+ Change in Sources	320.22	144.93	210.97	150.71	141.00	100.80	87.13	89.75
FCF	7.04	14.92	40.06	-3.35	1.80	-30.32	26.05	26.83
Present value factor	1.00	1.08	1.17	1.26	1.36	1.47	1.59	1.71
Present value of FCF	7.04	13.82	34.35	-2.66	1.32	-20.64	16.42	15.66
Terminal Value		536.6						
PV of Terminal Value		313.1						
PV of Equity		378.4						
# of shares		13.27						
Price		28.52						

Exhibit 19: Comparable Report

Ticker	Company Name	State	Total Assets (\$MM)	Total Deposits (\$MM)	Market Cap (\$MM)	Price (\$)	EPS (\$)	P/E (X)	Est EPS Curr Year (X)	Fwd P/E Curr Year (X)	Est EPS Next Year (X)	Fwd P/E Next Year (X)	Book Value per Share	P/B (X)	Tangible BV/shr	P/Tang Book (X)	Div Yield (%)	ROA (%)	ROE (%)	5 Yr Avg ROA (%)	5 Yr Avg ROE (%)	Basic EPS 5 Year Average	Efficiency Ratio
WASH	WASHINGTON TRUST BANCORP	RI	2307.8	1457.9	360.1	27.08	1.57	17.2	1.72	15.7	1.96	13.9	11.44	2.4	9.64	2.8	2.66	0.97	14.37	1.04	14.63	7.51	62.85
Consensus Estimates																							
1.57 17.2 1.68 16.2 1.78 15.2																							
Commercial Banking Industry - Eastern																							
Avg			1308.2	951.8	228.6	29.21	1.58	20.1	1.60	16.3	1.81	14.0	14.91	2.1	11.52	2.4	2.34	1.04	11.87	1.11	12.57	19.3	64.84
Median			642.1	469.3	118.8	25.68	1.49	16.7	1.66	14.7	1.76	13.3	12.33	2.0	10.83	2.4	2.23	1.06	12.64	1.09	12.51	10.77	63.47
Peer Group Analysis (only CT, MA, and RI)																							
Avg			968.0	701.2	134.5	26.68	1.66	18.4	1.86	15.2	2.02	14.0	15.52	1.8	13.88	2.1	1.78	0.85	11.33	0.91	11.73	20.85	70.90
Median			688.3	522.6	81.8	27.85	1.75	16.5	1.92	15.3	2.09	14.2	14.91	1.8	13.82	2.2	1.66	0.74	11.40	0.89	11.28	7.51	72.60
INDB	INDEPENDENT BANK CORP/MA	MA	2943.9	2060.2	432.8	28.20	2.06	13.7	2.17	13.0	2.39	11.8	13.75	2.1	10.01	2.8	1.66	1.14	16.08	1.06	16.21	13.17	61.71
WASH	WASHINGTON TRUST BANCORP	RI	2307.8	1457.9	360.1	27.08	1.57	17.2	1.68	16.2	1.78	15.2	11.44	2.4	9.64	2.8	2.66	0.97	14.37	1.04	14.63	7.51	62.85
CAPX	CAPITAL CROSSING BANK	MA	1082.2	727.9	191.4	31.72	2.73	11.6	2.32	13.7	2.49	12.7	14.96	2.1	14.24	2.2	0.00	1.69	19.87	1.55	18.38	31.34	56.44
CNBKA	CENTURY BANCORP INC -CL	MA	1688.9	1338.9	157.7	28.49	1.61	17.7	1.71	16.7	1.85	15.4	19.06	1.5	17.70	1.6	1.51	0.72	11.45	0.93	14.09	1.63	61.59
BARI	BANCORP RHODE ISLAND INC	RI	1239.1	880.7	148.6	36.97	2.17	17.0	2.13	17.4	2.32	15.9	19.88	1.9	16.99	2.2	1.46	0.74	11.41	0.77	11.28	10.43	70.83
EBTC	ENTERPRISE BANCORP INC	MA	751.5	660.8	106.7	29.00	1.95	14.9					16.27	1.8	13.39	2.2		0.94	13.25			68.73	
WAIN	WAINWRIGHT BANK TRUST CO	MA	625.1	455.1	82.9	12.10	0.94	12.9					8.56	1.4			1.63	0.74	11.39	0.72	10.55	166.51	77.02
WBKC	WESTBANK CORP	MA	756.4	590.0	80.7	17.05	1.00	17.1	1.18	14.4	1.30	13.1	10.06	1.7	8.19	2.1	2.97	0.62	9.94	0.75	12.18	6.56	74.37
SFBC	SLADE'S FERRY BANCORP	MA	439.5	333.1	74.1	18.22	0.90	20.2					11.16	1.6	10.15	1.8	1.80	0.64	6.41	0.88	9.44	9.19	74.80
SAL	SALISBURY BANCORP INC	CT	311.1	218.5	67.3	40.00	2.67	15.0					24.53	1.6	18.09	2.2	2.21	1.27	13.67	1.19	13.08	5.21	62.43
BVNC	BEVERLY NATIONAL CORP	MA	347.2	308.3	51.4	27.50	1.35	20.4					14.86	1.9	14.32	1.9	3.15	0.66	8.43	0.89	10.64	11.45	79.54
PNBK	PATRIOT NATIONAL BANCORP	CT	342.5	290.0	45.1	18.12	0.37	49.0					7.89	2.3	7.41	2.4	0.91	0.45	7.19	0.40	5.23	5.62	82.50
CEBK	CENTRAL BANCORP INC	MA	490.9	297.1	43.0	27.05	1.89	14.3					27.39	1.0	26.46	1.0	1.66	0.61	7.08	0.66	7.41	0.38	76.77
CBN	CORNERSTONE BANCORP INC	CT	225.9	198.7	40.7	32.00	2.00	16.0					17.70	1.8			1.55	0.73	8.05	0.97	9.43	2	83.06

Exhibit 20: Historical Balance Sheet

Ticker: WASH US Equity
 Name: WASHINGTON TRUST
 BANCORP

Currency: USD

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Total Loans	373.77	361.01	344.45	352.51	390.13	386.46	418.99	455.91	496.97	549.02	597.15	605.64	795.13	960.98	1249.68
YOY Growth		-3.41%	-4.59%	2.34%	10.67%	-0.94%	8.42%	8.81%	9.01%	10.47%	8.77%	1.42%	31.29%	20.86%	30.04%
Securities, Cash, and Other	60.44	80.05	113.25	134.82	125.55	161.2	275.96	358.48	497.38	556.59	620.92	756.59	950.53	1012.83	1058.14
YOY Growth		32.45%	41.47%	19.05%	-6.88%	28.40%	71.19%	29.90%	38.75%	11.90%	11.56%	21.85%	25.63%	6.55%	4.47%
Total Assets	434.21	441.06	457.7	487.33	515.68	547.66	694.95	814.39	994.35	1105.61	1218.07	1362.23	1745.66	1973.81	2307.82
		1.58%	3.77%	6.47%	5.82%	6.20%	26.89%	17.19%	22.10%	11.19%	10.17%	11.84%	28.15%	13.07%	16.92%
Tot Deposits/Sec Deposits	398.69	399.72	404.66	423.38	440.73	467.85	476.56	530.93	627.76	660.75	735.68	816.88	1110.49	1206.14	1457.88
YOY Growth		0.26%	1.24%	4.63%	4.10%	6.15%	1.86%	11.41%	18.24%	5.26%	11.34%	11.04%	35.94%	8.61%	20.87%
ST Borrowings and Other	3.74	8.3	18.09	25.49	29.17	26.87	158.96	216.26	289.01	386.69	393.2	447.41	508.45	629.61	698.09
As % of Deposits		2.08%	4.47%	6.02%	6.62%	5.74%	33.36%	40.73%	46.04%	55.50%	53.45%	54.77%	45.61%	52.20%	47.88%
Total Liabilities	402.43	408.02	422.75	448.87	469.9	494.72	635.52	747.19	916.77	1027.44	1128.88	1264.29	1616.94	1835.75	2155.97
		1.39%	3.61%	6.18%	4.69%	5.28%	28.46%	17.57%	22.70%	12.07%	9.87%	12.00%	27.89%	13.53%	17.44%
Total Shareholders' Equity	31.78	33.04	34.95	38.46	45.78	52.94	59.43	67.2	77.58	78.17	89.19	97.94	128.72	138.06	151.85
Total Liabilities and Equity	434.21	441.06	457.7	487.33	515.68	547.66	694.95	814.39	994.35	1105.61	1218.07	1362.23	1745.66	1973.81	2307.82
Shares Outstanding	9.209	9.299	9.375	9.466	9.528	9.629	9.815	9.881	10.751	11.927	12.007	12.011	13.043	13.195	13.269
Book Value per Share	3.451	3.553	3.728	4.063	4.805	5.498	6.055	6.801	7.215	6.554	7.428	8.154	9.869	10.463	11.444

Exhibit 21: Historical Income Statement

Ticker: WASH US Equity
Name: WASHINGTON TRUST
BANCORP

Currency: USD

	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Interest Income	43.94	41.03	35.87	34.93	36.66	42.29	45.81	57.78	67.23	73.00	85.10	87.53	87.34	86.25	96.85
% Loans	11.76%	11.37%	10.41%	9.91%	9.40%	10.94%	10.93%	12.67%	13.53%	13.30%	14.25%	14.45%	10.98%	8.98%	7.75%
Interest Expense - Banks/Finance	26.31	23.56	16.80	14.18	13.59	17.02	19.67	29.48	34.66	37.39	47.23	48.16	43.06	37.45	42.41
% Deposits	6.60%	5.89%	4.15%	3.35%	3.08%	3.64%	4.13%	5.55%	5.52%	5.66%	6.42%	5.90%	3.88%	3.10%	2.91%
Net Interest Income	17.63	17.47	19.07	20.75	23.07	25.27	26.14	28.30	32.57	35.61	37.87	39.37	44.28	48.80	54.44
Provision for Loan Losses	8.50	5.20	4.00	2.50	1.00	1.40	1.20	1.40	1.88	1.84	1.15	0.55	0.40	0.46	0.61
As a % of Loans	2.27%	1.44%	1.16%	0.71%	0.26%	0.36%	0.29%	0.31%	0.38%	0.34%	0.19%	0.09%	0.05%	0.05%	0.05%
Net Int Inc Aft Prov	9.13	12.27	15.07	18.25	22.07	23.87	24.94	26.90	30.69	33.77	36.72	38.82	43.88	48.34	53.83
Non Interest Income	4.62	6.17	5.77	6.43	6.93	7.21	8.32	10.20	16.51	18.39	19.71	21.49	23.26	26.74	26.91
YOY Growth	33.55%	-6.48%	8.20%	11.44%	7.78%	4.04%	15.40%	22.60%	61.86%	11.39%	7.18%	9.03%	8.24%	14.96%	0.64%
Non Interest Expense	13.60	14.87	16.09	17.95	19.70	19.35	20.54	24.39	30.79	33.78	36.51	38.03	42.38	46.69	50.37
YOY Growth	9.34%	8.20%	8.20%	11.56%	9.75%	-1.78%	6.15%	18.74%	26.24%	9.71%	8.08%	4.16%	11.44%	10.17%	7.88%
Operating Income (Losses)	0.15	3.57	4.75	6.73	9.29	11.72	12.72	12.73	16.41	18.38	19.92	22.27	24.75	28.38	30.36
Income Tax Expenses (Credits)	-0.31	1.09	1.60	2.25	3.03	4.03	4.30	3.64	4.24	4.75	5.67	5.54	7.39	8.52	9.53
As a % of Pre-Tax Income	30.53%	33.68%	33.43%	33.43%	32.62%	34.39%	33.81%	28.59%	25.84%	25.84%	28.46%	24.88%	29.86%	30.02%	31.39%
Net Income/Net Profit (Losses)	0.46	2.48	3.15	4.78	6.26	7.69	8.43	9.09	12.18	12.51	13.21	13.11	16.76	18.92	20.83
	439.13%	27.02%	51.75%	30.96%	22.84%	9.62%	7.83%	33.99%	2.71%	5.60%	-0.76%	27.84%	12.89%	10.10%	

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