

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

BANCORP RHODE ISLAND INC  
Form 10-Q  
August 10, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-Q

Quarterly Report Under Section 13 of the Securities Exchange Act of 1934

For quarter ended: June 30, 2001

Commission File No. 001-16101

BANCORP RHODE ISLAND, INC.

-----  
(Exact Name of Registrant as Specified in Its Charter)

RHODE ISLAND

05-0509802

-----  
(State or Other Jurisdiction  
of Incorporation or Organization)

(IRS Employer  
Identification No.)

ONE TURKS HEAD PLACE, PROVIDENCE, RI 02903

-----  
(Address of Principal Executive Offices)

(401) 456-5000

-----  
(Issuer's Telephone Number, Including Area Code)

Not Applicable

-----  
(Former Name, Former Address and Former Fiscal Year,  
if Changed Since Last Report)

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of August 6, 2001:

Common Stock - Par Value \$0.01	3,738,250 shares
-----	-----
(class)	(outstanding)

BANCORP RHODE ISLAND, INC.

# Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

FORM 10-Q

## INDEX

	PAGE NUMBER	
	-----	
Cover Page	1	
Index	2	
PART I - FINANCIAL INFORMATION		
Item 1	Financial Statements	
	Consolidated Balance Sheets	3
	Consolidated Statements of Operations	4
	Consolidated Statements of Changes in Shareholders' Equity	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7 - 8
Item 2	Management's Discussion and Analysis	9 - 19
Item 3	Quantitative and Qualitative Disclosures About Market Risk	20
PART II - OTHER INFORMATION		
Item 1	Legal Proceedings	21
Item 2	Changes in Securities	21
Item 3	Default upon Senior Securities	21
Item 4	Submission of Matters to a Vote of Security Holders	21
Item 5	Other Information	21
Item 6	Exhibits and Reports on Form 8-K	21
	Signature Page	22

2

BANCORP RHODE ISLAND, INC.  
Consolidated Balance Sheets

June 30,      Dece  
2001            -----

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

(Dollars in thousands)

ASSETS:

Cash and due from banks	\$ 29,358	\$
Federal funds sold	10,980	
Investment securities available for sale (amortized cost of \$55,259 and \$47,459 at June 30, 2001 and December 31, 2000, respectively)	58,450	
Mortgage-backed securities available for sale (amortized cost of \$128,573 and \$117,543 at June 30, 2001 and December 31, 2000, respectively)	129,467	1
Stock in Federal Home Loan Bank of Boston	4,915	
Loans receivable:		
Residential mortgage loans	304,909	2
Commercial loans	218,013	2
Consumer and other loans	62,047	
	-----	
Total loans	584,969	5
Less allowance for loan losses	(7,877)	
	-----	
Net loans	577,092	5
Premises and equipment, net	6,618	
Other real estate owned	22	
Goodwill, net	11,348	
Accrued interest receivable	6,164	
Prepaid expenses and other assets	1,295	
	-----	
Total assets	\$835,709	\$7
	=====	

LIABILITIES:

Deposits:		
Demand deposit accounts	\$104,085	\$1
NOW accounts	46,949	
Money market accounts	10,498	
Savings accounts	236,071	2
Certificate of deposit accounts	261,017	2
	-----	
Total deposits	658,620	6
Overnight and short-term borrowings	17,124	
Federal Home Loan Bank of Boston borrowings	98,287	
Other borrowings	--	
Company-obligated mandatorily redeemable capital securities	3,000	
Other liabilities	2,363	
	-----	
Total liabilities	779,394	6
	-----	

SHAREHOLDERS' EQUITY:

Common stock, par value \$0.01 per share, authorized 11,000,000 shares:		
Voting: Issued and outstanding 3,509,773 shares in 2001 and 3,448,950 shares in 2000	35	
Non-Voting: Issued and outstanding 228,477 shares in 2001 and 280,000 shares in 2000	2	
Additional paid-in capital	39,648	
Retained earnings	16,051	
Accumulated other comprehensive income (loss), net	579	
	-----	
Total shareholders' equity	56,315	
	-----	
Total liabilities and shareholders' equity	\$835,709	\$7
	=====	

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

See accompanying notes to consolidated financial statements

3

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Operations

	Three Months Ended June 30,		Six Months June 30
	2001	2000	2001
	----	----	----
	(Dollars in thousands, except per share)		
Interest and dividend income:			
Residential mortgage loans	\$ 5,485	\$ 4,449	\$ 10,699
Commercial loans	4,568	4,379	9,281
Consumer and other loans	1,199	1,068	2,469
Investment securities	705	777	1,447
Mortgage--backed securities	1,954	1,315	3,957
Federal funds sold and other	215	138	356
Federal Home Loan Bank of Boston stock dividends	77	69	151
	-----	-----	-----
Total interest and dividend income	14,203	12,195	28,360
	-----	-----	-----
Interest expense:			
NOW accounts	58	50	108
Money market accounts	60	95	138
Savings accounts	1,785	1,427	3,654
Certificate of deposit accounts	3,566	3,340	7,274
Overnight and short-term borrowings	116	142	308
Federal Home Loan Bank of Boston borrowings	1,373	560	2,323
Other borrowings	68	70	138
Company-obligated mandatorily redeemable capital securities	79	--	113
	-----	-----	-----
Total interest expense	7,105	5,684	14,056
	-----	-----	-----
Net interest income	7,098	6,511	14,304
Provision for loan losses	352	382	840
	-----	-----	-----
Net interest income after provision for loan losses	6,746	6,129	13,464
	-----	-----	-----
Noninterest income:			
Service charges on deposit accounts	894	662	1,660
Loan related fees	51	63	100
Commissions on loans originated for others	71	13	130
Gain on sale of mortgage-backed securities	4	--	4
Other income	286	136	514

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Total noninterest income	1,306	874	2,408
Noninterest expense:			
Salaries and employee benefits	2,665	2,350	5,315
Occupancy	438	374	868
Equipment	208	236	439
Data processing	463	324	882
Marketing	369	366	557
Professional services	185	163	400
Loan servicing	242	182	451
Other real estate owned expense	21	6	64
Amortization of goodwill	291	291	582
Deposit tax and assessments	29	26	58
Other	737	605	1,421
Total noninterest expense	5,648	4,923	11,037
Income before income taxes	2,404	2,080	4,835
Income tax expense	832	724	1,703
Net income	\$ 1,572	\$ 1,356	\$ 3,132
Per share data:			
Basic earnings per common share	\$ 0.42	\$ 0.36	\$ 0.84
Diluted earnings per common share	\$ 0.40	\$ 0.36	\$ 0.81
Average common shares outstanding - basic	3,729,879	3,728,550	3,729,415
Average common shares outstanding - diluted	3,888,868	3,734,989	3,874,452

See accompanying notes to consolidated financial statements

4

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Changes in Shareholders' Equity

Six months ended June 30,	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Compre- hensive Income (Loss), Net
(In thousands)				
2001				
Balance at December 31, 2000	\$37	\$39,621	\$ 13,815	\$ (181)
Net income	--	--	3,132	--
Other comprehensive income, net of tax:				

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Unrealized holding gain (loss) on securities available for sale				757
Gain on securities available for sale included in net income				3
Comprehensive income				
Proceeds from exercise of options	--	16	--	--
Common stock issued for incentive stock award, net	--	11	--	--
Dividends on common stock	--	--	(896)	--
-----				
Balance at June 30, 2001	\$37	\$39,648	\$16,051	\$ 579
=====				
2000				
----				
Balance at December 31, 1999	\$37	\$39,617	\$ 9,763	\$(1,742)
Net income	--	--	2,662	--
Other comprehensive income, net of tax:				
Unrealized holding gain (loss) on securities available for sale				(368)
Comprehensive income				
Dividends on common stock	--	--	(746)	--
-----				
Balance at June 30, 2000	\$37	\$39,617	\$11,679	\$(2,110)
=====				

See accompanying notes to consolidated financial statements

5

BANCORP RHODE ISLAND, INC.  
Consolidated Statements of Cash Flows

	Six Months Ended June 30,	
	2001	2000
	----	----
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 3,132	\$ 2,662
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	1,511	1,247
Provision for loan losses	840	722
Loss/(gain) on mortgage-backed securities	(4)	--

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Loss/(gain) on other real estate owned, net	(14)	(7)
Compensation expense from restricted stock grant	11	--
(Increase) decrease in:		
Accrued interest receivable	(534)	(305)
Prepaid expenses and other assets	(656)	(64)
Increase (decrease) in:		
Other liabilities	(244)	(959)
Other, net	9	21
	-----	-----
Net cash provided (used) by operating activities	4,051	3,317
	-----	-----
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(7,082)	(5,457)
Commercial loans	(24,813)	(30,450)
Consumer loans	(9,398)	(8,932)
Purchase of:		
Investment securities available for sale	(34,026)	(3,000)
Mortgage-backed securities available for sale	(33,000)	(18,517)
Residential mortgage loans	(105,689)	(22,579)
Consumer loans	(5,045)	--
Federal Home Loan Bank of Boston stock	(1,211)	--
Principal payments on:		
Investment securities available for sale	23,000	7,000
Mortgage-backed securities available for sale	18,017	7,141
Residential mortgage loans	55,454	22,205
Commercial loans	19,407	4,560
Consumer loans	10,342	5,679
Proceeds from sale of mortgage-backed securities	3,885	--
Proceeds from disposition of other real estate owned	84	88
Proceeds from sale of premises and equipment	18	--
Capital expenditures for premises and equipment	(739)	(946)
	-----	-----
Net cash provided (used) by investing activities	(90,796)	(43,208)
	-----	-----
Cash flows from financing activities:		
Net increase (decrease) in deposits	26,988	65,980
Net increase (decrease) in overnight and short-term borrowings	3,277	(3,188)
Proceeds from long-term borrowings	71,000	12,000
Repayment of long-term borrowings	(7,755)	(25,004)
Proceeds from exercise of stock options	16	--
Dividends on common stock	(896)	(746)
	-----	-----
Net cash provided (used) by financing activities	92,630	49,042
	-----	-----
Net increase (decrease) in cash and cash equivalents	5,885	9,151
Cash and cash equivalents at beginning of period	34,453	24,486
	-----	-----
Cash and cash equivalents at end of period	\$ 40,338	\$ 33,637
	=====	=====
Supplementary Disclosures:		
Cash paid for interest	\$ 13,249	\$ 11,013
Cash paid for income taxes	2,690	2,005
Non-cash transactions:		
Additions to other real estate owned in settlement of loans	62	137
Change in other comprehensive income, net of taxes	760	(368)

See accompanying notes to consolidated financial statements

6

BANCORP RHODE ISLAND, INC.  
Notes to Consolidated Financial Statements

(1) Basis of Presentation

Bancorp Rhode Island, Inc. (the "Company"), a Rhode Island corporation, was organized by Bank Rhode Island (the "Bank") on February 15, 2000, to be a bank holding company and to acquire all of the capital stock of the Bank. The reorganization of the Bank into the holding company form of ownership was completed on September 1, 2000. The Company has no significant assets other than the common stock of the Bank. For that reason, substantially all of the discussion in this Quarterly Report on Form 10-Q relates to the operations of the Bank and its subsidiaries.

The consolidated financial statements include the accounts of the Company and its wholly-owned direct subsidiaries, the Bank and BRI Statutory Trust I (an issuer of trust preferred securities), and its indirect subsidiaries, BRI Investment Corp. (a Rhode Island passive investment company) and BRI Realty Corp. (a real estate holding company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The interim results of consolidated operations are not necessarily indicative of the results for any future interim period or for the entire year. These interim consolidated financial statements do not include all disclosures associated with annual financial statements and, accordingly, should be read in conjunction with the annual consolidated financial statements and accompanying notes included in the Company's Annual Report to Shareholders filed with the Securities and Exchange Commission.

In preparing the consolidated 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 change relate to the determination of the allowance for loan losses.

The unaudited interim consolidated financial statements of the Company have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP") and prevailing practices within the banking industry and include all necessary adjustments (consisting of only normal recurring adjustments), that, in the opinion of management, are required for a fair presentation of the results and financial condition of the Company.

(2) Earnings Per Share

Basic earnings per share ("EPS") excludes dilution and is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution that could occur if options, warrants or other contracts to issue common stock were exercised and resulted in the issuance of additional common stock that then shared in the earnings of the entity.



7

(3) Recent Accounting Developments

On July 20, 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Account Standards ("SFAS") 142, "Goodwill and Other Intangible Assets." SFAS 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and supersedes APB Opinion No. 17, "Intangible Assets". Under SFAS 142, goodwill and intangible assets that have indefinite useful lives will no longer be amortized, but rather will be tested at least annually for impairment. The Statement applies to existing goodwill (i.e., recorded goodwill at the date the financial statement is issued), as well as goodwill arising subsequent to the effective date of the Statement. Intangible assets that have finite useful lives will continue to be amortized over their useful lives, but without the constraint of the 40-year maximum life required by APB Opinion No. 17. The provisions of SFAS 142 must be applied for fiscal years beginning after December 15, 2001 and may not be adopted earlier. At June 30, 2001, the Company had \$11.3 million of goodwill on its balance sheet that was being amortized at a rate of \$1.2 million annually.

(4) Company-Obligated Mandatorily Redeemable Capital Securities

On January 23, 2001, the Company sponsored the creation of BRI Statutory Trust I (the "Trust"), a Connecticut statutory trust. The Company is the owner of all of the common securities of the Trust. On February 22, 2001, the Trust issued \$3.0 million of its 10.20% Capital Securities through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Company's \$93,000 capital contribution for the Trust's common securities, were used to acquire \$3.1 million of the Company's 10.20% Junior Subordinated notes due February 22, 2031, and constitute the sole asset of the Trust. The Company has, through the Declaration of Trust, the Guarantee Agreement, the notes and the related Indenture, taken together, fully irrevocably and unconditionally guaranteed all of the Trust's obligations under the Capital Securities, to the extent the Trust has funds available therefor.

8

BANCORP RHODE ISLAND, INC.  
Management's Discussion and Analysis

ITEM 2. Management's Discussion and Analysis

Certain statements contained herein are "Forward Looking Statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward Looking Statements may be identified by reference to a future period or periods or by the use of forward looking terminology such as "may," "believes," "intends," "expects," and "anticipates" or similar terms or variations of these terms. Actual results could differ materially from those set forth in Forward Looking Statements as a result of certain risks and uncertainties, including but not limited to, changes in political and economic conditions, interest rate fluctuations, competitive product and pricing pressures, equity and bond market fluctuations, credit risk, inflation, as well as other risks and uncertainties detailed from time to time in filings with the Securities and Exchange Commission ("SEC").

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

### GENERAL

-----

The Company's principal subsidiary, Bank Rhode Island, is a commercial bank chartered as a financial institution in the State of Rhode Island. The Bank pursues a community banking mission and is principally engaged in providing banking products and services to individuals and businesses in Providence and Kent counties. The Bank is subject to competition from a variety of traditional and nontraditional financial service providers both within and outside of Rhode Island. The Bank offers its customers a wide range of deposit products, nondeposit investment products, commercial, residential and consumer loans, and other traditional banking products and services, designed to meet the needs of individuals and small- to mid-sized businesses. The Bank also has introduced both commercial and consumer on-line banking products and maintains a web site at <http://www.bankri.com>. The Company and Bank are subject to regulation by a number of federal and state agencies and undergo periodic examinations by certain of those regulatory authorities. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"), subject to regulatory limits. The Bank is also a member of the Federal Home Loan Bank of Boston ("FHLB").

### NON-GAAP MEASURES OF FINANCIAL PERFORMANCE

-----

Contained within this document are various measures of financial performance that have been calculated excluding the amortization of goodwill and any related income taxes. These measures are identified as "cash" or "cash basis" and have been provided to assist the reader in evaluating the core performance of the Company. This presentation is not in accordance with Generally Accepted Accounting Principles ("GAAP"), but management believes it to be beneficial to gaining an understanding of the financial performance of the Company.

The Bank's formation in 1996 resulted in the generation of \$17.5 million of goodwill that is being amortized over a 15 year period. The amortization of goodwill reduces the Company's pre-tax income \$1.2 million annually. Because of the impact of this amortization, certain information has been presented on both a GAAP and cash basis. Recently, the Financial Accounting Standards Board ("FASB") has concluded that goodwill would no longer be amortized, but will be subject to periodic review for impairment. For the Company, beginning in 2002, there will no longer be a difference between GAAP and cash basis presentations. Also see discussion under "Recent Accounting Developments".

9

The following table sets forth selected financial measures in accordance with GAAP and on a cash basis:

Three Months Ended June 30,		Six Months Ended June 30,	
-----	-----	-----	-----
2001	2000	2001	2000
----	----	----	----

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Basic EPS	\$0.42	\$0.36	\$0.84	\$0.71
Basic Cash EPS	\$0.47	\$0.41	\$0.94	\$0.82
Diluted EPS	\$0.40	\$0.36	\$0.81	\$0.71
Diluted Cash EPS	\$0.45	\$0.41	\$0.91	\$0.82
ROA	0.77%	0.81%	0.80%	0.81%
Cash Basis ROA	0.88%	0.94%	0.91%	0.94%
ROE	11.40%	11.41%	11.58%	11.26%
Cash Basis ROE	12.78%	13.01%	12.97%	12.87%
Efficiency Ratio	67.21%	66.66%	66.04%	66.37%
Cash Basis Efficiency Ratio	63.74%	62.72%	62.56%	62.30%

### OVERVIEW

-----

Total assets increased \$96.3 million, or 13.0%, to \$835.7 million at June 30, 2001 from \$739.4 million at December 31, 2000. The increase was predominantly in residential mortgage loans and mortgage-backed securities ("MBSs") and was primarily funded by borrowings from the FHLB. In February 2001, the Company through its subsidiary, BRI Statutory Trust I, issued \$3.0 million of trust preferred securities. These securities qualify as Tier I capital for regulatory purposes and supported the growth in assets that occurred during the first half of 2001. Since the end of last year, total loans have risen to \$585.0 million, from \$518.8 million, an increase of \$66.1 million, or 12.7%, while total deposits have risen to \$658.6 million, from \$631.6 million, an increase of \$27.0 million, or 4.3%. Shareholders' equity was \$56.3 million at June 30, 2001, representing a \$3.0 million, or 5.7%, increase over shareholders' equity at the end of 2000.

### FINANCIAL CONDITION

-----

-- Investments. Total investments (consisting of federal funds sold, investment securities, MBSs and stock in the FHLB) totaled \$203.8 million, or 24.4% of total assets, at June 30, 2001, compared to \$174.0 million, or 23.5% of total assets, at December 31, 2000. All \$187.9 million of investment securities and MBSs at June 30, 2001 were classified as available for sale and carried a total of \$4.1 million in net unrealized gains. The increase of \$29.8 million, or 17.1%, in total investments was centered in investment securities and MBSs and was associated with the growth in total deposits and the additional capital created through the issuance of the trust preferred securities.

-- Loans. Total loans were \$585.0 million, or 70.0% of total assets, at June 30, 2001, compared to \$518.8 million, or 70.2% of total assets, at December 31, 2000. During the first half of 2001, the residential mortgage loan portfolio increased \$57.0 million, or 23.0%, as the Bank purchased a number of residential mortgage loans in the secondary market. These purchases were primarily funded with a series of FHLB borrowings.

The commercial loan portfolio (consisting of commercial & industrial, small business, commercial real estate, multi-family real estate and construction loans) increased \$5.2 million, or 2.4%, during the first half of 2001. Particular emphasis is placed on the generation of small- to

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

medium-sized commercial relationships (those relationships with \$5.0 million or less in loan commitments). The Bank is active in small business lending (loans of \$250,000 or less) in which it utilizes credit scoring, in conjunction with traditional review standards, and employs streamlined documentation. The Bank is a participant in the U.S. Small Business Administration ("SBA") Preferred Lender Program in Rhode Island and the 7a Guarantee Loan Program in Massachusetts.

Also during the first six months of 2001, the consumer loan portfolio increased \$4.0 million, or 6.8%, as the Bank purchased \$5.0 million of automobile loans. While the Bank continues to concentrate its origination efforts on commercial and consumer loan opportunities, management anticipates that the Bank will continue to originate residential mortgage loans on a limited basis for its customers. Until such time as the Bank can originate sufficient commercial and consumer loans to utilize available cash flow, or to otherwise meet investment objectives, it also intends to continue purchasing residential mortgage and automobile loans as opportunities develop.

The following is a breakdown of loans receivable:

	June 30, 2001	December 31, 2000
-----		
(In thousands)		
Residential mortgage loans:		
One- to four-family adjustable rate	\$273,019	\$212,197
One- to four-family fixed rate	30,528	34,609
	-----	
Subtotal	303,547	246,806
Premium on loans acquired	1,428	1,166
Net deferred loan origination fees	(66)	(49)
	-----	
Total residential mortgage loans	\$304,909	\$247,923
	=====	
Commercial loans:		
Commercial real estate - nonowner occupied	\$ 67,637	\$ 69,315
Commercial and industrial	53,321	51,470
Commercial real estate - owner occupied	40,974	38,272
Small business	21,418	19,170
Multi-family real estate	14,362	15,933
Leases	10,836	11,731
Construction	9,629	7,070
	-----	
Subtotal	218,177	212,961
Net deferred loan origination fees	(164)	(143)
	-----	
Total commercial loans	\$218,013	\$212,818
	=====	
Consumer loans:		
Home equity - lines of credit	\$ 27,022	\$ 26,215
Home equity - term loans	22,853	23,292

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Automobile	8,166	4,643
Installment	1,333	1,348
Savings secured	854	987
Unsecured and other	1,154	1,044
	-----	-----
Subtotal	61,382	57,529
Premium on loans acquired	246	144
Net deferred loan origination costs	419	411
	-----	-----
Total consumer loans	\$ 62,047	\$ 58,084
	=====	=====

11

-- Deposits and Borrowings. Total deposits increased by \$27.0 million, or 4.3%, during the first half of 2001, from \$631.6 million, or 85.4% of total assets, at December 31, 2000, to \$658.6 million, or 78.8% of total assets, at June 30, 2001. The decrease in the relative percentage of total assets that occurred during 2001 resulted from the growth in total assets being primarily funded by FHLB borrowings. Meanwhile, the composition of total deposits changed as follows: core deposit accounts (checking and savings accounts) increased \$31.6 million, or 8.6%, while certificates of deposit decreased \$4.6 million, or 1.7%. At June 30, 2001, core deposit accounts comprised 60.4% of total deposits, compared to 57.9% of total deposits at December 31, 2000. The Bank continues its strategy of emphasizing core deposit growth over certificate of deposit growth.

The following table sets forth certain information regarding deposits:

	June 30, 2001			December 31, 2000	
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total
	-----	-----	-----	-----	-----
(Dollars in thousands)					
NOW accounts	\$ 46,949	7.1%	0.63%	\$ 36,910	5.8%
Money market accounts	10,498	1.6%	2.06%	12,283	1.9%
Savings accounts	236,071	35.9%	2.79%	210,728	33.4%
Certificate of deposit accounts	261,017	39.6%	5.44%	265,623	41.9%
	-----	-----	-----	-----	-----
Total interest bearing deposits	554,535	84.2%	3.84%	525,544	82.9%
Noninterest bearing accounts	104,085	15.8%	--	106,088	16.7%
	-----	-----	-----	-----	-----
Total deposits	\$658,620	100.0%	3.24%	\$631,632	100.0%
	=====	=====	=====	=====	=====

The Company, through the Bank's membership in the FHLB, has access to a variety of borrowing alternatives, and management will from time to time take advantage of these opportunities to fund asset growth. During the first half of 2001, FHLB borrowings increased \$65.0 million, or 195.2%, as the

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Company sought to take advantage of lower, long-term borrowing rates to fund its asset growth. However, on a long-term basis, the Company intends to concentrate on increasing its core deposits.

### Asset Quality

The definition of nonperforming assets includes nonperforming loans and other real estate owned ("OREO"). OREO consists of real estate acquired through foreclosure proceedings and real estate acquired through acceptance of a deed in lieu of foreclosure. Nonperforming loans are defined as nonaccrual loans, loans past due 90 days or more, but still accruing, and impaired loans. Under certain circumstances the Company may restructure the terms of a loan as a concession to a borrower. These restructured loans are considered impaired loans.

-- Nonperforming Assets. At June 30, 2001, the Company had nonperforming assets of \$3.0 million, which represented .35% of total assets. This compares to an unusually low level of nonperforming assets at December 31, 2000, of \$538,000, or .07% of total assets. The Bank's nonperforming assets at June 30, 2001, consisted of nonaccrual commercial loans aggregating \$2.4 million, nonaccrual residential mortgage loans aggregating \$487,000, nonaccrual consumer loans aggregating \$33,000 and OREO aggregating \$22,000. Included in nonaccrual loans were \$2.4 million of impaired loans at June 30, 2001. There were no impaired loans at December 31, 2000. The Company maintained reserves of \$1.0 million against impaired loans at June 30, 2001. The

12

Company evaluates the underlying collateral of each nonperforming loan and continues to pursue the collection of interest and principal.

Delinquencies. At June 30, 2001, loans with an aggregate balance of \$481,000 were 60 to 89 days past due, an increase of \$144,000, or 42.7%, from \$337,000 reported at December 31, 2000. The majority of these loans at both dates were residential mortgage loans and are secured.

The following table sets forth information regarding nonperforming assets and loans 60-89 days past due as to interest at the dates indicated.

	June 30, 2001	December 31, 2000
	-----	-----
	(Dollars in thousands)	
Loans accounted for on a nonaccrual basis	\$2,928	\$508
Loans past due 90 days or more, but still accruing	--	--
	-----	-----
Total nonperforming loans	2,928	508
Other real estate owned	22	30
	-----	-----
Total nonperforming assets	\$2,950	\$538
	=====	=====
 Delinquent loans 60-89 days past due	 \$ 481	 \$337

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Nonperforming loans as a percent of total loans	.50%	.10%
Nonperforming assets as a percent of total assets	.35%	.07%
Delinquent loans 60-89 days past due as a percent of total loans	.08%	.07%

Adversely Classified Assets. The Company's management adversely classifies certain assets as "substandard," "doubtful" or "loss" based on criteria established under banking regulations. An asset is considered substandard if inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if existing deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as loss are those considered "uncollectible" and of such little value that their continuance as assets without the establishment of a specific loss reserve is not warranted.

At June 30, 2001, the Company had \$11.1 million of assets that were classified as substandard. This compares to \$5.8 million of assets that were classified as substandard at December 31, 2000. The Company had no assets that were classified as doubtful or loss at either date. Performing loans may or may not be adversely classified depending upon management's judgment with respect to each individual loan. At June 30, 2001, included in the \$11.1 million of assets that were classified as substandard, were \$8.2 million of performing loans. This compares to \$5.3 million of adversely classified performing assets as of December 31, 2000. This increase in adversely classified assets is reflective of a softening in commercial credit quality, which in turn may lead to an increase in nonperforming assets in future periods.

Allowance for Loan Losses  
-----

During the first six months of 2001, the Company made provisions to the allowance for loan losses totaling \$840,000 and had \$257,000 of net charge-offs, bringing the balance in the allowance to \$7.9 million at June 30, 2001, compared to \$7.3 million at December 31, 2000. The allowance,

13

expressed as a percentage of total loans, was 1.35% as of June 30, 2001, compared to 1.41% at the prior year-end and stood at 269.0% of nonperforming loans at June 30, 2001, compared to 1,435.8% of nonperforming loans at December 31, 2000.

Assessing the adequacy of the allowance for loan losses involves substantial uncertainties and is based upon management's evaluation of the amounts required to meet estimated charge-offs in the loan portfolio after weighing various factors. Among these factors are the risk characteristics of the loan portfolio, the quality of specific loans, the level of nonaccruing loans, current economic conditions, trends in delinquencies and charge-offs, and the value of underlying collateral, all of which can change frequently. Based on this evaluation, management believes that the allowance for loan losses, as of June 30, 2001, is adequate.

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

While management evaluates currently available information in establishing the allowance for loan losses, future adjustments to the allowance may be necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance for loan losses and carrying amounts of other real estate owned. Such agencies may require the financial institution to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

### RESULTS OF OPERATIONS

-----

The Company's operating results depend primarily on its "net interest income," or the difference between its interest income and its cost of money, and on the quality of its assets. Interest income depends on the average amount of interest-earning assets outstanding during the period and the interest rates earned thereon. Cost of money is a function of the average amount of deposits and borrowed money outstanding during the period and the interest rates paid thereon. The quality of assets further influences the amount of interest income lost on nonaccrual loans and the amount of additions to the allowance for loan losses.

Three Months Ended June 30, 2001 and 2000

-----

-- Overview. The Company reported net income for the second quarter of 2001 of \$1.6 million, up \$216,000, or 15.9%, from the second quarter of 2000. Diluted earnings per common share were \$0.40 for the second quarter of 2001, compared to \$0.36 for the second quarter of 2000. Diluted cash earnings per common share were \$0.45 for the 2001 period, compared to \$0.41 for the 2000 period.

The Company reported a return on average assets of 0.77% and a return on average equity of 11.40% for the 2001 period, as compared to a return on average assets of 0.81% and a return on average equity of 11.41% for the 2000 period. Cash basis return on average assets and cash basis return on average equity were 0.88% and 12.78% for the 2001 period, and 0.94% and 13.01% for the 2000 period, respectively.

-- Net Interest Income. For the quarter ended June 30, 2001, net interest income was \$7.1 million, compared to \$6.5 million for the 2000 period. The net interest margin for the second quarter of 2001 was 3.64% compared to a net interest margin of 4.16% for the 2000 period. The increase in net interest income of \$587,000, or 9.0%, was primarily attributable to the continued growth of the

14

Company. Average earnings assets were \$152.4 million, or 24.2%, higher and average interest-bearing liabilities were \$127.1 million, or 23.8%, higher than the comparable period a year earlier. The decrease of 52 basis points in the net interest margin was partially the result of the wholesale transaction (purchase of residential mortgage loans funded with FHLB borrowings) consummated in the first quarter of 2001 and partially the result of the 250 basis point decrease in market interest rates experienced in the first half of 2001.

-- Interest Income. Investments. Total investment income was \$3.0



## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

million for the quarter ended June 30, 2001, compared to \$2.3 million for the second quarter of 2000. This increase in total investment income of \$652,000, or 28.4%, was primarily attributable to an increase of \$47.6 million, or 57.9%, in the average balance of MBSs. The Company's investments at June 30, 2001 were primarily comprised of Agency securities and MBSs with remaining maturities or repricing periods of less than five years. In addition to assisting in overall tax planning, management believes that this composition, along with a structured maturity ladder, provides more stable earnings and predictable cash flows from the portfolio.

-- Interest Income. Loans. Interest from loans was \$11.3 million for the three months ended June 30, 2001, and represented a yield on total loans of 7.73%. This compares to \$9.9 million of interest, and a yield of 8.12%, for the second quarter of 2000. Interest from residential mortgage loans increased \$1.0 million, or 23.3%, between the two quarters and was primarily attributable to the continued purchase of loans. Income from commercial loans increased \$189,000, or 4.3%, and consumer and other loan income increased \$132,000, or 12.3%. Since its inception, the Bank has concentrated its origination efforts on commercial and consumer loan opportunities, while purchasing residential mortgage loans, and more recently automobile loans, as cash flows dictated. The average balance of the various components of the loan portfolio changed from the second quarter of 2000 as follows: residential mortgage loans increased \$58.2 million, or 23.9%, commercial loans increased \$23.0 million, or 11.7%, and consumer and other loans increased \$13.2 million, or 27.2%. In response to declining market interest rates, the yields on the various loan portfolio components changed as follows: commercial loans decreased 61 basis points, to 8.35%; consumer and other loans decreased 106 basis points, to 7.78%, and residential mortgage loans decreased 4 basis points, to 7.27%.

-- Interest Expense. Interest paid on deposits and borrowings increased \$1.4 million, or 25.0%, to \$7.1 million for the three months ended June 30, 2001, from \$5.7 million paid during the second quarter of 2000. The increase in total interest expense was primarily the result of an increase in the average balance of interest-bearing liabilities outstanding. The average balance of interest-bearing liabilities increased \$127.1 million, from \$535.0 million in the second quarter of 2000 to \$662.1 million in the second quarter of 2001, as borrowings were utilized to fund much of the asset growth. Meanwhile, the overall average cost for interest-bearing liabilities increased 3 basis points from 4.27% for the second quarter of 2000 to 4.30% for the second quarter of 2001. Liability costs are dependent on a number of factors including general economic conditions, national and local interest rates, competition in the local deposit marketplace, interest rate tiers offered and the Company's cash flow needs. Average costs for the various components of interest-bearing liabilities changed from the second quarter of 2000 as follows: NOW accounts decreased 7 basis points, to 0.58%, money market accounts decreased 44 basis points, to 2.21%, savings accounts increased 3 basis points, to 3.10%, certificate of deposit accounts increased 19 basis points, to 5.53%, and borrowings decreased 65 basis points to 5.41%.

15

-- Provision for Loan Losses. The provision for loan losses was \$352,000 for the quarter ended June 30, 2001, down \$30,000, or 7.9%, from the same quarter last year. Growth in the commercial loan portfolio slowed to an annualized rate of 3.6% during the second quarter of 2001, compared to an annualized growth rate of 15.8% during the second quarter of 2000. When determining the provision for the quarter, management evaluates several factors including new loan originations, actual and estimated charge-offs,

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

and the risk characteristics of the loan portfolio. Also see discussion under "Allowance for Loan Losses."

-- Noninterest Income. Total noninterest income increased \$432,000, or 49.4%, to \$1.3 million for the second quarter of 2001, from \$874,000 for the 2000 quarter. Service Charges on Deposit Accounts, which represent the largest source of noninterest income for the Company, rose \$232,000, or 35.0%, from \$662,000 for the quarter ended June 30, 2000, to \$894,000 for the same period in 2001, as core deposit accounts continued to grow. Commissions on Loans Originated for Others increased \$58,000, or 446.2%, from the comparable period, as fixed rate mortgage loan activity increased substantially in response to the falling interest rate environment. Other Income increased \$150,000, or 110.3%, primarily from revitalization of the Company's non-deposit investment sales program, which increased commissions \$70,000 over the second quarter of last year.

-- Noninterest Expense. Total noninterest expense for the second quarter of 2001 increased \$725,000, or 14.7%, to \$5.6 million from \$4.9 million in 2000. This increase occurred primarily in the following areas: Salaries and Benefits (up \$315,000, or 13.4%), Occupancy (up \$64,000, or 17.1%), Data Processing (up \$139,000, or 42.9%), Loan Servicing (up \$60,000, or 33.0%) and Other Expenses (up \$132,000, or 21.8%). During 2000 and early 2001, the Bank experienced substantial growth in both loans and core deposits that resulted in the increased operating costs evidenced in the second quarter of 2001. In addition, during the third quarter of 2000, following a review of its salary structure, the Company increased base salaries for several positions in order to bring their compensation to industry comparable levels. The Company's cash basis efficiency ratio for the second quarter of 2001 was 63.74%, compared to 62.72% for the second quarter of 2000, an increase of 102 basis points.

-- Income Tax Expense. Income tax expense of \$832,000 was recorded for the quarter ended June 30, 2001, compared to \$724,000 for the 2000 period. This represented total effective tax rates of 34.6% and 34.8%, respectively. Tax-favored income from U.S. Treasury and Agency securities along with the utilization of a Rhode Island passive investment company has reduced the Company's effective tax rate from the 39.9% combined statutory federal and state tax rates.

Six Months Ended June 30, 2001 and 2000  
-----

-- Overview. Net income for the first half of 2001, increased \$470,000, or 17.7%, to \$3.1 million, or \$0.81 per diluted common share, from \$2.7 million, or \$0.71 per diluted common share, for the first half of 2000. Diluted cash earnings per common share were \$0.91 for the 2001 period, compared to \$0.82 for the 2000 period.

This performance represented a return on average assets of 0.80% and a return on average equity of 11.58% for the 2001 period, as compared to a return on average assets of 0.81% and a return on average equity of 11.26% for the 2000 period. Cash basis return on average assets and cash basis return on average equity were 0.91% and 12.97% for the 2001 period, and 0.94% and 12.87% for the 2000 period, respectively.

16

-- Net Interest Income. For the six months ended June 30, 2001, net interest income was \$14.3 million, compared to \$12.6 million for the first half of 2000. The net interest margin for the first six months of 2001 was

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

3.81% compared to a net interest margin of 4.10% for the 2000 period. The increase in net interest income of \$1.7 million, or 13.2%, was primarily attributable to the overall growth of the Company. Average earning assets increased \$137.7 million, or 22.2%, and average interest-bearing liabilities increased \$111.4 million, or 21.1%, over the comparable period a year earlier. The decrease of 29 basis points in the net interest margin was primarily caused by two factors: 1) the tighter spreads associated with the first quarter wholesale transaction resulted in an approximately 16 basis point decrease in the margin, and 2) the dramatic drop in market interest rates since the beginning of 2001 resulted in an approximately 13 basis point decrease in the margin.

-- Interest Income. Investments. Total investment income was \$5.9 million for the six months ended June 30, 2001, compared to \$4.5 million for the first half of 2000. This increase in total investment income of \$1.4 million, or 31.4%, was primarily attributable to a \$44.2 million, or 54.4%, increase in the average balance of MBSs. Meanwhile, the overall yield on investments decreased 22 basis points in response to dramatically lower market interest rates.

-- Interest Income. Loans. Interest from loans was \$22.4 million for the six months ended June 30, 2001, and represented a yield on total loans of 7.96%. This compares to \$19.2 million of interest, and a yield of 8.03%, for the first half of 2000. This increase of \$3.3 million, or 17.0%, in interest on loans was due primarily to an increase in the average balance of loans outstanding. The average balance of the various components of the loan portfolio changed as follows: residential mortgage loans increased \$44.8 million, or 18.4%, commercial loans increased \$29.4 million, or 15.6%, and consumer and other loans increased \$12.9 million, or 27.1%. In addition, the yields on the various components of the loan portfolio changed as follows: residential mortgage loans increased 15 basis points, to 7.42%; commercial loans decreased 24 basis points, to 8.61%; and consumer and other loans decreased 49 basis points, to 8.19%. The Company has continued to concentrate its origination efforts on commercial and consumer loan opportunities, but will also originate residential mortgage loans for its portfolio on a limited basis.

-- Interest Expense. Interest paid on deposits and borrowings increased \$3.0 million, or 27.1%, to \$14.1 million for the six months ended June 30, 2001, compared to \$11.1 million for the same period during 2000. The increase in total interest was primarily attributable to growth in savings and certificate of deposit accounts, along with the use of borrowings to fund the overall growth of the Company. The average balance of interest-bearing liabilities increased \$111.4 million, from \$528.9 million in 2000, to \$640.3 million in 2001. The Company continued to experience strong average balance growth in core deposit accounts, specifically noninterest bearing demand deposit accounts (up \$19.6 million, or 25.7%) and savings accounts (up \$43.3 million, or 24.0%). In addition, the Company increased its utilization of borrowed funds (up \$47.5 million, or 81.4%). The overall average cost for interest-bearing liabilities increased 23 basis points from 4.20% for the first half of 2000, to 4.43% for the first half of 2001. Deposit costs are dependent on a number of factors including general economic conditions, national and local interest rates, competition in the local marketplace, interest rate tiers offered, and the Company's cash flow needs.

-- Provision for Loan Losses. The provision for loan losses was \$840,000 for the six months ended June 30, 2001, compared to \$722,000 for the same period last year. Management evaluates several factors including new loan originations, actual and estimated charge-offs, and the risk characteristics of the loan portfolio when determining the provision for the quarter. Also see discussion under "Allowance for Loan Losses."

-- Noninterest Income. Total noninterest income increased \$758,000, or 45.9%, from the first half of 2000, to \$2.4 million for the first six months of 2001. Service charges on deposit accounts, which represents the largest source of noninterest income, rose \$393,000, or 31.0%, from \$1.3 million for the six months ended June 30, 2000, to \$1.7 million for the same period in 2001, primarily as a result of growth in core deposit accounts. Commissions on Loans Originated for Others increased \$112,000, or 622.2%, in response to increased fixed rate mortgage loan activity resulting from the drop in market interest rates. Additionally, Other Income increased \$255,000, or 98.5%, primarily from increased commissions on sales of non-deposit investment products (up \$141,000).

-- Noninterest Expense. Noninterest expenses for the first half of 2001 increased a total of \$1.6 million, or 16.4%, to \$11.0 million, from \$9.5 million in 2000. This increase occurred primarily as a result of the overall growth of the Company and was centered in the following areas: Salaries and Benefits (up \$794,000, or 17.6%), Occupancy (up \$128,000, or 17.3%), Data Processing (up \$273,000, or 44.8%), Loan Servicing (up \$65,000, or 16.8%), OREO Expense (up \$55,000, or 611.1%) and Other Expenses (up \$310,000, or 27.9%). Partially offsetting these increases were decreases in: Marketing (down \$44,000, or 7.3%), and Professional Services (down \$23,000, or 5.4%). The Company's cash basis efficiency ratio remained stable at approximately 62.5% for both periods.

-- Income Tax Expense. The Company recorded income tax expense of \$1.7 million for the first half of 2001, compared to \$1.4 million for the same period during 2000. This represented total effective tax rates of 35.2% and 34.8%, respectively. Tax-favored income from U.S. Treasury and Agency securities and its utilization of a Rhode Island passive investment company has reduced the Company's effective tax rate from the 39.9% combined statutory federal and state tax rates.

LIQUIDITY AND CAPITAL RESOURCES

-- Liquidity. Liquidity is defined as the ability to meet current and future financial obligations of a short-term nature. The Company further defines liquidity as the ability to respond to the needs of depositors and borrowers, as well as to earnings enhancement opportunities, in a changing marketplace.

The primary source of funds for the payment of dividends and expenses by the Company is dividends paid to it by the Bank. Bank regulatory authorities generally restrict the amounts available for payment of dividends if the effect thereof would cause the capital of the Bank to be reduced below applicable capital requirements. These restrictions indirectly affect the Company's ability to pay dividends. The primary sources of liquidity for the Bank consist of deposit inflows, loan repayments, borrowed funds, maturity of investment securities and sales of securities from the available for sale portfolio. Management believes that these sources are sufficient to fund the Bank's lending and investment activities.

Management is responsible for establishing and monitoring liquidity targets as well as strategies and tactics to meet these targets. In general, the Company maintains a high degree of flexibility with a liquidity target of 10% to 25% of total assets. At June 30, 2001, federal funds sold, investment securities and MBSs available for sale amounted to \$198.9

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

million, or 23.8% of total assets. This compares to \$170.3 million, or 23.0% of total assets at December 31, 2000. The Bank is a member

18

of the FHLB and, as such, has access to both short- and long-term borrowings. In addition, the Bank maintains a line of credit at the FHLB as well as a line of credit with a correspondent bank. There have been no adverse trends in the Company's liquidity or capital reserves. Management believes that the Company has adequate liquidity to meet its commitments.

-- Capital Resources. Total shareholders' equity of the Company at June 30, 2001 was \$56.3 million, as compared to \$53.3 million at December 31, 2000. This increase of \$3.0 million was the result of net income for the period of \$3.1 million, less dividends of \$896,000 and changes in unrealized gains on investment securities of \$760,000.

All FDIC-insured institutions must meet specified minimal capital requirements. These regulations require banks to maintain a minimum leverage capital ratio. In addition, the FDIC has adopted capital guidelines based upon ratios of a bank's capital to total assets adjusted for risk. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning balance sheet assets and off-balance sheet items to broad risk categories. These regulations require banks to maintain minimum capital levels for capital adequacy purposes and higher capital levels to be considered "well capitalized."

Capital guidelines have also been issued by the Federal Reserve Board ("FRB") for bank holding companies. These guidelines require the Company to maintain minimum capital levels for capital adequacy purposes. In general, the FRB has adopted substantially identical capital adequacy guidelines as the FDIC. Such standards are applicable to bank holding companies and their bank subsidiaries on a consolidated basis.

As of June 30, 2001, the Company and the Bank met all applicable minimum capital requirements and were considered "well capitalized" by both the FRB and the FDIC. The Company's and the Bank's actual and required capital amounts and ratios are as follows:

	Actual		Minimum Required For Capital Adequacy Purposes	
	Amount	Ratio	Amount	Ratio
At June 30, 2001:				
Bancorp Rhode Island, Inc.				
Tier I capital (to average assets)	\$47,389	5.86%	\$24,240	3.00%
Tier I capital (to risk weighted assets)	47,389	9.71%	19,523	4.00%
Total capital (to risk weighted assets)	53,511	10.96%	39,046	8.00%
Bank Rhode Island				
Tier I capital (to average assets)	\$46,961	5.81%	\$24,237	3.00%
Tier I capital (to risk weighted assets)	46,961	9.62%	19,519	4.00%

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Total capital (to risk weighted assets)	53,083	10.88%	39,038	8.00%
---	--------	--------	--------	-------

At December 31, 2000:

Bancorp Rhode Island, Inc.

Tier I capital (to average assets)	\$41,543	5.91%	\$21,086	3.00%
Tier I capital (to risk weighted assets)	41,543	9.50%	17,484	4.00%
Total capital (to risk weighted assets)	47,029	10.76%	34,968	8.00%

Bank Rhode Island

Tier I capital (to average assets)	\$41,129	5.85%	\$21,086	3.00%
Tier I capital (to risk weighted assets)	41,129	9.41%	17,484	4.00%
Total capital (to risk weighted assets)	46,615	10.66%	34,968	8.00%

19

### BANCORP RHODE ISLAND, INC.

#### Quantitative and Qualitative Disclosures About Market Risk

#### ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

##### INTEREST RATE RISK

-----

A principal market risk facing the Company is interest rate risk. The Company's objective regarding interest rate risk is to manage its assets and funding sources to produce results that are consistent with its liquidity, capital adequacy, growth and profitability goals, while minimizing the vulnerability of its operations to changes in market interest rates. Simulation modeling is the primary tool used by the Company to measure the interest rate risk inherent in its balance sheet at a given point of time by showing the effect on net interest income, over a twenty-four month period, of interest rate ramps of up to 200 basis points.

The following table presents the estimated impact of interest rate ramps on the Company's estimated net interest income over a twenty-four month period beginning July 1, 2001:

	Estimated Exposure to Net Interest Income	
	Dollar Change	Percent Change
	(Dollars in thousands)	
<b>Initial Twelve Month Period:</b>		
Up 200 basis points	\$ 713	2.32%
Up 100 basis points	376	1.22%
Down 100 basis points	(450)	(1.46%)
Down 200 basis points	(970)	(3.15%)
<b>Subsequent Twelve Month Period:</b>		
Up 200 basis points	\$ 974	3.13%

## Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Up 100 basis points	695	2.23%
Down 100 basis points	(1,395)	(4.48%)
Down 200 basis points	(3,201)	(10.29%)

While the Company reviews simulation assumptions and methodology to ensure that they reflect historical experience, it should be noted that income simulation may not always prove to be an accurate indicator of interest rate risk because the actual repricing, maturity and prepayment characteristics of individual products may differ from the estimates used in the simulations.

The Company also uses interest rate sensitivity gap analysis to provide a more general overview of its interest rate risk profile. The interest rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. At June 30, 2001, the Company's one year cumulative gap was a positive \$44.8 million, or 5.36% of total assets.

For additional discussion on interest rate risk see the section titled "Asset and Liability Management" contained on pages 34 to 36 of the Company's 2000 Annual Report to Shareholders.

20

### BANCORP RHODE ISLAND, INC. Other Information

#### PART II. Other Information

##### ITEM 1. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company or its subsidiaries are a party, or to which any of their property is subject, other than ordinary routine litigation incidental to the business of banking.

##### ITEM 2. CHANGE IN SECURITIES

No information to report.

##### ITEM 3. DEFAULT UPON SENIOR SECURITIES

No defaults upon senior securities have taken place.

##### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF THE SECURITY HOLDERS

At the Annual Meeting of Shareholders, held May 16, 2001, holders of Common Stock elected the Board's Class II nominees to the Board of Directors and ratified the appointment of independent public accountants.

The vote for Class II director nominees with terms expiring in 2003 was:

	FOR	WITHHELD
John R. Berger	2,520,901	5,700
Karl F. Ericson	2,520,901	5,700
Margaret D. Farrell	2,520,901	5,700

Edgar Filing: BANCORP RHODE ISLAND INC - Form 10-Q

Mark R. Feinstein                      2,520,901                      5,700

The vote for ratifying the appointment of KPMG LLP as independent public accountants for the Company was:

FOR	AGAINST	ABSTAIN
2,520,441	2,500	3,600

ITEM 5. OTHER INFORMATION

No information to report.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

No information to report.

21

BANCORP RHODE ISLAND, INC.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Bancorp Rhode Island, Inc.

August 8, 2001

-----

(Date)

By: /s/ Merrill W. Sherman

-----

Merrill W. Sherman  
President and  
Chief Executive Officer

August 8, 2001

-----

(Date)

By: /s/ Albert R. Rietheimer

-----

Albert R. Rietheimer  
Chief Financial Officer  
and Treasurer

22