
BARI 10-K 12/31/2007

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-K

(Annual Report Under Section 13 of the Securities Exchange Act of 1934)

For the fiscal year ended December 31, 2007

Commission File No. 001-16101

BANCORP RHODE ISLAND, INC.

(Exact Name of Registrant as Specified in Its Charter)

Rhode Island
(State or Other Jurisdiction of
Incorporation or Organization)

05-0509802
(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)

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

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

Common Stock, par value \$0.01 per share
(Title of Class)

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

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer
(Do not check if a smaller reporting
company)

Smaller reporting company

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

As of June 30, 2007, the aggregate market value of the voting common equity of the Registrant held by non-affiliates of the Registrant, based on the closing price on the Nasdaq Global Select MarketSM was \$150,796,218.

As of February 28, 2008, there were 4,537,021 shares of common stock (par value \$0.01 per share) of the Registrant issued and outstanding.

Documents incorporated by reference:

Portions of Bancorp Rhode Island's Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders are incorporated by reference into Parts II and III of this Form 10-K.

See pages 63-65 for the exhibit index.

Bancorp Rhode Island, Inc.
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PART I

SPECIAL NOTE REGARDING FORWARD LOOKING STATEMENTS

We make certain forward looking statements in this Annual Report on Form 10-K and in other documents that we incorporate by reference into this report that are based upon our current expectations and projections about future events. We intend these forward looking statements to be covered by the safe harbor provisions for "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and we are including this statement for purposes of these safe harbor provisions. You can identify these statements by reference to a future period or periods by our use of the words "estimate," "project," "may," "believe," "intend," "anticipate," "plan," "seek," "expect" and similar terms or variations of these terms. These forward looking statements include:

- statements of our goals, intentions and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements regarding the quality of our products and our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

Actual results may differ materially from those set forth in forward looking statements as a result of these and other risks and uncertainties, including those detailed herein under Item 1A, "Risk Factors", and from time to time in other filings with the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission ("SEC"). We have included important factors in the cautionary statements included or incorporated in this document, particularly under Item 1A, "Risk Factors", that we believe could cause actual results or events to differ materially from the forward looking statements that we make. Our forward looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update any forward looking statements.

ITEM 1. BUSINESS

Introduction

Bancorp Rhode Island, Inc. ("we" or the "Company"), a Rhode Island corporation, is the holding company for Bank Rhode Island (the "Bank"). The Company has no significant assets other than the common stock of the Bank. For this reason, substantially all of the discussion in this document relates to the operations of the Bank and its subsidiaries.

The Bank is a commercial bank chartered as a financial institution in the State of Rhode Island and was formed in 1996 as a result of the acquisition of certain assets and liabilities divested in connection with the merger of Fleet Financial Group, Inc. and Shawmut National Corporation. Headquartered in Providence, Rhode Island, the Bank conducts business through 16 full-service branches, with 12 located in Providence County, 3 located in Kent County and 1 located in Washington County. The Bank augments its branch network through online banking services and automatic teller machines ("ATMs"), both owned and leased, located throughout Rhode Island.

The Bank provides a community banking alternative in the greater Providence market which is dominated by three large banking institutions, two national and one regional. Based on total deposits as of June 30, 2007 (excluding one bank that draws its deposits primarily from the internet), the Bank is the fifth largest bank in Rhode Island and the only mid-sized commercially focused bank headquartered in Providence, the State's capital. The Bank offers its customers a wide range of business, commercial real estate, consumer and residential loans and leases, deposit products, nondeposit investment products, cash management and online banking services, private banking and other banking products and services

designed to meet the financial needs of individuals and small- to mid-sized businesses. As a full-service community bank, the Bank seeks to differentiate itself from its large bank competitors through superior personal service, responsiveness and local decision-making. The Bank's deposits are insured by the FDIC, subject to regulatory limits.

One of the Bank's principal subsidiaries, BRI Investment Corp., a Rhode Island corporation wholly-owned by the Bank, engages in the maintenance and management of intangible investments and the collection and distribution of the income from such investments.

The Company's headquarters and executive management are located at One Turks Head Place, Providence, Rhode Island 02903 and its telephone number is (401) 456-5000. The Bank also maintains an internet website at <http://www.bankri.com>.

The Company makes available free of charge through its website at <http://www.bankri.com> all reports it electronically files with, or furnishes to, the SEC, including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments to those reports, as soon as reasonably practicable after those documents are filed with, or furnished to, the SEC. These filings are also accessible on the SEC's website at <http://www.sec.gov>.

Overview

The Company, through the Bank, concentrates its business efforts in three main areas. First, the Bank emphasizes commercial lending. The high concentration of small to mid-size businesses in the Bank's predominately urban franchise makes deployment of funds in the commercial lending area practicable. Moreover, the Bank believes it can attract commercial customers from larger competitors through a higher level of service and its ability to set policies and procedures, as well as make decisions, locally. Second, the Bank has sought to grow its demand deposit, savings and other transaction-based accounts, collectively referred to as "core deposits." The Bank has stressed development of full relationships with customers, including its commercial customers, who tend to be more relationship oriented than those who are seeking stand-alone or single transaction products. Third, the Bank seeks to leverage its knowledge and customer base to develop related lines of business. Since inception, the Bank has grown its consumer loan portfolio and added sales of investment products; begun a private banking group and acquired an equipment leasing company.

In March 2007, the Bank marked its eleventh year in business. During the past eleven plus years, the Company has grown its assets, deposits and customer base significantly and has expanded the depth and breadth of its management team and staff. Also, the Bank has substantially enlarged and improved its branch network, enhanced its operating systems and infrastructure and has become an effective competitive force in the Greater Providence marketplace.

During the past year, the Company continued its transition from a young, high growth *de novo* bank into a more mature institution, which seeks to better leverage the footprint it has built and investments it has made. Thus, the Company aimed to combine its strong external focus on high quality loan and deposit growth with (i) the absorption of the Company's major recent initiatives, which included four new branches, the creation of a private bank and acquisition of a leasing subsidiary, and (ii) internally directed efforts to improve the Company's organizational structure and better control operational costs. Additionally, the Company took measures to deal with the industry-wide pressure on net interest margins presented by the shape of the yield curve and the intense competition for deposits and quality assets.

In late 2007, the Company's Chief Financial Officer assumed responsibility for operations, information technology and human resources in addition to overseeing all financial strategy, balance sheet management, investor relations and accounting. The Company also promoted its Director of Corporate Banking to the position of Chief Lending Officer, with responsibility for all commercial lending areas, the

Bank's Lending Services Unit, the Bank's private banking group, and Macrolease Corporation ("Macrolease"), the Bank's Long Island, NY-based equipment leasing company.

The Company achieved double-digit commercial loan and lease growth of 10.4% in 2007, with commercial outstandings increasing from \$519.8 million at the prior year-end to \$573.7 million at December 31, 2007. The Company's Providence-based lending team and its Macrolease subsidiary have contributed high-quality, high-yielding assets to the Company's balance sheet. In addition, originations of leases for third parties by Macrolease produced over \$1.0 million of noninterest income in 2007, up from \$407,000 in the prior year, an increase of over 150%.

The Company's loan and lease growth did not come at the expense of credit quality. Nonperforming assets were low at December 31, 2007 at 0.40% of total loans and 0.28% of total assets, respectively. Net charge-offs for the year were nominal at 0.05% of average loans outstanding.

Competition for deposits remained intense in the Bank's primary market area. In 2007, the Bank increased its core deposits by \$6.0 million, or 0.9%. The Bank increased its savings accounts by \$40.1 million, or 11.3%, during the year, which countered the decrease in demand deposit accounts of \$27.6 million, or 13.8%. In 2007, the Bank did not experience the year-end build-up of customers' demand deposit accounts that it had experienced over the past several years. However, with the Bank's focus on core deposit account gathering, the Bank was able to reduce its brokered certificate of deposit account balance by \$10.0 million from the December 31, 2006 level of \$30.0 million. Overall, total deposits decreased by \$1.6 million, or 0.2%, year-over-year.

The Bank's branches opened in 2004 and 2005 continue to make progress. The Bank's North Kingstown and East Greenwich branches had deposit growth in 2007 of 9.3% and 8.2%, respectively, while the Lincoln branch had deposit growth of 11.5%. In October 2007, the Bank opened a new branch office in Pawtucket.

Deposit service charges comprised approximately half of the Company's noninterest income in the past two years. Towards the end of 2006 and into early 2007, the Bank implemented deposit fee enhancement programs. As a result of these programs, the Bank experienced a 10.3% increase in deposit fee income in 2007.

In 2006, the Bank continued the deployment of its new service model for its branches. With the "Universal Banker" model, customers now have a single in-branch touch point for all banking services by removing the traditional split between the teller and customer service representative. By having one person service the customer's needs, the Bank believes it can elevate its service levels, as well as improve operational efficiencies. The Bank phased in this concept gradually throughout 2007 and will continue implementation in 2008.

The Company continued to proactively manage its balance sheet. The steps taken in 2006 to restructure a portion of the Company's investment portfolio benefited the net interest margin in 2007. The overall increase in yields on investment and mortgage-backed securities of 75 and 20 basis points, respectively, aided in partially offsetting increases in deposit costs. Additionally, the Company was active in repurchasing shares of its common stock. In November 2007, the Company expanded its original repurchase program of 245,000 shares by an additional 100,000 shares. By the end of the year, the Company had repurchased 305,200 shares, or 6.3% of its issued shares, for a total cost of \$10.2 million. The Company concluded this repurchase program in February 2008. The Company further managed its capital position by redeeming \$5 million of trust preferred securities in September 2007. Additionally, the Company's Board of Directors increased its quarterly dividend effective third quarter 2007 by \$0.01 to \$0.16 per share.

The Company also made strides in improving its operating efficiency. The Company reduced its noninterest expenses in 2007 by \$702,000, or 1.8%. This overall decrease compares to increases of 6.6% in

2006 and 10.4% in 2005. Throughout 2008, the Company will continue to review its operational process in an effort to identify efficiencies and cost savings with the aim of improving earnings.

Lending Activities

The Bank's business strategy has been to grow its commercial and consumer loan portfolios while allowing its residential mortgage loan portfolio to decline gradually as a percent of total loans. The Bank has allocated substantial resources to its commercial and consumer lending functions to facilitate and promote such growth. From December 31, 2002, until December 31, 2007, commercial loan and lease outstandings have increased \$292.7 million, or 104.2%, and consumer loan outstandings have increased \$123.8 million, or 134.7%. Commercial loans and leases increased from 41.9% of total loans and leases at December 31, 2002, to 55.3% of total loans and leases at December 31, 2007, and consumer and other loans increased from 13.7% of total loans and leases at December 31, 2002, to 20.8% of total loans and leases at December 31, 2007. Meanwhile, residential mortgage loans decreased from 44.4% of total loans and leases at December 31, 2002, to 24.0% of total loans and leases at December 31, 2007.

The Bank offers a variety of loan facilities to serve both commercial and consumer borrowers primarily within the State of Rhode Island and nearby areas of Massachusetts. Approximately 74% of Rhode Island businesses and 79% of Rhode Island jobs are located in Providence and Kent Counties. More than 98% of Rhode Island businesses have fewer than 100 employees. The Bank believes the financing needs of these businesses generally match the Bank's lending profile and that the Bank's branches are well positioned to facilitate the generation of loans from this customer base.

The Bank's commercial lending function is organized into two groups. The commercial real estate group originates nonowner-occupied commercial real estate, multi-family residential real estate and construction loans. The business lending group originates business loans, often referred to as commercial and industrial loans, including owner-occupied commercial real estate loans, term loans, revolving lines of credit and equipment leases (through the Bank's subsidiary, Macrolease). The Bank's branch network and business development team also play a role in business lending relationships under \$1 million. Underwriting, processing and monitoring of the bulk of business credit relationships under \$1.0 million are supported by the Bank's lending services unit ("LSU"). The creation of the LSU has enhanced the Bank's ability to reach more borrowers with the same number of personnel as well as achieve more efficient processing and improved monitoring of these credits.

The Bank also satisfies a variety of consumer credit needs by providing home equity term loans, home equity lines of credit, direct automobile loans, savings secured loans and personal loans, in addition to residential mortgage loans.

The Bank has tiered lending authorities. Certain senior executives have lending approval authority up to \$3 million. Extensions of credit to a customer relationship greater than established authority levels (up to the Bank's house lending limit of \$10.0 million) require the approval of the Credit Committee, which consists of members of the Bank's senior management and one outside director. Exceptions to the Bank's house lending limit require the approval of a committee of the Board of Directors. Other officers have limited lending authorities that can be exercised subject to lending policy guidelines to facilitate volume production and process flow.

The Bank issues loan commitments to prospective borrowers subject to various conditions. Commitments generally are issued in conjunction with commercial loans and residential mortgage loans and typically are for periods up to 90 days. The proportion of the total value of commitments derived from any particular category of loan varies from time to time and depends upon market conditions. At December 31, 2007, the Bank had \$256.9 million of aggregate loan commitments outstanding to fund a variety of loans.

Overall, loans and leases produced total interest income of \$67.0 million, or 77.9% of total interest and dividend income, in 2007 and \$63.0 million, or 77.6%, of total interest and dividend income, during 2006.

Commercial Real Estate and Multi-Family Loans—The Bank originates loans secured by mortgages on owner-occupied and nonowner-occupied commercial and multi-family residential properties. At December 31, 2007, owner-occupied commercial real estate loans totaled \$157.4 million, or 15.2% of the total loan portfolio. Many of these customers have other commercial borrowing relationships with the Bank, as the Bank finances their other business needs. Generally these customer relationships are handled in the Bank's business lending group. Nonowner-occupied commercial real estate loans totaled \$103.0 million, or 9.9% of the total loan portfolio, and multi-family residential loans totaled \$42.5 million, or 4.1% of the total loan portfolio, and are generally handled in the Bank's commercial real estate group. These real estate secured commercial loans are offered as both fixed and adjustable rate products. The Bank typically charges higher interest rates on these loans than those charged on adjustable rate loans secured by one- to four-family residential units. Additionally, the Bank may charge origination fees on these loans.

The Bank's underwriting practices for permanent commercial real estate and multi-family residential loans are intended to assure that the property securing these loans will generate a positive cash flow after operating expenses and debt service payments. The Bank requires appraisals before making a loan and generally requires the personal guarantee of the borrower. Permanent loans on commercial real estate and multi-family properties generally are made at a loan-to-value ratio of no more than 80%.

Loans secured by nonowner-occupied commercial real estate and multi-family properties involve greater risks than owner-occupied properties because repayment generally depends on the rental income generated by the property. In addition, because the payment experience on loans secured by nonowner-occupied properties is often dependent on successful operation and management of the property, repayment of the loan is usually more subject to adverse conditions in the real estate market or the general economy than is the case with owner-occupied real estate loans. Also, the nonowner-occupied commercial real estate and multi-family residential business is cyclical and subject to downturns, over-building and local economic conditions.

Commercial and Industrial Loans—The Bank originates non-real estate commercial loans that, in most instances, are secured by equipment, accounts receivable or inventory, as well as the personal guarantees of the principal owners of the borrower. Unlike many community banks, the Bank is able to offer asset-based commercial loan facilities that monitor advances against receivables and inventories on a formula basis. A number of commercial and industrial loans are granted in conjunction with the U.S. Small Business Administration's ("SBA") loan guaranty programs and include some form of SBA credit enhancement. The Bank utilizes credit scoring in evaluating business loans of up to \$750,000. Commercial lending activities are supported by noncredit products and services, such as letters of credit and cash management services, which are responsive to the needs of the Bank's commercial customers.

At December 31, 2007, commercial and industrial loans totaled \$131.9 million, or 12.7% of the total loan portfolio. Generally, commercial and industrial loans have relatively shorter maturities than residential and commercial real estate loans, or are at adjustable rates without interest rate caps. Unlike residential and commercial real estate loans, which generally are based on the borrower's ability to make repayment from employment and rental income and which are secured by real property whose value tends to be relatively easily ascertainable, commercial and industrial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the business and are generally secured by business assets, such as accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of commercial and industrial loans may be significantly dependent on the success of the business itself. Further, the collateral securing the loans may be difficult to value, may fluctuate in value based on the success of the business and may deteriorate over time.

Leases—In May 2005, the Bank, through its Macrolease subsidiary, purchased substantially all of the operating assets of Macrolease International Corporation, a privately held national equipment leasing company based on Long Island in Plainview, New York. With the Macrolease platform, the Bank originates equipment leases for its own portfolio, as well as originating leases for third parties as a source of noninterest income. In addition, the Bank historically has purchased equipment leases from originators outside of the Bank. The U.S. Government and its agencies are the principal lessees on the vast majority of these purchased leases. These "government" leases generally have maturities of five years or less and are not made in reliance on residual collateral values. At December 31, 2007, leases comprised 10.2% of the commercial loan and lease portfolio, with \$43.4 million of Macrolease-generated leases and \$15.3 million of purchased government leases. Included within these amounts were \$3.3 million of leases generated for sale at December 31, 2007. The Bank increased its origination efforts intended for third parties in 2007 with leases originated for sale of \$25.1 million, which generated \$1.0 million of noninterest income.

Small Business Loans—The Bank utilizes the term "small business loans" to describe business lending relationships of approximately \$250,000 or less which it originates through business development officers and its branch network. These loans are generally secured by the assets of the business, as well as the personal guarantees of the business' principal owners. A number of these loans are granted in conjunction with the SBA's Low-Doc and Express programs and include some form of SBA credit enhancement. At December 31, 2007, small business loans totaled \$45.8 million, or 4.4% of the total loan portfolio. Generally, small business loans are granted at higher rates than commercial and industrial loans. These loans have relatively short-term maturities or are at adjustable rates without interest rate caps.

The Bank's underwriting practices for small business loans are designed to provide quick turn-around and minimize the fees and expenses to the customer. Accordingly, the Bank utilizes a credit scoring process to assist in evaluating potential borrowers. The Bank distinguishes itself from larger financial institutions by providing personalized service through a branch manager or business development officer assigned to the customer relationships. Lending to small businesses may involve additional risks as a result of their more limited financial and personnel resources.

Construction Loans—The Bank originates residential construction loans to individuals and professional builders to construct one- to four-family residential units, either as primary residences or for resale. The Bank also makes construction loans for the purpose of constructing multi-family or commercial properties. At December 31, 2007, outstanding construction loans totaled \$38.8 million, or 3.7% of the total loan portfolio. In addition, the Bank offers interest-only construction loans during the construction period.

The Bank's underwriting practices for construction loans are similar to those for commercial real estate loans, but they also are intended to assure completion of the project and take into account the feasibility of the project, among other things. As a matter of practice, the Bank generally lends an amount sufficient to pay a percentage of the property's acquisition costs and a majority of the construction costs but requires that the borrower have equity in the project. The Bank requires property appraisals and generally the personal guarantee of the borrower, as is the case with commercial real estate loans.

The risks associated with construction lending are greater than those with commercial real estate lending and multi-family lending on existing properties for a variety of reasons. The Bank seeks to minimize these risks by, among other things, often using the inspection services of a consulting engineer for commercial construction loans, advancing money during stages of completion and generally lending for construction of properties within its market area to borrowers who are experienced in the type of construction for which the loan is made, as well as by adhering to the lending standards described above. The Bank generally requires from the borrower evidence of either pre-sale or pre-lease commitments on certain percentages of the construction project for which the loan is made.

Residential Mortgage Loans—The Bank's one- to four-family residential mortgage loan portfolio consists primarily of whole loans purchased from other financial institutions. Currently, the Bank

purchases fixed- and adjustable-rate ("ARM") mortgage whole loans from other financial institutions both in New England and elsewhere in the country. The Bank anticipates continuing to purchase residential mortgage loans until such time as its commercial and consumer loan originations are sufficient to fully utilize available cash flows. With the exception of approximately \$40 million of purchased mortgages, servicing rights related to the whole loan mortgage portfolio are retained by the mortgage servicing companies. The Bank pays a servicing fee ranging from .25% to .375% to the mortgage servicing companies for administration of the loan portfolios. As of December 31, 2007, approximately 36% of the residential mortgage loan portfolio consisted of loans secured by real estate outside of New England.

Additionally, largely as an accommodation to the Bank's customers, fixed- and variable-rate mortgages are offered throughout the Bank's branch network. The majority of these mortgages are transferred to the Bank's correspondent third parties under precommitments to fund these transactions. However, the Bank does retain a portion of these residential mortgages for its own portfolio. In 2007, fees from these loans originated for third parties increased to \$192,000 from \$159,000 in the prior year. Overall, the Bank anticipates that its residential mortgage loan portfolio will decline long-term as it focuses its resources on commercial and consumer lending.

At December 31, 2007, one- to four-family residential mortgage loans totaled \$248.7 million, or 24.0% of the total loan portfolio. The fixed rate portion of this portfolio totaled \$92.9 million and had original maturities of 15 to 30 years. The adjustable rate portion of this portfolio totaled \$155.8 and generally had original maturities of 30 years. Interest rates on adjustable rate loans are set for an initial period of one, three, five, seven or ten years with annual adjustments for the remainder of the loan. These loans have periodic rate adjustment caps of primarily 2% and lifetime rate adjustment caps of either 5% or 6%. There are no prepayment penalties for the one- to four-family residential mortgage loans.

Although adjustable rate mortgage loans allow the Bank to increase the sensitivity of its assets to changes in market interest rates, the terms of such loans include limitations on upward and downward rate adjustments. These limitations increase the likelihood of prepayments due to refinancings during periods of falling interest rates, particularly if rate adjustment caps keep the loan rate above market rates. Additionally, these limitations could keep the market value of the portfolio below market during periods of rising interest rates, particularly if rate adjustment caps keep the loan rate below market rates.

Consumer and Other Loans—The Bank originates a variety of term loans and line of credit loans for consumers. At December 31, 2007, the consumer loan portfolio totaled \$215.7 million, or 20.8% of the total loan portfolio. Over the past 5 years, consumer loans have increased by \$123.8 million, or 134.7%. However, compared to the prior year-end, consumer loans have decreased by \$4.8 million, or 2.2%. The Company believes this decrease was reflective of the softening of the housing market over the past 18 months, which has reduced consumer appetite for home equity loans and credit lines.

Home equity term loans and home equity lines of credit comprised 98.1% of the consumer loan portfolio at December 31, 2007. These loans and lines of credit are generally offered for up to 80% of the appraised value of the borrower's home, less the amount of the remaining balance of the borrower's first mortgage. The Bank also offers direct automobile loans, savings secured loans and personal loans.

Investment Activities

Investments, an important component of the Company's diversified asset structure, are a source of earnings in the form of interest and dividends, and provide a source of liquidity to meet lending demands and fluctuations in deposit flows. Overall, the portfolio, comprised primarily of overnight investments, U.S. agency securities, corporate debt securities, mortgage-backed securities ("MBSs"), collateralized mortgage obligations ("CMOs") and Federal Home Loan Bank of Boston ("FHLB") stock, represents \$367.9 million, or 24.9% of total assets, as of December 31, 2007. The vast majority of these securities are rated investment grade by at least one major rating agency.

Loans and leases generally provide a better return than investments, and accordingly, the Company seeks to emphasize their generation rather than increasing its investment portfolio. The investments are managed by the Bank's Chief Financial Officer and Treasurer, subject to the supervision and review of the Asset/Liability Committee and are made in compliance with the Investment Policy approved by the Bank's Board of Directors.

Overall, in 2007, investments produced total interest and dividend income of \$19.0 million, or 22.1% of total interest and dividend income compared to \$18.2 million, or 22.4%, of total interest and dividend income, during 2006.

Deposits

Deposits are the principal source of funds for use in lending and for other general business purposes. The Bank attracts deposits from businesses, non-profit entities, governmental entities and the general public by offering a variety of deposit products ranging in maturity from demand-type accounts to certificates of deposit ("CDs"). The Bank relies mainly on quality customer service and diversified products, as well as competitive pricing policies and advertising, to attract and retain deposits. The Bank emphasizes retail deposits obtained locally.

The Bank seeks to develop relationships with its customers in order to become their primary bank. In order to achieve this, the Bank has stressed growing its core deposit account base. Core deposits increased moderately on a dollar amount basis compared to the prior year (up \$6.0 million, or 0.9%). Within core deposits, demand deposit accounts decreased to \$172.6 million at December 31, 2007 from \$200.3 million at December 31, 2006. At the end of 2007, the Bank did not experience the year-end build-up in customers' demand deposit accounts it had in the past several years. Within total deposit growth, however, the balance sheet mix changed from the prior year due to the continuing growth of savings account balances. Savings balances grew to \$396.8 million at December 31, 2007, compared to \$356.7 million at December 31, 2006, an increase of \$40.1 million, or 11.3%. Core deposits as a percentage of total deposits increased to 63.1% at December 31, 2007 from 62.4% at December 31, 2006.

As a by-product of the Bank's emphasis on checking account growth, as well as deposit fee enhancement programs, service charges on deposit accounts (which include insufficient funds ("NSF") fees) have grown over the years and represents the largest source of noninterest income for the Company. Service charges on deposit accounts produced a double-digit percentage increase from the prior year with an increase of \$523,000, or 10.3%, from \$5.1 million for 2006, to \$5.6 million for 2007.

The Bank generally charges early withdrawal penalties on its CDs in an amount equal to three months' interest on accounts with original maturities of one year or less and six months' interest on accounts with original maturities longer than one year. Interest credited to an account during any term may be withdrawn without penalty at any time during the term. Upon renewal of a CD, only interest credited during the renewal term may be withdrawn without penalty during the renewal term. The Bank's withdrawal penalties are intended to offset the potentially adverse effects of the withdrawal of funds during periods of rising interest rates.

As a general policy, the Bank reviews the deposit accounts it offers to determine whether the accounts continue to meet customers' needs and the Bank's asset/liability management goals. This review is the responsibility of the Pricing Committee, which meets weekly to determine, implement and monitor pricing policies and practices consistent with the Bank's Asset and Liability Committee's strategy, as well as overall earnings and growth goals. The Pricing Committee analyzes the cost of funds and also reviews the pricing of deposit related fees and charges.

Borrowings

The Bank also derives cash flows from several sources, including loan repayments, deposit inflows and outflows, sales of available for sale investment securities and FHLB and other borrowings. Loan repayments and deposit inflows and outflows are significantly influenced by prevailing interest rates, competition and general economic conditions.

The Bank utilizes borrowings on both a shorter- and longer-term basis to compensate for reductions in normal sources of funds on a daily basis and as opportunities present themselves. Additionally, the Bank will utilize borrowings as part of the Bank's overall strategy to manage interest rate risk. At December 31, 2007, total borrowings stood at \$331.7 million compared to \$337.1 million at December 31, 2006.

Nondeposit Investment Products and Services

Since January 2001, the Bank has managed a nondeposit investment program through which it makes available to its customers a variety of mutual funds, fixed- and variable-annuities, stocks, bonds and other fee-based products. These investment products are offered through an arrangement with Commonwealth Equity Services, Inc., of Waltham, Massachusetts ("Commonwealth"). Commissions on nondeposit investment products for the years ending December 31, 2007, 2006 and 2005 were \$575,000, \$872,000 and \$849,000, respectively.

Employees

At December 31, 2007, the Company had 229 full-time and 39 part-time employees. The Company's employees are not represented by any collective bargaining unit, and the Company believes its employee relations are good. The Company maintains a benefit program that includes health and dental insurance, life and long-term disability insurance and a 401(k) plan.

Supervision and Regulation

Overview—The Company and the Bank are subject to extensive governmental regulation and supervision. Federal and state laws and regulations govern numerous matters affecting the Bank and/or the Company, including changes in the ownership or control, maintenance of adequate capital, financial condition, permissible types, amounts and terms of extensions of credit and investments, permissible non-banking activities, the level of reserves against deposits and restrictions on dividend payments. These regulations are intended primarily for the protection of depositors and customers, rather than for the benefit of shareholders. Compliance with such regulation involves significant costs to the Company and the Bank and may restrict their activities. In addition, the passage of new or amended federal and state legislation could result in additional regulation of, and restrictions on, the operations of the Company and/or the Bank. The Company cannot predict whether any legislation currently under consideration will be adopted or how such legislation or any other legislation that might be enacted in the future would affect the business of either the Company or the Bank. The following descriptions of applicable statutes and regulations are not intended to be complete descriptions of these provisions or their effects on the Company and the Bank, but are brief summaries which are qualified in their entirety by reference to such statutes and regulations.

The Company and the Bank are subject to extensive periodic reporting requirements concerning financial and other information. In addition, the Bank and the Company must file such additional reports as the regulatory and supervisory authorities may require. The Company also is subject to the reporting and other dictates of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the Sarbanes-Oxley Act of 2002. Since 2002, changes to SEC rules have accelerated the reporting of numerous internal events and increased the Company's filing obligations and related costs.

The Company is a bank holding company registered under the Bank Holding Company Act of 1956, as amended (the "BHC Act"). As a bank holding company, the Company is regulated by the Board of Governors of the Federal Reserve System (the "FRB"), and also is subject to certain laws of the State of Rhode Island.

The Bank is a Rhode Island chartered non-member bank of the Federal Reserve System. The Bank's deposits are insured by the Bank Insurance Fund (the "BIF") of the FDIC. Accordingly, the Bank is subject to the supervision and regulation of the FDIC and the Rhode Island Department of Business Regulation (the "Department of Business Regulation").

Rhode Island Regulation

As a state chartered financial institution, the Bank is subject to the continued regulation and supervision and periodic examination by the Department of Business Regulation. Rhode Island law also imposes reporting requirements on the Bank. Rhode Island statutes and regulations govern among other things, investment powers, deposit activity, trust powers and borrowings. The approval of the Department of Business Regulation is required to establish, close or relocate a branch, merge with other banks, amend the Bank's Charter or By-laws and undertake certain other enumerated activities.

If it appears to the Department of Business Regulation that a Rhode Island bank has violated its charter, or any law or regulation, or is conducting its business in an unauthorized or unsafe manner, or that the bank has been notified by its federal insurer of such insurer's intent to terminate deposit insurance, the Director of the Department of Business Regulation (the "Director") may, under certain circumstances, restrict the withdrawal of deposits, order any person to cease violating any Rhode Island statutes or rules and regulations or cease engaging in any unsafe, unsound or deceptive banking practice, order that capital be restored, or suspend or remove directors, committee members, officers or employees who have violated the Rhode Island banking statutes, or a rule or regulation or order thereunder, or who are reckless or incompetent in the conduct of the bank's business.

Rhode Island law also requires any person or persons desiring to acquire "control", as defined in the BHC Act, of any Rhode Island financial institution to file an extensive application with the Director. The application requires detailed information concerning the Bank, the transaction and the principals involved. The Director may disapprove the acquisition if the proposed transaction would result in a monopoly, the financial stability of the institution would be jeopardized, the proposed management lacks competence, or the acquisition would not promote public convenience and advantage. The Company is also subject to the Rhode Island Business Combination Act.

In addition, whenever the Department of Business Regulation considers it advisable, the Department may conduct an examination of a Rhode Island bank holding company, such as the Company. Every Rhode Island bank holding company also must file an annual financial report with the Department of Business Regulation.

Federal Supervision: FDIC

Overview—The FDIC issues rules and regulations, conducts periodic inspections, requires the filing of certain reports and generally supervises the operations of its insured state chartered banks, that, like the Bank, are not members of the Federal Reserve System. The FDIC's powers have been enhanced in the past two decades by federal legislation. With the passage of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, the Crime Control Act of 1990, and the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), federal bank regulatory agencies, including the FDIC, were granted substantial additional enforcement powers to restrict the activities of financial institutions and to impose or seek the imposition of increased civil and/or criminal penalties upon financial institutions and the individuals who manage or control such institutions.

The Bank is subject to the FDIC regulatory capital requirements described below under "Regulatory Capital Requirements." An FDIC-insured bank also must conform to certain standards, limitations, and collateral requirements with respect to certain transactions with affiliates such as the Company. Further, an FDIC-insured bank is subject to laws and regulations that limit the amount of, and establish required approval procedures, reporting requirements and credit standards with respect to, loans and other

extensions of credit to officers, directors and principal shareholders of the Company, the Bank, and any subsidiary of the Bank, and to their related interests. FDIC approval also is required prior to the Bank's redemption of any stock. The prior approval of the FDIC or, in some circumstances, another regulatory agency, is required for mergers and consolidations. In addition, notice to the FDIC is required prior to the closing of any branch office, and the approval of the FDIC is required in order to establish or relocate a branch facility.

Proceedings may be instituted against any FDIC-insured bank, or any officer or director or employee of such bank and any other institution affiliated parties who engage in unsafe and unsound practices, breaches of any fiduciary duty, or violations of applicable laws, regulations, regulatory orders and agreements. The FDIC has the authority to terminate insurance of accounts, to issue orders to cease and desist, to remove officers, directors and other institution affiliated parties, and to impose substantial civil money penalties.

Deposit Insurance—The Bank's deposits are insured by the BIF of the FDIC to the legal maximum for each separately insured depositor. The Federal Deposit Insurance Act, as amended (the "FDI Act"), provides that the FDIC shall set deposit insurance assessment rates on a semiannual basis and requires the FDIC to increase deposit insurance assessments whenever the ratio of BIF reserves to insured deposits in the BIF is less than 1.25%.

The FDIC has established a risk-based bank assessment system the rates of which are determined on the basis of a particular institution's supervisory rating and capital level. Under the Federal Deposit Insurance Reform Act of 2005, which became law in 2006, the Bank received a one-time assessment credit of \$585,000 that could be applied against premiums, subject to certain limitations. Banks are now assessed rates ranging from 5 basis points per \$100 of deposits for banks in Risk Category I (within which the Bank is classified) to 43 basis points for banks assigned to Risk Category IV. The Bank paid a minimum assessment of \$2,000 in 2007, largely through the utilization of this one-time credit. In 2008, the Bank anticipates fully utilizing the remainder of this credit. This assessment increase is expected to have an adverse effect on the Company's earnings for 2008 and future years as compared to prior years.

The FDIC may terminate the deposit insurance of any insured depository institution if the FDIC determines that the institution had engaged in or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by the FDIC.

Safety and Soundness Standards—The FDI Act also directs each federal banking agency to prescribe standards for safety and soundness for insured depository institutions and their holding companies relating to operations, management, asset quality, earnings and stock valuation.

Examination—FDIC requires that nearly all insured depository institutions have annual, on-site regulatory examinations and annual audits by an independent public accountant. Management must prepare an annual report, attested to by the independent public accountant, confirming management's responsibility in preparing financial statements, maintaining internal controls for financial reporting and complying with safety and soundness standards. The audit process must be overseen by an independent audit committee composed of outside directors, provided that the federal banking agencies may permit the committee to include inside directors if the bank is unable to find competent outside directors, so long as outside directors comprise a majority of the committee.

Federal Supervision: FRB

The BHC Act mandates that the prior approval of the FRB must be obtained in order for the Company to engage in certain activities such as acquiring or establishing additional banks or non-banking subsidiaries or merging with other institutions and imposes capital adequacy requirements as described below under "Regulatory Capital Requirements."

Regulatory Capital Requirements

FDIC Requirements—FDIC-insured institutions must meet specified minimal capital requirements and are subject to varying regulatory restrictions based upon their capital levels. All banks are subject to restrictions on capital distributions (such as dividends, stock repurchases and redemptions) and payment of management fees if, after making such distributions or payment, the institution would be undercapitalized. FDIC-insured banks that have the highest regulatory rating and are not anticipating or experiencing significant growth are required to maintain a capital ratio calculated using Tier 1 capital (as defined below) to total assets ("Tier 1 Leverage Ratio") of at least 3.0%. All other banks are required to maintain a minimum leverage capital ratio of 1.0% to 2.0% above 3.0%, with a minimum of 4.0%.

In addition, the FDIC has adopted capital guidelines based upon ratios of a bank's capital to total assets adjusted for risk, which require FDIC-insured banks to maintain capital-to-risk weighted assets ratios based on Tier 1 capital ("Tier 1 Risk-Based Capital Ratio") of at least 4.0% and on total capital ("Total Risk-Based Capital Ratio") of at least 8.0%. The guidelines provide a general framework for assigning assets and off-balance sheet items (such as standby letters of credit) to broad risk categories and provide procedures for the calculation of the Risk-Based Capital Ratio. Tier 1 (sometimes referred to as "core") capital consists of common shareholders' equity, qualifying, non-cumulative perpetual preferred stock, and minority interests in the equity accounts of consolidated subsidiaries. "Supplementary" or Tier 2 capital includes perpetual debt, mandatory convertible debt securities, a limited amount of subordinated debt, other preferred stock, and a limited amount of loan loss reserves. Certain intangible assets are deducted in computing the Capital Ratios.

Prompt Corrective Action Provisions—In order to resolve the problems of undercapitalized institutions, FDICIA established a system known as "prompt corrective action." Under prompt corrective action provisions and implementing regulations, every institution is classified into one of five categories reflecting the institution's capitalization. These categories are the following: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. For an institution to be well capitalized, it must have a Total Risk-Based Capital Ratio of at least 10%, a Tier 1 Risk-Based Capital Ratio of at least 6% and a Tier 1 Leverage Ratio of at least 5% and not be subject to any specific capital order or directive. In contrast, an institution will be deemed to be significantly undercapitalized if it has a Total Risk-Based Capital Ratio that is less than 6%, or a Tier 1 Risk-Based Capital Ratio that is less than 3%, or a leverage ratio that is less than 3%, and will be deemed to be critically undercapitalized if the bank has a ratio of tangible equity to total assets that is equal to or less than 2%.

As of December 31, 2007, the Bank's Tier 1 Leverage Ratio was 7.72%, its Tier 1 Risk-Based Capital Ratio was 10.87% and its Total Risk-Based Capital Ratio was 12.09%. Based upon the above ratios, the Bank is considered "well capitalized" for regulatory capital purposes.

The activities in which a depository institution may engage and the remedies available to federal regulators vary depending upon the category described above into which an institution's level of capital falls. At each successive downward capital level, institutions are subject to more restrictions on their activities. For example, only "well capitalized" institutions may accept brokered deposits without prior regulatory approval (brokered deposits are defined to include deposits with an interest rate which is 75 basis points ("bps") above prevailing rates paid on similar deposits in an institution's normal market area).

The FDIC has broad powers to take prompt corrective action to resolve problems of insured depository institutions, depending upon a particular institution's level of capital. For example, a bank which does not meet applicable minimum capital requirements or is deemed to be in a "troubled" condition may be subject to additional restrictions, including a requirement of written notice to federal regulatory authorities prior to certain proposed changes in senior management or directors of the institution. Undercapitalized, significantly undercapitalized and critically undercapitalized institutions also are subject to a number of other requirements and restrictions.

FRB Requirements—A bank holding company is required by the FRB to adhere to certain capital adequacy standards. It is the position of the FRB that a bank holding company, such as the Company, should be a source of financial strength to its subsidiary banks such as the Bank. 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 for holding companies, like the Company, with consolidated assets in excess of \$150 million. If a bank holding company's capital levels fall below the minimum requirements established by the capital adequacy guidelines, the holding company will be expected to develop and implement a plan, acceptable to the FRB, to achieve adequate levels of capital within a reasonable time. Until such capital levels are achieved, the holding company may be denied approval by the FRB for certain activities such as those described in the preceding paragraph. As of December 31, 2007, on a consolidated basis, the Company's Tier 1 Leverage Ratio was 7.87%, its Tier 1 Risk-Based Capital Ratio was 11.06% and its Total Risk-Based Capital Ratio was 12.28%. Based upon the above ratios, the Company is considered "well capitalized" for regulatory capital purposes.

Basel Accord—U.S. bank regulatory authorities and international bank supervisory organizations, principally the Basel Committee on Banking Supervision (the "Basel Committee"), continue to consider and to make changes to the risk-based capital adequacy framework, which could affect the appropriate capital guidelines to which the Company and the Bank are subject.

In 2005, the federal banking agencies issued an advance notice of proposed rulemaking concerning potential changes in the risk-based capital rules ("Basel 1-A") that are designed to apply to, and potentially reduce the risk capital requirements of bank holding companies, such as the Company, that are not among the "core" 20 or so largest U.S. bank holding companies (the "Core Banks"). In December 2006, the FDIC issued a revised Interagency Notice of Proposed Rulemaking concerning Basel 1-A, which would allow banks and bank holding companies that are not among the Core Banks to either adopt Basel 1-A or remain subject to the existing risk-based capital rules. In July 2007 an interagency press release stated that the federal banking agencies have agreed to issue a proposed rule that would provide non-Core Banks with the option to adopt an approach consistent with the standardized approach of Basel II. This proposal would replace Basel 1-A. In December 2007 the federal banking agencies issued the final regulation that will implement Basel II for the Core Banks, permitting only the advanced approach. The final rule implementing Basel II reiterated that non-Core Banks would have the option to take the standardized approach and that it is the agencies intention to have the standardized proposal finalized before the Core Banks begin the first transitional floor period under Basel II. Accordingly, the Company is not yet in a position to determine the effect of such rules on its risk capital requirements.

Restrictions on Transactions with Affiliates and Insiders

The Bank is subject to certain federal statutes limiting transactions with non-banking affiliates and insiders. Section 23A of the Federal Reserve Act limits loans or other extensions of credit to, asset purchases with and investments in affiliates of the Bank, such as the Company, to ten percent (10%) of the Bank's capital and surplus. Further, such loans and extensions of credit, as well as certain other transactions, are required to be secured in specified amounts. Section 23B of the Federal Reserve Act, among other things, requires that certain transactions between the Bank and its affiliates must be on terms substantially the same, or at least as favorable to the Bank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons. In the absence of comparable transactions, any transaction between the Bank and its affiliates must be on terms and under circumstances, including credit standards that in good faith would be offered to or would apply to nonaffiliated persons.

The restrictions on loans to officers, directors, principal shareholders and their related interests (collectively referred to herein as "insiders") contained in the Federal Reserve Act and Regulation O apply to all institutions and their subsidiaries. These restrictions include limits on loans to one borrower and conditions that must be met before such loans can be made. Loans made to insiders and their related interests cannot exceed the institution's total unimpaired capital and surplus. Insiders are subject to

enforcement actions for knowingly accepting loans in violation of applicable restrictions. All extensions of credit by the Bank to its insiders are in compliance with these restrictions and limitations.

Loans outstanding to executive officers and directors of the Bank, including their immediate families and affiliated companies ("related parties"), aggregated \$7.6 million at December 31, 2007 and \$5.4 million at December 31, 2006. Loans to related parties are made in the ordinary course of business under normal credit terms, including interest rates and collateral, prevailing at the time of origination for comparable transactions with other unaffiliated persons, and do not represent more than normal credit risk.

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 facilitated the interstate expansion and consolidation of banking organizations by permitting (i) bank holding companies such as the Company, that are adequately capitalized and managed, to acquire banks located in states outside their home states regardless of whether such acquisitions are authorized under the law of the host state, (ii) the interstate merger of banks after June 1, 1997, subject to the right of individual states to "opt in" early or "opt out" of this authority prior to such date, (iii) banks to establish new branches on an interstate basis provided that such action is specifically authorized by the law of the host state, (iv) foreign banks to establish, with approval of the appropriate regulators in the United States, branches outside their home states to the same extent that national or state banks located in such state would be authorized to do so and (v) banks to receive deposits, renew time deposits, close loans and receive payments on loans and other obligations as agent for any bank or thrift affiliate, whether the affiliate is located in the same or different state. Rhode Island adopted "opt in" legislation, which permits full interstate banking acquisition and branching.

Gramm-Leach-Bliley Act

In late 1999, Congress enacted the Gramm-Leach-Bliley Act (the "G-L-B Act"), which repealed provisions of the 1933 Glass-Steagall Act that required separation of the commercial and investment banking industries. The G-L-B Act expands the range of non-banking activities that certain bank holding companies may engage in while preserving existing authority for bank holding companies to engage in activities that are closely related to banking. In order to engage in these new non-banking activities, a bank holding company must qualify and register with the FRB as a "financial holding company" by demonstrating that each of its banking subsidiaries is "well capitalized" and "well managed" and has a rating of "Satisfactory" or better under the Community Reinvestment Act of 1977.

Under the G-L-B Act and its implementing regulations, financial holding companies may engage in any activity that (i) is financial in nature or incidental to a financial activity under the G-L-B Act or (ii) is complementary to a financial activity and does not impose a substantial risk to the safety and soundness of depository institutions or the financial system generally. The G-L-B Act and its accompanying regulations specify certain activities that are financial in nature such as acting as principal, agent or broker for insurance; underwriting, dealing in or making a market in securities; and providing financial and investment advice. The new financial activities authorized by the G-L-B Act may also be engaged in by a "financial subsidiary" of a national or state bank, except for insurance or annuity underwriting, insurance company portfolio investments, real estate investments and development and merchant banking, which must be conducted in a financial holding company. The FRB and the Secretary of the Treasury have the authority to decide whether other activities are also financial in nature or incidental thereto, taking into account changes in technology, changes in the banking marketplace, competition for banking services and other pertinent factors. Although the Company may meet the qualifications to become a financial holding company, it has no current plans to elect such status.

The G-L-B Act also establishes a system of functional regulation, under which the federal banking agencies will regulate the banking activities of financial holding companies and banks' financial subsidiaries, the SEC will regulate their securities activities and state insurance regulators will regulate their insurance activities. In addition, the G-L-B Act provides protections against the transfer and use by financial institutions of consumers' nonpublic, personal information. The G-L-B Act contains a variety of additional provisions, which, among others, impose additional regulatory requirements on certain depository institutions and reduce certain other regulatory burdens, modify the laws governing the Community Reinvestment Act of 1977, and address a variety of other legal and regulatory issues affecting both day-to-day operations and long-term activities of financial institutions.

In granting other types of financial institutions more flexibility, the G-L-B Act has increased the number and type of institutions engaging in the same or similar activities as those of the Company and the Bank, thereby creating a more competitive atmosphere.

Other Aspects of Federal and State Laws

Community Reinvestment Act—The Community Reinvestment Act of 1977 ("CRA") and the regulations issued thereunder are intended to encourage banks to help meet the credit needs of their service area, including low and moderate income neighborhoods, consistent with the safe and sound operations of the banks. Under CRA, banks are rated on their performance in meeting these credit needs and the rating of a bank's performance is public. In connection with the filing of an application to conduct certain transactions, the CRA performance record of the banks involved are reviewed. Under the Bank's last CRA examination, the Bank received a "Satisfactory" rating.

USA PATRIOT Act—The USA PATRIOT Act of 2001 (the "Patriot Act"), designed to deny terrorists and others the ability to obtain anonymous access to the United States financial system, has significant implications for depository institutions, brokers, dealers and other businesses involved in the transfer of money. The Patriot Act requires financial institutions to implement additional policies and procedures with respect to, or additional measures designed to address, the following matters, among others: money laundering; suspicious activities and currency transaction reporting; and currency crimes.

Sarbanes-Oxley Act of 2002—In July 2002, Congress enacted the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") which imposed significant additional requirements and restrictions on publicly-held companies, such as the Company. These provisions include requirements governing the independence, composition and responsibilities of audit committees, financial disclosures and reporting and restrictions on personal loans to directors and officers. Sarbanes-Oxley, among other things, mandates chief executive and chief financial officer certifications of periodic financial reports, additional financial disclosures concerning off-balance sheet items, and speedier transaction reporting requirements for executive officers, directors and 10% shareholders. Rules promulgated by the SEC pursuant to Sarbanes-Oxley impose obligations and restrictions on auditors and audit committees intended to enhance their independence from management. In addition, penalties for non-compliance with the Exchange Act are heightened. The Company has not experienced any significant difficulties in complying with this legislation. However, the Company has incurred, and expects to continue to incur, costs in connection with its compliance with Section 404 of Sarbanes-Oxley which requires management to undertake an assessment of the adequacy and effectiveness of the Company's internal controls over financial reporting and requires the Company's auditors to attest to, and report on, management's assessment and the operating effectiveness of these controls.

Insurance Sales—Rhode Island legislation enacted in 1996 permits financial institutions to participate in the sale of insurance products, subject to certain restrictions and license requirements. The regulatory approvals required from the Department of Business Regulation and the FDIC depend upon the form and structure used to engage in such activities.

Check 21—The Check Clearing for the 21st Century Act, or "Check 21" as it is commonly known, became effective in late 2004. Check 21 facilitates check collection by creating a new negotiable instrument called a "substitute check", which permits, but does not require, banks to replace original checks with substitute checks or information from the original check and process check information electronically. Banks that do use substitute checks must comply with certain notice and recredit rights. Check 21 is expected to cut the time and cost involved in physically transporting paper items and reduce float, i.e., the time between the deposit of a check in a bank and payment, especially in cases in which items were not already being delivered same-day or overnight. The Bank is currently implementing the Check 21 authority and expects to incur minimal additional costs until all banks have adopted Check 21.

Miscellaneous—The Company and/or the Bank also are subject to federal and state statutory and regulatory provisions covering, among other things, reserve requirements, security procedures, currency and foreign transactions reporting, insider and affiliated party transactions, management interlocks, sales of non-deposit investment products, loan interest rate limitations, truth-in-lending, electronic funds transfers, funds availability, truth-in-savings, home mortgage disclosure and equal credit opportunity.

Effect of Governmental Policy

The Company's revenues consist of cash dividends paid to it by the Bank. Such payments are restricted pursuant to various state and federal regulatory limitations. Banking is a business that depends heavily on interest rate differentials. One of the most significant factors affecting the Bank's earnings is the difference between the interest rates paid by the Bank on its deposits and its other borrowings, on the one hand, and, on the other hand, the interest rates received by the Bank on loans extended to its customers and on securities held in the Bank's portfolio. The value and yields of its assets and the rates paid on its liabilities are sensitive to changes in prevailing market rates of interest. Thus, the earnings and growth of the Bank will be influenced by general economic conditions, the monetary and fiscal policies of the federal government, and policies of regulatory agencies, particularly the FRB, which implement national monetary policy. The nature and impact on the Bank of any future changes in such policies cannot be predicted.

ITEM 1A. RISK FACTORS

Overview

Investing in our common stock involves a degree of risk. The risks and uncertainties described below are not the only ones facing our Company. Additional risks and uncertainties may also impair our business operations. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer.

Risks Related to Our Business

Competition with other financial institutions could adversely affect our franchise growth and profitability.

We face significant competition from a variety of traditional and nontraditional financial service providers both within and outside of Rhode Island, both in making loans and generating deposits. Our most significant competition comes from two national banking institutions and one large regional banking institution that have significant market share positions in Rhode Island. These large banks have well-established, broad distribution networks and greater financial resources than we do, which have enabled them to market their products and services extensively, offer access to a greater number of locations and products, and price competitively.

We also face competition from a number of local financial institutions with branches in Rhode Island and in nearby Massachusetts, some of which have been acquired by both local and out-of-state service providers. Additionally, we face competition from out-of-state financial institutions which have established loan production offices in our marketplace, and from non-bank competitors.

Competition for deposits also comes from short-term money market funds, other corporate and government securities funds and non-bank financial service providers such as mutual fund companies, brokerage firms, insurance companies and credit unions. Many of our non-bank competitors have fewer regulatory constraints as those imposed on federally insured state chartered banks, which gives these competitors an advantage over us in providing certain services. Such competition may limit our growth and profitability in the future.

Current regional and national economic conditions could adversely affect our profitability.

The population in the Rhode Island area declined slightly in 2007, with slow growth over the past several years. Economic growth in Rhode Island has been slow to moderate during the same time period, while New England has trailed other parts of the nation in terms of general economic growth. Further, the Rhode Island unemployment rate continues to exceed the national average rate. Additionally, Rhode Island businesses, like many companies throughout the United States, are facing rising health care costs, which may adversely affect the earnings and growth potential for such companies, which may in turn negatively impact Rhode Island's ability to attract and retain businesses in the State.

Based upon recent forecasts, the State of Rhode Island is projecting a significant budget shortfall in the current fiscal year with larger projected budget deficits in future years. State and local government entities represent one of the largest employers in our market area. Proposed measures to address these budget shortfalls include reductions in State employee workforce and related health and pension benefits, cutbacks in social service programs, reductions in State aid to cities and towns and caps on historic preservation tax credits. In addition, there may be tax increases on both individuals and businesses to close the budget gap. The proposed reduction in State aid to cities and towns in Rhode Island may also lead to local property tax increases or reductions in municipal services. These measures, combined with the general slowdown in the national economy, could negatively impact the operations and financial condition of the Bank's customers, and thus the quality of the Bank's assets, as well as the Bank's ability to originate new business.

Our borrowers' ability to honor their repayment commitments is generally dependent upon the level of economic activity and general health of the regional and local economy. Furthermore, economic conditions beyond our control, such as the strength of credit demand by customers and changes in the general levels of interest rates, may have a significant impact on our operations, including decreases in the value of collateral securing loans. Therefore, an economic recession in this market area adversely affecting growth could cause significant increases in nonperforming assets, thereby reducing operating profits or causing operating losses, impairing liquidity and eroding capital.

Fluctuations in interest rates could adversely impact our net interest margin.

Our earnings and cash flows are heavily dependent on net interest margin, which is the difference between interest income that we earn on loans and investments and the interest expense paid on deposits and other borrowings. When maturities of assets and liabilities are not balanced, a rapid increase or decrease in interest rates could have an adverse effect on our net interest margin and results of operation. Interest rates are highly sensitive to factors that are beyond our control, including general economic conditions, inflation rates, flattening or inversion of the yield curve, business activity levels, money supply and the policies of various government and regulatory authorities. For example, decreases in the discount rate by the Board of Governors of the Federal Reserve System usually lead to falling interest rates, which affects interest income and interest expense. Falling interest rates have an immediate impact on the Company's variable-rate assets, while the Company is generally unable to bring deposit and borrowing costs down as quickly. The nature, timing and effect of any future changes in interest rates on us and our future results of operations are not predictable.

Change in the composition of our loan and lease portfolio may result in greater risk of losses.

At December 31, 2007, 55.3% of our loan and lease portfolio consisted of commercial real estate, business and construction loans and leases, an increase from 51.8% of our loan and lease portfolio at December 31, 2006. We intend to continue to emphasize the origination of these types of loans and leases. These loans generally have greater risk of nonpayment and loss than residential mortgage loans because repayment of these types of loans often depends on the successful business operation and income stream of the borrowers. Such loans typically involve larger loan balances to single borrowers or groups of related borrowers than do individual one-to four-family residential loans. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to a significantly greater risk of loss compared to an adverse development with respect to a single one-to four-family residential mortgage loan.

Our allowance for loan and lease losses may be insufficient to cover actual loan and lease losses.

The risk of loan and lease losses varies with, among other things, business and economic conditions, the character and size of the portfolio, loan growth, delinquency trends, industry loss experience, nonperforming loan trends, the creditworthiness of borrowers and, in the case of a collateralized loan, the value of the collateral. Based upon such factors, our management arrives at an appropriate allowance for loan and lease losses by maintaining a risk rating system that classifies all loans and leases into varying categories by degree of credit risk, and establishes a level of allowance associated with each category. As part of our ongoing evaluation process, including a formal quarterly analysis of allowances, we make various subjective judgments as to the appropriate level of allowance with respect to each category, judgments as to the categorization of any individual loan or lease, as well as additional subjective judgments in ascertaining the probability and extent of any potential losses. If our subjective judgments prove to be incorrect, our allowance for loan and lease losses may not cover inherent losses in our loan and lease portfolio, or if bank regulatory officials or changes in economic conditions require us to increase the allowance for loan and lease losses, earnings could be significantly and adversely affected. Material additions to our allowance would materially decrease net income. At December 31, 2007, the allowance for loan and lease losses totaled \$12.6 million, representing 1.22% of total loans.

Expanding the franchise may limit increases in profitability.

We have sought to increase the size of our franchise by pursuing business development opportunities and have grown substantially since inception. To the extent additional branches are opened, we are likely to experience higher operating expenses relative to operating income from the new branches, which may limit increases in profitability. The ability to increase profitability by establishing new branches is dependent on our ability to identify advantageous branch locations and generate new deposits and loans from those locations and an attractive mix of deposits that will create an acceptable level of net income. There can be no assurance that new and relocated branches will generate an acceptable level of net income or that we will be able to successfully establish new branch locations in the future. In addition, there can be no assurance that we will be successful in developing new business lines or that any new products or services introduced will be profitable.

Our growth is substantially dependent on our management team.

Our future success and profitability are substantially dependent upon the management and banking abilities of our senior executives, who have substantial background and experience in banking and financial services, as well as personal contacts, in the Rhode Island market and the region generally. Competition for such personnel is intense, and there is no assurance we will be successful in retaining such personnel. Changes in key personnel and their responsibilities may be disruptive to business and could have a material adverse effect on our business, financial condition and results of operations.

Our operating history is not necessarily indicative of future operating results.

The Company, as the holding company of the Bank, has no significant assets other than the common stock of the Bank. While we have operated profitably since the first full quarter of operations, future operating results may be affected by many factors, including regional and local economic conditions, interest rate fluctuations and other factors that may affect banks in general, all of which factors may limit or reduce our growth and profitability. For example, the yield curve has been flat-to-inverted during parts of the last three years. Also, customers in the past few years have indicated a preference for higher-yielding term deposit and savings account products. Nonperforming asset levels and loan and lease losses have been low since inception. Industry experience suggests that this is unlikely to continue indefinitely.

Our controls and procedures may fail or be circumvented.

Management regularly reviews and updates our internal controls, disclosure controls and procedures and corporate governance policies and procedures. Systems of controls are based upon certain assumptions and can only provide reasonable, not absolute, assurance that system objectives are met. Potential failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have an adverse effect on our business, results of operations and financial condition.

We face various technological risks.

We rely heavily on communication and information systems to conduct business. Potential failures, interruptions or breaches in system security could result in disruptions or failures in our key systems, such as general ledger, deposit or loan systems. We have developed policies and procedures aimed at preventing and limiting the effect of failure, interruption or security breaches of information systems; however, there cannot be assurance that these incidences will not occur, or if they do occur, that they will be appropriately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in the loss of business, subject us to increased regulatory scrutiny or subject us to civil litigation and possible financial liability, any of which could have an adverse effect on our results of operation and financial condition.

We encounter technological change continually.

The financial services industry continually undergoes technological change. Effective use of technology increases efficiency and enables banks and financial services institutions to better serve customers and reduce costs. Our future success depends, in part, upon our ability to meet the needs of customers by effectively using technology to provide the products and services that satisfy customer demands, as well as create operational efficiencies. Additionally, many of our competitors have greater resources to invest in technological improvements. Inability to keep pace with technological change affecting the financial services industry could have an adverse impact on our business and as a result, our financial condition and results of operation.

Extensive government regulation and supervision have a significant impact on our operations.

We operate in a highly regulated industry and are subject to examination, supervision and comprehensive regulation by various regulatory agencies. These regulations are intended primarily for the protection of depositors and customers, rather than for the benefit of investors. Our compliance with these regulations is costly and restricts certain activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capitalization guidelines established by regulators, which require maintenance of adequate capital to support growth. Furthermore, the addition of new branches requires the approval of the FDIC as well as state banking authorities in Rhode Island.

The laws and regulations applicable to the banking industry could change at any time. There is no way to predict the effects of these changes on our business and profitability. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, the cost of compliance with new laws and regulations applicable to the banking industry could adversely affect operations and profitability.

Risks Related to the Company's Common Stock

Our common stock has limited liquidity.

Even though our common stock is currently traded on the Nasdaq Stock Market's Global Select MarketSM, it has less liquidity than the average stock quoted on a national securities exchange. Because of this limited liquidity, it may be more difficult for investors to sell a substantial number of shares and any such sales may adversely affect the stock price.

We cannot predict the effect, if any, that future equity offerings, issuance of common stock in acquisition transactions, or the availability of shares of common stock for sale in the market, will have on the market price of our common stock. We cannot give assurance that sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, would not cause the price of our common stock to decline or impair future ability to raise capital through sales of common stock.

Fluctuations in the price of our stock could adversely impact your investment.

The market price of our common stock may be subject to significant fluctuations in response to variations in the quarterly operating results, changes in management, announcements of new products or services by us or competitors, legislative or regulatory changes, general trends in the industry and other events or factors unrelated to our performance. The stock market has experienced price and volume fluctuations which have affected the market price of the common stock of many companies for reasons frequently unrelated to the operating performance of these companies, thereby adversely affecting the market price of these companies' common stock. Accordingly, there can be no assurance that the market price of our common stock will not decline.

There are limitations on our ability to pay dividends.

Our ability to pay dividends is subject to the financial condition of the Bank, as well as other business considerations. Payment of dividends by the Company is also restricted by statutory limitations. These limitations could have the effect of reducing the amount of dividends we can declare.

Certain Anti-Takeover measures affect the ability of shareholders to effect takeover transactions.

We are subject to the Rhode Island Business Combination Act which, subject to certain exceptions, prohibits business combinations involving certain shareholders of publicly held corporations for a period of five years after such shareholders acquire 10% or more of the outstanding voting stock of the corporation. In addition, our Articles of Incorporation and By-laws, among other things, provide that, in addition to any vote required by law, the affirmative vote of two-thirds of the holders of our voting stock, voting as a single class, is required for approval of all business combinations.

Our Board of Directors also has the authority, without further action by shareholders, to issue additional preferred stock in one or more series and to fix by resolution, the rights, preferences and privileges of such series to the extent permitted by law. Our Board could designate certain rights and privileges for such preferred stock which would discourage unsolicited tender offers or takeover proposals or have anti-takeover effects. Our Articles also provide for three classes of directors to be elected for

staggered three year terms, which make it more difficult to change the composition of our Board. All of these provisions may make it more difficult to effect a takeover transaction.

Directors and executive officers own a significant portion of our common stock.

Our directors and executive officers, as a group, beneficially owned approximately 25.8% of our outstanding common stock as of December 31, 2007. As a result of their ownership, the directors and executive officers would have the ability, if they vote their shares in a like manner, to significantly influence the outcome of all matters submitted to shareholders for approval, including the election of directors.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Bank presently has a network of 16 branch offices located in Providence, Kent and Washington Counties. Eight of these branch office facilities are owned and eight are leased. Facilities are generally leased for a period of one to ten years with renewal options. The termination of any short-term lease would not have a material adverse effect on the operations of the Bank. The Company's offices are in good physical condition and are considered appropriate to meet the banking needs of the Bank's customers.

The following are the locations of the Bank's offices:

Location	Size (Square feet)	Year Opened or Acquired	Owned or Leased	Lease Expiration Date
<i>Branch offices:</i>				
1047 Park Avenue, Cranston, RI	4,700	1996	Owned	N.A.
383 Atwood Avenue, Cranston, RI	4,700	1996	Owned	N.A.
1269 South County Trail, East Greenwich, RI	2,600	2005	Leased	5/31/25
999 South Broadway, East Providence, RI	3,200	1996	Leased	11/30/12
195 Taunton Avenue, East Providence, RI	3,100	1996	Leased	12/31/09
1440 Hartford Avenue, Johnston, RI	4,700	1996	Land Leased	12/31/12
625 G. Washington Highway, Lincoln, RI	1,000	2005	Owned	N.A.
1140 Ten Rod Road, North Kingstown, RI	4,000	2004	Land Leased	6/30/19
499 Smithfield Avenue, Pawtucket, RI	3,500	2007	Land Leased	5/31/21
One Turks Head Place, Providence, RI	5,000	1996	Leased	4/30/09
165 Pitman Street, Providence, RI	3,300	1998	Leased	10/31/08
445 Putnam Pike, Smithfield, RI	3,500	1996	Leased	7/31/09
1062 Centerville Road, Warwick, RI	2,600	1996	Owned	N.A.
1300 Warwick Avenue, Warwick, RI	4,200	1996	Leased	6/30/09
2975 West Shore Road, Warwick, RI	3,500	2000	Leased	3/31/10
1175 Cumberland Hill Road, Woonsocket, RI	3,300	1998	Owned	N.A.
<i>Administrative and operational offices:</i>				
2104 Plainfield Pike, Cranston, RI	700	2002	Owned	N.A.
625 G. Washington Highway, Lincoln, RI	23,600	2003	Owned	N.A.
One Turks Head Place, Providence, RI	20,600	1999	Leased	6/30/09
One Ames Court, Plainview, NY	4,400	2005	Leased	1/31/13
<i>Planned branch offices:</i>				
40 Newport Avenue, East Providence, RI	(A)	N.A.	Leased	12/31/17

(A) Facility currently under construction or in planning.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved only in routine litigation incidental to the business of banking, none of which the Company's management expects to have a material adverse effect on the Company.

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

There were no matters submitted to a vote of security holders in the fourth quarter of 2007.

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Prices and Dividends—Our common stock is traded on the Nasdaq Global Select MarketSM under the symbol "BARI." The following table sets forth certain information regarding our common stock for the periods indicated.

	Stock Price		Dividend Paid
	High	Low	
2006:			
First Quarter	\$ 35.65	\$ 32.75	\$ 0.15
Second Quarter	39.94	33.31	0.15
Third Quarter	45.40	38.91	0.15
Fourth Quarter	45.37	42.09	0.15
2007:			
First Quarter	\$ 44.75	\$ 42.10	\$ 0.15
Second Quarter	44.41	36.04	0.15
Third Quarter	39.84	32.07	0.16
Fourth Quarter	36.70	32.61	0.16

As of February 28, 2008, there were approximately 1,500 holders of record of our common stock.

Stock Repurchase Program—The Company has maintained a stock repurchase program authorized by the Company's board of directors, which has enabled the Company to proactively manage its capital position. The program, which was initially approved on April 18, 2006, authorized the Company to repurchase up to 245,000 shares of its common stock from time to time through open market or privately negotiated purchases. On November 26, 2007, the Company expanded the stock repurchase program to 345,000 shares and also adopted a written purchase plan pursuant to Rule 10b5-1 of the Exchange Act.

The table below summarizes the Company's repurchases of common stock during the quarter ended December 31, 2007.

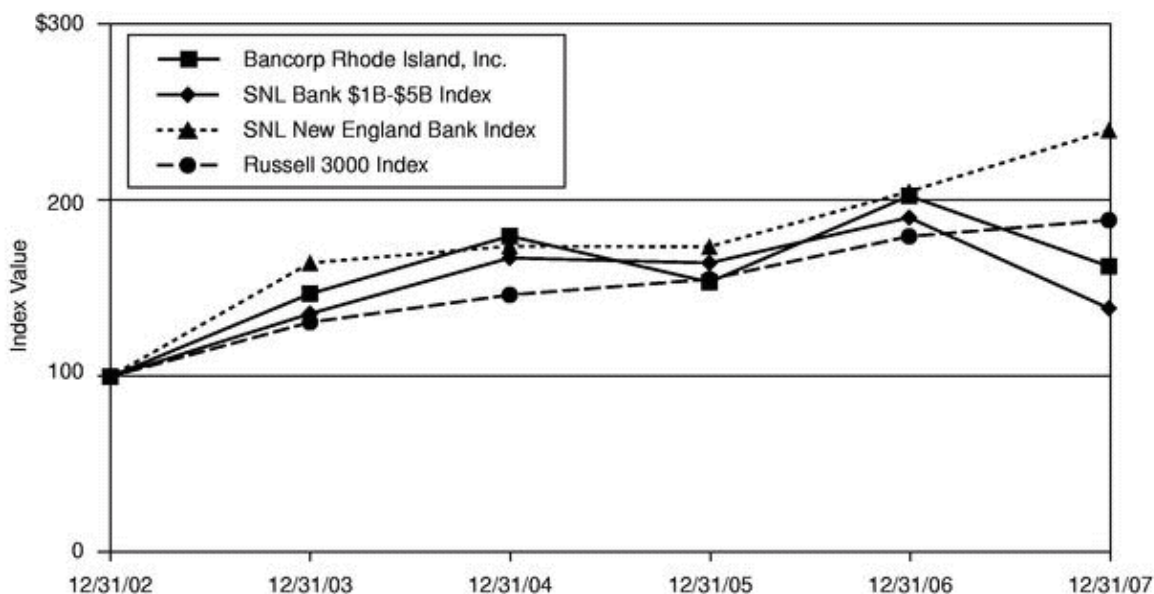
	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of announced plan	Maximum number of shares that may yet be purchased under the plan
10/1/07 through 10/31/07	1,700	\$ 33.80	1,700	291,100
11/1/07 through 11/30/07	188,900	\$ 33.97	188,900	102,200
12/1/07 through 12/31/07	62,400	\$ 34.14	62,400	39,800

The following graph and table show changes in the value of \$100 invested on December 31, 2002 through December 31, 2007 in our common stock, the SNL Bank \$1 Billion to \$5 Billion Index, the SNL New England Bank Index and the Russell 3000 Index. The investment values are based on share price appreciation plus dividends paid in cash, assuming that dividends were reinvested on the date they were paid.

Historically, the Company has used the SNL New England Bank Index to compare its relative performance. Effective this year, the Company is adopting the SNL Bank \$1 Billion to \$5 Billion Index as a replacement for the SNL New England Bank Index. The Company believes the SNL \$1 Billion to \$5 Billion Index provides a more appropriate comparison for assessing its relative performance. The SNL New England Bank Index is market capitalization-weighted and one large constituent bank (State Street Corp) comprised 82.3% of the SNL New England Bank Index at December 31, 2007, diminishing its

appropriateness as a comparison index. Comparatively, at December 31, 2007, the SNL \$1 Billion to \$5 Billion Index was comprised of 166 banks, with its largest constituent bank comprising 2.8% of the index.

Total Return Performance



Index	Period Ending					
	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
Bancorp Rhode Island, Inc.	100.00	147.36	180.34	154.00	203.25	163.06
SNL Bank \$1B-\$5B Index	100.00	135.99	167.83	164.97	190.90	139.06
SNL New England Bank Index	100.00	165.00	174.51	174.32	205.75	240.84
Russell 3000 Index	100.00	131.06	146.71	155.69	180.16	189.42

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following table represents selected consolidated financial data as of and for the years ended December 31, 2007, 2006, 2005, 2004 and 2003. The selected consolidated financial data set forth below does not purport to be complete and should be read in conjunction with, and are qualified in their entirety by, the more detailed information, including the Consolidated Financial Statements and related Notes, and "Management's Discussion and Analysis of Financial Condition and Results of Operations", appearing elsewhere herein.

	As of and for the year ended December 31,				
	2007	2006	2005	2004	2003
(Dollars in thousands, except per share data)					
Statements of operations data:					
Interest income	\$ 86,070	\$ 81,202	\$ 69,520	\$ 57,719	\$ 51,773
Interest expense	44,826	38,974	26,619	19,625	19,453
Net interest income	41,244	42,228	42,901	38,094	32,320
Provision for loan and lease losses	700	1,202	1,423	836	1,524
Noninterest income	10,785	8,988	9,274	8,581	8,830
Noninterest expense	38,025	38,727	36,343	32,929	28,866
Income before taxes	13,304	11,287	14,409	12,910	10,760
Income taxes	4,259	3,576	4,840	4,296	3,546
Net income	\$ 9,045	\$ 7,711	\$ 9,569	\$ 8,614	\$ 7,214



Per share data:											
Basic earnings per common share	\$	1.89	\$	1.62	\$	2.14	\$	2.17	\$	1.89	
Diluted earnings per common share	\$	1.84	\$	1.57	\$	2.04	\$	2.04	\$	1.77	
Dividends per common share	\$	0.62	\$	0.60	\$	0.60	\$	0.58	\$	0.56	
Dividend pay-out ratio		33.7%		38.2%		29.4%		28.4%		31.6%	
Book value per common share	\$	24.79	\$	23.39	\$	22.21	\$	19.68	\$	18.53	
Tangible book value per common share	\$	22.21	\$	21.03	\$	19.83	\$	16.99	\$	15.76	
Average common shares outstanding—Basic							4,791,625	4,766,854	4,478,081	3,975,413	3,819,232
Average common shares outstanding—Diluted							4,918,763	4,920,569	4,697,134	4,222,856	4,085,878
Balance sheet data:											
Total assets	\$	1,477,119	\$	1,479,099	\$	1,442,782	\$	1,239,069	\$	1,093,971	
Investment securities		76,986		103,425		150,959		104,600		98,595	
Mortgage-backed securities		258,195		240,462		234,858		159,946		106,618	
Total loans and leases receivable		1,038,132		1,004,292		950,806		886,301		814,282	
Allowance for loan and lease losses		12,619		12,377		11,665		11,454		10,690	
Goodwill, net		11,772		11,317		11,234		10,766		10,766	
Deposits		1,014,780		1,016,423		980,969		880,674		811,283	
Borrowings		331,703		337,097		344,769		271,386		203,622	
Total shareholders' equity		113,108		112,085		104,832		78,923		72,107	
Average balance sheet data:											
Total assets	\$	1,469,574	\$	1,451,959	\$	1,347,510	\$	1,168,454	\$	1,046,741	
Investment securities		112,461		144,460		131,711		102,827		91,153	
Mortgage-backed securities		229,872		227,973		209,004		132,946		123,524	
Total loans and leases receivable		1,014,951		980,598		916,273		848,550		747,174	
Allowance for loan and lease losses		12,503		12,002		11,560		11,072		10,739	
Goodwill, net		11,318		11,290		11,067		10,766		10,766	
Deposits		1,010,162		965,194		928,374		858,739		779,540	
Borrowings		326,398		362,721		306,344		227,365		192,068	
Total shareholders' equity		114,872		106,874		95,922		74,704		69,010	
Operating ratios:											
Interest rate spread		2.29%		2.50%		2.92%		3.07%		2.91%	
Net interest margin		2.96%		3.06%		3.35%		3.44%		3.28%	
Efficiency ratio (a)		73.08%		75.62%		69.66%		70.55%		70.15%	
Return on average assets		0.62%		0.53%		0.71%		0.74%		0.69%	
Return on average equity		7.87%		7.22%		9.98%		11.53%		10.45%	
Asset quality ratios:											
Nonperforming loans to total loans		0.40%		0.14%		0.04%		0.08%		0.30%	
Nonperforming assets to total assets		0.28%		0.10%		0.03%		0.06%		0.23%	
Allowance for loan and lease losses to nonperforming loans		304.15%		875.94%		2,810.84%		1,562.62%		434.20%	
Allowance for loan and lease losses to total loans		1.22%		1.23%		1.23%		1.29%		1.31%	
Net loans charged-off to average loans outstanding		0.05%		0.05%		0.13%		0.01%		0.08%	
Capital ratios:											
Average shareholders' equity to average total assets		7.82%		7.36%		7.11%		6.40%		6.59%	
Tier I leverage ratio		7.87%		8.37%		8.21%		7.06%		6.76%	
Tier I risk-based capital ratio		11.06%		12.05%		12.62%		10.01%		9.71%	
Total risk-based capital ratio		12.28%		13.27%		13.87%		11.26%		10.92%	

(a) Calculated by dividing total noninterest expenses by net interest income plus noninterest income.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Bancorp Rhode Island, Inc., a Rhode Island corporation, is the holding company for Bank Rhode Island. The Company has no significant assets other than the common stock of the Bank. For this reason, substantially all of the discussion in this document relates to the operations of the Bank and its subsidiaries.

The Bank 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 businesses and individuals in Rhode Island and nearby areas of Massachusetts. 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 business, commercial real estate, consumer and residential loans and leases, deposit products, nondeposit investment products, cash management, private banking and other banking products and services designed to meet the financial needs of individuals and small- to mid-sized businesses. The Bank also offers 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 the regulations of certain federal and state agencies and undergo periodic examinations by those regulatory authorities. The Bank's deposits are insured by the FDIC, subject to regulatory limits. The Bank is also a member of the FHLB.

Overview

In 2007, the Company continued its balance sheet conversion to a more commercial profile and improved its profitability. The Company increased its commercial loan and lease portfolio by over 10%. Net income and diluted earnings per common share improved in 2007, while the Company reduced its operating costs. For a fuller narrative commentary on these matters, refer to Item 1, "Business."

The primary drivers of the Company's operating income are net interest income, which is strongly affected by the net yield on interest-earning assets ("net interest margin"), and the quality of the Company's assets.

The Company's net interest income represents the difference between its interest income and its cost of funds. Interest income depends on the amount of interest-earning assets outstanding during the year and the interest rates earned thereon. Cost of funds is a function of the average amount of deposits and borrowed money outstanding during the year and the interest rates paid thereon. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin generally exceeds the net interest spread as a portion of interest-earning assets are funded by various noninterest-bearing sources (primarily noninterest-bearing deposits and shareholders' equity). The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are summarized in the Rate/Volume Analysis table shown on page 31. Information as to the components of interest income and interest expense and average rates is provided under "*Average Balances, Yields and Costs*" on page 30.

Because the Company's assets are not identical in duration and in repricing dates to its liabilities, the spread between the two is vulnerable to changes in market interest rates as well as the overall shape of the yield curve. These vulnerabilities are inherent to the business of banking and are commonly referred to as "interest rate risk." How to measure interest rate risk and, once measured, how much risk to take are based on numerous assumptions and other subjective judgments. See discussion under "*Asset and Liability Management*."

The quality of the Company's assets also influences its earnings. Loans and leases that are not being paid on a timely basis and exhibit other weaknesses can result in the loss of principal and/or loss of interest

income. Additionally, the Company must make timely provisions to its allowance for loan and lease losses based on estimates of probable losses inherent in the loan and lease portfolio; these additions, which are charged against earnings, are necessarily greater when greater probable losses are expected. Further, the Company will incur expenses as a result of resolving troubled assets. All of these form the "credit risk" that the Company takes on in the ordinary course of its business and is further discussed under "*Financial Condition—Asset Quality*."

The Company's business strategy has been to concentrate its asset generation efforts on commercial and consumer loans and its deposit generation efforts on checking and savings accounts. These deposit accounts are commonly referred to as "core deposit accounts." This strategy is based on the Company's belief that it can distinguish itself from its larger competitors, and indeed attract customers from them, through a higher level of service and through its ability to set policies and procedures, as well as make decisions, locally. The loan and deposit products referenced also tend to be geared more toward customers who are relationship oriented than those who are seeking stand-alone or single transaction products. The Company believes that its service-oriented approach enables it to compete successfully for relationship-oriented customers. Additionally, the Company is predominantly an urban franchise with a high concentration of businesses making deployment of funds in the commercial lending area practicable. Commercial loans are attractive, among other reasons, because of their higher yields. Similarly, core deposits are attractive because of their generally lower interest cost and potential for fee income.

The Company also seeks to leverage business opportunities presented by its customer base, franchise footprint and resources. In 2005, the Bank formed a private banking division and completed the Bank's first acquisition with the acquiring of an equipment leasing company located in Long Island, New York ("Macrolease"). The Bank is using the Macrolease platform to generate additional income by originating equipment leases for third parties, as well as increasing the Bank's portfolio of equipment leases.

The deposit market in Rhode Island is highly concentrated. The State's three largest banks have an aggregate market share of 85% (based upon June 2007 FDIC statistics, excluding one bank that draws its deposits primarily from the internet) in Providence and Kent Counties, the Bank's primary marketplace. Competition for loans and deposits remains intense. This competition has resulted in considerable advertising and promotional product offerings by competitors, including print, radio and television media.

In 2007, approximately 79.3% of the Company's total revenues (defined as net interest income plus noninterest income) were derived from its net interest income. In a continuing effort to diversify its sources of revenue, the Company has sought to expand its sources of noninterest income (primarily fees and charges for products and services the Bank offers). Service charges on deposit accounts remain the largest component of noninterest income, while the Bank has recently seen growth in gains on lease sales and commissions on loans originated for others.

In 2007, the Bank experienced an overall decrease in net interest margin, as the 2007 net interest margin of 2.96% was 10 basis points ("bps") lower than 2006 net interest margin of 3.06%. This decrease was primarily attributable to the shape of the yield curve and competition for deposits, loans and customers in the Bank's market area.

The future operating results of the Company will again depend on the ability to maintain and expand net interest margin, while minimizing exposure to credit risk, along with increasing sources of noninterest income, while controlling the growth of noninterest or operating expenses.

Critical Accounting Policies

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets or net income, are considered critical accounting policies. The Company considers the following to be its critical accounting policies: allowance for credit losses, review of goodwill for impairment and income taxes. In 2007, the Company reassessed the

risk elements within the components of its loan and lease portfolio. There have been no other significant changes in the methods or assumptions used in accounting policies that require material estimates or assumptions.

Allowance for credit losses

Arriving at an appropriate level of allowance for loan and lease losses and reserve for unfunded lending commitments, collectively referred to as the allowance for credit losses, necessarily involves a significant degree of judgment. First and foremost in arriving at an appropriate allowance is the creation and maintenance of a risk rating system that accurately classifies all loans, leases and commitments into varying categories by degree of credit risk. Such a system also establishes a level of allowance associated with each category of loans and requires early identification and reclassification of deteriorating credits. Besides numerous subjective judgments as to the number of categories, appropriate level of allowance with respect to each category and judgments as to categorization of any individual loan or lease, additional subjective judgments are involved when ascertaining the probability as well as the extent of any probable losses. The Company's ongoing evaluation process includes a formal analysis of the allowance each quarter, which considers, among other factors, the character and size of the loan and lease portfolio, business and economic conditions, loan growth, delinquency trends, nonperforming loan trends, charge-off experience and other asset quality factors. These factors are based on observable information, as well as subjective assessment and interpretation. A similar process is employed with respect to unfunded lending commitments.

Nonperforming commercial, commercial real estate and small business loans and leases in excess of a specified dollar amount are deemed to be "impaired." The estimated reserves necessary for each of these credits is determined by reviewing the fair value of the collateral if collateral dependent, the present value of expected future cash flows, or where available, the observable market price of the loans. Provisions for losses on the remaining commercial, commercial real estate, small business, residential mortgage and consumer loans and leases are based on pools of similar loans or leases using a combination of payment status, historical loss experience, industry loss experience, market economic factors, delinquency rates and qualitative adjustments.

Management uses available information to establish the allowance for loan and lease losses at the level it believes is appropriate. However, future additions to the allowance may be necessary based on changes in estimates or assumptions resulting from changes in economic conditions and other factors. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses. Such agencies may require the Company to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Review of goodwill for impairment

In March 1996, the Bank acquired certain assets and assumed certain liabilities from Fleet Financial Group, Inc. and related entities. This acquisition was accounted for utilizing the purchase method of accounting and generated \$17.5 million of goodwill. This goodwill was amortized in the years prior to 2002, resulting in a net balance of \$10.8 million on the Company's balance sheet as of December 31, 2001. Effective January 1, 2002, in accordance with Statement of Financial Accounting Standards ("SFAS") 142 "Goodwill and Other Intangible Assets" and SFAS 147 "Acquisitions of Certain Financial Institutions", the Company ceased amortizing this goodwill and began to review it at least annually for impairment.

On May 1, 2005, the Bank acquired certain operating assets from Macrolease International Corporation. This acquisition was accounted for utilizing the purchase method of accounting and has generated \$1.0 million of goodwill through December 31, 2007.

Goodwill is evaluated for impairment using market value comparisons for similar institutions, such as price to earnings multiples, price to deposit multiples and price to equity multiples. This valuation technique utilizes verifiable market multiples, as well as subjective assessment and interpretation. The application of different market multiples, or changes in judgment as to which market transactions are reflective of the Company's specific characteristics, could affect the conclusions reached regarding possible impairment. In the event that the Company were to determine that its goodwill were impaired, the recognition of an impairment charge could have an adverse impact on its results of operations in the period that the impairment occurred or on its financial position.

Income taxes

Certain areas of accounting for income taxes require management's judgment, including determining the expected realization of deferred tax assets. Judgments are made regarding various tax positions, which are often subjective and involve assumptions about items that are inherently uncertain. If actual factors and conditions differ materially from estimates made by management, the actual realization of the net deferred tax assets could vary materially from the amounts previously recorded.

Deferred tax assets arise from items that may be used as a tax deduction or credit in future income tax returns, for which a financial statement tax benefit has already been recognized. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years' taxable income to which refund claims could be carried back. Valuation allowances are recorded against those deferred tax assets determined not likely to be realized. Deferred tax liabilities represent items that will require a future tax payment. They generally represent tax expense recognized in the Company's financial statements for which payment has been deferred, or a deduction taken on the Company's tax return but not yet recognized as an expense in the Company's financial statements. Deferred tax liabilities are also recognized for certain non-cash items such as goodwill.

Results of Operations

Net Interest Income

Net interest income for 2007 was \$41.2 million, compared to \$42.2 million for 2006 and \$42.9 million for 2005. The net interest margin decreased in 2007 to 2.96%, compared to 3.06% in 2006. In 2005, the net interest margin was 3.35%. The decrease in net interest income of \$984,000, or 2.3%, during 2007 was primarily attributable to the shape of the yield curve and competition for deposits, loans and customers in the Bank's market area. Average earning assets increased \$14.6 million, or 1.1%, and average interest-bearing liabilities increased \$6.2 million, or 0.5%, during 2007, compared to 2006.

Average Balances, Yields and Costs

The following table sets forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the years indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities. Average balances are derived from daily balances and include nonperforming loans. Available for sale securities are stated at amortized cost.

Year ended December 31,

	2007			2006			2005		
	Average balance	Interest earned/paid	Average yield	Average balance	Interest earned/paid	Average yield	Average balance	Interest earned/paid	Average yield
(Dollars in thousands)									
Assets									
Earning assets:									
Overnight investments	\$ 21,030	\$ 1,103	5.24%	\$ 9,931	\$ 517	5.21%	\$ 8,015	\$ 201	2.51%
Investment securities	112,461	5,707	5.07%	144,460	6,245	4.32%	131,711	5,537	4.20%
Mortgage-backed securities	229,872	11,166	4.86%	227,973	10,542	4.62%	209,004	9,313	4.46%
Stock in the FHLB	15,723	1,056	6.72%	16,473	906	5.50%	14,842	647	4.36%
Loans receivable:									
Commercial loans and leases	540,383	39,657	7.34%	473,851	34,381	7.26%	421,429	28,015	6.65%
Residential mortgage loans	255,442	13,768	5.39%	288,374	15,352	5.32%	307,659	15,670	5.09%
Consumer and other loans	219,126	13,613	6.21%	218,373	13,259	6.07%	187,185	10,137	5.42%
Total earning assets	1,394,037	86,070	6.17%	1,379,435	81,202	5.89%	1,279,845	69,520	5.43%
Cash and due from banks	24,178			22,274			25,218		
Allowance for loan and lease losses	(12,503)			(12,002)			(11,560)		
Premises and equipment	14,458			14,840			13,765		
Goodwill, net	11,318			11,290			11,067		
Accrued interest receivable	5,865			5,840			5,174		
Bank-owned life insurance	23,627			20,841			18,452		
Prepaid expenses and other assets	8,594			9,441			5,549		
Total assets	\$ 1,469,574			\$ 1,451,959			\$ 1,347,510		
Liabilities and Shareholders' Equity									
Interest-bearing liabilities:									
Deposits:									
NOW accounts	\$ 62,327	391	0.63%	\$ 71,188	356	0.50%	\$ 94,296	590	0.63%
Money market accounts	6,285	135	2.15%	8,757	161	1.84%	17,577	235	1.34%
Savings accounts	376,746	11,028	2.93%	349,675	7,929	2.27%	337,756	4,734	1.40%
Certificate of deposit accounts	382,711	17,676	4.62%	355,908	14,030	3.94%	304,572	8,962	2.94%
Overnight and short-term borrowings									
Wholesale repurchase agreements	57,117	2,717	4.76%	44,241	2,124	4.80%	23,019	652	2.83%
FHLB borrowings	11,425	602	5.27%	20,000	870	4.35%	9,417	276	2.93%
Subordinated deferrable interest debentures	240,668	10,768	4.47%	279,922	12,044	4.30%	255,350	9,898	3.88%
	17,188	1,509	8.78%	18,558	1,460	7.87%	18,558	1,272	6.85%
Total interest-bearing liabilities	1,154,467	44,826	3.88%	1,148,249	38,974	3.39%	1,060,545	26,619	2.51%
Noninterest-bearing deposits	182,093			179,666			174,173		
Other liabilities	18,142			17,170			16,870		
Total liabilities	1,354,702			1,345,085			1,251,588		
Shareholders' equity	114,872			106,874			95,922		
Total liabilities and shareholders' equity	\$ 1,469,574			\$ 1,451,959			\$ 1,347,510		
Net interest income		\$ 41,244			\$ 42,228			\$ 42,901	
Net interest rate spread			2.29%			2.50%			2.92%
Net interest rate margin			2.96%			3.06%			3.35%

Rate/Volume Analysis

The following table sets forth certain information regarding changes in the Company's interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in rate (changes in rate multiplied by old average balance) and (ii) changes in volume (changes in average balances multiplied by

old rate). The net change attributable to the combined impact of rate and volume was allocated proportionally to the individual rate and volume changes.

	Year ended December 31,					
	2007 vs. 2006			2006 vs. 2005		
	Increase/(decrease) due to			Increase/(decrease) due to		
	Rate	Volume	Total	Rate	Volume	Total
(In thousands)						
Interest income:						
Overnight investments	\$ 3	\$ 583	\$ 586	\$ 258	\$ 58	\$ 316
Investment securities	982	(1,520)	(538)	239	469	708
Mortgage-backed securities	522	102	624	418	811	1,229
Stock in the FHLB	193	(43)	150	182	77	259
Commercial loans and leases	139	5,137	5,276	2,204	4,162	6,366
Residential mortgage loans	189	(1,773)	(1,584)	693	(1,011)	(318)
Consumer and other loans	366	(12)	354	1,368	1,754	3,122
Total interest income	2,394	2,474	4,868	5,362	6,320	11,682
Interest expense:						
NOW accounts	83	(48)	35	(105)	(129)	(234)
Money market accounts	24	(50)	(26)	69	(143)	(74)
Savings accounts	2,448	651	3,099	3,022	173	3,195
Certificate of deposit accounts	2,534	1,112	3,646	3,387	1,681	5,068
Overnight & short-term borrowings	(20)	613	593	632	840	1,472
FHLB and other borrowings	623	(2,167)	(1,544)	1,736	1,004	2,740
Capital trust and other subordinated securities	162	(113)	49	188	—	188
Total interest expense	5,854	(2)	5,852	8,929	3,426	12,355
Net interest income	\$ (3,460)	\$ 2,476	\$ (984)	\$ (3,567)	\$ 2,894	\$ (673)

Comparison of Years Ended December 31, 2007 and December 31, 2006

General

Net income for 2007 increased \$1.3 million, or 17.3%, to \$9.0 million from \$7.7 million for 2006. Earnings per diluted common share ("EPS") increased also from \$1.57 for 2006 to \$1.84 for 2007. The 2007 earnings represented a return on average assets of 0.62% and a return on average equity of 7.87% for 2007, as compared to a return on average assets of 0.53% and a return on average equity of 7.22% for 2006.

Included within net income and EPS for 2007 were gains on available for sale ("AFS") securities of approximately \$165,000 or \$0.03, net of taxes. Comparatively, net income and EPS in 2006 were negatively impacted by approximately \$558,000 or \$0.11, net of taxes, due to the investment portfolio restructuring the Company undertook in the third quarter of 2006 in an effort to improve earnings in future periods.

To provide additional analysis regarding the Company's operating results, the following tables set forth certain non-GAAP information relating to the reconciliation of GAAP net income, EPS and related operating ratios to pro forma amounts, which adjust for AFS securities gains and losses over the past two years. Management believes this information is useful to the investor in comparing the Company's operating results to those from the prior year. This information should not be viewed as a substitute for operating results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP information which may be presented by other companies.

The following tables summarize the impact of AFS securities gains and losses for the periods indicated below:

(In thousands, except per share data)	Year ended December 31,	
	2007	2006
Net income (GAAP)	\$ 9,045	\$ 7,711
Adjust for:		
AFS security (gains) losses, net of tax	(165)	558
Pro forma net income	\$ 8,880	\$ 8,269
Diluted earnings per share (GAAP)	\$ 1.84	\$ 1.57
Effect of:		
AFS security (gains) losses, net of tax	(0.03)	0.11
Pro forma diluted earnings per share	\$ 1.81	\$ 1.68

	Year Ended December 31, 2007		
	Return on Average Assets	Return on Average Equity	Efficiency Ratio
GAAP ratios	0.62%	7.87%	73.08%
Effect of:			
AFS security (gains) losses, net of tax	-0.01%	-0.14%	0.36%
Pro forma ratios	0.61%	7.73%	73.44%

	Year Ended December 31, 2006		
	Return on Average Assets	Return on Average Equity	Efficiency Ratio
GAAP ratios	0.53%	7.22%	75.62%
Effect of:			
AFS security (gains) losses, net of tax	0.04%	0.52%	-1.25%
Pro forma ratios	0.57%	7.74%	74.37%

On a pro forma basis, operating results for 2007 improved as compared to 2006. Margin compression did lead to a decline in net interest income of \$984,000, or 2.3%, which was partly countered by an increase in total average earning assets of approximately \$14.6 million. Noninterest income excluding securities gains and losses increased by \$684,000, or 6.9%, led primarily by gains on lease sales and increases in deposit service charges. Additionally, earnings benefited from a decline in noninterest expenses of \$702,000, or 1.8%.

Net Interest Income

For 2007, net interest income was \$41.2 million, compared to \$42.2 million for 2006. The net interest margin for 2007 was 2.96% compared to a net interest margin of 3.06% for 2006. The decrease in net interest income of \$984,000, or 2.3%, was attributable to margin pressures as the average earning assets increased \$14.6 million, or 1.1%, and average interest-bearing liabilities increased \$6.2 million, or 0.5%, over the preceding year. The decrease of 10 bps in the net interest margin was primarily due to the shape of the yield curve and competition for deposits, loans and customers in the Bank's market area.

Interest Income—Investments

Total investment income (consisting of interest on overnight investments, investment securities and MBSs, and dividends on FHLB stock) was \$19.0 million for 2007, compared to \$18.2 million for 2006. This increase in total investment income of \$822,000, or 4.5%, was attributable to a 45 basis point increase in the overall yield on investments, from 4.57% in 2006 to 5.02% in 2007, along with a decrease in the average balance of investments of approximately \$20 million.

Interest Income—Loans and Leases

Interest from loans was \$67.0 million for 2007, and represented a yield on total loans of 6.61%. This compares to \$63.0 million of interest, and a yield of 6.42%, for 2006. Increased interest income resulting from growth in the average balance of loans of \$34.4 million, or 3.5%, was augmented by an increase in the yield on loans of 19 bps.

The average balance of the various components of the loan portfolio changed as follows: commercial loans and leases increased \$66.5 million, or 14.0%; consumer and other loans increased \$753,000, or 0.34%; and residential mortgage loans decreased \$32.9 million, or 11.4%. The yield on the various components of the loan portfolio changed as follows: commercial loans and leases increased 8 bps, to 7.34%; consumer and other loans increased 14 bps, to 6.21%; and residential mortgage loans increased 7 bps, to 5.39%. The yields on loans and leases benefited primarily from higher yields on new originations and repricing of existing variable rate assets.

Interest Expense—Deposits and Borrowings

Interest paid on deposits and borrowings increased by \$5.8 million, or 15.0%, due to both market area competition as well as higher market interest rates during 2007. The overall average cost for interest-bearing liabilities increased 49 bps from 3.39% for 2006, to 3.88% for 2007. The average balance of total interest-bearing liabilities increased \$6.2 million, or 0.5%, remaining constant at \$1.15 billion for 2006 and 2007. The growth in deposit average balances was centered primarily in savings accounts (up \$27.0 million, or 7.7%) and CD accounts (up \$26.8 million, or 7.5%). These increases were partially offset by a decrease in NOW accounts (down \$8.9 million, or 12.4%) and money market accounts (down \$2.5 million, or 28.2%).

The average balance of borrowings decreased as compared to the prior year, with increases in short-term borrowings (up \$12.9 million, or 29.1%) surpassed by decreases in FHLB funding (down \$39.3 million, or 14.0%), as well as declines in wholesale repurchase agreements (down \$8.6 million, or 42.9%). In September 2007, the Company redeemed \$5.2 million of debentures held by BRI Statutory Trust II, resulting in a decline in the average balance of subordinated debentures (down \$1.4 million, or 7.4%). This redemption resulted in \$137,000 of additional interest expense from previously unamortized debt issuance costs. Overall, the cost of nondeposit borrowings increased 23 bps in 2007 to 4.78%, compared to 4.55% in the prior year.

The rise in deposit and borrowing costs can be attributed to a number of factors. Customer demand remains strong for higher-yielding deposit products, due in part to relatively high short-term rates for the majority of 2007. Competition for deposits continues to be strong. Additionally, bank and non-bank advertising continues to be prevalent in the Bank's local market area, which has increased customer awareness of attractive rates. Moreover, online banking has enabled customers to more actively manage their finances and has facilitated the movement of available funds from demand deposit accounts and lower-yielding deposit accounts into higher-yielding deposit products. In an effort to attract and retain customers and deposit relationships, the Bank has offered higher-yielding savings accounts in addition to the normally higher-yielding CDs.

Provision for Loan and Lease Losses

The provision for loan and lease losses was \$700,000 for 2007, compared to \$1.2 million for 2006. The primary reasons for the change in the provision for loan and lease losses were lower relative growth in commercial loans and a reassessment of risk within the components of the loan and lease portfolio. The allowance, expressed as a percentage of total loans and leases, was 1.22% as of December 31, 2007, compared to 1.23% at the prior year-end and stood at 304.2% of nonperforming loans and leases at December 31, 2007, compared to 876.0% of nonperforming loans and leases at December 31, 2006. Net charge-offs for 2007 were \$458,000, compared to \$490,000 for 2006.

In 2006, the Company reclassified the reserve for unfunded lending commitments from the allowance for loan and lease losses to other liabilities. The Company has reclassified prior period amounts accordingly, as illustrated within the activity analysis table on page 50. These reclassifications resulted in adjustments to prior period ending and average balances of the allowance for loan and lease losses and other liabilities, the allocation of the allowance for loan and lease losses, as well as previously reported expense amounts for the provision for loan and lease losses and other expenses and related asset quality ratios. Also see discussion under "Allowance for Credit Losses."

Management evaluates several factors including new loan originations, actual and estimated charge-offs, risk characteristics of the loan and lease portfolio and general economic conditions when determining the provision for loan and lease losses. As the loan and lease portfolio continues to grow and mature, or if economic conditions worsen, management believes it possible that the level of nonperforming assets may increase, which in turn may lead to increases to the provision for loan and lease losses. Also see discussion under "Allowance for Credit Losses."

Noninterest Income

Total noninterest income increased by \$1.8 million or 20.0%, from \$9.0 million for 2006, to \$10.8 million for 2007. The following table sets forth the components of noninterest income:

	Year ended December 31,	
	2007	2006
	(In thousands)	
Service charges on deposit accounts	\$ 5,578	\$ 5,055
Net gains on lease sales and commissions on loans originated for others	1,216	566
Income from bank-owned life insurance	1,038	785
Loan related fees	649	694
Commissions on nondeposit investment products	575	872
Gain/(loss) on AFS securities	254	(859)
Other income	1,475	1,875
Total noninterest income	\$ 10,785	\$ 8,988

Noninterest income for 2007 benefited from gains on AFS securities of \$254,000, while noninterest income for 2006 was negatively impacted by losses on AFS securities of \$859,000 attributable to the investment portfolio restructuring described on page 39. Excluding securities gains and losses, noninterest income increased \$684,000, or 6.9%. Deposit account service charges continue to represent the largest source of noninterest income for the Company and produced growth of \$523,000, or 10.3%, as the Company implemented a revenue enhancement program. The Macrolease platform sold \$21.8 million of leases in 2007, generating \$1.0 million of noninterest income, compared to \$407,000 in the prior year. Income from bank-owned life insurance ("BOLI") increased \$253,000, or 32.2% from the prior year as a result of additional purchases of insurance during 2006, as well as the tax-free exchange the Company

conducted for a portion of its BOLI to other life insurance carriers in the fourth quarter of 2006. These increases were offset by volume based decreases in commissions on nondeposit investment products (down \$297,000, or 34.1%) and loan related fees (down \$45,000, or 6.5%). Additionally, other income decreased \$400,000, or 21.3%, mainly due to decreases in customer external sweep income and reduced commissions on historic tax credits.

Noninterest Expense

Noninterest expenses for 2007 decreased a total of \$702,000, or 1.8%, to \$38.0 million. The following table sets forth the components of noninterest expense:

	Year ended December 31,	
	2007	2006
(In thousands)		
Salaries and employee benefits	\$ 20,859	\$ 20,636
Occupancy and equipment	4,872	4,971
Data processing	2,850	2,880
Professional services	2,212	2,186
Marketing	1,562	1,880
Loan servicing	767	917
Loan workout and other real estate owned	190	188
Other expenses	4,713	5,069
Total noninterest expense	\$ 38,025	\$ 38,727

The Company realized savings in marketing costs (down \$318,000, or 16.9%), loan servicing (down \$150,000, or 16.4%) and occupancy and equipment (\$99,000, or 2.0%). Additionally, other miscellaneous expenses decreased by \$356,000, or 7.0%, for the year with savings from increased operating efficiencies. Partially offsetting these items were increases in salaries and benefits (up \$223,000, or 1.1%) and professional services (up \$26,000, or 1.2%).

Additionally, with respect to prior year other expenses, the Company recorded insurance recovery proceeds of \$803,000 in December 2006 relating to a loss the Company incurred in the first quarter of 2006 of \$868,000. These amounts are recorded net within other expenses in the preceding table and on the Consolidated Statement of Operations for the year ended December 31, 2006.

Overall, the Company's efficiency ratio improved to 73.08% for 2007, from 75.62% for 2006. After adjusting for securities gains and losses, the efficiency ratio improved on a pro forma basis to 73.44% for 2007, from 74.37% for 2006. However, these efficiency ratios continue to be negatively impacted by the compression in the net interest margin, which has partially lessened the impact of cost savings realized and noninterest income improvement.

Income Tax Expense

The Company recorded income tax expense of \$4.3 million for 2007, compared to \$3.6 million for 2006. This represented total effective tax rates of 32.0% and 31.7%, respectively. Tax-favored income from BOLI, along with the utilization of a Rhode Island passive investment company, has reduced the Company's effective tax rate from the 40.9% combined statutory federal and state tax rates.

Comparison of Years Ended December 31, 2006 and December 31, 2005

General

Net income for 2006 decreased \$1.9 million, or 19.4%, from \$9.6 million for 2005. EPS decreased from \$2.04 for 2005 to \$1.57 for 2006. The 2006 earnings represented a return on average assets of 0.53% and a return on average equity of 7.22% for 2006, as compared to a return on average assets of 0.71% and a return on average equity of 9.98% for 2005.

Net income and EPS for 2006 were negatively impacted by approximately \$558,000 or \$0.11, net of taxes, due to the investment portfolio restructuring the Company undertook in the third quarter of 2006 in an effort to improve earnings in future periods. The effect of these security losses on shareholders' equity was minimal as the securities had been carried at market value on the balance sheet.

To provide additional analysis regarding the Company's operating results, the following tables set forth certain non-GAAP information relating to the reconciliation of GAAP net income, EPS and related operating ratios to pro forma amounts, which adjust for AFS securities gains and losses in 2006 and 2005. Management believes this information is useful to the investor in comparing the Company's operating results to those from the prior year. This information should not be viewed as a substitute for operating results determined in accordance with GAAP, nor is it necessarily comparable to non-GAAP information which may be presented by other companies.

The following tables summarize the impact of AFS securities gains and losses for the periods indicated below:

	Year ended December 31,	
	2006	2005
(In thousands, except per share data)		
Net income (GAAP)	\$ 7,711	\$ 9,569
Adjust for:		
AFS security losses (gains), net of tax	558	(118)
Pro forma net income	\$ 8,269	\$ 9,451
Diluted earnings per share (GAAP)	\$ 1.57	\$ 2.04
Effect of:		
AFS security losses (gains), net of tax	0.11	(0.03)
Pro forma diluted earnings per share	\$ 1.68	\$ 2.01

	Year Ended December 31, 2006		
	Average Assets	Average Equity	Efficiency
GAAP ratios	0.53%	7.22%	75.62%
Effect of:			
AFS security losses (gains), net of tax	0.04%	0.52%	-1.25%
Pro forma ratios	0.57%	7.74%	74.37%

Year Ended December 31, 2005

	Return on Average Assets	Return on Average Equity	Efficiency Ratio
GAAP ratios	0.71%	9.98%	69.66%
Effect of:			
AFS security losses (gains), net of tax	-0.01%	-0.12%	0.24%
Pro forma ratios	0.70%	9.86%	69.90%

On a pro forma basis, operating results for 2006 were down as compared to 2005. Margin compression led to a decline in net interest income of \$673,000, despite an increase in total average earning assets of approximately \$100 million. The increases in noninterest income of \$754,000, led primarily by increases in deposit service charges and income from loans and leases originated for third parties, were offset by increased noninterest expenses. In addition to costs for additions to the senior management team, noninterest expenses for 2006 also include the full year operating costs of Macrolease, the private banking group and the two newest branches, all of which began midway through 2005.

Net Interest Income

For 2006, net interest income was \$42.2 million, compared to \$42.9 million for 2005. The net interest margin for 2006 was 3.06% compared to a net interest margin of 3.35% for 2005. The decrease in net interest income of \$673,000, or 1.6%, was attributable to margin pressures as the average earning assets increased \$99.6 million, or 7.8%, and average interest-bearing liabilities increased \$87.7 million, or 8.3%, over the preceding year. The decrease of 29 bps in the net interest margin was due to the compression of the yield curve, competitive asset pricing, increases in CD balances and heightened competition for savings and other core deposits in the Company's market area.

Interest Income—Investments

Total investment income (consisting of interest on overnight investments, investment securities and MBSs, and dividends on FHLB stock) was \$18.2 million for 2006, compared to \$15.7 million for 2005. This increase in total investment income of \$2.5 million, or 16.0%, was attributable to a 25 basis point increase in the overall yield on investments, from 4.32% in 2005 to 4.57% in 2006, along with an increase in the average balance of investments of approximately \$35 million.

Interest Income—Loans and Leases

Interest from loans was \$63.0 million for 2006, and represented a yield on total loans of 6.42%. This compares to \$53.8 million of interest, and a yield of 5.87%, for 2005. Increased interest income resulting from growth in the average balance of loans of \$64.3 million, or 7.0%, was augmented by an increase in the yield on loans of 55 bps.

The average balance of the various components of the loan portfolio changed as follows: commercial loans and leases increased \$52.4 million, or 12.4%; consumer and other loans increased \$31.2 million, or 16.7%; and residential mortgage loans decreased \$19.3 million, or 6.3%. The yield on the various components of the loan portfolio changed as follows: commercial loans and leases increased 61 bps, to 7.26%; consumer and other loans increased 66 bps, to 6.07%; and residential mortgage loans increased 23 bps, to 5.32%. The yields on loans and leases benefited primarily from the interest rate increases in 2006.

Interest Expense—Deposits and Borrowings

Interest paid on deposits and borrowings increased by \$12.4 million, or 46.4%, due to both market area competition as well as rises in short-term market interest rates during 2006. The overall average cost for interest-bearing liabilities increased 88 bps from 2.51% for 2005, to 3.39% for 2006. The average

balance of total interest-bearing liabilities increased \$87.7 million, or 8.3%, from \$1.06 billion in 2005, to \$1.15 billion in 2006. The growth in deposit average balances was centered primarily in CD accounts (up \$51.4 million, or 16.9%) and savings accounts (up \$11.9 million, or 3.5%). These increases were partially offset by a decrease in NOW accounts (down \$23.1 million, or 24.5%) and money market accounts (down \$8.8 million, or 50.2%).

In addition, the average balance of borrowings increased as compared to the prior year, as the Bank utilized short-term borrowings (up \$21.2 million, or 92.2%), FHLB funding (up \$24.6 million, or 9.6%) and wholesale repurchase agreements (up \$10.6 million, or 112.4%) to fund a portion of the new asset growth. The balance of wholesale repos has remained constant at \$20 million since midway through the fourth quarter of 2005. Overall, the cost of nondeposit borrowings increased 60 bps in 2006 to 4.55%, compared to 3.95% in the prior year.

The rise in liability costs can be attributed to a number of factors. With the rises in interest rates during 2006, customer demand for higher-yielding deposit products has strengthened. Additionally, competition for deposits has become intense and extensive bank advertising has increased customer awareness of attractive rates. Moreover, online banking has enabled customers to more actively manage their finances and has facilitated the movement of available funds from demand deposit accounts and normally lower-costing deposit accounts into higher-yielding deposit products. In an effort to attract and retain customers and deposit relationships, the Bank has offered not only the typically higher-costing CDs, but also higher-yielding savings and NOW accounts.

Provision for Loan and Lease Losses

The provision for loan and lease losses was \$1.2 million for 2006, compared to \$1.4 million for 2005. The allowance, expressed as a percentage of total loans and leases, was 1.23% as of December 31, 2006, compared to 1.23% at the prior year-end and stood at 876.0% of nonperforming loans and leases at December 31, 2006, compared to 2,810.8% of nonperforming loans and leases at December 31, 2005. Net charge-offs for 2006 were \$490,000, compared to \$1.2 million for 2005.

In 2006, the Company reclassified the reserve for unfunded lending commitments (December 31, 2005 year-end balance of \$503,000) from the allowance for loan and lease losses to other liabilities. The Company has reclassified prior period amounts accordingly, as illustrated within the activity analysis table on page 50. These reclassifications resulted in adjustments to the prior period ending and average balances of the allowance for loan and lease losses and other liabilities, the allocation of the allowance for loan and lease losses, as well as previously reported expense amounts for the provision for loan and lease losses and other expenses and related asset quality ratios. Also see discussion under "*Allowance for Credit Losses.*"

Management evaluates several factors including new loan originations, actual and estimated charge-offs, risk characteristics of the loan and lease portfolio and general economic conditions when determining the provision for loan and lease losses. As the loan and lease portfolio continues to grow and mature, or if economic conditions worsen, management believes it possible that the level of nonperforming assets will increase, which in turn may lead to increases to the provision for loan and lease losses. Also see discussion under "*Allowance for Credit Losses.*"

Noninterest Income

Total noninterest income decreased by \$286,000, or 3.1%, from \$9.3 million for 2005, to \$9.0 million for 2006. The following table sets forth the components of noninterest income:

	Year ended December 31,	
	2006	2005
	(In thousands)	
Service charges on deposit accounts	\$ 5,055	\$ 4,561
Commissions on nondeposit investment products	872	849
Income from bank-owned life insurance	785	691
Loan related fees	694	1,024
Net gains on lease sales and commissions on loans originated for others	566	429
(Loss)/gain on AFS securities	(859)	181
Other income	1,875	1,539
	<hr/>	<hr/>
Total noninterest income	\$ 8,988	\$ 9,274

In September 2006, the Company restructured a portion of its investment portfolio to improve earnings in future periods by capitalizing on a temporary increase in security valuations due to movements in the yield curve. The Company sold \$62 million of its available for sale securities and reinvested the sales proceeds into higher-yielding securities. This investment portfolio restructuring resulted in losses of \$859,000; however, the effect of these security losses on shareholders' equity was minimal as the securities had been carried at market value on the balance sheet.

Excluding securities gains and losses, noninterest income increased \$754,000, or 8.3%. Deposit account service charges continued to represent the largest source of noninterest income for the Company and produced the highest growth within the category with an increase of \$494,000, or 10.8%, to \$5.1 million for 2006, compared to \$4.6 million in the prior year. Income from leases and loans originated for third parties increased \$137,000, or 31.9%, due to increased volume. Income from BOLI increased \$94,000, or 13.6% from the prior year as a result of additional purchases of insurance throughout the year. The Company also conducted a tax-free exchange of a portion of its BOLI to other life insurance carriers in the fourth quarter of 2006, in order to increase income from BOLI in future years. In addition, the Company experienced a moderate increase in commissions on nondeposit investment products of \$23,000, or 2.7%. Other income increased by \$336,000, or 21.8%, with increases in customer external sweep income. These increases in noninterest income were partially offset by a decrease in loan related fees of \$330,000, or 32.2%. Loan related fees in 2005 were higher primarily as a result of increased prepayment activity in 2005.

Noninterest Expense

Noninterest expenses for 2006 increased a total of \$2.4 million, or 6.6%, to \$38.7 million. The following table sets forth the components of noninterest expense:

	Year ended December 31,	
	2006	2005
	(In thousands)	
Salaries and employee benefits	\$ 20,636	\$ 19,476
Occupancy and equipment	4,971	4,695
Data processing	2,880	2,759
Professional services	2,186	2,017
Marketing	1,880	1,584
Loan servicing	917	968
Loan workout and other real estate owned	188	217
Other expenses	5,069	4,627
Total noninterest expense	\$ 38,727	\$ 36,343

Overall, noninterest expenses reflected the continued growth of the Company resulting in higher operating costs. Such growth includes the Bank opening two new branches in Lincoln and East Greenwich, Rhode Island and the addition of Macrolase and One Trust & Private Banking (all occurring during the second quarter of 2005). Also, additions were made to the Company's business ranks. The increases in costs were centered in the following areas: salaries and benefits (up \$1.2 million, or 6.0%) and occupancy and equipment costs (up \$276,000, or 5.9%).

Marketing costs were up by \$296,000, or 18.7%, reflective of increased advertising spending and sponsorship of customer events. Additionally, professional services costs increased \$169,000, or 8.4%, partially as a result of increased investor relations costs. Also, data processing costs increased \$121,000, or 4.4%. Other expenses increased by \$442,000, or 9.6%, as compared to 2005, with increases in costs of customer related sweep activity, which were in line with the related increase in noninterest income.

Other expenses for 2006 also included \$89,000 related to director stock options, the fair value of which was required to be expensed in connection with the adoption of SFAS 123-R, "*Share-Based Payment*." In 2005, the Company was not required to recognize expenses for the estimated fair value of stock options as the Company accounted for stock options under SFAS 123, "*Accounting for Stock-Based Compensation*." Under SFAS 123, the Company utilized the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25") and did not recognize expenses for the granting of stock options. Including stock option costs for employee grants, stock option expenses for 2006 were \$186,000 compared to \$49,000 for 2005. The costs recorded in 2005 related exclusively to the December 2005 acceleration of vesting of then-outstanding stock options.

Additionally, in December 2006, the Company recorded insurance recovery proceeds of \$803,000 relating to a loss the Company incurred in the first quarter of 2006 of \$868,000. These amounts are recorded net within other expenses in the preceding table and on the Consolidated Statement of Operations for the year ended December 31, 2006.

Overall, the Company's efficiency ratio increased to 75.62% for 2006, from 69.66% for 2005; however, after adjusting for securities gains and losses, the pro forma efficiency ratios were 74.37% and 69.90%, respectively.

Income Tax Expense

The Company recorded income tax expense of \$3.6 million for 2006, compared to \$4.8 million for 2005. This represented total effective tax rates of 31.7% and 33.6%, respectively. Tax-favored income from BOLI, along with the utilization of a Rhode Island passive investment company, has reduced the Company's effective tax rate from the 40.9% combined statutory federal and state tax rates.

Financial Condition

Loans and Leases Receivable

Total loans and leases were \$1.04 billion, or 70.3% of total assets, at December 31, 2007, compared to \$1.00 billion, or 67.9% of total assets, at December 31, 2006, an increase of \$33.8 million, or 3.4%. This increase was centered in commercial loans (where the Company concentrates its origination efforts) and was partially offset by decreases in residential mortgage loans (which the Company primarily purchases) and consumer loans. Total loans and leases as of December 31, 2007 are segmented in three broad categories: commercial loans and leases that aggregate \$573.7 million, or 55.3% of the portfolio; residential mortgages that aggregate \$248.7 million, or 24.0% of the portfolio; and consumer and other loans that aggregate \$215.7 million, or 20.8% of the portfolio.

The following is a summary of loans and leases receivable:

	December 31,				
	2007	2006	2005	2004	2003
(In thousands)					
Commercial loans and leases:					
Commercial real estate—owner occupied	\$ 157,431	\$ 140,812	\$ 112,987	\$ 93,027	\$ 77,317
Commercial & industrial	131,927	106,017	73,620	78,918	67,925
Commercial real estate—nonowner occupied	102,990	102,390	95,779	90,716	78,083
Small business	45,778	41,785	38,641	37,820	30,429
Multi-family	42,536	34,294	33,725	32,415	28,730
Construction	38,832	37,237	37,772	32,319	30,632
Leases and other(1)	58,702	62,979	48,745	38,116	19,548
Subtotal	578,196	525,514	441,269	403,331	332,664
Unearned lease income(1)	(5,742)	(6,651)	(3,366)	(226)	—
Net deferred loan origination costs (fees)	1,214	927	406	(335)	(398)
Total commercial loans and leases	573,668	519,790	438,309	402,770	332,266
Residential mortgage loans:					
One- to four-family adjustable rate	155,087	165,140	202,223	199,031	232,543
One- to four-family fixed rate	92,485	96,880	101,598	115,350	131,743
Subtotal	247,572	262,020	303,821	314,381	364,286
Premium on loans acquired	1,198	1,979	2,257	1,826	2,026
Net deferred loan origination fees	(42)	(54)	(62)	(72)	(82)
Total residential mortgage loans	248,728	263,945	306,016	316,135	366,230
Consumer and other loans:					
Home equity—term loans	149,192	152,484	134,932	110,542	68,523
Home equity—lines of credit	62,357	64,208	67,959	53,551	42,067
Unsecured and other	2,774	2,359	2,151	2,219	4,535
Subtotal	214,323	219,051	205,042	166,312	115,125
Premium on loans acquired	—	—	2	15	44
Net deferred loan origination costs	1,413	1,506	1,437	1,069	617
Total consumer and other loans	215,736	220,557	206,481	167,396	115,786
Total loans and leases receivable	\$ 1,038,132	\$ 1,004,292	\$ 950,806	\$ 886,301	\$ 814,282

(1) Included within commercial loans and leases were \$3.3 million of leases held for sale at December 31, 2007.

Commercial loans and leases—During 2007, the commercial loan and lease portfolio (consisting of commercial real estate, commercial & industrial, equipment leases, multi-family real estate, construction and small business loans) increased \$53.9 million, or 10.4%. The primary drivers of this growth occurred in the commercial & industrial and commercial real estate areas.

The Bank's business lending group originates business loans, also referred to as commercial and industrial loans, including owner-occupied commercial real estate loans, term loans and revolving lines of credit. Within the business lending portfolio, commercial and industrial loans increased \$25.9 million, or 24.4%, and owner-occupied commercial real estate loans increased \$16.6 million, or 11.8%, since year-end 2006.

With the Macrolease platform, the Bank originates equipment leases for its own portfolio, as well as originates leases for third parties as a source of noninterest income. In addition, the Bank historically has purchased equipment leases from originators outside of the Bank. The U.S. Government and its agencies are the principal lessees on the vast majority of these leases. These "government" leases generally have maturities of five years or less and are not dependent on residual collateral values. At December 31, 2007, leases comprised 10.2% of the commercial loan and lease portfolio, with \$43.4 million of Macrolease-generated leases and \$15.3 million of purchased government leases. Included within these amounts were \$3.3 million of leases generated for sale at December 31, 2007.

The Bank's commercial real estate ("CRE") group originates nonowner-occupied commercial real estate, multi-family residential real estate and construction loans. These real estate secured commercial loans are offered as both fixed and adjustable-rate products. Since December 31, 2006, CRE loans have increased \$10.4 million, or 6.0%, on a net basis. During the past twelve months, the Bank originated over \$40 million of new CRE loans; however repayments were near \$30 million during the same period.

At December 31, 2007, small business loans (business lending relationships of approximately \$250,000 or less) were \$45.8 million, compared to \$41.8 million at December 31, 2006, representing 8.0% of the commercial portfolio at each year end. These loans reflect those originated by the Bank's business development group, as well as throughout the Bank's branch system. The Bank utilizes credit scoring and streamlined documentation, as well as traditional review standards in originating these credits.

The Bank is a participant in the SBA Preferred Lender Program in both Rhode Island and Massachusetts. SBA guaranteed loans are found throughout the portfolios managed by the Bank's various lending groups.

The Company believes it is well positioned for continued commercial growth. Particular emphasis is placed on generation of small- to medium-sized commercial relationships (those relationships with \$10.0 million or less in total loan commitments). Unlike many community banks, the Bank offers asset-based commercial loan facilities that monitor advances against receivables and inventories on a formula basis.

Residential mortgage loans—Residential mortgage loans decreased \$15.2 million, or 5.8%, as repayments (\$48.7 million) exceeded the total of purchases (\$34.4 million) and originations (\$725,000). Since inception, the Bank has concentrated its portfolio lending efforts on commercial and consumer lending opportunities, but originates mortgage loans for its own portfolio on a limited basis. The Bank does not employ any outside mortgage originators, but from time to time, purchases residential mortgage loans from third-party originators. Until such time as the Bank can originate sufficient commercial and consumer loans to utilize available cash flow, it intends to continue purchasing residential mortgage loans as opportunities develop.

Consumer loans—During 2007, consumer loan outstandings decreased \$4.8 million, or 2.2%, to \$215.7 million at December 31, 2007, from \$220.6 million at December 31, 2006. The decline in growth was reflective of the softening of housing prices in the local market area over the past 18 months. The Company believes the softening prices have reduced consumer appetite for borrowing against the value of their homes. However, the Company continues to promote consumer lending as it believes that these ten- to twenty-year fixed-rate products, along with the floating lines of credit, still possess attractive cash flow characteristics in the current interest rate environment.

The table below shows loan and lease originations, purchases and repayment activities.

	Year ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
Originations and principal additions:					
Loans and leases purchased:					
Commercial loans and leases	\$ 8,143	\$ 11,454	\$ 9,243	\$ 3,257	\$ —
Residential mortgage loans	33,998	5,644	56,512	55,273	249,656
Total loans and leases purchased	42,141	17,098	65,755	58,530	249,656
Loans and leases originated:					
Commercial loans and leases	131,766	146,802	99,490	109,560	106,335
Residential mortgage loans	725	1,450	5,009	9,635	28,371
Consumer and other loans	38,623	64,715	82,426	90,655	65,831
Total loans and leases originated	171,114	212,967	186,925	209,850	200,537
Principal reductions:					
Net charge-offs/transfers to OREO:					
Commercial loans and leases	(152)	(453)	(1,205)	(98)	(565)
Residential mortgage loans	(835)	—	—	—	—
Consumer and other loans	(58)	(37)	(7)	(51)	(64)
Total net charge-offs/transfers to OREO	(1,045)	(490)	(1,212)	(149)	(629)
Principal payments:					
Commercial loans and leases	(90,011)	(78,024)	(72,736)	(42,052)	(54,402)
Residential mortgage loans	(48,717)	(48,763)	(71,249)	(114,813)	(210,316)
Consumer and other loans	(42,995)	(50,205)	(42,978)	(39,417)	(41,970)
Total principal payments	(181,723)	(176,992)	(186,963)	(196,282)	(306,688)
Change in total loans and leases receivable (before net items)	\$ 30,487	\$ 52,583	\$ 64,505	\$ 71,949	\$ 142,876

The following table sets forth certain information at December 31, 2007, regarding the aggregate dollar amount of certain loans maturing in the loan portfolio based on scheduled payments to maturity. Actual loan principal payments may vary from this schedule due to refinancings, modifications and other changes in loan terms. Demand loans and loans having no stated schedule of repayments and no stated maturity are reported as due in one year or less.

	Principal repayments contractually due		
	One year or less	After one, but within five years	After five years
	(In thousands)		
Commercial & industrial loans (including leases)	\$ 67,134	\$ 93,126	\$ 24,626
Construction/permanent loans	16,770	6,519	15,543
Home equity lines of credit	69	—	62,288
Interest-only residential first mortgages	—	18,132	22,583
Small business loans	18,247	18,468	9,063
Total	\$ 102,220	\$ 136,245	\$ 134,103

The following table sets forth as of December 31, 2007, the dollar amount of certain loans due after one year that have fixed interest rates or floating or adjustable interest rates.

	Loans due after one year	
	Fixed rates	Floating or adjustable rates
	(In thousands)	
Commercial & industrial loans (including leases)	\$ 88,446	\$ 29,306
Construction/permanent loans	1,786	20,276
Home equity lines of credit	6	62,282
Interest-only residential first mortgages	7,649	33,066
Small business loans	14,855	12,676
Total	\$ 112,742	\$ 157,606

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 generally considered impaired loans. There were \$3.0 million of impaired loans included in nonaccrual loans at December 31, 2007, compared to \$141,000 of impaired loans at December 31, 2005. There were no impaired loans at December 31, 2006.

Nonperforming Assets—At December 31, 2007, the Company had nonperforming assets of \$4.1 million, or 0.28%, of total assets. This compares to nonperforming assets of \$1.4 million or 0.10% of total assets, at December 31, 2006, and nonperforming assets of \$415,000, or 0.03% of total assets, at December 31, 2005. Nonperforming assets at December 31, 2007 consisted of commercial loans and leases aggregating \$3.3 million, residential loans aggregating \$822,000, restructured loans and leases of \$37,000 and commercial loans and leases 90 days past due, but still accruing of \$100,000. Nonperforming assets at December 31, 2006 and 2005 were primarily comprised of nonaccrual commercial loans and nonaccrual residential loans. The Company evaluates the underlying collateral of each nonperforming asset and continues to pursue the collection of interest and principal. Management believes that the December 31, 2007 level of nonperforming assets is low relative to the size of the Company's loan portfolio. As the loan portfolio continues to grow and mature, or if economic conditions worsen, management believes it possible that the level of nonperforming assets will increase, as will its level of charged-off loans.

The following table sets forth information regarding nonperforming assets.

	December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Nonaccrual loans and leases	\$ 4,012	\$ 1,407	\$ 415	\$ 733	\$ 2,462
Restructured loans and leases	37				
Loans past due 90 days or more, but still accruing	100	6	—	—	—
Impaired loans (not included in nonaccrual loans)	—	—	—	—	—
Total nonperforming loans	4,149	1,413	415	733	2,462
Other nonperforming assets	—	—	—	—	—
Total nonperforming assets	\$ 4,149	\$ 1,413	\$ 415	\$ 733	\$ 2,462
Nonperforming loans as a percent of total loans and leases	0.40%	0.14%	0.04%	0.08%	0.30%
Nonperforming assets as a percent of total assets	0.28%	0.10%	0.03%	0.06%	0.23%

Nonaccrual Loans—Accrual of interest income on all loans is discontinued when concern exists as to the collectibility of principal or interest, or typically when a loan becomes over 90 days delinquent. Additionally, when a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period income. Residential mortgage loans are removed from nonaccrual when they become less than 90 days past due, and in the case of commercial and consumer loans, when concern no longer exists as to the collectibility of principal or interest. Interest collected on nonaccruing loans is either applied against principal or reported as income according to management's judgment as to the collectibility of principal. At December 31, 2007, nonaccrual loans totaled \$4.0 million. Interest on nonaccrual loans that would have been recorded as additional income for the year ended December 31, 2007, had the loans been current in accordance with their original terms, totaled \$156,000. This compares with \$50,000 and \$23,000 of foregone interest income on nonaccrual loans for the years ended December 31, 2006 and 2005, respectively.

The following table sets forth certain information regarding nonaccrual loans.

	December 31,					
	2007		2006		2005	
	Principal Balance	Percent of Total Loans	Principal Balance	Percent of Total Loans	Principal Balance	Percent of Total Loans
	(Dollars in thousands)					
Nonaccrual loans:						
Residential mortgage loans	\$ 822	0.08%	\$ 1,327	0.13%	\$ 119	0.01%
Commercial loans and leases	3,190	0.31%	80	0.01%	235	0.02%
Restructured Loans	37	0.00%	—	0.00%	—	0.00%
Consumer and other loans	—	0.00%	—	0.00%	61	0.01%
Total nonaccrual loans	\$ 4,049	0.39%	\$ 1,407	0.14%	\$ 415	0.04%

Delinquencies—At December 31, 2007, \$12.6 million of loans and leases were 30 to 89 days past due. This compares to \$5.9 million and \$5.3 million of loans 30 to 89 days past due as of December 31, 2006 and 2005, respectively. The majority of these loans at December 31, 2007, 2006 and 2005 were commercial loans and leases. Within loans past due 30 to 89 days at December 31, 2007 were \$3.8 million of commercial leases to government entities, which were primarily attributable to administrative delays as opposed to underlying credit or cash flow issues. This amount compares to \$679,000 of government leases past due 30 to 89 days at December 31, 2006 and none at December 31, 2005.

Management reviews delinquent loans frequently to assess problem situations and to quickly address these problems. In the case of consumer and commercial loans, the Bank contacts the borrower when a loan becomes delinquent. When a payment is not made, generally within 10-15 days of the due date, a late charge is assessed. After 30 days of delinquency, a notice is sent to the borrower advising that failure to cure the default may result in formal demand for payment in full. In the event of further delinquency, the matter is generally referred to legal counsel to commence civil proceedings to collect all amounts owed. In the case of residential mortgage loans, delinquency and collection proceedings are conducted by either the Bank, or its mortgage servicers, in accordance with standard servicing guidelines. In any circumstance where the Bank is secured by real property or other collateral, the Bank enforces its rights to the collateral in accordance with applicable law.

The following table sets forth information as to loans delinquent for 30 to 89 days.

	December 31,					
	2007		2006		2005	
	Principal Balance	Percent of Total Loans	Principal Balance	Percent of Total Loans	Principal Balance	Percent of Total Loans
	(Dollars in thousands)					
Loans and leases delinquent for 30 to 59 days:						
Commercial loans and leases	\$ 6,594	0.64%	\$ 4,671	0.47%	\$ 4,509	0.48%
Residential mortgage loans	1,309	0.13%	486	0.05%	399	0.04%
Consumer and other loans	981	0.09%	243	0.02%	139	0.01%
Total loans and leases delinquent 30 to 59 days	8,884	0.86%	5,400	0.54%	5,047	0.53%
Loans and leases delinquent for 60 to 89 days:						
Commercial loans	3,414	0.33%	476	0.05%	—	—
Residential mortgage loans	275	0.03%	—	—	300	0.03%
Consumer and other loans	13	0.00%	—	—	—	—
Total loans and leases delinquent 60 to 89 days	3,702	0.36%	476	0.05%	300	0.03%
Total loans and leases delinquent 30 to 89 days	\$ 12,586	1.22%	\$ 5,876	0.59%	\$ 5,347	0.56%

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 December 31, 2007, the Company had \$9.5 million of assets that were classified as substandard. This compares to \$8.2 million and \$6.8 million of assets that were classified as substandard at December 31, 2006 and 2005, respectively. The Company had no assets that were classified as loss or doubtful at any of these dates. Performing loans may or may not be adversely classified depending upon management's judgment with respect to each individual loan. At December 31, 2007, included in the \$9.5 million of assets that were classified as substandard, were \$5.3 million of performing loans. This

compares to \$8.2 million and \$6.4 million of adversely classified performing assets at December 31, 2006 and 2005, respectively. These amounts constitute assets that, in the opinion of management, could potentially migrate to nonperforming or doubtful status. Management believes that the December 31, 2007 level of adversely classified assets is low relative to the size and composition of the Company's loan portfolio. As the loan and lease portfolio continues to grow and mature, or if economic conditions worsen, management believes it possible that the level of adversely classified assets will increase. This in turn may necessitate an increase to the provision for loan and lease losses in future periods.

Allowance for Credit Losses

The allowance for loan and lease losses and reserve for unfunded lending commitments, collectively referred to as the allowance for credit losses, have been established for credit losses inherent in the loan and lease portfolio and inherent in the unfunded lending commitments through a charge to earnings. The allowance for credit losses is maintained at a level management considers appropriate to provide for the current inherent risk of loss based upon an evaluation of known and inherent risks in the loan and lease portfolio, as well as the unfunded lending commitments.

Loans deemed uncollectible are charged against the allowance for loan and lease losses, while recoveries of amounts previously charged-off are added to the allowance for loan and lease losses. Amounts are charged-off once the probability of loss has been established, with consideration given to such factors as the customer's financial condition, underlying collateral and guarantees, and general and industry economic conditions.

When an insured institution classifies problem loans as either substandard or doubtful, it is required to establish allowances for loan losses in an amount deemed prudent by management. Additionally, general loss allowances are established to recognize the inherent risk associated with lending activities, and have not been allocated to particular problem loans.

In addition to the allowance for loan and lease losses, management also estimates probable losses related to unfunded lending commitments. In 2006, the Company reclassified the reserve for unfunded lending commitments from the allowance for loan and lease losses to other liabilities for all periods presented. Additions to the reserve for unfunded lending commitments are made by charges to other expenses.

The following table represents the allocation of the allowance for loan and leases losses as of the dates indicated:

	December 31,									
	2007		2006		2005		2004		2003	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)									
Commercial loans and leases	\$ 8,786	55.2%	\$ 7,944	51.8%	\$ 7,002	46.1%	\$ 6,251	45.4%	\$ 4,529	40.8%
Residential mortgage loans	1,002	24.0%	1,440	26.2%	1,653	32.2%	1,644	35.7%	1,922	45.0%
Consumer and other loans	1,637	20.8%	2,086	22.0%	1,894	21.7%	1,545	18.9%	1,092	14.2%
Unallocated	1,194	NA	907	NA	1,116	NA	2,014	NA	3,147	NA
Total	\$ 12,619	100.0%	\$ 12,377	100.0%	\$ 11,665	100.0%	\$ 11,454	100.0%	\$ 10,690	100.0%

Assessing the appropriateness of the allowance for loan and leases 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. Management's methodology to estimate loss exposure includes an analysis of individual loans deemed to be impaired, reserve allocations for

various loan types based on payment status or loss experience and an unallocated allowance that is maintained based on management's assessment of many factors including the growth, composition and quality of the loan portfolio, historical loss experiences, general economic conditions and other pertinent factors. These risk factors are continuously reviewed and revised by management where conditions indicate that the estimates initially applied are different from actual results. Management employs a similar process with respect to unfunded lending commitments.

A portion of the allowance for loan and lease losses is not allocated to any specific segment of the loan portfolio. This non-specific allowance is maintained for two primary reasons: (i) there exists an inherent subjectivity and imprecision to the analytical processes employed, and (ii) the prevailing business environment, as it is affected by changing economic conditions and various external factors, may impact the portfolio in ways currently unforeseen. Management, therefore, has established and maintains a non-specific allowance for loan and lease losses. The amount of this measurement imprecision allocation was \$1.2 million at December 31, 2007, compared to \$907,000 at December 31, 2006. With respect to changes within the allocation of the allowance for loan and lease losses, allocations at December 31, 2007 reflect both changes in loan and lease balances as well as reassessment of risks within the various loan and lease categories.

While management evaluates currently available information in establishing the allowance for loan and lease losses and the reserve for unfunded lending commitments, future adjustments to the allowance for credit losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations. Management performs a comprehensive review of the allowance for loan and lease losses and the reserve for unfunded lending commitments on a quarterly basis. In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance for loan and lease 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.

The factors supporting the allowance for loan and lease losses and the reserve for unfunded lending commitments do not diminish the fact that the entire allowance for loan and lease losses and the reserve for unfunded lending commitments are available to absorb losses in the entire loan portfolio and related commitment portfolio, respectively. The Company's primary concern is the appropriateness of the total allowance for loan and lease losses and reserve for unfunded lending commitments. Based on the evaluation described above, management believes that the year-end allowance for loan and lease losses and reserve for unfunded lending commitments are appropriate.

During 2007, 2006 and 2005, the Bank made additions to the allowance for loan and lease losses of \$700,000, \$1.2 million and \$1.4 million and experienced net charge-offs of \$458,000, \$490,000 and \$1.2 million, respectively. At December 31, 2007, the allowance for loan and lease losses stood at \$12.6 million and represented 304.2% of nonperforming loans and 1.22% of total loans outstanding. This compares to an allowance for loan and lease losses of \$12.4 million, representing 875.9% of nonperforming loans and 1.23% of total loans outstanding at December 31, 2006.

During 2007, the Bank made additions to the reserve for unfunded lending commitments of \$29,000, bringing the balance to \$596,000 at December 31, 2007. This compares to the December 31, 2006 balance in the reserve for unfunded lending commitments of \$567,000.

An analysis of the activity in the allowance for credit losses is as follows:

	Year ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands)				
<i>Allowance for Loan and Lease Losses</i>					
Balance at beginning of year	\$ 12,377	\$ 11,665	\$ 11,454	\$ 10,690	\$ 9,784
Loans charged-off:					
Commercial loans and leases	(184)	(472)	(1,266)	(98)	(565)
Residential mortgage loans	(248)	—	—	—	(17)
Consumer and other loans	(96)	(47)	(8)	(52)	(64)
Total loans charged-off	(528)	(519)	(1,274)	(150)	(646)
Recoveries of loans previously charged-off:					
Commercial loans and leases	32	19	61	70	4
Residential mortgage loans	—	—	—	—	—
Consumer and other loans	38	10	1	8	24
Total recoveries of loans previously charged-off	70	29	62	78	28
Net (charge-offs) recoveries	(458)	(490)	(1,212)	(72)	(618)
Provision for loan losses charged against income	700	1,202	1,423	836	1,524
Balance at end of year	12,619	12,377	11,665	11,454	10,690
<i>Reserve for Unfunded Lending Commitments(1)</i>					
Balance at beginning of year	567	503	452	388	312
(Credit) provision for unfunded lending commitments	29	64	51	64	76
Balance at end of year	596	567	503	452	388
<i>Allowance for Credit Losses</i>					
Balance at end of year	\$ 13,215	\$ 12,944	\$ 12,168	\$ 11,906	\$ 11,078
Net charge-offs (recoveries) to average loans outstanding	0.05%	0.05%	0.13%	0.01%	0.08%

- (1) In 2006, the Company reclassified the reserve for unfunded lending commitments from the allowance for loan and lease losses to other liabilities for all periods presented.

Investments

Total investments (consisting of overnight investments, investment securities, MBSs, and FHLB stock) totaled \$367.9 million, or 24.9% of total assets, at December 31, 2007. This compares to total investments of \$397.7 million, or 26.9% of total assets, as of December 31, 2006. The decrease of \$29.8 million, or 7.5%, was centered in decreases of investment securities of \$26.4 million and overnight investments of \$20.2 million. These declines were partially offset by an increase in mortgage-backed securities of \$17.7 million. All investment securities and MBSs at December 31, 2007 and 2006 were classified as securities available for sale. At December 31, 2007, the investment portfolio carried a total net unrealized loss of \$106,000, compared to \$4.6 million of net unrealized loss at December 31, 2006, with the primary driver of the change in unrealized gain/loss being the impact of changes in interest rates.

The Company's securities in an unrealized loss position were deemed to be not other-than-temporarily impaired after considering that substantially all of the securities were rated "investment grade" with unrealized losses primarily caused by market interest rate changes. In addition, the Company has the intent and ability to hold all securities with unrealized losses until recovery or

maturity. In making these other-than-temporary impairment determinations, management considers, among other things, the length of time and extent to which the fair value has been less than cost and the credit worthiness and near-term prospects of the issuer. Also, management considers capital adequacy, interest rate risk, liquidity and business plans in assessing the intent and ability to hold all securities with unrealized losses until recovery or maturity.

The investment portfolio provides the Company a source of short-term liquidity and acts as a counterbalance to loan and deposit flows. During 2007, the Company's available for sale portfolio purchases of \$96.8 million were less than maturities, sales and principal repayments of \$110.1 million as the Company redeployed funds into higher-yielding internally generated assets.

A summary of investment and mortgage-backed securities available for sale follows:

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
(In thousands)				
At December 31, 2007:				
U.S. Agency obligations	\$ 68,185	\$ 90	\$ (100)	\$ 68,175
Corporate debt securities	6,028	2	(174)	5,856
Trust preferred securities	2,980	—	(25)	2,955
U.S. Agency mortgage-backed securities	183,723	1,169	(492)	184,400
Collateralized mortgage obligations	74,371	193	(769)	73,795
Total	\$ 335,287	\$ 1,454	\$ (1,560)	\$ 335,181
At December 31, 2006:				
U.S. Agency obligations	\$ 85,992	\$ 1	\$ (704)	\$ 85,289
Corporate debt securities	12,122	7	(105)	12,024
Trust preferred securities	6,152	49	(89)	6,112
U.S. Agency mortgage-backed securities	157,323	114	(2,271)	155,166
Collateralized mortgage obligations	86,935	18	(1,657)	85,296
Total	\$ 348,524	\$ 189	\$ (4,826)	\$ 343,887
At December 31, 2005:				
U.S. Agency obligations	\$ 125,915	\$ —	\$ (1,921)	\$ 123,994
Corporate debt securities	21,214	57	(608)	20,663
Trust preferred securities	6,199	108	(5)	6,302
U.S. Agency mortgage-backed securities	174,542	404	(1,486)	173,460
Collateralized mortgage obligations	62,907	—	(1,509)	61,398
Total	\$ 390,777	\$ 569	\$ (5,529)	\$ 385,817

The following table sets forth the contractual maturities of investment and mortgage-backed securities available for sale and the weighted average yields of such securities:

	Within one year		After one, but within five years		After five, but within ten years		After ten years	
	Fair value	Weighted average yield	Fair value	Weighted average yield	Fair value	Weighted average yield	Fair value	Weighted average yield
(Dollars in thousands)								
At December 31, 2007:								
U.S. Agency obligations	\$ 22,386	4.45%	\$ 45,789	5.00%	\$ —	0.00%	\$ —	0.00%
Corporate debt securities	3,954	4.97%	1,902	4.87%	—	0.00%	—	0.00%
Trust preferred securities	—	0.00%	—	0.00%	—	0.00%	2,955	6.93%
U.S. Agency mortgage-backed securities	—	0.00%	—	0.00%	13,322	4.55%	171,078	5.11%
Collateralized mortgage obligations	—	0.00%	—	0.00%	4,734	3.95%	69,061	5.06%
Total	\$ 26,340	4.53%	\$ 47,691	4.99%	\$ 18,056	4.39%	\$ 243,094	5.12%
At December 31, 2006:								
U.S. Agency obligations	\$ 9,959	2.90%	\$ 75,330	4.78%	\$ —	0.00%	\$ —	0.00%
Corporate debt securities	6,034	5.33%	5,990	4.93%	—	0.00%	—	0.00%
Trust preferred securities	—	0.00%	—	0.00%	—	0.00%	6,112	7.63%
U.S. Agency mortgage-backed securities	—	0.00%	—	0.00%	15,136	4.55%	140,030	4.82%
Collateralized mortgage obligations	—	0.00%	—	0.00%	2,604	4.06%	82,692	5.01%
Total	\$ 15,993	3.81%	\$ 81,320	4.79%	\$ 17,740	4.48%	\$ 228,834	4.96%
At December 31, 2005:								
U.S. Agency obligations	\$ 14,815	2.81%	\$ 109,179	4.11%	\$ —	0.00%	\$ —	0.00%
Corporate debt securities	5,045	4.94%	15,618	4.86%	—	0.00%	—	0.00%
Trust preferred securities	—	0.00%	—	0.00%	—	0.00%	6,302	7.34%
U.S. Agency mortgage-backed securities	—	0.00%	—	0.00%	18,613	4.55%	154,847	4.62%
Collateralized mortgage obligations	—	0.00%	—	0.00%	—	0.00%	61,398	4.52%
Total	\$ 19,860	3.35%	\$ 124,797	4.21%	\$ 18,613	4.55%	\$ 222,547	4.67%

Bank-Owned Life Insurance

The Bank has purchased BOLI to protect itself against the loss of key employees due to death and to offset the Bank's future obligations to its employees under its retirement and benefit plans. During 2007, 2006 and 2005, the Bank purchased \$0, \$3.5 million and \$0 of BOLI, respectively. The cash surrender value of these life insurance policies was \$24.2 million and \$23.1 million at December 31, 2007 and 2006, respectively. In late 2006, the Bank conducted a tax-free exchange of a portion of its BOLI to other life insurance carriers. This exchange, as well as the additional BOLI purchased in 2006, benefited the Bank as income from BOLI increased in 2007 to \$1.0 million, up from \$785,000 in 2006 and \$691,000 in 2005.

Deposits and Borrowings

The Bank continues to concentrate its time and efforts towards its deposit-gathering network. The Bank's total deposits decreased on a net basis by \$1.6 million, or 0.2%, during 2007, remaining constant at \$1.0 billion for 2007 and 2006 respectively. In 2007, savings accounts increased by \$40.1 million, or 11.3%. CD balances decreased \$7.6 million, or 2.0% in 2007. However, this decrease in CDs also reflects a

\$10.0 million reduction in the Bank's brokered CD balances from the prior year-end leaving a \$20.0 million balance at December 31, 2007. Additionally, demand deposit accounts were down \$27.6 million, or 13.8%, while NOW and money market accounts were down \$5.5 million, or 7.8%, and \$937,000, or 13.4%, respectively. In the fourth quarter of 2007, the Bank did not experience a seasonal increase in demand deposit accounts that had occurred during the past few years.

In 2007, the Bank was able to achieve double-digit percentage increases in its largest core deposit category (savings accounts). As market interest rates moderately declined in the fourth quarter of 2007, the Bank experienced a slight shift in its higher-yielding products, with balances moving from CDs to savings accounts. As a result, core deposit accounts as percentage of total deposits increased to 63.1% at December 31, 2007 as compared to 62.4% at December 31, 2006.

By comparison, total deposits increased \$35.5 million, or 3.6%, during 2006 and can be summarized as follows: demand deposit accounts increased \$15.2 million, or 8.2%, NOW and money market accounts decreased \$24.0 million, or 23.6%, savings accounts increased \$15.6 million, or 4.6%, and CDs increased \$28.7 million, or 8.1%, during 2006.

The following table sets forth certain information regarding deposits:

	December 31,								
	2007			2006			2005		
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate
	(Dollars in thousands)								
NOW accounts	\$ 65,191	6.4%	0.60%	\$ 70,736	7.0%	0.67%	\$ 89,594	9.1%	0.54%
Money market accounts	6,054	0.6%	2.32%	6,991	0.7%	2.69%	12,122	1.2%	1.31%
Savings accounts	396,838	39.1%	3.01%	356,707	35.1%	2.81%	341,115	34.8%	1.66%
Certificate of deposit accounts	374,063	36.9%	4.46%	381,707	37.5%	4.45%	353,049	36.0%	3.34%
Total interest bearing deposits	842,146	83.0%	3.46%	816,141	80.3%	3.40%	795,880	81.1%	2.28%
Noninterest bearing accounts	172,634	17.0%	0.00%	200,282	19.7%	0.00%	185,089	18.9%	0.00%
Total deposits	\$ 1,014,780	100.0%	2.86%	\$ 1,016,423	100.0%	2.73%	\$ 980,969	100.0%	1.85%

At December 31, 2007, CDs with balances greater than \$100,000 aggregated \$116.7 million, compared to \$144.3 million and \$98.0 million at December 31, 2006 and 2005, respectively.

Total borrowings, excluding subordinated deferrable interest debentures, decreased \$239,000, or 0.1%, during 2007, to \$318.3 million, from \$318.5 million at December 31, 2006. The Company had \$326.2 million of borrowings outstanding at the end of 2005. Over the past two years, the Bank's customers have increased their utilization of the Bank's cash management product suite, while the Bank's FHLB borrowings remained constant with the prior year-end levels. In the first quarter of 2007, the Bank decreased the amount of its wholesale repurchase agreements by \$10.0 million. The Bank may utilize wholesale repurchase agreement funding or brokered CDs in the future if spreads are favorable compared to FHLB borrowings.

On a long-term basis, the Company intends to continue concentrating on increasing its core deposits, and will utilize FHLB borrowings or wholesale repurchase agreements as cash flows dictate, as opportunities present themselves and as part of the Bank's overall strategy to manage interest rate risk.

Subordinated Deferrable Interest Debentures

In September 2007, the Company redeemed \$5.2 million of subordinated deferrable interest debentures, which were held by BRI Statutory Trust II. As of December 31, 2007, the Company had \$13.4 million outstanding of subordinated deferrable interest debentures issued to its three statutory trust subsidiaries. The statutory trust subsidiaries have then participated in the issuance of pooled trust

preferred securities. The regulatory capital generated from issuing the trust preferred securities helped support the Company's continued asset growth.

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, maturing 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 30% of total assets. At December 31, 2007, overnight investments, investment securities and mortgage-backed securities available for sale amounted to \$352.3 million, or 23.8% of total assets. This compares to \$381.2 million, or 25.8% of total assets, at December 31, 2006. The Bank is a member 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.

Commitments and Contingent Liabilities

The following table sets forth the contractual obligations of the Company:

	Payments due or commitment expiring—by period				
	Total	Less than one year	One to three years	Four to five years	After five years
	(In thousands)				
Contractual cash obligations:					
FHLB term borrowings	\$ 241,505	\$ 23,037	\$ 28,857	\$ 69,000	\$ 120,611
Subordinated deferrable interest debentures	13,403	—	—	—	13,403
Lease obligations	10,596	1,350	1,642	1,309	6,295
Other:					
Treasury, Tax and Loan payments	4,385	4,385	—	—	—
Retail repurchase agreements	62,410	62,410	—	—	—
Wholesale repurchase agreements	10,000	—	—	10,000	—
Total contractual cash obligations	\$ 342,299	\$ 91,182	\$ 30,499	\$ 80,309	\$ 140,309
Other commitments:					
Commitments to originate or purchase loans	\$ 35,302	\$ 35,302	\$ —	\$ —	\$ —
Unused lines of credit and other commitments	219,542	105,059	25,621	782	88,080
Letters of credit and standby letters of credit	3,489	3,390	99	—	—
Forward commitments to originate leases for sale	2,034	2,034	—	—	—
Forward commitments to sell leases	5,300	5,300	—	—	—
Supplemental retirement benefits	2,753	—	—	—	2,753
Total other commitments	\$ 268,420	\$ 151,085	\$ 25,720	\$ 782	\$ 90,833

In connection with the Macrolease acquisition, the Company has an obligation to issue up to 18,082 shares of common stock in 2008 based upon Macrolease achieving certain performance targets and 24,409 shares of its common stock over the next three years contingent upon Macrolease reaching specified performance criteria.

Capital Resources

Total shareholders' equity of the Company at December 31, 2007 was \$113.1 million, as compared to \$112.1 million at December 31, 2006. This difference of \$1.0 million was primarily attributable to net income of \$9.0 million, net unrealized gains on securities increasing \$2.9 million, stock option activity (stock option exercises, share-based compensation and related tax benefits) of \$2.2 million, share repurchases of \$10.2 million and dividends paid of \$2.9 million.

Additionally, the Company has maintained a stock repurchase program authorized by the Company's board of directors, which has enabled the Company to proactively manage its capital position. The program, which was initially approved on April 18, 2006, authorized the Company to repurchase up to 245,000 shares of its common stock from time to time through open market or privately negotiated purchases. On November 26, 2007, the Company expanded the stock repurchase program to 345,000 shares and also adopted a written purchase plan pursuant to Rule 10b5-1 of the Exchange Act. Under the program, the Company repurchased 305,200 shares at a total cost of \$10.2 million during 2007; no shares were repurchased during 2006. Also see Part II, Item 5—Market for the Company's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities, included on page 23 of this annual report.

All FDIC-insured institutions must meet specified minimal capital requirements. These regulations require banks to maintain a minimum leverage capital ratio. At December 31, 2007, the Bank's Tier I Leverage Ratio stood at 7.72%. 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." According to these standards, the Bank had a Tier I risk-weighted capital ratio of 10.87% and a total risk-weighted capital ratio of 12.09% at December 31, 2007.

The FRB has also issued capital guidelines 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. At December 31, 2007, the Company's Tier I Leverage Ratio was 7.87%, its Tier I Risk-Based Capital Ratio was 11.06% and its Total Risk-Based Capital Ratio was 12.28%.

As of December 31, 2007, the Company and the Bank met all applicable minimum capital requirements and were considered "well capitalized" by both the FRB and the FDIC.

At December 31, 2007, the Company had \$13.0 million of trust preferred securities outstanding; the proceeds of which the Company has utilized as Tier I capital to help support the Company's growth. If trust preferred securities are not available as a source of future Tier I capital, the Company may use other forms of additional capital (e.g., common or preferred equity) to support its growth, which, because of less favorable tax treatment, may be a somewhat more expensive source of capital than trust preferred securities. See also Note 13—Company-Obligated Mandatorily Redeemable Capital Securities and Subordinated Deferrable Interest Debentures in the accompanying notes to consolidated financial statements included on page F-29 in this report for further information.

Impact of Inflation and Changing Prices

The consolidated financial statements and related notes thereto, included elsewhere herein, have been prepared in accordance with U.S. GAAP, which requires the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. Unlike many industrial companies, substantially all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a more significant impact on the Company's performance than the general level of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as inflation.

Recent Accounting Developments

See Note 2—Summary of Significant Accounting Policies in the accompanying notes to consolidated financial statements included on page F-8 in this report for details of recent accounting developments and their expected impact on the Company's financial statements.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Asset and Liability Management

The principal objective of the Company's asset and liability management process is to maximize profit potential while minimizing the vulnerability of its operations to changes in interest rates by managing the ratio of interest rate sensitive assets to interest rate sensitive liabilities within specified maturity or repricing periods. The asset and liability management process is dependent on numerous assumptions, many of which require significant judgments by the Company. The Company's actions in this regard are taken under the guidance of the Bank's Asset/Liability Committee ("ALCO") that is comprised of members of senior management. The ALCO generally meets monthly and is actively involved in formulating the economic assumptions that the Company uses in its financial planning and budgeting process and establishes policies which control and monitor the sources, uses and pricing of funds.

The ALCO manages the Company's interest rate risk position using both income simulation and interest rate sensitivity "gap" analysis. Income simulation is the primary tool for measuring the interest rate risk inherent in the Company's balance sheet at a given point in time by showing the effect on net interest income, over a 24-month period, of interest rate ramps of up to 200 bps. These simulations take into account repricing, maturity and prepayment characteristics of individual products. The ALCO reviews simulation results to determine whether the exposure to income resulting from changes in market interest rates remains within established tolerance levels over both a 12-month and 24-month horizon, and develops appropriate strategies to manage this exposure. The Company's guidelines for interest rate risk specify that if interest rates were to shift up or down 200 bps over both a 12-month and 24-month period, estimated net interest income should decline by no more than 10.0%. As of December 31, 2007, net interest income simulation indicated that the Company's exposure to changing interest rates was within these tolerances. The ALCO reviews the methodology utilized for calculating interest rate risk exposure and may periodically adopt modifications to this methodology.

The following table presents the estimated impact of interest rate ramps on estimated net interest income over a 24-month period beginning January 1, 2008:

	Estimated impact on net interest income	
	Dollar change	Percent change
	(Dollars in thousands)	
Initial Twelve Month Period:		
Up 200 basis point ramp	\$ (694)	-1.62%
Down 200 basis point ramp	(319)	-0.75%
Subsequent Twelve Month Period:		
Up 200 basis point ramp	\$ (1,714)	-4.00%
Down 200 basis point ramp	(3,710)	-8.66%

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. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. A gap is considered negative when the amount of interest rate sensitive liabilities exceeds interest rate sensitive assets. At December 31, 2007, the Company's cumulative one-year gap was a positive \$17 million, or 1.1% of total assets, compared to a negative \$114 million, or 7.9% of total assets at the end of 2006.

The following table presents the repricing schedule for interest-earning assets and interest-bearing liabilities at December 31, 2007. To the extent applicable, amounts of assets and liabilities that mature or reprice within a particular period were determined in accordance with their contractual terms. Investment

securities are allocated based upon expected call dates. Loans and MBSs have been allocated based upon expected amortization and prepayment rates based on historical performance and market expectations. Savings, NOW and money market deposit accounts, which have no contractual term and are subject to immediate repricing, are anticipated to behave more like core accounts and therefore are presented as spread evenly over the first three years. Nonetheless, this presentation does not reflect lags that may occur in the actual repricing of these deposits.

	Within Three Months	Over Three to Six months	Over Six to Twelve months	Over One Year to Five Years	Over Five Years	Total
(Dollars in thousands)						
Interest-earning assets:						
Overnight investments	\$ 17,097	\$ —	\$ —	\$ —	\$ —	\$ 17,097
Investment securities	25,777	19,000	19,436	12,060	713	76,986
Mortgage-backed securities	12,077	11,726	30,158	129,944	74,290	258,195
FHLB Stock	15,671	—	—	—	—	15,671
Commercial loans and leases	177,138	42,961	73,920	252,720	26,929	573,668
Residential mortgage loans	25,791	18,196	47,292	109,162	48,287	248,728
Consumer and other loans	69,360	6,336	12,238	70,973	56,829	215,736
Total interest-earning assets	342,911	98,219	183,044	574,859	207,048	1,406,081
Interest-bearing liabilities:						
NOW accounts	5,433	5,433	10,865	43,460	—	65,191
Money market accounts	504	504	1,009	4,037	—	6,054
Savings accounts	33,145	33,145	66,289	264,259	—	396,838
Certificate of deposit accounts	103,180	153,466	91,287	26,091	39	374,063
Overnight & short-term borrowings	66,795	—	—	—	—	66,795
FHLB and other borrowings	6,753	17,019	2,193	106,828	118,712	251,505
Subordinated deferrable interest debentures	5,155	5,155	—	3,093	—	13,403
Total interest-bearing liabilities	220,965	214,722	171,643	447,768	118,751	1,173,849
Net interest sensitivity gap during the period	\$ 121,946	\$ (116,503)	\$ 11,401	\$ 127,091	\$ 88,297	\$ 232,232
Cumulative gap—12/31/07	\$ 121,946	\$ 5,443	\$ 16,844	\$ 143,935	\$ 232,232	
Cumulative gap—12/31/06	\$ 38,199	\$ (25,006)	\$ (114,089)	\$ 111,818	\$ 248,766	
Interest-sensitive assets as a percent of Interest-sensitive liabilities (cumulative)	155.19%	101.25%	102.77%	113.64%	119.78%	
Cumulative gap as a percent of total assets	8.26%	0.37%	1.14%	9.74%	15.72%	

The preceding table does not necessarily indicate the impact of general interest rate movements on the Company's net interest income because the repricing of various assets and liabilities is discretionary and is subject to competitive and other factors. As a result, assets and liabilities indicated as repricing within the same period may, in fact, reprice at different times and at different rate levels.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The index to financial statements is included on page 63 of this annual report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING OR FINANCIAL DISCLOSURE

There were no changes in, or disagreements with, accountants on accounting or financial disclosure as defined by Item 304 of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

As required by Rule 13a-15 under the Exchange Act of 1934, the Company carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. This evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Company's Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this report.

There have been no significant changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to affect, the Company's internal control over financial reporting. The Company's management discusses with and discloses these matters to the Audit Committee of the Board of Directors and the Company's independent registered public accounting firm.

ITEM 9B. OTHER INFORMATION

There is no other information to report.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information concerning directors required by this item, including the Audit Committee and the Audit Committee financial expert, is incorporated herein by reference to the sections entitled "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed with the SEC.

The following table sets forth the executive officers of the Company as of the date hereof.

Name	Age	Position
Merrill W. Sherman	59	President and Chief Executive Officer
Linda H. Simmons	48	Chief Financial Officer and Treasurer
James V. DeRentis	46	Vice President and Assistant Secretary
Mark J. Meiklejohn	44	Vice President
William C. DeWitt	43	Senior Vice President—Director of Marketing and Corporate Communications of the Bank

Merrill W. Sherman. Ms. Sherman has served as President and Chief Executive Officer of the Company and Bank since their formation. Ms. Sherman is also a director of The Providence Journal Company, a BELO Corp. subsidiary.

Linda H. Simmons. Ms. Simmons has served as Chief Financial Officer and Treasurer of the Company and Bank since July 2005 and served as the Bank's Executive Vice President—Finance and Treasurer from September 2004 to July 2005. From 1995 until joining the Bank, Ms. Simmons was with Fleet Financial Corp.'s Treasury Group where she held various positions with responsibilities in the asset/liability management area.

James V. DeRentis. Mr. DeRentis has served as Vice President of the Company since December 2005 and the Bank's Chief Business Officer since October 2005. Mr. DeRentis previously served as the Bank's Executive Vice President—Retail Banking from October 2001 through September 2005. Immediately prior, Mr. DeRentis served as the Bank's Senior Vice President—Retail Banking from December 1998 through October 2001.

Mark J. Meiklejohn. Mr. Meiklejohn has served as Vice President of the Company since February 2008 and Executive Vice President and Chief Lending Officer of the Bank since November 2007. Mr. Meiklejohn joined the Bank as Senior Vice President and Corporate Banking Director of the Bank in January 2006. Prior to joining the Bank, Mr. Meiklejohn was a Senior Vice President for Middle Market Lending at Citizens Bank in Providence, Rhode Island, where he was employed since 1999.

William C. DeWitt. Mr. DeWitt has served as Senior Vice President—Director of Marketing and Corporate Communications of the Bank since September 2006. Prior to joining the Bank, Mr. DeWitt was Senior Vice President—Director of Advertising, Merchandising and Creative Services for Citizens Financial Group in Westwood, Massachusetts, where he was employed since 2001.

Code of Ethics and Governance Principles

The Company has adopted a Code of Ethics which applies to all directors, officers and employees of the Company and the Bank, including the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Controller and Chief Auditor, as supplemented by a Code of Ethical Conduct for Executive Officers and Senior Financial Officers, which meets the requirements of a "code of ethics" as defined in Item 406 of Regulation S-K. The Company's Board of Directors has also adopted Corporate Governance Guidelines and Principles ("the Guidelines"), which along with the charters of Board committees provide the framework for the governance of the Company. The Company will provide a copy of the Codes, the

Guidelines and/or committee charters to shareholders, without charge, upon request directed to the Investor Relations Contact listed on the Company's website, <http://www.bankri.com>, under "Investor Relations." The Company has posted the Codes, the Guidelines and the committee charters on the Company's website under "Investor Relations/Governance Documents." The Company intends to disclose any amendment to, or waiver of, a provision of the Codes for the CEO, CFO, Controller or persons performing similar functions by posting such information on its website and filing a Form 8-K as required by the rules of the Nasdaq Global Select MarketSM.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections entitled "Compensation of Directors", "Compensation Discussion and Analysis", "Compensation Committee Report" and "Executive Compensation" in the Company's Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed with the SEC.

The information set forth under the heading "Compensation Committee Report" in the Company's Definitive Proxy Statement is furnished and shall not be deemed as filed for purposes of Section 18 of the Exchange Act and is not deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the Sections entitled "Common Stock Ownership of Certain Beneficial Owners and Management" in the Company's Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed with the SEC.

Equity Compensation Plan Information

The following table sets forth information about the Company's equity compensation plans as of December 31, 2007:

Plan category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans
Equity Compensation Plans Approved by Security Holders	449,860(1) \$	27.61	167,803(2)
Equity Compensation Plans Not Approved by Security Holders	0	N/A	0
Total	449,860 \$	27.61	167,803

- (1) Includes 412,860 shares issuable upon exercise of outstanding awards granted under the Bancorp Rhode Island, Inc. 2002 Equity Incentive Plan and predecessor plan (Amended and Restated Bancorp Rhode Island, Inc. 1996 Incentive and Nonqualified Stock Option Plan) and 37,000 shares issuable upon exercise of outstanding awards granted under the Amended and Restated Bancorp Rhode Island, Inc. Non-Employee Directors Stock Plan.
- (2) Includes 156,303 shares reserved for awards under the Bancorp Rhode Island, Inc. 2002 Equity Incentive Plan and predecessor plan and 11,500 shares reserved for awards under the Amended and Restated Bancorp Rhode Island, Inc. Non-Employee Directors Stock Plan.

Additional information regarding these equity compensation plans is contained in Note 15 to the Company's Consolidated Financial Statements included in this annual report.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated herein by reference to the sections entitled "Transactions with Management" and "Election of Directors" in the Company's Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed with the SEC.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the Section entitled "Independent Accountant Fees and Services" in the Company's Definitive Proxy Statement for the 2008 Annual Meeting of Shareholders to be filed with the SEC.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

(a) (1) Financial Statements

The following consolidated financial statements appear in response to Item 8 of this report commencing on the page numbers specified below:

Management's Report on Internal Control Over Financial Reporting	F-1
Reports of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2007 and 2006	F-4
Consolidated Statements of Operations for the Years Ended December 31, 2007, 2006 and 2005	F-5
Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2007, 2006 and 2005	F-6
Consolidated Statements of Cash Flows for the Years Ended December 31, 2007, 2006 and 2005	F-7
Notes to Consolidated Financial Statements	F-8

(2) Financial Statement Schedules

All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

(3) Exhibits

Exhibit No.	Description
3.1	Articles of Incorporation of the Company, as amended(1)
3.2	By-laws of the Company, as amended
10.1	Amended and Restated Employment Agreement of Merrill W. Sherman dated February 20, 2007(2)†
10.2	Amended and Restated Employment Agreement of Linda H. Simmons dated February 20, 2007(2)†
10.3	Amended and Restated Employment Agreement of James V. DeRentis dated February 20, 2007(2)†
10.4	Amended and Restated 1996 Incentive and Nonqualified Stock Option Plan(3)†
10.5	Amended and Restated Non-Employee Director Stock Plan(4)†
10.5(a)	Amendment to Amended and Restated Non-Employee Director Stock Plan(5)†
10.5(b)	Second Amendment to Amended and Restated Non-Employee Director Stock Plan(6)†
10.6	Bank Rhode Island Amended and Restated Supplemental Executive Retirement Plan†
10.7	Bank Rhode Island Nonqualified Deferred Compensation Plan, as amended by Amendment No. 1(1)†
10.7(a)	Amendment No. 2 to Bank Rhode Island Nonqualified Deferred Compensation Plan(7)†
10.7(b)	Amendment No. 3 to Bank Rhode Island Nonqualified Deferred Compensation Plan†

10.7(c)	Amendment No. 4 to Bank Rhode Island Nonqualified Deferred Compensation Plan†
10.8(a)	Executive Incentive Bonus Plan(8)†
10.8(b)	Executive Incentive Compensation Plan (2008 and thereafter)(9)†
10.9	Change of Control Severance Agreement by and between Bank Rhode Island and Mark J. Meiklejohn dated as of February 14, 2006†
10.10	Change of Control Severance Agreement by and between Bank Rhode Island and William C. DeWitt dated as of October 18, 2006†
10.11	Form of Bank Rhode Island Split Dollar Agreement(10)†
10.12	2002 Equity Incentive Plan(11)†
11	Computation of earnings per share(12)
21	List of Subsidiaries
23	Consent of KPMG LLP, as independent registered public accountants for the Company
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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- (1) Incorporated by reference from the Company's Registration Statement on Form S-4, SEC File No. 333-33182
 - (2) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2006.
 - (3) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2000.
 - (4) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2000.
 - (5) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2002.
 - (6) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2006.
 - (7) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2002.
 - (8) Incorporated by reference from the Company's Current Report on Form 8-K dated February 9, 2005.
 - (9) Incorporated by reference from the Company's Current Report on Form 8-K dated January 28, 2008.
 - (10) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2002.

- (11) Incorporated by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed on April 15, 2005.
- (12) The calculation of earnings per share is set forth as Note 20 to the Company's audited consolidated financial statements.
- † Management contract or compensatory plan or arrangement.

BANCORP RHODE ISLAND, INC.

**Management's Report on Internal Control
Over Financial Reporting**

The management of Bancorp Rhode Island, Inc. (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2007. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on our assessment we believe that, as of December 31, 2007, the Company's internal control over financial reporting is effective based on those criteria.

The Company's Independent Registered Public Accounting Firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. This report appears on page F-2 of this annual report.

Merrill W. Sherman
President and
Chief Executive Officer

Linda H. Simmons
Chief Financial Officer and
Treasurer

BANCORP RHODE ISLAND, INC.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Bancorp Rhode Island, Inc.:

We have audited Bancorp Rhode Island, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commissions (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated March 10, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Providence, Rhode Island
March 10, 2008

BANCORP RHODE ISLAND, INC.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Bancorp Rhode Island, Inc.:

We have audited the accompanying consolidated balance sheets of Bancorp Rhode Island, Inc. and subsidiaries (the "Company") as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bancorp Rhode Island, Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Bancorp Rhode Island, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 10, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Providence, Rhode Island
March 10, 2008

BANCORP RHODE ISLAND, INC.

Consolidated Balance Sheets

	December 31,	
	2007	2006
	(In thousands)	
Assets		
Assets:		
Cash and due from banks	\$ 20,465	\$ 24,469
Overnight investments	17,097	37,295
Total cash and cash equivalents	37,562	61,764
Investment securities available for sale (amortized cost of \$77,193 and \$104,266, respectively)	76,986	103,425
Mortgage-backed securities available for sale (amortized cost of \$258,094 and \$244,258, respectively)	258,195	240,462
Total available for sale securities	335,181	343,887
Stock in the Federal Home Loan Bank of Boston	15,671	16,530
Loans and leases receivable:		
Commercial loans and leases	573,668	519,790
Residential mortgage loans	248,728	263,945
Consumer and other loans	215,736	220,557
Total loans and leases receivable	1,038,132	1,004,292
Allowance for loan and lease losses	(12,619)	(12,377)
Net loans and leases receivable	1,025,513	991,915
Premises and equipment, net	13,721	13,736
Goodwill, net	11,772	11,317
Accrued interest receivable	6,557	6,755
Investment in bank-owned life insurance	24,186	23,148
Prepaid expenses and other assets	6,956	10,047
Total assets	\$ 1,477,119	\$ 1,479,099
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Demand deposit accounts	\$ 172,634	\$ 200,282
NOW accounts	65,191	70,736
Money market accounts	6,054	6,991
Savings accounts	396,838	356,707
Certificate of deposit accounts	374,063	381,707
Total deposits	1,014,780	1,016,423
Overnight and short-term borrowings	66,795	56,341
Wholesale repurchase agreements	10,000	20,000
Federal Home Loan Bank of Boston borrowings	241,505	242,198
Subordinated deferrable interest debentures	13,403	18,558
Other liabilities	17,528	13,494
Total liabilities	1,364,011	1,367,014
Shareholders' equity:		
Preferred stock, par value \$0.01 per share, authorized 1,000,000 shares: Issued and outstanding: none	—	—
Common stock, par value \$0.01 per share, authorized 11,000,000 shares: Issued: 4,867,121 and 4,792,380 shares, respectively	49	48
Additional paid-in capital	70,123	67,960
Treasury Stock, at cost (305,200 shares at December 31, 2007)	(10,189)	—
Retained earnings	53,194	47,091
Accumulated other comprehensive loss, net	(69)	(3,014)
Total shareholders' equity	113,108	112,085
Total liabilities and shareholders' equity	\$ 1,477,119	\$ 1,479,099

See accompanying notes to consolidated financial statements.

BANCORP RHODE ISLAND, INC.

Consolidated Statements of Operations

	Year Ended December 31,		
	2007	2006	2005
	(In thousands, except per share data)		
Interest and dividend income:			
Loans and leases	\$ 67,038	\$ 62,992	\$ 53,822
Mortgage-backed securities	11,166	10,542	9,313
Investment securities	5,707	6,245	5,537
Overnight investments	1,103	517	201
Federal Home Loan Bank of Boston stock dividends	1,056	906	647
	86,070	81,202	69,520
Interest expense:			
Deposits	29,230	22,476	14,521
Overnight and short-term borrowings	2,717	2,124	652
Wholesale repurchase agreements	602	870	276
Federal Home Loan Bank of Boston borrowings	10,768	12,044	9,898
Subordinated deferrable interest debentures	1,509	1,460	1,272
	44,826	38,974	26,619
Net interest income	41,244	42,228	42,901
Provision for loan and lease losses	700	1,202	1,423
	40,544	41,026	41,478
Noninterest income:			
Service charges on deposit accounts	5,578	5,055	4,561
Net gains on lease sales and commissions on loans originated for others	1,216	566	429
Income from bank-owned life insurance	1,038	785	691
Loan related fees	649	694	1,024
Commissions on nondeposit investment products	575	872	849
Net gain (loss) on available for sale securities	254	(859)	181
Other income	1,475	1,875	1,539
	10,785	8,988	9,274
Noninterest expense:			
Salaries and employee benefits	20,859	20,636	19,476
Occupancy	3,527	3,564	3,126
Data processing	2,850	2,880	2,759
Professional services	2,212	2,186	2,017
Marketing	1,562	1,880	1,584
Equipment	1,345	1,407	1,569
Loan servicing	767	917	968
Loan workout and other real estate owned	190	188	217
Other expenses	4,713	5,069	4,627
	38,025	38,727	36,343
Income before income taxes	13,304	11,287	14,409
Income tax expense	4,259	3,576	4,840
	9,045	7,711	9,569
Weighted average shares outstanding—basic	4,791,625	4,766,854	4,478,081
Weighted average shares outstanding—diluted	4,918,763	4,920,569	4,697,134
Per share data:			
Basic earnings per common share	\$ 1.89	\$ 1.62	\$ 2.14
Diluted earnings per common share	\$ 1.84	\$ 1.57	\$ 2.04
Cash dividends declared per common share	\$ 0.62	\$ 0.60	\$ 0.60

See accompanying notes to consolidated financial statements.



BANCORP RHODE ISLAND, INC.

Consolidated Statements of Changes in Shareholders' Equity

For Years Ended December 31, 2007, 2006 and 2005

	Preferred Stock	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Total
(in thousands, except per share data)							
Balance at December 31, 2004	\$ —	\$ 40	\$ 42,852	\$ —	\$ 35,373	\$ 658	\$ 78,923
Net income	—	—	—	—	9,569	—	9,569
Other comprehensive income:							
Unrealized holding losses on securities available for sale, net of taxes of \$2,027						(3,764)	(3,764)
Reclassification adjustment, net of taxes of \$63						(118)	(118)
Comprehensive income							5,687
Proceeds from stock offering, net	—	7	21,450	—	—	—	21,457
Acquisition of Macrolease	—	—	250	—	—	—	250
Exercise of stock options	—	—	825	—	—	—	825
Share-based compensation	—	—	49	—	—	—	49
Tax benefit from exercise of stock options	—	—	309	—	—	—	309
Common stock issued for incentive stock award, net	—	—	33	—	—	—	33
Dividends on common stock (\$0.60 per common share)	—	—	—	—	(2,701)	—	(2,701)
Balance at December 31, 2005	—	47	65,768	—	42,241	(3,224)	104,832
Net income	—	—	—	—	7,711	—	7,711
Other comprehensive income:							
Unrealized holding losses on securities available for sale, net of taxes of \$122						(348)	(348)
Reclassification adjustment, net of taxes of \$(301)						558	558
Comprehensive income							7,921
Exercise of stock options	—	1	1,662	—	—	—	1,663
Acquisition of Macrolease	—	—	83	—	—	—	83
Share-based compensation	—	—	186	—	—	—	186
Tax benefit from exercise of stock options	—	—	261	—	—	—	261
Dividends on common stock (\$0.60 per common share)	—	—	—	—	(2,861)	—	(2,861)
Balance at December 31, 2006	—	48	67,960	—	47,091	(3,014)	112,085
Net income	—	—	—	—	9,045	—	9,045
Other comprehensive income:							
Unrealized holding gains on securities available for sale, net of taxes of \$(1,586)						2,945	2,945
Comprehensive income							11,990
Exercise of stock options	—	1	1,366	—	—	—	1,367
Stock repurchase	—	—	—	(10,189)	—	—	(10,189)
Share-based compensation	—	—	299	—	—	—	299
Tax benefit from exercise of stock options	—	—	498	—	—	—	498
Dividends on common stock (\$0.62 per common share)	—	—	—	—	(2,942)	—	(2,942)
Balance at December 31, 2007	\$ —	\$ 49	\$ 70,123	\$ (10,189)	\$ 53,194	\$ (69)	\$ 113,108

See accompanying notes to consolidated financial statements.

BANCORP RHODE ISLAND, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 9,045	\$ 7,711	\$ 9,569
Adjustment to reconcile net income to net cash provided by operating activities:			
Depreciation, amortization and accretion, net	(1,295)	550	2,680
Provision for loan and lease losses	700	1,202	1,423
Net gains on lease sales	(1,024)	(407)	(245)
Net (gain) / loss on sale of available for sale securities	(254)	859	(181)
Net loss on sales of premises and equipment	50	—	—
Proceeds from sales of leases	22,829	8,553	7,119
Leases originated for sale	(25,071)	(8,146)	(6,874)
Income from bank-owned life insurance	(1,038)	(785)	(691)
Share-based compensation expense	299	186	82
Tax benefit from exercise of stock options	—	—	309
(Increase) decrease in accrued interest receivable	198	210	(1,299)
(Increase) in prepaid expenses and other assets	1,505	(826)	(2,445)
Increase in other liabilities	3,579	1,282	3,623
Other, net	(3)	28	(369)
	9,520	10,417	12,701
Cash flows from investing activities:			
Investment securities available for sale:			
Purchases	(40,000)	(32,990)	(63,520)
Maturities and principal repayments	66,980	20,085	13,999
Proceeds from sales	254	60,982	—
Mortgage-backed securities available for sale:			
Purchases	(56,776)	(51,825)	(142,287)
Maturities and principal repayments	42,881	44,460	50,654
Proceeds from sales	—	445	13,754
Net (increase) decrease in loans and leases	13,945	(35,047)	7
Purchase of loans and leases, including purchased interest	(42,141)	(17,098)	(65,755)
Purchase of Federal Home Loan Bank of Boston stock	859	(468)	(2,833)
Capital expenditures for premises and equipment	(2,222)	(2,259)	(5,372)
Proceeds from sale of premises and equipment	211	1,209	—
Proceeds from disposition of other real estate owned	590	—	261
Purchase of bank-owned life insurance	—	(3,539)	—
	(15,419)	(16,045)	(201,092)
Cash flows from financing activities:			
Net (decrease) increase in deposits	(1,643)	35,454	100,295
Net increase (decrease) in overnight and short-term borrowings	10,454	30,103	8,188
Proceeds from long-term borrowings	100,710	200,000	333,908
Repayment of long-term borrowings	(116,558)	(237,775)	(268,713)
Proceeds from issuance of common stock	1,367	1,663	22,282
Tax benefit from exercise of stock options	498	261	—
Purchases of treasury stock	(10,189)	—	—
Dividends on common stock	(2,942)	(2,861)	(2,701)
	(18,303)	26,845	193,259
Net increase (decrease) in cash and cash equivalents	(24,202)	21,217	4,868
Cash and cash equivalents at beginning of year	61,764	40,547	35,679
	\$ 37,562	\$ 61,764	\$ 40,547
Supplementary disclosures:			
Cash paid for interest	\$ 45,503	\$ 36,818	\$ 25,137
Cash paid for income taxes	4,419	3,736	5,592
Non-cash transactions:			
Change in accumulated other comprehensive income, net of taxes	2,945	210	(3,882)
Macrolease acquisition	455	83	250

See accompanying notes to consolidated financial statements.



BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements

(1) Organization

Bancorp Rhode Island, Inc. (the "Company"), a Rhode Island corporation, is the holding company for Bank Rhode Island (the "Bank"). The Company has no significant assets other than the common stock of the Bank. For this reason, substantially all of the discussion in these Consolidated Financial Statements and accompanying Notes relates to the operations of the Bank and its subsidiaries.

The Bank 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 businesses and individuals in Rhode Island and nearby areas of Massachusetts. 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 business, commercial real estate, consumer and residential loans and leases, deposit products, nondeposit investment products, cash management, private banking and other banking products and services designed to meet the financial needs of individuals and small- to mid-sized businesses. The Bank also offers 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 the regulations of certain federal and state agencies and undergo periodic examinations by 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").

(2) Summary of Significant Accounting Policies

Basis of Presentation—The accounting and reporting policies of the Company conform to U.S. generally accepted accounting principles and to prevailing practices within the banking industry. The Company has one reportable operating segment. The following is a summary of the significant accounting and reporting policies used by management in preparing and presenting the consolidated financial statements.

Use of Estimates—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 credit losses, review of goodwill for impairment and income taxes.

Principles of Consolidation—At December 31, 2007 and 2006, the consolidated financial statements include the accounts of Bancorp Rhode Island, Inc., and its wholly-owned subsidiary, Bank Rhode Island, along with the Bank's wholly-owned subsidiaries, BRI Investment Corp. (a Rhode Island passive investment company), BRI Realty Corp. (a Rhode Island real estate holding company), Acorn Insurance Agency, Inc. (a licensed insurance agency) and Macrolease Corporation (an equipment leasing company). All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents—For purposes of the consolidated statements of cash flows, the Company considers cash, due from banks, and overnight investments to be cash equivalents. Cash flows relating to deposits are presented net in the statements of cash flows.

Securities—Debt securities are classified as available for sale, held to maturity or trading. Securities are classified as held to maturity and carried at amortized cost only if the Company has a positive intent and the ability to hold these securities to maturity. Securities are classified as trading and carried at fair value, with unrealized gains and losses included in earnings, if they are bought and held principally for the

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

purpose of selling in the near term. Securities not classified as either held to maturity or trading are classified as available for sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity, net of estimated income taxes. As of December 31, 2007 and 2006, all of the Company's investment and mortgage-backed securities were classified as available for sale.

Declines in the fair values of securities below their cost that are deemed to be other-than-temporary are reflected in earnings in the period that management concludes that other-than-temporary impairment occurs. The Company uses various indicators in determining whether a security is other-than-temporarily impaired, including for debt securities, when it is probable that the contractual interest and principal will not be collected.

Interest income from debt securities is recorded on the accrual basis. Premiums and discounts on securities are amortized or accreted into income by the level yield method. Such amortization and accretion is recorded as an adjustment to interest income. FHLB stock is carried at cost. Dividend income from FHLB stock is recorded on the ex-dividend date. Gains and losses on the sale of securities are recognized at the time of sale on a specific identification basis.

Loans and Leases Receivable—Loans are stated at the principal amount outstanding, net of unamortized premiums and discounts and net of deferred loan fees and/or costs, which are amortized as an adjustment to yield over the life of the related loans. When loans and leases are paid-off, the unamortized portion of premiums, discounts or net fees is recognized into income. Interest income is accrued on a level yield basis over the life of the loan. Estimated residual values for leased equipment were not material at December 31, 2007 and 2006.

Leases which meet the appropriate criteria specified in Statement of Financial Accounting Standard ("SFAS") 13, "*Accounting for Leases*", are classified as direct finance leases. Direct finance leases are recorded upon acceptance of the equipment by the customer. Unearned lease income represents the excess of the gross lease investment over the cost of the leased equipment, which is recognized over the lease term at a constant rate of return on the net investment in the lease.

Loan and lease origination fees, net of certain direct origination costs, and premiums and discounts on loans purchased are recognized in interest income over the lives of the loans using a method approximating the interest method.

The Company also originates leases for sale in the secondary market. Accordingly, these leases are classified as held for sale and are carried at the lower of cost or fair value, determined on an aggregate basis. These leases are sold on a non-recourse basis, with gains or losses recognized upon the sale of leases determined on a specific identification basis. Leases held for sale totaled \$3.3 million at December 31, 2007 and are included within commercial loans and leases in the consolidated balance sheets. There were no leases held for sale at December 31, 2006. The Company had commitments to fund leases held for sale and commitments to sell leases at December 31, 2007 and 2006, which are considered derivative instruments under SFAS No. 133, "*Accounting for Derivative Instruments and Hedging Activities*." The fair values of these derivative instruments were insignificant at December 31, 2007 and 2006.

Loans on which the accrual of interest has been discontinued are designated nonaccrual loans. Accrual of interest income is discontinued when concern exists as to the collectibility of principal or interest, or typically when a loan becomes over 90 days delinquent. Additionally, when a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

income. Loans are removed from nonaccrual when they become less than 90 days past due and when concern no longer exists as to the collectibility of principal or interest. Interest collected on nonaccruing loans is either applied against principal or reported as income according to management's judgment as to the collectibility of principal.

Impaired loans are loans for which it is probable that the Bank will not be able to collect all amounts due according to the contractual terms of the loan agreements. Impairment is measured on a discounted cash flow method, or at the loan's observable market price, or at the fair value of the collateral if the loan is collateral dependent. When foreclosure is probable, impairment is measured based on the fair value of the collateral less estimated selling costs. In addition, the Bank classifies a loan as an in-substance foreclosure when the Bank is in possession of the collateral prior to actually foreclosing.

Allowance for Credit Losses—The allowance for loan and lease losses and reserve for unfunded lending commitments, collectively referred to as the allowance for credit losses, are established for credit losses inherent in the loan and lease portfolio and inherent in the unfunded lending commitments through a charge to earnings. The allowance for credit losses is maintained at a level management considers appropriate to provide for the current inherent risk of loss based upon an evaluation of known and inherent risks in the loan and lease portfolio, as well as the unfunded lending commitments.

When management believes that the collectibility of a loan or lease's principal balance, or portions thereof, is unlikely, the principal amount is charged against the allowance for loan and lease losses. Recoveries on loans and leases that have been previously charged off are credited to the allowance for loan and lease losses as received. Increases to the allowance for loan and leases are made by charges to provision for loan and lease losses.

In addition to the allowance for loan and lease losses, management also estimates probable losses related to unfunded lending commitments. In the third quarter of 2006, the Company reclassified the reserve for unfunded lending commitments from the allowance for loan and lease losses to other liabilities for all periods presented. Additions to the reserve for unfunded lending commitments are made by charges to other expenses.

Management's methodology to estimate loss exposure inherent in the portfolio includes an analysis of individual loans or leases deemed to be impaired, reserve allocations for various loan and lease types based on payment status or loss experience and an unallocated allowance that is maintained based on management's assessment of many factors including, but not limited to, the growth, composition and quality of the loan and lease portfolio, historical loss experience, industry loss experience and general economic conditions. Management employs a similar process with respect to unfunded lending commitments. While management evaluates currently available information in establishing the allowance for loan and lease losses and the reserve for unfunded lending commitments, future adjustments to the allowance for credit losses may be necessary if conditions differ substantially from the assumptions used in making the evaluations. The factors supporting the allowance for loan and lease losses and the reserve for unfunded lending commitments do not diminish the fact that the entire allowance for loan and lease losses and the reserve for unfunded lending commitments are available to absorb losses in the loan portfolio and related commitment portfolio, respectively. The Company's primary concern is the appropriateness of the total allowance for loan and lease losses and reserve for unfunded lending commitments. Management performs a comprehensive review of the allowance for loan and lease losses and the reserve for unfunded lending commitments on a quarterly basis.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

In addition, various regulatory agencies, as an integral part of their examination process, periodically review a financial institution's allowance for credit losses. 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.

Other Real Estate Owned—Other Real Estate Owned ("OREO") consists of property acquired through foreclosure, real estate acquired through acceptance of a deed in lieu of foreclosure and loans determined to be substantively repossessed. Real estate loans that are substantively repossessed include only those loans for which the Company has taken possession of the collateral, but has not completed legal foreclosure proceedings.

OREO, including real estate substantively repossessed, is stated at the lower of cost or fair value, minus estimated costs to sell, at the date of acquisition or classification to OREO status. Fair value of such assets is determined based on independent appraisals and other relevant factors. Any write-down to fair value at the time of foreclosure is charged to the allowance for loan losses. A valuation allowance is maintained for known specific and potential market declines and for estimated selling expenses. Increases to the valuation allowance, expenses associated with ownership of these properties, and gains and losses from their sale, are reflected in operations as incurred. Realized gains and losses upon disposal are recognized as adjustments to noninterest income or noninterest expense.

Premises and Equipment—Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation and amortization. Depreciation and amortization are computed primarily by the straight-line method over the estimated useful lives of the assets, or the terms of the leases if shorter.

Impairment of Long-Lived Assets except Goodwill—The Company reviews long-lived assets, including premises and equipment and other intangible assets for impairment at least annually or whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. The Company performs undiscounted cash flow analyses to determine if impairment exists. If impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less any costs of disposal.

Goodwill—Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is not amortized over an estimated life, but rather is tested at least annually for impairment. In the event that the Company was to determine that its goodwill was impaired, an impairment writedown would be charged against earnings.

Bank-Owned Life Insurance—Bank-owned life insurance ("BOLI") represents life insurance on the lives of certain current and former employees who have provided positive consent allowing the Bank to be the beneficiary of such policies. The Bank utilizes BOLI as tax-efficient financing for the Bank's benefit obligations to its employees, including the Bank's obligations under its Supplemental Executive Retirement Plans. Since the Bank is the primary beneficiary of the insurance policies, increases in the cash value of the policies, as well as insurance proceeds received, are recorded in noninterest income, and are not subject to income taxes. BOLI is recorded at the cash value of the policies, less any applicable cash surrender charges, and is reflected as an asset in the accompanying consolidated balance sheets. The Bank reviews the financial strength of the insurance carriers prior to the purchase of BOLI to ensure minimum credit ratings of at least investment grade. The financial strength of the carriers is reviewed at least annually and BOLI with any individual carrier is limited to 10% of capital plus reserves.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

Securities Sold Under Agreements to Repurchase—The Bank enters into sales of securities under agreements to repurchase, with both the Bank's commercial customers ("retail repurchase agreements") and financial institutions ("wholesale repurchase agreements"). These agreements are treated as financings, and the obligations to repurchase securities sold are reflected as a liability in the consolidated balance sheets. Securities pledged as collateral under agreements to repurchase are reflected as assets in the accompanying consolidated balance sheets.

Employee Benefits—The Bank maintains a Section 401(k) savings plan for employees of the Bank and its subsidiaries. Under the plan, the Bank makes a matching contribution of the amount contributed by each participating employee, up to 4% of the employee's yearly salary, subject to Internal Revenue Service ("IRS") limits. The Bank's contributions are charged against current operations in the year made.

Share-Based Compensation—At December 31, 2007, the Company maintained stock option plans as described more fully in Note 15. Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") 123-R, "*Share-Based Payment*", which is a revision to SFAS 123, "*Accounting for Stock-Based Compensation*." SFAS 123-R focuses primarily on accounting for share-based payments made to employees. Under SFAS 123-R, the grant date fair value of share-based awards (primarily stock options for the Company) is recognized as an expense in the income statement, whereas under SFAS 123, the Company accounted for share-based awards under the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "*Accounting for Stock Issued to Employees*" ("APB 25").

The Company adopted SFAS 123-R under the modified prospective adoption method. Under that method of adoption, the provisions of SFAS 123-R are generally only applied to share-based awards granted subsequent to adoption and any unvested prior grants. Under SFAS 123-R, share-based awards requiring future service are recognized as compensation expense over the relevant service period or through the eligible retirement date if sooner. Share-based awards that do not require future service ("vested awards") are expensed immediately. SFAS 123-R also requires the Company to estimate expected forfeitures in determining compensation expense. Additionally, compensation expense for share-based awards granted to retirement-eligible employees is recognized immediately.

In December 2005, the Executive and Compensation Committees of the Company's Board of Directors accelerated the vesting of all 89,586 unvested stock options. No other changes were made to the terms and conditions of the options. The Company recorded expenses of \$49,000 in connection with the accelerated vesting. At the time of the vesting acceleration, approximately 79% of the expenses anticipated to be recorded over the next three years related to stock options that had no intrinsic value, as the stock options were "out-of-the-money." Additionally, 73% of the unvested options with a positive intrinsic value, or "in-the-money", were scheduled to fully vest by April 30, 2006. As a result of this accelerated vesting, the Company will not be required to recognize anticipated non-cash compensation expense relating to stock options of approximately \$370,000 in 2006, \$260,000 in 2007 and \$70,000 in 2008.

Under SFAS 123, the Company did not recognize compensation expense for stock options issued prior to January 2006 because the stock options had no intrinsic value at grant date, as the exercise price equaled the market value of the Company's common stock on the grant date. The Company did recognize compensation expense related to restricted stock compensation during 2005. The relevant service period for this restricted stock award concluded in December 2005.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

As indicated above, at the time of adoption of SFAS 123-R on January 1, 2006, all stock options granted to employees and directors were fully vested and exercisable. As a result, the transition impact of adopting SFAS 123-R was not material to the Company's results of operations for the year ended December 31, 2006.

If the Company had recognized compensation expense for stock options over the relevant service period, generally 3 to 4 years under the fair value method proscribed by SFAS 123, net income would have decreased in 2005, resulting in pro forma net income and earnings per common share ("EPS") as summarized below:

		Year Ended December 31, 2005
Net income (in thousands):		
As reported	\$	9,569
Compensation cost, net of taxes		(855)
Pro forma	\$	8,714
Earnings per common share:		
Basic:		
As reported	\$	2.14
Compensation cost, net of taxes		(0.19)
Pro forma	\$	1.95
Diluted:		
As reported	\$	2.04
Compensation cost, net of taxes		(0.18)
Pro forma	\$	1.86

The compensation cost, net of taxes, for the year ended 2005 reflects the Company's acceleration of the vesting of all outstanding options as of December 30, 2005.

Income Taxes—The Company recognizes income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are established for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expenses during the period that includes the enactment date. Income tax-related interest and penalties are classified as a component of income tax expense.

Effective January 1, 2007, the Company adopted Financial Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS 109, "Accounting for Income Taxes." The adoption of FIN 48 did not have a material impact on the Company's financial statements.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

The evaluation of a tax position in accordance with FIN 48 is a two-step process. First, the Company determines whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. Second, a tax position that meets the more likely than not threshold is measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more likely than not recognition threshold are recognized in the first subsequent reporting period in which the threshold is met. Previously recognized tax positions that no longer meet the more likely than not recognition threshold are derecognized in the first subsequent reporting period in which the threshold is no longer met.

Revenue Recognition—Noninterest income is recognized on the accrual basis of accounting.

Comprehensive Income—Comprehensive income is defined as all changes to equity except investments by and distributions to shareholders. Net income is a component of comprehensive income, with all other components referred to in the aggregate as "other comprehensive income."

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 for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then share in the earnings of the entity.

Segment Reporting—An operating segment is defined as a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and evaluate performance. The Company's primary business is banking, which provided substantially all of its total revenues and pre-tax income in 2007, 2006 and 2005. Accordingly, disaggregated segment information is not presented in the notes to the financial statements.

Guarantees—Standby letters of credit, excluding commercial letters of credit and other lines of credit, are considered guarantees of the Bank. The Bank enters into a standby letter of credit to guarantee performance of a customer to a third party. The credit risk involved is represented by the contractual amounts of those instruments. Under the standby letters of credit, the Bank is required to make payments to the beneficiary of the standby letters of credit upon request by the beneficiary so long as all performance criteria have been met. Most guarantees extend up to one year.

Pledged collateral including cash, accounts receivable, inventory, property, plant, equipment and real estate supported all standby letters of credit outstanding at December 31, 2007 and 2006. The collateral obtained is determined based on management's credit evaluation of the customer. Should the Bank be required to make payments to the beneficiary of a letter of credit, repayment to the Bank is required. When cash collateral is present, the recourse provisions of the agreements allow the Bank to collect the cash used to collateralize the agreement. If any other business assets are used as collateral and cash is not available, the Bank creates a loan for the customer with the same criteria as its other lending activities. The standby letters of credit and the fair value of customer guarantees and cash collateral supporting the standby letters of credit are not reflected on the balance sheet.

Reclassifications—Certain amounts in the prior years' financial statements may have been reclassified to conform with the current year's presentation.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

Recent Accounting Developments—In February 2006, the FASB issued SFAS 155, "*Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140*", which permits, but does not require, fair value accounting for hybrid financial instruments that contain an embedded derivative that would otherwise require bifurcation in accordance with SFAS 133, "*Accounting for Derivative Instruments and Hedging Activities*." SFAS 155 also eliminated the temporary exemption for interests in securitized financial assets provided for by SFAS 133, Derivatives Implementation Group ("DIG") Issue D1, "*Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*." However, in January 2007, the FASB issued interpretive guidance in SFAS 133, DIG Issue B40, "*Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets*", in which the FASB concluded that a securitized interest in prepayable financial assets was not subject to the bifurcation requirements of SFAS 155 provided that the securitized interest met both the following criteria: (1) the right to accelerate the settlement of the securitized interest cannot be controlled by the investor; and (2) the securitized interest itself does not contain an embedded derivative for which bifurcation would be required other than an embedded derivative that results solely from the embedded call options in the underlying financial assets. The guidance in DIG Issue B40 is effective upon the adoption of SFAS 155. SFAS 155 is effective for all financial instruments acquired or issued after December 31, 2006, as well as to those hybrid financial instruments that had been previously bifurcated under SFAS 133. As of December 31, 2007 and 2006, the Company did not have any hybrid financial instruments which were previously bifurcated under SFAS 133. Additionally, the guidance provided for in DIG Issue B40 is expected to allow the Company to continue to purchase mortgage-backed securities without applying the bifurcation requirements of SFAS 155. The adoption of SFAS 155 on January 1, 2007 did not have a material effect on the Company's consolidated financial statements.

In March 2006, the FASB issued SFAS 156, "*Accounting for Servicing of Financial Assets*", an amendment of SFAS 140. This standard requires servicing assets and servicing liabilities be initially measured at fair value along with any derivative instruments used to mitigate inherent risks. The adoption of SFAS 156 on January 1, 2007 did not have a material impact on the Company's consolidated financial statements.

In March 2006, the FASB Emerging Issues Task Force ("EITF") issued interpretive guidance in Issue 06-4 ("EITF 06-4"), in which agreements by companies to share a portion of the proceeds of life insurance policies with an employee during the postretirement period is a postretirement benefit arrangement that must be accounted for under SFAS 106, "*Employers' Accounting for Postretirement Benefits Other Than Pensions*." Under EITF 06-4, the EITF also concluded the purchase of a split-dollar life insurance policy does not constitute a settlement of the postretirement benefit as defined in SFAS 106. Thus, companies will be required to record a liability upon adoption of EITF 06-4, which is effective for periods beginning after December 15, 2007. The Company does not anticipate the adoption of EITF 06-4 will materially impact its consolidated financial statements upon adoption on January 1, 2008.

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), "*Fair Value Measurements*." SFAS 157 provides guidance for measuring assets and liabilities at fair value. This standard is applicable whenever other standards require or permit assets and liabilities to be measured at fair value, but does not expand upon the use of fair value in any new circumstances. SFAS 157 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires fair value measurements to be disclosed by level within the hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not anticipate the

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(2) Summary of Significant Accounting Policies (Continued)

adoption of SFAS 157 will materially impact its consolidated financial statements upon adoption on January 1, 2008.

In February 2007, the FASB issued SFAS 159, "*The Fair Value Option for Financial Assets and Financial Liabilities.*" SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and to provide additional information that will help investors and other users of financial statements to understand more easily the effect on earnings of the company's choice to use fair value. It also requires companies to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The Company does not anticipate the adoption of SFAS 159 will materially impact its consolidated financial statements upon adoption on January 1, 2008.

In November 2007, the SEC issued SAB No. 109 ("SAB 109"), "*Written Loan Commitments Recorded at Fair Value Through Earnings.*" SAB 109 supersedes SAB No. 105, "*Application of Accounting Principles to Loan Commitments,*" and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The guidance in SAB 109 is applied on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The Company does not anticipate the adoption of SAB 109 will materially impact its consolidated financial statements upon adoption on January 1, 2008.

In December 2007, the FASB issued SFAS No. 141 ("SFAS 141R"), "*Business Combinations (Revised 2007).*" SFAS 141R replaces SFAS No. 141, "*Business Combinations,*" and applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under SFAS 141 whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. SFAS 141R requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under SFAS 141. Under SFAS 141R, the requirements of SFAS No. 146, "*Accounting for Costs Associated with Exit or Disposal Activities,*" would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of SFAS No. 5, "*Accounting for Contingencies.*" The Company does not anticipate the adoption of SFAS 141R will materially impact its consolidated financial statements upon adoption on January 1, 2009.

(3) Business Combinations

On March 1, 1996, the Bank acquired certain assets and assumed certain liabilities from Fleet Financial Group, Inc. and other related entities. This acquisition was accounted for utilizing the purchase method of accounting and generated \$17.5 million of goodwill. This goodwill was amortized in the years prior to 2002, resulting in a net balance of \$10.8 million.

On May 1, 2005, the Bank acquired certain operating assets from Macrolease International Corporation. This acquisition was accounted for utilizing the purchase method of accounting and has

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(3) Business Combinations (Continued)

generated \$1.0 million of goodwill. In connection with this acquisition, the Company has issued 9,040 shares of its common stock. The Company will also issue 18,082 shares of its common stock in 2008, based upon Macrolease reaching specified performance criteria ("target"). In addition, 24,409 shares of the Company's common stock may be issued over the next 3 years contingent upon Macrolease reaching target.

(4) Restrictions on Cash and Due from Banks

The Bank is required to maintain average reserve balances in a noninterest bearing account with the Federal Reserve Bank based upon a percentage of certain deposits. As of December 31, 2007 and 2006, the average daily amount required to be held was \$1.0 million.

(5) Investment Securities Available for Sale

The Company categorizes obligations issued by the Federal Home Loan Bank, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association as U.S. Agency obligations. A summary of investment securities available for sale follows:

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
(In thousands)				
At December 31, 2007:				
U.S. Agency obligations	\$ 68,185	\$ 90	\$ (100)	\$ 68,175
Corporate debt securities	6,028	2	(174)	5,856
Trust preferred securities	2,980	—	(25)	2,955
Total	\$ 77,193	\$ 92	\$ (299)	\$ 76,986
At December 31, 2006:				
U.S. Agency obligations	\$ 85,992	\$ 1	\$ (704)	\$ 85,289
Corporate debt securities	12,122	7	(105)	12,024
Trust preferred securities	6,152	49	(89)	6,112
Total	\$ 104,266	\$ 57	\$ (898)	\$ 103,425

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(5) Investment Securities Available for Sale (Continued)

The following table sets forth certain information regarding temporarily impaired investment securities:

	Less than One Year		One Year or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
At December 31, 2007:						
US Agency obligations	\$ —	\$ —	\$ 29,322	\$ (100)	\$ 29,322	\$ (100)
Corporate debt securities	—	—	3,843	(174)	3,843	(174)
Trust preferred securities	974	(13)	1,988	(12)	2,962	(25)
Total	\$ 974	\$ (13)	\$ 35,153	\$ (286)	\$ 36,127	\$ (299)
At December 31, 2006:						
US Agency obligations	\$ 29,927	\$ (63)	\$ 52,361	\$ (641)	\$ 82,288	\$ (704)
Corporate debt securities	3,995	(9)	5,990	(96)	9,985	(105)
Trust preferred securities	—	—	1,911	(89)	1,911	(89)
Total	\$ 33,922	\$ (72)	\$ 60,262	\$ (826)	\$ 94,184	\$ (898)

The above securities were deemed to be not other-than-temporarily impaired after considering that substantially all of the above securities were rated "investment grade" with unrealized losses primarily caused by market interest rate changes. In addition, the Company has the intent and ability to hold all securities with unrealized losses until recovery or maturity.

In making these other-than-temporary impairment determinations, management considers, among other things, the length of time and extent to which the fair value has been less than cost and the credit worthiness and near-term prospects of the issuer. Also, management considers capital adequacy, interest rate risk, liquidity and business plans in assessing the intent and ability to hold all securities with unrealized losses until recovery or maturity.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(5) Investment Securities Available for Sale (Continued)

The following table sets forth the contractual maturities of investment securities available for sale and the weighted average yields of such securities:

	Within One Year			After One, But Within Five Years			After Five, But Within Ten Years			After Ten Years		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in thousands)												
At December 31, 2007:												
U.S. Agency obligations	\$ 22,429	\$ 22,386	4.45%	\$ 45,756	\$ 45,789	5.00%	\$ —	\$ —	0.00%	\$ —	\$ —	0.00%
Corporate debt securities	4,008	3,954	4.97%	2,020	1,902	4.87%	—	—	0.00%	—	—	0.00%
Trust preferred securities	—	—	0.00%	—	—	0.00%	—	—	0.00%	2,980	2,955	6.93%
Total	\$ 26,437	\$ 26,340	4.53%	\$ 47,776	\$ 47,691	4.99%	\$ —	\$ —	0.00%	\$ 2,980	\$ 2,955	6.93%
At December 31, 2006:												
U.S. Agency obligations	\$ 9,998	\$ 9,959	2.90%	\$ 75,994	\$ 75,330	4.78%	\$ —	\$ —	0.00%	\$ —	\$ —	0.00%
Corporate debt securities	6,037	6,034	5.33%	6,085	5,990	4.93%	—	—	0.00%	—	—	0.00%
Trust preferred securities	—	—	0.00%	—	—	0.00%	—	—	0.00%	6,152	6,112	7.63%
Total	\$ 16,035	\$ 15,993	3.81%	\$ 82,079	\$ 81,320	4.79%	\$ —	\$ —	0.00%	\$ 6,152	\$ 6,112	7.63%

The weighted average remaining life of investment securities available for sale at December 31, 2007 and 2006 was 3.1 years and 2.9 years, respectively. Included in the weighted average remaining life calculation at December 31, 2007 and 2006, were \$51.0 million and \$77.1 million, respectively, of securities that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life.

The following table presents the sale of investment securities available for sale and the resulting gains and losses from such sales:

	Year Ended December 31,		
	2007	2006	2005
(In thousands)			
Amortized cost of investment securities sold	\$ —	\$ 61,834	\$ —
Gains (losses) realized on sales of investment securities	254	(852)	—
Net proceeds from sales of investment securities	\$ 254	\$ 60,982	\$ —

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(6) Mortgage-Backed Securities Available for Sale

A summary of mortgage-backed securities available for sale by issuer follows:

	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
(In thousands)				
At December 31, 2007:				
Federal National Mortgage Association	\$ 126,700	\$ 876	\$ (247)	\$ 127,329
Collateralized Mortgage Obligations	74,371	193	(769)	73,795
Federal Home Loan Mortgage Corporation	44,621	231	(209)	44,643
Government National Mortgage Association	12,402	62	(36)	12,428
Total	\$ 258,094	\$ 1,362	\$ (1,261)	\$ 258,195
At December 31, 2006:				
Federal National Mortgage Association	\$ 109,480	\$ 57	\$ (1,645)	\$ 107,892
Collateralized Mortgage Obligations	86,935	18	(1,657)	85,296
Federal Home Loan Mortgage Corporation	30,411	42	(524)	29,929
Government National Mortgage Association	17,432	15	(102)	17,345
Total	\$ 244,258	\$ 132	\$ (3,928)	\$ 240,462

The following table sets forth certain information regarding temporarily impaired investment securities:

	Less than One Year		One Year or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
At December 31, 2007:						
Collateralized Mortgage Obligations	\$ 8,857	\$ (169)	\$ 44,912	\$ (600)	\$ 53,769	\$ (769)
Federal National Mortgage Association	3,099	(9)	22,916	(238)	26,015	(247)
Federal Home Loan Mortgage Corporation	295	(2)	16,094	(207)	16,389	(209)
Government National Mortgage Association	1,218	(2)	2,497	(34)	3,715	(36)
Total	\$ 13,469	\$ (182)	\$ 86,419	\$ (1,079)	\$ 99,888	\$ (1,261)
At December 31, 2006:						
Collateralized Mortgage Obligations	\$ 23,752	\$ (62)	\$ 52,051	\$ (1,595)	\$ 75,803	\$ (1,657)
Federal National Mortgage Association	25,041	(96)	77,853	(1,549)	102,894	(1,645)
Federal Home Loan Mortgage Corporation	299	(1)	26,603	(523)	26,902	(524)
Government National Mortgage Association	4,655	(16)	3,123	(86)	7,778	(102)
Total	\$ 53,747	\$ (175)	\$ 159,630	\$ (3,753)	\$ 213,377	\$ (3,928)

The above securities were deemed to be not other-than-temporarily impaired after considering that all of the above securities were rated "investment grade" with unrealized losses caused by market interest rate changes. In addition, the Company is able and intends to hold all securities with unrealized losses until recovery or maturity.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(6) Mortgage-Backed Securities Available for Sale (Continued)

In making these other-than-temporary impairment determinations, management considers, among other things, the length of time and extent to which the fair value has been less than cost and the credit worthiness and near-term prospects of the issuer. Also, management considers capital adequacy, interest rate risk, liquidity and business plans in assessing the intent and ability to hold all securities with unrealized losses until recovery or maturity.

The following table sets forth the maturities of mortgage-backed securities available for sale and the weighted average yields of such securities:

	After Five, But Within Ten Years			After Ten Years		
	Amortized Cost	Fair Value	Weighted Average Yield	Amortized Cost	Fair Value	Weighted Average Yield
(Dollars in thousands)						
At December 31, 2007:						
Federal National Mortgage Association	\$ 13,256	\$ 13,322	4.55%	\$ 113,444	\$ 114,007	5.11%
Collateralized Mortgage Obligations	4,809	4,734	3.95%	69,562	69,061	5.06%
Federal Home Loan Mortgage Corporation	—	—	—	44,621	44,643	5.07%
Government National Mortgage Association	—	—	—	12,402	12,428	5.25%
Total	\$ 18,065	\$ 18,056	4.39%	\$ 240,029	\$ 240,139	5.10%
At December 31, 2006:						
Federal National Mortgage Association	\$ 15,515	\$ 15,136	4.55%	\$ 93,965	\$ 92,756	4.94%
Collateralized Mortgage Obligations	2,680	2,604	4.06%	84,255	82,692	5.01%
Federal Home Loan Mortgage Corporation	—	—	—	30,411	29,929	4.73%
Government National Mortgage Association	—	—	—	17,432	17,345	4.31%
Total	\$ 18,195	\$ 17,740	4.48%	\$ 226,063	\$ 222,722	4.89%

Maturities on mortgage-backed securities are based on contractual maturities and do not take into consideration scheduled amortization or prepayments. Actual maturities will differ from contractual maturities due to scheduled amortization and prepayments. The weighted average remaining contractual term of mortgage-backed securities available for sale at December 31, 2007 and 2006 was 19.0 years and 20.0 years, respectively.

The following table presents the sale of mortgage-backed securities available for sale and the resulting gains and losses from such sales:

	Year Ended December 31,		
	2007	2006	2005
(In thousands)			
Amortized cost of mortgage-backed securities sold	\$ —	\$ 452	\$ 13,573
Gain/(Loss) realized on sales of mortgage-backed securities	—	(7)	181
Net proceeds from sales of mortgage-backed securities	\$ —	\$ 445	\$ 13,754

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(7) Loans and Leases Receivable

The following is a summary of loans and leases receivable:

	December 31,	
	2007	2006
	(In thousands)	
Commercial loans and leases:		
Commercial real estate—owner occupied	\$ 157,431	\$ 140,812
Commercial and industrial	131,927	106,017
Commercial real estate—nonowner occupied	102,990	102,390
Small business	45,778	41,785
Multi-family	42,536	34,294
Construction	38,832	37,237
Leases and other(1)	58,702	62,979
	578,196	525,514
Unearned lease income(1)	(5,742)	(6,651)
Net deferred loan origination costs	1,214	927
	573,668	519,790
Residential mortgage loans:		
One- to four-family adjustable rate	155,087	165,140
One- to four-family fixed rate	92,485	96,880
	247,572	262,020
Premium on loans acquired	1,198	1,979
Net deferred loan origination fees	(42)	(54)
	248,728	263,945
Consumer and other loans:		
Home equity—term loans	149,192	152,484
Home equity—lines of credit	62,357	64,208
Unsecured and other	2,774	2,359
	214,323	219,051
Net deferred loan origination costs	1,413	1,506
	215,736	220,557
Total loans and leases receivable	\$ 1,038,132	\$ 1,004,292

- (1) Included within commercial loans and leases were \$3.3 million of leases held for sale at December 31, 2007. There were no leases held for sale at December 31, 2006.

The Bank's commercial and consumer lending activities are conducted principally in the State of Rhode Island and, to a lesser extent, in nearby areas of Massachusetts. The Bank's equipment lease financing subsidiary, Macrolease, is based in Long Island, NY, with borrowers located throughout the United States. The Bank originates commercial real estate loans, commercial and industrial loans, multi-family residential loans, equipment leases, residential mortgage loans and consumer loans (principally home equity loans and lines of credit) for its portfolio.

The Bank purchases one- to four-family residential mortgage loans and commercial leases from third party originators. These loans and leases may have been originated from areas outside of New England.



BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(7) Loans and Leases Receivable (Continued)

Most loans made by the Bank are secured by borrowers' personal or business assets. The Bank considers a concentration of credit to a particular industry to exist when the aggregate credit exposure to a borrower or group of borrowers in that industry exceeds 25% of the Bank's capital plus reserves. At December 31, 2007, no concentrations of credit to a particular industry existed as defined by these parameters. The ability of the Bank's residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity within the area they reside.

Commercial borrowers' ability to repay is generally dependent upon the general health of the economy and in cases of real estate loans, the real estate sector in particular. Accordingly, the ultimate collectibility of a substantial portion of the Bank's loan portfolio is susceptible to changing conditions in the Rhode Island economy in particular, and the New England and Northeast and national economies, in general.

The Bank's lending limit to any single borrowing relationship is limited by law to approximately \$20.4 million. At December 31, 2007, the Bank had no outstanding commitments to any single borrowing relationship that were in excess of \$12.0 million.

At December 31, 2007, the risk elements contained within the loan portfolio were centered in \$4.0 million of nonaccrual loans. There were \$3.7 million of loans past due 60 to 89 days at December 31, 2007. At December 31, 2007, the Bank had no commitments to lend additional funds to borrowers whose loans were on nonaccrual. This compares to \$1.4 million of nonaccrual loans and \$476,000 of loans past due 60 to 89 days as of December 31, 2006. There were \$3.0 million of impaired loans with \$486,000 of specific impairment reserves at December 31, 2007, while included in nonaccrual loans as of December 31, 2005 were impaired loans of \$141,000 with specific reserves of \$71,000. There were no impaired loans at December 31, 2006 and thus no specific impairment reserves. The average balance of impaired loans was \$1.4 million during 2007, \$1.0 million during 2006 and \$741,000 during 2005.

The reduction in interest income associated with nonaccrual loans was as follows:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Income in accordance with original terms	\$ 348	\$ 99	\$ 36
Income recognized	(192)	(49)	(13)
Foregone interest income	\$ 156	\$ 50	\$ 23

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(7) Loans and Leases Receivable (Continued)

Loans outstanding to executive officers and directors of the Company, including their immediate families and affiliated companies ("related parties"), are made in the ordinary course of business under normal credit terms, including interest rates and collateral, prevailing at the time of origination for comparable transactions with other unaffiliated persons, and do not represent more than normal credit risk. These loans comply with the provisions of Regulation O under the Federal Reserve Act and, accordingly, are permissible under Section 402 of the Sarbanes-Oxley Act of 2002. An analysis of the activity of these loans is as follows:

	Year Ended December 31,	
	2007	2006
	(In thousands)	
Balance at beginning of year	\$ 5,414	\$ 5,561
Additions	2,661	525
Repayments	(500)	(672)
Balance at end of year	\$ 7,575	\$ 5,414

(8) Allowance for Credit Losses

An analysis of the activity in the allowance for credit losses is as follows:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
<i>Allowance for Loan and Lease Losses</i>			
Balance at beginning of year	\$ 12,377	\$ 11,665	\$ 11,454
Provision for loan and lease losses	700	1,202	1,423
Loans charged-off	(528)	(519)	(1,274)
Recoveries of loans previously charged-off	70	29	62
Balance at end of year	12,619	12,377	11,665
<i>Reserve for Unfunded Lending Commitments(1)</i>			
Balance at beginning of year	567	503	452
Provision for unfunded lending commitments	29	64	51
Balance at end of year	596	567	503
<i>Allowance for Credit Losses</i>			
Balance at end of year	\$ 13,215	\$ 12,944	\$ 12,168

(1) In 2006, the Company reclassified the reserve for unfunded lending commitments from the allowance for loan and lease losses to other liabilities for all periods presented.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(9) Premises and Equipment

Premises and equipment consisted of the following:

	December 31,	
	2007	2006
	(In thousands)	
Land	\$ 1,849	\$ 1,412
Office buildings and improvements	5,532	2,931
Leasehold improvements	7,586	9,996
Data processing equipment and software	6,491	6,726
Furniture, fixtures and other equipment	6,169	5,808
Subtotal	27,627	26,873
Less accumulated depreciation and amortization	(13,906)	(13,137)
Total premises and equipment	\$ 13,721	\$ 13,736

The Company utilizes a useful life of 40 years for buildings and 15 years for building improvements. Leasehold improvements are amortized over their respective lease terms. Data processing equipment and software's useful life varies but is primarily three years. Furniture, fixtures and other equipment's useful life varies but is primarily five years. Depreciation expense totaled \$2.0 million, \$2.2 million and \$2.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Rent expense for the years ended December 31, 2007, 2006 and 2005 was \$1.5 million, \$1.5 million and \$1.3 million, respectively. In October 2007, the Bank transferred its rights to develop a planned branch site to a third party via a noncancellable sublease agreement. The Bank's rent expense for the year ended December 31, 2007 is net of sublease rentals of \$21,000.

In connection with the acquisition of branches from Fleet Financial Group, Inc. and related entities, the Bank assumed the liability for lease payments on seven banking offices previously occupied by Shawmut Bank Connecticut, N.A. The Bank has renegotiated some of these leases and has also entered into agreements to lease additional space.

Under the terms of these noncancellable operating leases, the Bank is currently obligated to minimum annual rents as follows:

	Minimum Lease Payments
	(In thousands)
2008	\$ 1,350
2009	1,002
2010	640
2011	652
2012	657
Thereafter	6,295
	\$ 10,596

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(9) Premises and Equipment (Continued)

Minimum payments have not been reduced by minimum sublease rentals of \$3.7 million due in the future under a noncancellable sublease.

(10) Deposits

Certificate of deposit accounts had the following schedule of maturities:

	December 31,	
	2007	2006
	(In thousands)	
1 year or less remaining	\$ 349,527	\$ 358,041
More than 1 year to 2 years remaining	18,095	10,206
More than 2 years to 3 years remaining	4,183	7,965
More than 3 years to 4 years remaining	1,171	4,196
More than 4 years remaining	1,087	1,299
Total	\$ 374,063	\$ 381,707

At December 31, 2007, certificate of deposit accounts included \$20.0 million obtained through brokers, compared to \$30.0 million at December 31, 2006. At December 31, 2007 and 2006, certificate of deposit accounts with balances of \$100,000 or more aggregated \$116.7 million and \$144.3 million, respectively.

(11) Short-Term Borrowings and Repurchase Agreements

Overnight and short-term borrowings and repurchase agreements consisted of the following:

	December 31,	
	2007	2006
	(In thousands)	
Treasury tax and loan notes	\$ 4,385	\$ 1,915
FHLB Ideal Way advances	—	—
Retail repurchase agreements	62,410	54,426
Wholesale repurchase agreements	10,000	20,000
Total	\$ 76,795	\$ 76,341

The Bank utilizes the Note Option for remitting Treasury Tax and Loan payments to the Federal Reserve Bank. Under this option the U.S. Treasury invests in obligations of the Bank, as evidenced by open-ended interest-bearing notes. These notes are collateralized by U.S. Agency securities owned by the

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(11) Short-Term Borrowings and Repurchase Agreements (Continued)

Bank. Treasury tax and loan notes are included as a component of overnight and short-term borrowings on the consolidated balance sheets. Information concerning these treasury tax and loan notes is as follows:

	Year Ended December 31,	
	2007	2006
	(Dollars in thousands)	
Outstanding at end of year	\$ 4,385	\$ 1,915
Outstanding collateralized by securities with:		
Par value	5,000	5,000
Market value	5,001	4,966
Average outstanding for the year	1,061	776
Maximum outstanding at any month end	4,852	1,915
Weighted average rate at end of year	3.18%	4.26%
Weighted average rate paid for the year	4.76%	4.77%

The Bank has a short-term line of credit with the FHLB. All borrowings from the FHLB are secured by the Bank's stock in the FHLB and a blanket lien on "qualified collateral" defined principally as 90% of the fair value of U.S. Government and Agency obligations and 75% of the carrying value of certain residential mortgage loans. Unused borrowing capacity under this line was \$25.0 million at December 31, 2007, 2006 and 2005.

Information concerning this short-term line of credit is as follows:

	Year Ended December 31,	
	2007	2006
	(Dollars in thousands)	
Outstanding at end of year	\$ —	\$ —
Maturity date	NA	NA
Average outstanding for the year	\$ 65	\$ 616
Maximum outstanding at any month end	—	3,718
Weighted average rate at end of year	NA	NA
Weighted average rate paid for the year	5.56%	5.48%

The Bank utilizes retail repurchase agreements in connection with a cash management product that the Bank offers its commercial customers and wholesale repurchase agreements with financial institutions. Sales of repurchase agreements are treated as financings. The obligations to repurchase the identical securities that were sold are reflected as liabilities and the securities remain in the asset accounts. All of these agreements are collateralized by U.S. Agency securities owned by the Bank. The securities underlying the agreements were held by the Bank in a special custody account and remained under the Bank's control.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(11) Short-Term Borrowings and Repurchase Agreements (Continued)

Information concerning retail repurchase agreements is as follows:

	Year Ended December 31,	
	2007	2006
	(Dollars in thousands)	
Outstanding at end of year	\$ 62,410	\$ 54,426
Maturity date	1/2/08	1/2/07
Outstanding collateralized by securities with:		
Par value	\$ 96,521	\$ 103,605
Market value	96,353	101,807
Average outstanding for the year	55,533	42,963
Maximum outstanding at any month end	68,195	54,426
Weighted average rate at end of year	4.03%	5.13%
Weighted average rate paid for the year	4.79%	4.78%

Information concerning wholesale repurchase agreements is as follows:

	Year Ended December 31,	
	2007	2006
	(Dollars in thousands)	
Outstanding at end of year	\$ 10,000	\$20,000
Maturity date	6/2011	11/2010 and 6/2011
Outstanding collateralized by securities with:		
Par value	\$ 10,506	\$21,085
Market value	10,486	20,895
Average outstanding for the year	11,425	20,000
Maximum outstanding at any month end	20,000	20,000
Weighted average rate at end of year	5.32%	4.84%
Weighted average rate paid for the year	5.27%	4.35%

Additionally, at December 31, 2007, the Bank had a \$3.0 million line of credit with a correspondent bank to facilitate the issuance of letters of credit by the Bank and the conducting of foreign exchange transactions for the Bank's customers. Since inception, there have been no outstanding balances under this line of credit.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(12) Federal Home Loan Bank of Boston Borrowings

FHLB borrowings are comprised of the following:

	December 31, 2007			December 31, 2006		
	Scheduled Final Maturity	First Call Date(1)	Weighted Average Rate(2)	Scheduled Final Maturity	First Call Date(1)	Weighted Average Rate(2)
	(Dollars in thousands)					
Within 1 year	\$ 23,037	\$ 222,038	3.56%	\$ 34,593	\$ 153,593	3.57%
Over 1 year to 2 years	13	13	5.25%	27,058	57,058	4.18%
Over 2 years to 3 years	28,844	8,844	4.24%	41,331	21,331	4.57%
Over 3 years to 5 years	69,000	—	4.90%	59,000	—	4.97%
Over 5 years	120,611	10,610	4.35%	80,216	10,216	4.31%
	\$ 241,505	\$ 241,505	4.42%	\$ 242,198	\$ 242,198	4.40%

- (1) Callable FHLB advances of \$199 million are shown in the respective periods assuming that the callable debt is redeemed at the next call date while all other advances are shown in the periods corresponding to their scheduled maturity date.
- (2) Weighted average rate based on scheduled maturity dates.

All borrowings from the FHLB are secured by the Bank's stock in the FHLB and a blanket lien on "qualified collateral" defined principally as 90% of the fair value of U.S. Government and Agency obligations and 75% of the carrying value of certain residential mortgage loans. Unused term borrowing capacity with the FHLB at December 31, 2007 and 2006 was \$29.2 million and \$40.9 million, respectively. As one requirement of its borrowings, the Bank is required to invest in the common stock of the FHLB in an amount at least equal to five percent of its outstanding borrowings from the FHLB. As and when such stock is redeemed, the Bank would receive from the FHLB an amount equal to the par value of the stock. As of December 31, 2007 and 2006, the Bank's FHLB stock holdings, recorded at cost, were \$15.7 million and \$16.5 million, respectively.

(13) Company-Obligated Mandatorily Redeemable Capital Securities and Subordinated Deferrable Interest Debentures

On January 23, 2001, the Company sponsored the creation of BRI Statutory Trust I (the "Trust I"), a Connecticut statutory trust. The Company is the owner of all of the common securities of Trust I. On February 22, 2001, Trust I issued \$3.0 million of its 10.20% Company-Obligated Mandatorily Redeemable Capital Securities ("Capital Securities") through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Company's \$93,000 capital contribution for Trust I's common securities (which is included in prepaid expenses and other assets), were used to acquire \$3.1 million of the Company's 10.20% Subordinated Deferrable Interest Debentures ("Junior Subordinated Notes") due February 22, 2031, and constitute the primary asset of Trust I. 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 Trust I's obligations under the Capital Securities, to the extent Trust I has funds available therefor.

On June 4, 2002, the Company sponsored the creation of BRI Statutory Trust II (the "Trust II"), a Connecticut statutory trust. The Company was the owner of all of the common securities of Trust II. On

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(13) Company-Obligated Mandatorily Redeemable Capital Securities and Subordinated Deferrable Interest Debentures (Continued)

June 26, 2002, Trust II issued \$5.0 million of its floating rate (quarterly reset to 3 month LIBOR plus 3.45%) Capital Securities through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Company's \$155,000 capital contribution for Trust II's common securities, were used to acquire \$5.2 million of the Company's floating rate (quarterly reset to 3 month LIBOR plus 3.45%) Junior Subordinated Notes due June 26, 2032, and constituted the primary asset of Trust II. The Company had, through the Declaration of Trust, the Guarantee Agreement, the Notes and the related Indenture, taken together, fully irrevocably and unconditionally guaranteed all of Trust II's obligations under the Capital Securities, to the extent Trust II had funds available. On September 26, 2007, the Company redeemed all \$5.0 million of the floating rate Capital Securities issued by Trust II. This redemption resulted in the Company recording a write-off of an additional \$137,000 of previously unamortized debt issuance costs as additional pretax interest expense. Thereafter, Trust II was liquidated.

On June 5, 2003, the Company sponsored the creation of BRI Statutory Trust III (the "Trust III"), a Connecticut statutory trust. The Company is the owner of all of the common securities of Trust III. On June 26, 2003, Trust III issued \$5.0 million of its 5.55% (quarterly reset to 3 month LIBOR plus 3.10% beginning June 26, 2008) Capital Securities through a pooled trust preferred securities offering. The proceeds from this issuance, along with the Company's \$155,000 capital contribution for Trust III's common securities (which is included in prepaid expenses and other assets), were used to acquire \$5.2 million of the Company's 5.55% (quarterly reset to 3 month LIBOR plus 3.10% beginning June 26, 2008) Junior Subordinated Notes due June 26, 2033, and constitute the primary asset of Trust III. 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 Trust III's obligations under the Capital Securities, to the extent Trust III has funds available therefor.

On February 24, 2004, the Company sponsored the creation of BRI Statutory Trust IV (the "Trust IV"), a Connecticut statutory trust. The Company is the owner of all of the common securities of Trust IV. On March 17, 2004, Trust IV issued \$5.0 million of its floating rate (quarterly reset to 3 month LIBOR plus 2.79%) Capital Securities through a pooled trust preferred securities offering. At December 31, 2007, the rate of the Capital Securities was 7.78%. The proceeds from this issuance, along with the Company's \$155,000 capital contribution for Trust IV's common securities (which is included in prepaid expenses and other assets), were used to acquire \$5.2 million of the Company's floating rate (quarterly reset to 3 month LIBOR plus 2.79%) Junior Subordinated Notes due March 17, 2034, and constitute the primary asset of Trust IV. 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 Trust IV's obligations under the Capital Securities, to the extent Trust IV has funds available therefor.

As of December 31, 2007, the Company's investments in its statutory trust subsidiaries aggregated \$493,000 and are included within prepaid expenses and other assets.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(14) Income Taxes

The components of income tax expense are as follows:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Current expense:			
Federal	\$ 3,784	\$ 5,056	\$ 4,763
State	20	51	92
	3,804	5,107	4,855
Deferred benefit:			
Federal	455	(1,531)	(15)
State	—	—	—
	455	(1,531)	(15)
Total income tax expense	\$ 4,259	\$ 3,576	\$ 4,840

The difference between the statutory federal income tax rate and the effective federal income tax rate is as follows:

	Year Ended December 31,		
	2007	2006	2005
Statutory federal income tax rate	35.0%	35.0%	35.0%
Increase resulting from:			
State income tax, net of federal tax benefit	0.1	0.3	0.4
Bank-owned life insurance	(2.7)	(2.4)	(1.7)
Other, net	(0.4)	(1.2)	(0.1)
	32.0%	31.7%	33.6%
Effective combined federal and state income tax rate	32.0%	31.7%	33.6%

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(14) Income Taxes (Continued)

The significant components of gross deferred tax assets and gross deferred tax liabilities are as follows:

	December 31,	
	2007	2006
(In thousands)		
Gross deferred tax assets:		
Allowance for loan and lease losses	\$ 4,417	\$ 4,348
Depreciation	1,213	1,299
Accrued retirement	964	785
Securities available for sale	37	1,623
Loss on sale of investments	—	273
Other	559	579
	7,190	8,907
Gross deferred tax liabilities:		
Goodwill	(2,880)	(2,556)
	4,310	6,351
Net deferred tax asset	\$ 4,310	\$ 6,351

The net balance of deferred tax assets and liabilities is included in prepaid expenses and other assets. It is management's belief that it is more likely than not that the reversal of deferred tax liabilities and results of future operations will generate sufficient taxable income to realize the deferred tax assets. In addition, the Company's net deferred tax asset is supported by recoverable income taxes. Therefore, no valuation allowance was deemed necessary at December 31, 2007 or 2006. It should be noted, however, that factors beyond management's control, such as the general state of the economy and real estate values, can affect future levels of taxable income and that no assurance can be given that sufficient taxable income will be generated to fully absorb gross deductible temporary differences.

The Company had no unrecognized tax benefits at both January 1, 2007 and December 31, 2007. Additionally, there are no unrecognized tax benefits that, if recognized, would affect the Company's effective tax rate. As of both January 1, 2007 and December 31, 2007, the Company did not have any accrued income tax-related interest and penalties.

The Company's federal income tax returns are open and subject to examination from the 2004 tax return year and forward. The Company's state income tax returns are generally open from the 2004 and later tax return years based on individual state statute of limitations.

(15) Employee and Director Benefits

Employee 401(k) Plan—The Bank maintains a 401(k) Plan (the "Plan") which qualifies as a tax exempt plan and trust under Sections 401 and 501 of the Internal Revenue Code. Generally, Bank employees who are at least twenty-one (21) years of age are eligible to participate in the Plan. Expenses associated with the Plan were \$475,000, \$450,000 and \$388,000 for the years ended December 31, 2007, 2006 and 2005, respectively.

Nonqualified Deferred Compensation Plan—The Bank also maintains a Nonqualified Deferred Compensation Plan (the "Nonqualified Plan") under which certain participants may contribute the amounts they are precluded from contributing to the Bank's 401(k) Plan because of the qualified plan

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(15) Employee and Director Benefits (Continued)

limitations, and additional compensation deferrals that may be advantageous for personal income tax or other planning reasons. Expenses associated with the Nonqualified Plan were \$36,000, \$40,000 and \$43,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Accrued liabilities associated with the Nonqualified Plan were \$681,000 and \$644,000 for December 31, 2007 and 2006, respectively.

Supplemental Executive Retirement Plans—The Bank maintains Supplemental Executive Retirement Plans (the "SERPs") for certain of its senior executives under which participants designated by the Board of Directors are entitled to an annual retirement benefit. Expenses associated with the SERPs were \$524,000, \$436,000 and \$578,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Accrued liabilities associated with the SERPs were \$2.8 million and \$2.2 million for December 31, 2007 and 2006, respectively.

Restricted Stock Agreement—During 2001, the Company entered into a Restricted Stock Agreement with its CEO, pursuant to which she was awarded 7,700 shares of restricted stock, subject to achievement of certain performance goals spanning a three year period, which were achieved. The restricted shares vested 50% on January 1, 2005 and 50% on January 1, 2006. The restricted shares were subject to forfeiture in the event of termination of the CEO's employment prior to the applicable vesting dates for cause by the Company or without good reason by the executive. In addition, the Company made a "gross-up" payment sufficient to pay any taxes of the CEO (including those on the "gross-up" payment) arising as a result of the vesting of the restricted stock. The relevant service period for this restricted stock concluded in December 2005. Expenses associated with the Restricted Stock Agreement were \$97,000 for the year ended December 31, 2005.

Employee Stock Plans—The Company maintains a 1996 Incentive and Nonqualified Stock Option Plan and a 2002 Equity Incentive Plan (collectively the "Employee Stock Plans") under which it may grant awards of its common stock to officers and key employees. The 1996 Incentive and Nonqualified Stock Option Plan has no remaining shares available for issuance as it expired in March 2006. At December 31, 2007, the total remaining shares available for issuance under the 2002 Equity Incentive Plan is 156,303. The 2002 Equity Incentive Plan also provides for automatic incremental increases each year in the number of shares authorized for issuance under such plan on the date of the annual shareholders meeting equal to the least of (i) 2% of total issued and outstanding common stock on the date of the shareholders meeting, (ii) 75,000 shares and (iii) such lesser number as determined by the Board of Directors of the Company. The Employee Stock Plans, which are shareholder approved, allow grants of options, restricted stock, stock appreciation rights ("SARs"), performance shares or units and other stock-based awards. Under the Employee Stock Plans, the Company has awarded stock options, which have been granted at an exercise price equal to the market value of the stock on the date of the grant with vesting terms of three to five years. Unless exercised, options granted under the Employee Stock Plans have a contractual terms ranging between 7 and 10 years. Certain stock option awards provide for accelerated vesting if there is a change in control (as defined in the Employee Stock Plans).

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(15) Employee and Director Benefits (Continued)

The fair value of each employee stock option award has been estimated on the grant date using the Black-Scholes option-pricing model utilizing the following pricing assumptions, summarized on a weighted-average basis in the table below:

	Year Ended December 31,		
	2007	2006	2005
Expected term	5 years	7 years	7 years
Expected volatility	19%	23%	25%
Risk-free interest rate	4.14%	4.73%	3.90%
Dividend yield	1.60%	1.71%	1.70%
Fair value of options granted	\$ 8.21	\$ 10.01	\$ 9.27

The activity related to these employee stock options is summarized below:

Employee Stock Options	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Contractual Term (in years)
Outstanding, December 31, 2004	445,305	\$ 19.21		
Granted	68,000	\$ 37.05		
Exercised	(73,374)	\$ 18.29		
Forfeited/Canceled	(10,951)	\$ 33.18		
Outstanding, December 31, 2005	428,980	\$ 21.27		
Granted	60,850	\$ 35.18		
Exercised	(74,059)	\$ 18.57		
Forfeited/Canceled	(12,750)	\$ 33.26		
Outstanding, December 31, 2006	403,021	\$ 24.57		
Granted	71,050	\$ 39.26		
Exercised	(49,011)	\$ 18.89		
Forfeited/Canceled	(12,200)	\$ 39.17		
Outstanding, December 31, 2007	412,860	\$ 27.34	\$ 2,806,000	5.3
Exercisable, December 31, 2007	306,392	\$ 23.82	\$ 3,161,000	4.6

The total intrinsic value of options by employees exercised during 2007, 2006 and 2005 was \$1.1 million, \$1.3 million and \$1.6 million, respectively.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(15) Employee and Director Benefits (Continued)

The options outstanding as of December 31, 2007 are set forth below:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)
\$10.00—\$19.99	129,130	\$ 12.99	2.1
20.00—29.99	50,850	\$ 23.09	5.0
30.00—39.99	197,680	\$ 34.93	7.2
40.00—49.99	35,200	\$ 43.56	6.4
Outstanding, December 31, 2007	412,860	\$ 27.34	5.3

In April 2007, the Company granted its executive officers restricted stock as a component of their annual share based compensation award. The Company granted 2,745 shares, which vest in three annual installments, at a market price of \$43.45. The awards provide for accelerated vesting if there is a change in control. During 2007, 515 shares of these restricted shares were forfeited.

The following table summarizes share-based compensation and the related tax benefit for the periods indicated:

	Year Ended December 31,		
	2007	2006	2005
	(in thousands)		
Share-based compensation	\$ 212	\$ 97	\$ 146
Tax benefit related to share-based compensation(1)	322	244	309

(1) Represents the tax benefits on stock options exercised and share-based compensation.

As of December 31, 2007, there was \$883,000 of total unrecognized compensation cost related to nonvested employee compensation arrangements. This cost is expected to be recognized over a weighted average period of 3.8 years.

Director Stock Plan—The Company established a Non-Employee Director Stock Plan (the "Director Stock Plan") under which it may grant up to 90,000 options to acquire its Common Stock to non-employee directors. At December 31, 2007, the total remaining shares available for issuance under the Director Stock Plan is 11,500. Each non-employee director elected at the 1998 shareholders meeting received an option for 1,500 shares and each new non-employee director elected subsequently receives an option for 1,000 shares. Non-employee directors also receive an annual option grant for 500 shares as of the date of each annual meeting of shareholders. Options are granted at an exercise price equal to the market value of the stock on the date of the grant and vest six months after the grant date. Options granted under the Director Stock Plan have a 10-year contractual term, subject to earlier of expiration on the second anniversary of a director's termination of service.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(15) Employee and Director Benefits (Continued)

The fair value of each non-employee director stock option award has been estimated on the grant date using the Black-Scholes option-pricing model utilizing the following pricing assumptions, summarized on a weighted-average basis in the table below:

	Year Ended December 31,		
	2007	2006	2005
Expected term	7 years	8 years	7 years
Expected volatility	20%	28%	25%
Risk-free interest rate	4.58%	5.05%	3.83%
Dividend yield	1.51%	1.66%	1.58%
Fair value of options granted	\$ 10.70	\$ 12.73	\$ 10.89

The activity related to these director stock options is summarized below:

Director Stock Options	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Contractual Term (in years)
Outstanding, December 31, 2004	42,500	\$ 20.22		
Granted	7,000	\$ 38.07		
Exercised	—	—		
Forfeited	—	—		
Outstanding, December 31, 2005	49,500	\$ 22.75		
Granted	8,000	\$ 36.19		
Exercised	(4,000)	\$ 30.15		
Forfeited	(500)	\$ 35.24		
Outstanding, December 31, 2006	53,000	\$ 24.09		
Granted	7,500	\$ 39.62		
Exercised	(23,500)	\$ 18.77		
Forfeited	—	—		
Outstanding, December 31, 2007	37,000	\$ 30.62	\$ 130,110	6.1
Exercisable, December 31, 2007	37,000	\$ 30.62	\$ 130,110	6.1

The total intrinsic value of options exercised by directors during 2007, 2006 and 2005 was \$577,000, \$49,000 and \$0, respectively.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(15) Employee and Director Benefits (Continued)

The director options outstanding as of December 31, 2007 are set forth below:

Exercise Price	Options Outstanding	Weighted Average Exercise Price	Weighted Average Contractual Term (in years)
\$10.00—\$19.99	7,500	\$ 15.28	2.0
20.00—29.99	6,000	\$ 24.13	5.1
30.00—39.99	22,500	\$ 36.93	7.6
40.00—49.99	1,000	\$ 42.85	8.8
Outstanding, December 31, 2007	37,000	\$ 30.62	6.1

The following table summarizes share-based compensation and the related tax benefit for the periods indicated:

	Year Ended December 31,		
	2007	2006	2005
	(in thousands)		
Share-based compensation	\$ 87	\$ 89	\$ —
Tax benefit related to share-based compensation(1)	231	17	—

(1) Represents the tax benefits on stock options exercised and share-based compensation.

As of December 31, 2007, there was no unrecognized compensation cost related to nonvested director compensation arrangements.

Change of Control Agreements—The Bank has entered into Employment Agreements with its President and Chief Executive Officer, Chief Financial Officer and Chief Business Officer. The Employment Agreements generally provide for the continued payment of specified compensation and benefits for the remainder of the term of the agreement upon termination without cause. The agreements also provide that if the executive is terminated (or in the case of the Chief Executive Officer, resigns) in conjunction with a Change in Control, they are entitled to a severance payment, which is equal to 2.99 times base salary plus target bonus for the President and Chief Executive Officer and 2.00 times base salary plus target bonus for the Chief Financial Officer and Chief Business Officer. For payments under the Employment Agreements following a Change in Control that are subject to the "golden parachute" excise tax, the Company will make a "gross-up" payment sufficient to ensure that the net after-tax amount retained by the executive (taking into account all taxes, including those on the "gross-up" payment) is the same as if such excise tax had not applied. The Company has also entered into Change of Control Severance Agreements with certain other members of senior management of up to 1.00 times base salary or 1.00 times base salary plus current bonus.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(16) Other Expenses

Major components of other expenses are as follows:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Postage and mailing	\$ 579	\$ 603	\$ 566
Forms and supplies	489	560	583
Telephone	459	538	584
Director fees	381	434	346
Credit card and interchange fees	279	266	289
Charitable contributions	279	231	246
Insurance	233	227	207
Correspondent bank fees	168	155	154
Recruiting	95	63	130
Other	1,751	1,992	1,522
	\$ 4,713	\$ 5,069	\$ 4,627

In December 2006, the Company recorded insurance recovery proceeds of \$803,000 relating to a loss the Company incurred in the first quarter of 2006 of \$868,000. These amounts are recorded net within other expenses in the table above and on the Consolidated Statement of Operations for the year ended December 31, 2006.

(17) Commitments and Contingent Liabilities

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans and letters of credit, as well as commitments to originate and commitments to sell leases. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(17) Commitments and Contingent Liabilities (Continued)

Financial instruments with off-balance sheet risk are summarized as follows:

	December 31,	
	2007	2006
	(In thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit:		
Commitments to originate or purchase loans and leases	\$ 35,302	\$ 31,745
Unused lines of credit and other commitments	219,542	205,673
Letters of credit and standby letters of credit	3,489	3,353
Financial instruments whose notional amounts exceed the amount of credit risk:		
Forward loan commitments:		
Commitments to originate leases to be sold	2,034	3,505
Commitments to sell leases	5,300	3,505

Commitments to originate loans and unused lines of credit are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since certain commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the borrower.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. At December 31, 2007 and 2006, the maximum potential amount of future payments under letters of credit was \$2.7 million and \$3.2 million, respectively. At December 31, 2007 and 2006, cash collateral supported \$1.2 million and \$1.1 million, respectively, of the outstanding standby letters of credit. The fair value of the guarantees of the standby letters of credit was \$20,000 and \$24,000, respectively, and is not reflected on the consolidated balance sheets.

Commitments to originate and commitments to sell leases are derivative financial instruments. Accordingly, the fair value of these commitments is recognized in other assets on the consolidated balance sheets and the changes in fair value of such commitments are recorded in current earnings in the consolidated income statements. The carrying values of such commitments as of December 31, 2007 and 2006 and the respective changes in fair values for the years then ended were insignificant.

(18) Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS 107, "Disclosures About Fair Value of Financial Instruments." The estimated fair value amounts have been determined by using available quoted market information or other appropriate valuation methodologies. The aggregate fair value amounts presented are in accordance with SFAS 107 guidelines but do not represent the underlying value of the Bank taken as a whole.

The fair value estimates provided are made at a specific point in time, based on relevant market information and the characteristics of the financial instrument. The estimates do not provide for any premiums or discounts that could result from concentrations of ownership of a financial instrument.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(18) Fair Value of Financial Instruments (Continued)

Because no active market exists for some of the Bank's financial instruments, certain fair value estimates are based on subjective judgments regarding current economic conditions, risk characteristics of the financial instruments, future expected loss experience, prepayment assumptions and other factors. The resulting estimates involve uncertainties and therefore cannot be determined with precision. Changes made to any of the underlying assumptions could significantly affect the estimates.

The book values and estimated fair values for the Company's financial instruments are as follows:

	December 31, 2007		December 31, 2006	
	Book Value	Estimated Fair Value	Book Value	Estimated Fair Value
(In thousands)				
Assets:				
Cash and due from banks	\$ 20,465	\$ 20,465	\$ 24,469	\$ 24,469
Overnight investments	17,097	17,097	37,295	37,295
Investment securities	76,986	76,986	103,425	103,425
Mortgage-backed securities	258,195	258,195	240,462	240,462
Stock in the FHLB	15,671	15,671	16,530	16,530
Loans and leases receivable, net of allowance for loan and lease losses:				
Commercial loans and leases	563,964	572,200	519,790	509,636
Residential mortgage loans	247,621	249,097	263,945	262,158
Consumer and other loans	213,928	216,769	220,557	216,418
Accrued interest receivable	6,557	6,557	6,755	6,755
Liabilities:				
Deposits:				
Demand deposit accounts	\$ 172,634	\$ 172,634	\$ 200,282	\$ 200,282
NOW accounts	65,191	65,191	70,736	70,736
Money market accounts	6,054	6,054	6,991	6,991
Savings accounts	396,838	396,838	356,707	356,707
Certificate of deposit accounts	374,063	375,004	381,707	382,403
Overnight and short-term borrowings	66,795	66,795	56,341	56,341
Wholesale repurchase agreements	10,000	10,252	20,000	20,151
FHLB borrowings	241,505	258,126	242,198	242,918
Subordinated deferrable interest debentures	13,403	13,701	18,558	18,708
Accrued interest payable	4,411	4,411	5,084	5,084

Cash and due from banks—The carrying values reported in the balance sheet for cash and due from banks approximate the fair values because of the short maturity of these instruments.

Overnight investments—The carrying values reported in the balance sheet for federal funds sold and overnight investments approximate the fair values because of the short maturity of these instruments.

Investment and mortgage-backed securities—The fair values presented for investment and mortgage-backed securities are based on quoted market prices, where available. If quoted market prices are not

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(18) Fair Value of Financial Instruments (Continued)

available, fair values are based on quoted market prices of comparable instruments and/or discounted cash flow analyses.

Stock in the Federal Home Loan Bank of Boston—The fair value of stock in the FHLB equals the carrying value reported in the balance sheet. This stock is redeemable at full par value only by the FHLB.

Loans and leases receivable—Fair value estimates are based on loans and leases with similar financial characteristics. Loans and leases have been segregated by homogenous groups into residential mortgage, commercial, and consumer and other loans. Fair values are estimated by discounting contractual cash flows, adjusted for prepayment estimates, using discount rates approximately equal to current market rates on loans with similar characteristics and maturities. The incremental credit risk for nonperforming loans has been considered in the determination of the fair value of loans.

Deposits—The fair values reported for demand deposit, NOW, money market, and savings accounts are equal to their respective book values reported on the balance sheet. The fair values disclosed are, by definition, equal to the amount payable on demand at the reporting date. The fair values reported for certificate of deposit accounts are based on the discounted value of contractual cash flows. The discount rates used are representative of approximate rates currently offered on certificate of deposit accounts with similar remaining maturities.

Overnight and short-term borrowings—The carrying values reported in the balance sheet for overnight and short-term borrowings approximate the fair values because of the short maturity of these instruments.

Wholesale repurchase agreements—The fair values reported for wholesale repurchase agreements are based on the discounted value of contractual cash flows. The discount rates used are representative of approximate rates currently offered on borrowings with similar remaining maturities.

Federal Home Loan Bank of Boston borrowings—The fair values reported for FHLB borrowings are based on the discounted value of contractual cash flows. The discount rates used are representative of approximate rates currently offered on borrowings with similar remaining maturities.

Subordinated deferrable interest debentures—The fair values reported for Subordinated deferrable interest debentures are based on the discounted value of contractual cash flows. The discount rates used are representative of approximate rates currently offered on instruments with similar terms and remaining maturities.

Accrued interest receivable and payable—The carrying values for accrued interest receivable and payable approximate fair values because of the short-term nature of these financial instruments.

Financial instruments with off-balance sheet risk—Since the Bank's commitments to originate or purchase loans, and for unused lines and outstanding letters of credit, are primarily at market interest rates, there is no significant fair value adjustment.

(19) Shareholders' Equity

Capital guidelines issued by the Federal Reserve Board ("FRB") require the Company to maintain minimum capital levels for capital adequacy purposes. Tier I capital is defined as common equity and retained earnings, less certain intangibles. The risk-based capital guidelines include both a definition of capital and a framework for calculating risk-weighted assets by assigning assets and off-balance-sheet items to one of four risk categories, each with an appropriate weight. The risk-based capital rules are designed to

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(19) Shareholders' Equity (Continued)

make regulatory capital more sensitive to differences in risk profiles among banks and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. The Bank is also subject to FDIC regulations regarding capital requirements. These regulations require banks to maintain minimum capital levels for capital adequacy purposes and higher capital levels to be considered "well capitalized."

As of December 31, 2007 and 2006, the Company and the Bank met all applicable minimum capital requirements and were considered "well capitalized" by both the FRB and the FDIC. There have been no events or conditions since the end of the year that management believes would cause a change in either the Company's or the Bank's categorization. The Company's and the Bank's actual and required capital amounts and ratios are as follows:

	Actual		For Capital Adequacy Purposes		To Be Considered "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
At December 31, 2007:						
Bancorp Rhode Island, Inc.:						
Tier I capital (to average assets)	\$ 114,403	7.87%	\$ 58,119	4.00%	\$ 72,649	5.00%
Tier I capital (to risk-weighted assets)	114,403	11.06%	41,361	4.00%	62,042	6.00%
Total capital (to risk-weighted assets)	127,022	12.28%	82,722	8.00%	103,403	10.00%
Bank Rhode Island:						
Tier I capital (to average assets)	\$ 112,323	7.72%	\$ 58,165	4.00%	\$ 72,706	5.00%
Tier I capital (to risk-weighted assets)	112,323	10.87%	41,325	4.00%	61,987	6.00%
Total capital (to risk-weighted assets)	124,942	12.09%	82,650	8.00%	103,312	10.00%
At December 31, 2006:						
Bancorp Rhode Island, Inc.:						
Tier I capital (to average assets)	\$ 121,782	8.37%	\$ 58,210	4.00%	\$ 72,763	5.00%
Tier I capital (to risk-weighted assets)	121,782	12.05%	40,428	4.00%	60,642	6.00%
Total capital (to risk-weighted assets)	134,159	13.27%	80,856	8.00%	101,070	10.00%
Bank Rhode Island:						
Tier I capital (to average assets)	\$ 104,213	7.18%	\$ 58,054	4.00%	\$ 72,567	5.00%
Tier I capital (to risk-weighted assets)	104,213	10.32%	40,405	4.00%	60,607	6.00%
Total capital (to risk-weighted assets)	116,590	11.54%	80,809	8.00%	101,011	10.00%

The trust preferred securities issued by the Company are included in its Tier 1 capital. On March 1, 2005, the FRB issued a final rule that would retain trust preferred securities in Tier 1 capital of bank holding companies, but with stricter quantitative limits and clearer standards. Under the proposal, after a five-year transition period that would end on March 31, 2009, the aggregate amount of trust preferred securities would be limited to 25% of Tier 1 capital elements, net of goodwill. The Company has evaluated the potential impact of such a change on its Tier 1 capital ratio and has concluded that the regulatory capital treatment of the trust preferred securities in the Company's total capital ratio would be unchanged.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(19) Shareholders' Equity (Continued)

Stock Repurchase Program—The Company has maintained a stock repurchase program authorized by the Company's board of directors, which has enabled the Company to proactively manage its capital position. The program, which was initially approved on April 18, 2006, authorized the Company to repurchase up to 245,000 shares of its common stock from time to time through open market or privately negotiated purchases. On November 26, 2007, the Company expanded the stock repurchase program to 345,000 shares and also adopted a written purchase plan pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934, as amended. Under the program, the Company repurchased 305,200 shares at a total cost of \$10.2 million during 2007; no shares were repurchased during 2006.

(20) Earnings Per Share

The following table is a reconciliation of basic EPS and diluted EPS:

	Year Ended December 31,		
	2007	2006	2005
Basic EPS Computation:			
Numerator:			
Net income (in thousands)	\$ 9,045	\$ 7,711	\$ 9,569
Denominator:			
Weighted average shares outstanding	4,791,625	4,766,854	4,478,081
Basic EPS	\$ 1.89	\$ 1.62	\$ 2.14
Diluted EPS Computation:			
Numerator:			
Net income (in thousands)	\$ 9,045	\$ 7,711	\$ 9,569
Denominator:			
Common shares outstanding	4,791,625	4,766,854	4,478,081
Stock options	112,147	153,715	214,174
Contingent shares	13,561	—	1,507
Restricted stock	1,430	—	3,372
Total shares	4,918,763	4,920,569	4,697,134
Diluted EPS	\$ 1.84	\$ 1.57	\$ 2.04

(21) Regulation and Litigation

The Company and the Bank are subject to extensive regulation and examination by the FRB, the Rhode Island Division of Banking and the FDIC, which insures the Bank's deposits to the maximum extent permitted by law. The federal and state laws and regulations which are applicable to banks regulate, among other things, the scope of their business, their investments, their reserves against deposits, the timing of the availability of deposited funds and the nature and amount of and collateral for certain loans. The laws and regulations governing the Bank generally have been promulgated to protect depositors and not for the purpose of protecting shareholders. Among other things, bank regulatory authorities have the right to restrict the payment of dividends by banks and bank holding companies to shareholders.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(21) Regulation and Litigation (Continued)

The Company is involved in routine legal proceedings occurring in the ordinary course of business. In the opinion of management, final disposition of these lawsuits will not have a material adverse effect on the consolidated financial condition or results of operations of the Company.

(22) Parent Company Statements

The following are condensed financial statements for Bancorp Rhode Island, Inc. (the "Parent Company"):

Balance Sheets

	December 31,	
	2007	2006
	(In thousands)	
Assets		
Assets:		
Cash and due from banks	\$ 99	\$ —
Overnight investments	1,630	17,120
Investment in subsidiaries	124,974	113,165
Prepaid expenses and other assets	376	437
	\$ 127,079	\$ 130,722
Liabilities and Shareholders' Equity		
Liabilities:		
Subordinated deferrable interest debentures	\$ 13,403	\$ 18,558
Other liabilities	568	79
	13,971	18,637
Shareholders' equity:		
Preferred stock: par value \$0.01 per share, authorized 1,000,000 shares. Issued and outstanding: none	—	—
Common stock: par value \$0.01 per share, authorized 11,000,000 shares. Issued: 4,867,121 shares at December 31, 2007 and 4,792,380 shares in December 31, 2006	49	48
Additional paid-in capital	70,123	67,960
Treasury stock, at cost (305,200 shares at December 31, 2007)	(10,189)	—
Retained earnings	53,194	47,091
Accumulated other comprehensive loss, net	(69)	(3,014)
	113,108	112,085
Total liabilities and shareholders' equity	\$ 127,079	\$ 130,722

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(22) Parent Company Statements (Continued)

Statements of Operations

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Income:			
Dividends received from subsidiaries	\$ 1,800	\$ 700	\$ 3,750
Interest on overnight investments	633	945	486
	2,433	1,645	4,236
Expenses:			
Subordinated deferrable interest debentures	1,509	1,460	1,272
Professional services and other expenses	669	553	254
Directors' fees	233	261	118
Compensation expense	212	98	97
	2,623	2,372	1,741
Income (loss) before income taxes	(190)	(727)	2,495
Income tax benefit	(645)	(540)	(423)
	455	(187)	2,918
Income (loss) before equity in undistributed earnings of subsidiaries	455	(187)	2,918
Equity in undistributed earnings of subsidiaries	8,590	7,898	6,651
	9,045	7,711	9,569
Net income	\$ 9,045	\$ 7,711	\$ 9,569

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(22) Parent Company Statements (Continued)

Statements of Cash Flow

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Cash flows from operating activities:			
Net income	\$ 9,045	\$ 7,711	\$ 9,569
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(8,590)	(7,898)	(6,651)
Share-based compensation expense	299	186	82
Tax benefit from stock option exercises	—	—	309
(Increase) decrease in other assets	61	(56)	107
Increase (decrease) in other liabilities	489	(142)	8
Other, net	—	(1)	—
	1,304	(200)	3,424
Cash flows from financing activities:			
Investment in subsidiaries	(274)	(3,000)	(5,250)
Repayment of subordinated deferrable interest debentures	(5,155)	—	—
Proceeds from issuance of common stock	1,367	1,663	22,532
Payment to repurchase common stock	(10,189)	—	—
Tax benefit from stock option exercises	498	261	—
Dividends on common stock	(2,942)	(2,861)	(2,701)
	(16,695)	(3,937)	14,581
Net increase (decrease) in cash and due from banks	(15,391)	(4,137)	18,005
Cash and cash equivalents at beginning of year	17,120	21,257	3,252
	\$ 1,729	\$ 17,120	\$ 21,257
Supplementary disclosures:			
Cash paid (received) for income taxes	\$ (1,155)	\$ (1,011)	\$ (542)
Non-cash transactions:			
Change in other comprehensive income, net of taxes	2,945	210	(3,882)

The Parent Company's Statements of Changes in Shareholders' Equity is identical to the Consolidated Statements of Changes in Shareholders' Equity and therefore is not presented here.

BANCORP RHODE ISLAND, INC.

Notes to Consolidated Financial Statements (Continued)

(23) Quarterly Results of Operations (unaudited)

	2007 Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest and dividend income	\$ 21,102	\$ 21,315	\$ 21,950	\$ 21,703
Interest expense	10,874	11,023	11,685	11,244
Net interest income	10,228	10,292	10,265	10,459
Provision for loan and lease losses	100	100	290	210
Net interest income after provision for loan and lease losses	10,128	10,192	9,975	10,249
Noninterest income	2,562	2,664	2,856	2,703
Noninterest expense	9,511	9,624	9,492	9,398
Income before taxes	3,179	3,232	3,339	3,554
Income taxes	1,001	1,038	1,061	1,159
Net income	\$ 2,178	\$ 2,194	\$ 2,278	\$ 2,395
Basic EPS	\$ 0.45	\$ 0.45	\$ 0.47	\$ 0.51
Diluted EPS	\$ 0.44	\$ 0.44	\$ 0.46	\$ 0.50

	2006 Quarter Ended			
	March 31	June 30	September 30	December 31
	(In thousands, except per share data)			
Interest and dividend income	\$ 19,395	\$ 19,762	\$ 21,017	\$ 21,028
Interest expense	8,345	9,433	10,341	10,855
Net interest income	11,050	10,329	10,676	10,173
Provision for loan and lease losses	267	435	400	100
Net interest income after provision for loan and lease losses	10,783	9,894	10,276	10,073
Noninterest income	2,305	2,815	1,544	2,324
Noninterest expense	10,824	9,725	9,504	8,674
Income before taxes	2,264	2,984	2,316	3,723
Income taxes	739	978	673	1,186
Net income	\$ 1,525	\$ 2,006	\$ 1,643	\$ 2,537
Basic EPS	\$ 0.32	\$ 0.42	\$ 0.34	\$ 0.53
Diluted EPS	\$ 0.31	\$ 0.41	\$ 0.33	\$ 0.51

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Section 2: EX-3.2 (EX-3.2)

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Exhibit 3.2

BANCORP RHODE ISLAND, INC.

(a stock corporation
organized pursuant to the
Rhode Island Business Corporation Act)

BY-LAWS

/s/ MARGARET D. FARRELL

Margaret D. Farrell, Secretary

As Adopted on February 15, 2000
(Amended November 8, 2007)

BANCORP RHODE ISLAND, INC.

(the "Corporation")

(a stock corporation organized pursuant to the Rhode Island
Business Corporation Act)

BY-LAWS

These By-Laws are subject to the Articles of Incorporation of the Corporation. References herein to law, the Articles of Incorporation and these By-Laws mean the law, the provisions of the Articles of Incorporation and the By-Laws as from time to time in effect.

ARTICLE I

Offices

SECTION 1.01. *Registered Office.* The registered office of the Corporation shall be at 1500 Fleet Center, Providence Rhode Island, or such other location as the Board of Directors of the Corporation (the "Board") may designate, subject to change as authorized by law.

SECTION 1.02. *Other Offices.* The Corporation may also have an office or offices at such places both within and without the State of Rhode Island as may from time to time be determined by the Board or as the business of the Corporation may require.

ARTICLE II

Shareholders

SECTION 2.01. *Place of Meetings.* All meetings of the shareholders of the Corporation shall be held at the principal executive offices of the Corporation in Rhode Island or at such place either within or without the State of Rhode Island as shall be fixed by the Board and specified in the respective notices or waivers of notice of said meetings.

SECTION 2.02. *Annual Meetings.*

(a) The annual meeting of the shareholders for the election of directors and for the transaction of such other business as properly may come before the meeting shall be held at the principal office of the Corporation in the State of Rhode Island, or such place as shall be fixed by the Board, at 10:00 a.m., local time, on the third Wednesday in May in each year, if not a legal holiday at the place where such meeting is to be held, and, if a legal holiday, then on the next succeeding business day not a legal holiday at the same hour.

(b) In respect of the annual meeting for any particular year, the Board may, by resolution, fix a different day, time or place (either within or without the State of Rhode Island) for the annual meeting.

(c) If the election of directors shall not be held on the day designated herein or the day fixed by the Board, as the case may be, for any annual meeting, or on the day of any adjourned session thereof, the Board shall cause the election to occur at a special meeting to be held as soon thereafter as practicable. At such special meeting the shareholders may elect the directors and transact other business with the same force and effect as at an annual meeting duly called and held.

SECTION 2.03. *Matters to be Considered at Annual Meetings.* At an annual meeting of shareholders, only such new business shall be conducted, and only such proposals shall be acted upon as shall be proper subjects for shareholder action pursuant to the Articles of Incorporation, these By-Laws, or applicable law and shall have been brought before the annual meeting (a) by, or at the

direction of, the Board, the Chairman of the Board, or the President or (b) by a shareholder of the Corporation who complies with the notice procedures set forth in this Section 2.03.

For a proposal to be properly brought before an annual meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice must be received at the principal executive offices of the Corporation not less than 60 days nor more than 150 days prior to the scheduled annual meeting, regardless of any postponements, deferrals or adjournments of that meeting to a later date; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the scheduled annual meeting is given or made, notice by the shareholder to be timely must be so delivered or received not later than the close of business on the tenth day following the earlier of the day on which such notice of the date of the scheduled annual meeting was mailed or the day on which public disclosure was made. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the proposal desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business and any other shareholders known by such shareholder to be supporting such proposal, (c) the class and number of shares of the Corporation's capital stock which are beneficially owned by the shareholder on the date of such shareholder notice and by any other shareholders known by such shareholder to be supporting such proposal on the date of such shareholder notice, and (d) any financial interest of the shareholder in such proposal.

Nothing contained in this Section 2.03 shall require proxy materials distributed by the management of the Corporation to include any information with respect to shareholder proposals.

The Board may reject any shareholder proposal not timely made in accordance with the terms of this Section 2.03. If there is an Interested Shareholder (as defined below), any determinations to be made by the Board or a designated committee thereof pursuant to the provisions of this paragraph shall also require the concurrence of a majority of the Continuing Directors (as defined below) then in office.

This provision shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, Directors, and committees, but in connection with such reports, no matter shall be acted upon at such annual meeting unless stated and filed as herein provided.

As used in these By-Laws, the terms "Interested Shareholder" and "Continuing Director" shall have the same respective meanings assigned to them in the Articles of Incorporation. Any determination of beneficial ownership of securities under these By-Laws shall be made in the manner specified in the Articles of Incorporation.

SECTION 2.04. *Special Meetings.* A special meeting of the shareholders for any purpose or purposes may be called at any time by the Chairman of the Board or the President or by a majority of the Board then in office (provided, however, that if there is an Interested Shareholder, any such call by the Board shall also require the affirmative vote of a majority of the Continuing Directors then in office).

SECTION 2.05. *Notice of Meetings.* Except as otherwise required by law, a written notice of each meeting of shareholders stating the place, day and hour thereof and, in the case of a special meeting, the purposes for which the meeting is called, shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting, to each shareholder of record entitled to vote thereat either personally, by depositing it in the United States mail, postage prepaid, and addressed to such shareholder at his address as it appears in the stock transfer books of the Corporation or in accordance with any other method (including, without limitation, facsimile or electronic transmission) permitted by applicable law. Such notice shall be given by or at the direction of the President, the

Secretary or the officer or persons calling the meeting. Notice of any adjourned session of a meeting of the shareholders shall not be required to be given except when expressly required by law. A written waiver of notice of any meeting of the shareholders signed by the shareholder or shareholders entitled to notice, whether before or after the time stated therein, shall be equivalent to the giving of notice of such meeting (including any adjourned sessions thereof). Neither the business to be transacted at, nor the purpose of any meeting of the shareholders or any adjourned session thereof need be specified in the written waiver of notice. Attendance of a shareholder at a meeting or any adjourned session thereof shall constitute a waiver of notice of such meeting, except when the shareholder attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 2.06. *Quorum.*

(a) At each meeting of the shareholders, except where otherwise provided by statute, the Articles of Incorporation or these By-Laws, the holders of record of a majority of the issued and outstanding shares of stock of the Corporation entitled to vote at such meeting, present in person or represented by a proxy, shall constitute a quorum for the transaction of business.

(b) In the absence of a quorum a majority in interest of the shareholders of the Corporation entitled to vote, present in person or represented by proxy or, in the absence of all such shareholders, any officer entitled to preside at, or act as secretary of, such meeting, shall have the power to adjourn the meeting from time to time, until shareholders holding the requisite amount of stock shall be present or represented. At any such adjourned meeting at which a quorum shall be present any business may be transacted which might have been transacted at the meeting as originally called.

SECTION 2.07. *Voting.*

(a) Except as otherwise provided by law or by the Articles of Incorporation or these By-Laws, at every meeting of the shareholders each shareholder shall be entitled to one vote, in person or by proxy, for each share of capital stock of the Corporation entitled to vote registered in his name on the books of the Corporation:

(i) on the date fixed pursuant to Section 6.03 of these By-Laws as the record date for the determination of shareholders entitled to vote at such meeting; or

(ii) if no such record date shall have been fixed, then the record date shall be at the close of business on the day on which notice of such meeting is given.

(b) Neither treasury shares, nor shares held, directly or indirectly, by another corporation if a majority of the shares entitled to vote for the election of directors of such corporation is held by the Corporation, shall be voted at any meeting of shareholders; provided, however, that the foregoing shall not limit the right of the Corporation to vote stock, including but not limited to its own stock, held in a fiduciary capacity.

(c) Any shareholder entitled to vote may do so in person or by his proxy appointed by an instrument in writing subscribed by such shareholder or by his attorney thereunto authorized, provided, however, that no proxy shall be voted after eleven months from its date, unless said proxy provides for a longer period. Proxies shall be filed with the Secretary at the meeting, or of any adjournment thereof, before being voted. Proxies solicited on behalf of the management shall be voted as directed by the shareholder or, in the absence of such direction, as determined by a majority of the Board. Except as otherwise limited therein, proxies shall entitle the persons authorized thereby to vote at any adjournment of such meeting, but they shall not be valid after final adjournment of such meeting. A proxy with respect to stock held in the name of two or more persons shall be valid if executed by one of them unless at or prior to exercise of the proxy the Secretary of the Corporation receives a specific written notice to the contrary from any one of them. A proxy purporting to be executed by or on

behalf of a shareholder shall be deemed valid unless successfully challenged at or prior to its exercise, and the burden of proving invalidity shall rest on the challenger.

(d) At all meetings of the shareholders, all matters (except where other provision is made by law or by the Articles of Incorporation or these By-Laws) shall be decided by the vote of a majority in interest of the shareholders entitled to vote thereon, present in person or by proxy at such meeting, a quorum being present. Any election by shareholders shall be determined by a plurality of votes cast, except where a larger vote is required by law, the Articles of Incorporation or these By-Laws. No ballot shall be required for any election unless requested by a shareholder entitled to vote in the election.

SECTION 2.08. *Inspectors.* The Chairman of the meeting may at any time appoint two or more inspectors to serve at any meeting of the shareholders. Such inspectors shall decide upon the qualifications of voters, accept and count the votes for and against the questions presented, report the results of such votes, and subscribe and deliver to the secretary of the meeting a certificate stating the number of shares of stock issued and outstanding and entitled to vote thereon and the number of shares voted for and against the questions presented. The inspectors need not be shareholders of the Corporation, and any director or officer of the Corporation may be an inspector on the question other than a vote for or against his election to any position with the Corporation or on any other question in which he may be directly interested. Before acting as herein provided, each inspector shall subscribe an oath faithfully to execute the duties of an inspection with strict impartiality and according to the best of his ability.

SECTION 2.09. *List of Shareholders.*

(a) It shall be the duty of the Secretary or other office of the Corporation who shall have charge of its stock ledger to prepare and make, or cause to be prepared and made, at least ten days before every meeting of the shareholders, a complete list of the shareholders entitled to vote thereat, arranged in alphabetical order and showing the address of each shareholder and the number of shares registered in the name of the shareholder

(b) Such list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present.

(c) The stock ledger shall be conclusive evidence as to who are the shareholders entitled to examine the stock ledger and the listing of shareholders required by this Section 2.09 on the books of the Corporation or to vote in person or by proxy at any meeting of shareholders.

ARTICLE III

Board of Directors

SECTION 3.01. *General Powers.* The business, property and affairs of the Corporation shall be managed by the Board. In the event of a vacancy in the Board, the remaining directors, except as otherwise provided by law, may exercise the powers of the full Board until the vacancy is filled.

SECTION 3.02. *Number, Qualification and Term of Office.*

(a) The number of directors of the Corporation which shall constitute the whole Board shall be determined in accordance with the provisions of the Articles of Incorporation. No decrease in the number of directors shall have the effect of shortening the term of any incumbent director.

(b) The Board shall be divided into three classes in accordance with the provisions of the Articles of Incorporation, shall be nominated in accordance with the provisions of these By-Laws, and shall be elected and shall serve terms in accordance with the provisions of the Articles of Incorporation and these By-Laws.

(c) Each director shall have such qualifications as are required by applicable law. Directors need not be residents of Rhode Island or shareholders of the Corporation.

SECTION 3.03. *Director Nominations.* Nominations of candidates for election as directors at any annual meeting of shareholders may be made (a) by, or at the direction of, a majority of the Board (unless there is an Interested Shareholder, in which case the affirmative vote of a majority of the Continuing Directors shall also be required) or (b) by any shareholder entitled to vote at such annual meeting. Only persons nominated in accordance with the procedures set forth in this Section 3.03 shall be eligible for election as directors at any annual meeting.

Nominations, other than those made by, or at the direction of, the Board (or by the Continuing Directors, if required), shall be made pursuant to timely notice in writing to the Secretary of the Corporation as set forth in this Section 3.03. To be timely, a shareholder's notice shall be delivered to, or mailed and received, at the principal executive offices of the Corporation not less than 60 days nor more than 150 days prior to the date of the scheduled annual meeting, regardless of postponements, deferrals, or adjournments of that meeting to a later date; provided, however, that if less than 70 days' notice or prior public disclosure of the date of the scheduled annual meeting is given or made, notice by the shareholder to be timely must be so delivered or received not later than the close of business on the tenth day following the earlier of the day on which such notice of the date of the scheduled annual meeting was mailed or the day on which such public disclosure was made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director and as to the shareholder giving the notice (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the Corporation's capital stock which are beneficially owned by such person on the date of such shareholder notice and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies with respect to nominees for election as directors, pursuant to proxy regulations promulgated under the Securities Exchange Act of 1934, as amended; and (b) as to the shareholder giving the notice (i) the name and address as they appear on the Corporation's books, of such shareholder and any other shareholders known by such shareholder to be supporting such nominees and (ii) the class and number of shares of the Corporation's capital stock which are beneficially owned by such shareholder on the date of such shareholder notice and by any other shareholders known by such shareholder to be supporting such nominees on the date of such shareholder notice. At the request of the Board, any person nominated by, or at the direction of, the Board for election as a director at an annual or special meeting shall furnish to the Secretary of the Corporation that information required to be set forth in the shareholder's notice of nomination which pertains to the nominee.

Nothing contained in this Section 3.03 shall require proxy materials distributed by the management of the Corporation to include any information with respect to nominations by shareholders.

No person shall be elected as a director of the Corporation unless nominated in accordance with the procedures set forth in this Section 3.03. Ballots bearing the names of all the persons who have been nominated for election as directors at an annual or special meeting in accordance with the procedures set forth in this Section 3.03 shall be provided for use at such annual or special meeting.

The Board may reject any nomination by a shareholder that is not timely made in accordance with this Section 3.03 or does not satisfy any requirements of this Section 3.03 in any material respect. If there is an Interested Shareholder, any determinations to be made by the Board or a designated committee thereof pursuant to the provisions of this paragraph shall also require the concurrence of a majority of the Continuing Directors then in office.

SECTION 3.04. *Quorum and Manner of Acting.*

(a) Except as otherwise provided by statute or by the Articles of Incorporation, a majority of the directors at the time in office shall constitute a quorum for the transaction of business at any meeting and the affirmative action of a majority of the directors present at any meeting at which a quorum is present shall be required for the taking of any action by the Board.

(b) In the absence of a quorum at any meeting of the Board such meeting need not be held, or a majority of the directors present thereat or, if no director be present, the Secretary may adjourn such meeting from time to time until quorum shall be present. Notice of any adjourned meeting need not be given.

SECTION 3.05. *Offices, Place of Meeting and Records.* The Board may hold meetings, have an office or offices and keep the books and records of the Corporation at such place or places within or without the State of Rhode Island as the Board may from time to time determine. The place of meeting shall be specified or fixed in the respective notices or waivers of notice thereof, except where otherwise provided by statute, by the Articles of Incorporation or these By-Laws.

SECTION 3.06. *Annual Meeting.* The Board shall meet for the purpose of organization, the election of offices and the transaction of other business, as soon as practicable following each annual election of directors. Such meeting shall be called and held at the place and time specified in the notice or waiver of notice thereof as in the case of a special meeting of the Board.

SECTION 3.07. *Regular Meetings.* A regular meeting of the Board shall be held without other notice than this By-law on the same date and at the same place as the annual meeting of shareholders, or the special meeting held in lieu thereof, following such meeting of shareholders. The Board may provide by resolution, the time, date and place for the holding of regular meetings without other notice than such resolution, provided that notice of the first regular meeting following any such determination shall be given to absent directors. There shall be regular meetings of the Board at a place or places fixed from time to time by the Board.

Regular meetings of any committee designated by the Board may be held without call or notice at such places within or without the State of Rhode Island and at such times as the Board or committee may from time to time determine.

SECTION 3.08. *Special Meetings; Notice.* Special meetings of the Board shall be held whenever called by the Chairman of the Board or the President or by a majority of the directors. Notice of each such meeting shall be mailed to each director, addressed to him at his residence or usual place of business, or shall be sent to him at his residence or at such place of business by telegraph, cable or other available means, at least three days before the day on which the meeting is to be held, or shall be delivered personally or by telephone or facsimile, not later than twenty-four hours before the meeting is to be held. If mailed, such notice shall be deemed to be delivered when deposited in the mail, with postage prepaid thereon. Each such notice shall state the time and place of the meeting but need not state the purposes thereof except as otherwise herein expressly provided. Notice of any such meeting need not be given to any director, however, if waived by him in writing or by telegraph, cable or otherwise, whether before or after such meeting shall be held. Attendance of a director at a meeting shall constitute a waiver of notice of the meeting, except where a director attends a meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

SECTION 3.09. *Removal of Directors.* Any director (including persons elected by directors to fill vacancies in the Board) or the entire Board may be removed at any time, for cause, by either (i) an affirmative vote of the holders of not less than two-thirds of the outstanding shares of voting stock, taking such action at an annual meeting of shareholders, or at a special meeting of shareholders duly called for such purpose, or (ii) the affirmative vote of not less than two-thirds of the directors then in

office, unless at the time of such action there shall be an Interested Shareholder, in which case such action shall in addition require the affirmative vote of at least two-thirds of the Continuing Directors then in office. Any or all of the directors may also be removed without cause by an affirmative vote of the holders of not less than two-thirds of the outstanding shares of voting stock, taking such action at an annual meeting of shareholders, or at a special meeting of shareholders duly called for such purpose.

SECTION 3.10. *Resignation.* Any director of the Corporation may resign at any time by giving written notice of his resignation to the Board, to the Chairman of the Board or the President of the Corporation. Such resignation shall take effect at the date of receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.11. *Vacancies.* Vacancies and newly created directorships shall be filled only by the affirmative vote of a majority of the Board then in office, although less than a quorum, unless at the time of such action there shall be an Interested Shareholder, in which case such action shall in addition require the affirmative vote of at least two-thirds of the Continuing Directors then in office.

SECTION 3.12. *Compensation.* Each director, in consideration of his serving as such, may be entitled to receive from the Corporation such amount per annum or such fees for attendance at meetings of the Board and its committees, or both, together with reimbursement for the reasonable expenses incurred by such director in connection with the performance of his duties, as the Board shall from time to time determine, provided that nothing herein contained shall be construed to preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving proper compensation therefor.

SECTION 3.13. *Action Without a Meeting.* Except as may otherwise be provided by the Articles of Incorporation or these By-laws, any action required to be taken at any meeting of the Board, or any action which may be taken at a meeting of the Board or a committee thereof, may be taken without a meeting if a consent in writing, setting forth the action to be taken, is signed before or after such action by all of the members of the Board or of such committee, as the case may be. Such consent shall have the same effect as a unanimous vote for all purposes, and may be stated as such in any certificate or other document filed with the Secretary of State or retained in the Corporation's records.

SECTION 3.14. *Telephone Meetings.* Members of the Board or any committee designated by the Board may participate in a meeting of such Board or committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other.

SECTION 3.15. *Presumption of Assent.* A director of the Corporation who is present at a meeting of the Board at which action on any Corporation matter is taken shall be presumed to have assented to the action taken unless his dissent or abstention has been entered in the minutes of the meeting or unless he has filed a written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or has forwarded such dissent by registered mail to the Secretary of the Corporation within five (5) days after the date such dissenting director receives a copy of the minutes of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

ARTICLE IV

Committees

SECTION 4.01. *Board Committees.* The Board by resolution passed by a majority of the whole Board, shall elect from its number an Executive Committee, which shall consist of five or more directors. Except as provided by Rhode Island law, during the interval between the meetings of the Board, the Executive Committee shall possess and may exercise all the powers of the Board in the management and direction of all the business and affairs of the Corporation (except the matters assigned by the Board to any other committee of the Board), in such manner as the Executive Committee shall deem in the best interests of the Corporation in all cases in which specific directions shall not have been given by the Board.

The Board may, from time to time, by resolution passed by a majority of the whole Board, designate one or more other committees as the Board may determine, each committee to consist of two or more directors of the Corporation. The Board may delegate to such committees in the respective resolution appointing such committee or a committee charter approved by a majority of the whole Board some or all of its powers except those which by law, by the Articles of Incorporation or by these By-laws may not be delegated. Any such committee, to the extent provided in the resolution or in these By-Laws and as permitted by applicable law, shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation.

A majority of all the members of any such committee may determine its action and fix the time and place of its meetings, unless the Board shall otherwise provide. The Board shall have the power to change the members of any committee at any time, to fill vacancies and to discharge any such committee, either with or without cause, at any time.

SECTION 4.02. *Alternates.* The Board may, by resolution passed by a majority of the whole Board, designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee; provided, however, that in the absence of any such designation of alternates the member or members of any committee present at any meeting and not disqualified from acting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any absent or disqualified member.

SECTION 4.03. *Additional Committees.* The Board may from time to time create such additional advisory committees of directors, officers, employees or other persons designated by it (or any combination of such persons) for the purpose of advising with the Board and the officers and employees of the Corporation in all such matters as the Board shall deem advisable and with such functions and duties as the Board shall by resolutions prescribe.

A majority of all the members of any such committee may determine its action and fix the time and place of its meetings, unless the Board shall otherwise provide. The Board shall have power to change the members of any committee at any time to fill vacancies and to discharge any such committee, with or without cause, at any time.

ARTICLE V

Officers

SECTION 5.01. *Number.* The officers of the Corporation shall include a Chairman of the Board and one or more Vice Chairmen of the Board (if elected pursuant to Section 5.07), a President, a Treasurer and a Secretary and such other officers, if any, including, without limitation, a Chief Executive Officer, a Chief Operating Officer, and one or more Vice Presidents (the number thereof and variations in title to be determined by the Board), as the Corporation may find necessary for the management of its affairs. In addition, there may be such other or subordinate officers, agents and

employees as may be appointed in accordance with the provisions of Section 5.03. Any two or more offices may be held by the same person.

SECTION 5.02. *Election, Qualification and Term of Office.* The officers of the Corporation shall first be elected by its subscribers or by the initial Board. Thereafter, each officer of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 5.03, shall be elected annually by the Board and shall hold office until his successors shall have been duly elected and qualified, or until his death, or until he shall have resigned or shall have been removed in the manner herein provided. Each officer and employee of the Corporation required by law to be bonded shall be bonded in such form and in such amount, and with such filings or notices, as may be required by law. Any officer may be required by the Board to secure the faithful performance of his duties to the Corporation by giving bond in such amount and with sureties or otherwise as the Board may determine. The Chairman of the Board and the President may serve and remain as directors. Election or appointment of an officer, employee or agent shall not of itself create contract rights to continued employment or otherwise. The Board may authorize the Corporation to enter into an employment contract with any officer in accordance with governing law or regulation, but no such contract right shall preclude the Board from exercising its right to remove any officer at any time in accordance with Section 5.04 hereof.

SECTION 5.03. *Other Officers.* The Corporation may have such other officers, agents, and employees as the Board may deem necessary, including a Controller, one or more Assistant Controllers, one or more Assistant Treasurers and one or more Assistant Secretaries, each of whom shall hold office for such period, have such authority, and perform such duties as the Board, the Chairman of the Board or the President may from time to time determine. The Board may delegate to any principal officer the power to appoint or remove any such subordinate officers, agents or employees.

SECTION 5.04. *Removal.* Any officer may be removed, either with or without cause, by the vote of a majority of the whole Board or, except in case of any officer elected by the Board, by any committee or officer upon whom the power of removal may be conferred by the Board (provided, however, that if there is an Interested Shareholder, any such removal shall also require the affirmative vote of a majority of the Continuing Directors then in office).

SECTION 5.05. *Resignation.* Any officer may resign at any time by giving written notice to the Board, the Chairman of the Board or the President. Any such resignation shall take effect at the date of receipt of such notice or at any later time specified therein; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 5.06. *Vacancies.* A vacancy in any office because of death, resignation, removal, disqualification or any other case shall be filled for the unexpired portion of the term in the manner prescribed in these By-Laws for regular election or appointment to such office.

SECTION 5.07. *Chairman and Vice Chairmen of the Board.* The Board may annually elect a Chairman of the Board and one or more Vice Chairmen of the Board (the number thereof and variations in title to be determined by the Board of Directors). The Chairman of the Board and any Vice Chairman shall have the duties and powers specified in these By-Laws and as may be determined by the Board. The Chairman shall, when present, preside at all meetings of the Board and at all meetings of the shareholders. In the absence of the Chairman of the Board, the Vice Chairman or if more than one Vice Chairman has been elected, the most senior Vice Chairman (determined by title or in order of election) shall, when present, preside at all meetings of the Board of Directors and at all meetings of the shareholders.

SECTION 5.08. *President.* Except as the Board shall otherwise determine, the President shall have general supervision and control of the Corporation's business, subject to the control of the Board.

If there be no Chairman of the Board or, in the absence of the Chairman of the Board and any Vice Chairman of the Board, the President shall preside at all meetings of the Board and at all meetings of the shareholders and shall have such additional powers and shall perform further duties as may from time to time be assigned to him or her by the Board.

SECTION 5.09. *Treasurer.* Except as the Board shall otherwise determine, the Treasurer shall be the Chief Financial Officer of the Corporation and shall be in charge of its funds, and shall have such other duties and powers as may be designated from time to time by the Board or the President.

Any Assistant Treasurers shall have such duties and powers as shall be designated from time to time by the Board, the President or the Treasurer.

SECTION 5.10. *Vice Presidents.* Each Vice President shall have such powers and perform such duties as the Board may from time to time prescribe or as shall be assigned to him by the President.

SECTION 5.11. *Secretary.* The Secretary shall record or cause to be recorded in books provided for the purpose the minutes of the meeting of the shareholders, the Board, and all committees of which a secretary shall not have been appointed; shall see that all notices are duly given in accordance with the provisions of these By-Laws and as required by law; shall be custodian of all corporate records (other than financial) and of the seal of the Corporation and see that the seal is affixed to all documents the execution of which on behalf of the Corporation under its seal is duly authorized in accordance with the provisions of these By-Laws; shall keep, or cause to be kept, the list of shareholders as required by Section 2.10, which shall include the post-office addresses of the shareholders and the number of shares held by them, respectively, and shall make or cause to be made, all proper changes therein; shall see that the books, reports, statements, certificates and all other documents and records required by law are properly kept and filed; and, in general, shall perform all duties incident to the office of Secretary and such other duties as may from time to time be assigned to him by the Board or the President.

Any Assistant Secretaries shall have such duties and powers as shall be designated from time to time by the Board, the President or the Secretary.

SECTION 5.12. *Compensation.* The compensation of the executive officers of the Corporation shall be fixed from time to time by the Board or a committee to whom the Board has delegated such authority, except that the Board or such committee may delegate to the Chief Executive Officer the power to fix the compensation of any executive officer, except the Chief Executive Officer of the Corporation. No officer shall be prevented from receiving a salary by reason of the fact that he is also a director of the Corporation.

ARTICLE VI

Books and Records

SECTION 6.01. *Place.* The books and records of the Corporation may be kept at such places within or without the State of Rhode Island, as the Board may from time to time determine. The stock record books and the blank stock certificate books shall be kept by the Secretary or by any officer or agent designated by the Board.

SECTION 6.02. *Addresses of Shareholders.* Each shareholder shall furnish to the Secretary of the Corporation or to the transfer agent of the Corporation an address at which notices of meetings and all other corporate notices may be served upon or mailed to him, and if any shareholder shall fail to designate such address, corporate notices may be served upon him by mail, postage prepaid, to him at his post office address last known to the Secretary of the Corporation or to the transfer agent of the Corporation or by transmitting a notice thereof to him at such address by telegraph, cable or other available method.

SECTION 6.03. *Record Dates.* The Board may fix in advance a date, not exceeding sixty days preceding the date of any meeting of shareholders, or the date for the payment of any dividend, or the date for the allotment of any rights, or the date when any change or conversion or exchange of capital stock of the Corporation shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the shareholders entitled to notice of, and to vote at any such meeting or any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any change, conversion or exchange of capital stock of the Corporation, or to give such consent, and in each such case such shareholders and only such shareholders as shall be shareholders of record on the date so fixed shall be entitled to notice of, or to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

SECTION 6.04. *Audit of Books and Accounts.* The books and accounts of the Corporation shall be audited at least once in each fiscal year by certified public accountants of good standing, elected by the Board upon the recommendation of the Corporation's Audit Committee.

ARTICLE VII

Shares and Their Transfer

SECTION 7.01. *Certificates of Stock.* Every owner of stock of the Corporation shall be entitled to have a certificate certifying the number of shares owned by him in the Corporation and designating the class of stock to which such shares belong, which shall otherwise be in such form as the Board shall prescribe; provided that the Board may provide by resolution or resolutions that some or all of any classes of stock shall be uncertificated shares. No authorization of uncertificated shares shall affect previously issued and outstanding shares represented by certificates until such certificates shall have been surrendered to the Corporation. Stock represented by a certificate shall be signed by the Chairman of the Board or the President or a Vice President and the Treasurer or any Assistant Treasurer or the Secretary or any Assistant Secretary of the Corporation and may be sealed with the seal of the Corporation or a facsimile thereof. Any or all of the signatures on the certificate may be a facsimile. In case an officer, transfer agent, or registrar who has signed or whose facsimile signature has been placed on such certificate shall have ceased to be such officer, transfer agent, or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if he were such officer, transfer agent, or registrar at the date of its issue. No shares shall be issued until such shares are fully paid.

SECTION 7.02. *Record.* A record shall be kept of the name of the person, firm or corporation owning stock of the Corporation issued, the number of shares represented by each certificate, and the date thereof, and, in the case of cancellation, the date of cancellation. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purposes as regards the Corporation.

SECTION 7.03. *Transfer of Stock.* Subject to the restrictions, if any, stated or noted on the stock certificates, or, in the event such stock is uncertificated, on the initial transaction statement or in a written notice sent to the holder of such stock, transfers of stock will be made on the books of the Corporation in the manner prescribed by law, the Articles of Incorporation and in these By-Laws. If shares of stock to be transferred are represented by certificates, transfers of such stock will be made by the surrender to the Corporation or its transfer agent of the certificate therefor properly endorsed or accompanied by a written assignment and power of attorney properly executed, with necessary transfer stamps affixed. If shares of stock to be transferred are uncertificated, such stock will be transferred upon proper instructions from the holder of such stock and in accordance with such other rules as the Board may impose. In each case, instructions for the transfer of shares of stock will be accompanied by

such proof of authenticity of signature as the Board or the transfer agent of the Corporation may reasonably require. Except as may be otherwise required by law, by the Articles of Incorporation or by these By-Laws, the Corporation shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes, including the payment of dividends and the right to receive notice and to vote or to give any consent with respect thereto and to be held liable for such calls and assessments, if any, as may lawfully be made thereon, regardless of any transfer, pledge or other disposition of such stock until the shares have been properly transferred on the books of the Corporation.

It shall be the duty of each shareholder to notify the Corporation of the post office address of such shareholder.

SECTION 7.04. *Transfer Agent and Registrar; Regulations.* The Corporation shall, if and whenever the Board shall so determine, maintain one or more transfer offices or agencies, each in charge of a transfer agent designated by the Board, where the shares of the capital stock of the Corporation shall be directly transferable, and also if and whenever the Board shall so determine, maintain one or more registry offices, each in charge of a registrar designated by the Board, where such shares of stock shall be registered. The Board may make such rules and regulations as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for shares of the capital stock of the Corporation.

SECTION 7.05. *Lost, Destroyed or Mutilated Certificates.* In case of the alleged loss or destruction or the mutilation of a certificate representing capital stock of the Corporation, a new certificate may be issued in place thereof, in the manner and upon such terms as the Board may prescribe.

SECTION 7.06 *Issuance of Capital Stock.* The Board shall have the authority to issue or reserve for issue from time to time the whole or any part of the capital stock of the Corporation which may be authorized from time to time, to such persons or organizations, for such consideration, whether cash, property, services or expenses, and on such terms as the Board may determine, subject to applicable law, including without limitation, the granting of options, warrants or conversion or other rights to subscribe to said capital stock.

ARTICLE VIII

Seal

The Board shall have the power to adopt and alter the seal of the Corporation.

ARTICLE IX

Fiscal Year

Except as otherwise determined by the Board, the fiscal year of the Corporation shall be the twelve months ended December 31st.

ARTICLE X

Indemnification

(a) The Corporation shall indemnify, in the manner and to the full extent permitted by law, any person (or the personal representative of any person) who at any time serves or shall have served as a director of the Corporation, and the Board shall be authorized to cause the Corporation to indemnify, in the manner and to the full extent permitted by law, any person (or the personal representative of any person) who at any time serves or shall have served as an officer, employee or agent of the Corporation, against and for any and all claims and liabilities to which he may be or become subject by reason of such service, and any person who was or is a party or is threatened to be made a party to

any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) The Corporation shall indemnify, in the manner and to the full extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he (or the personal representative of any person) is or was a director of the Corporation, and the Board shall be authorized to cause the Corporation to indemnify, in the manner and to the full extent permitted by law, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was an officer, employee or agent of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation and except that no such indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been finally adjudged to be liable to the Corporation, unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnify for such expenses which such court shall deem proper.

(c) To the extent that a director, officer, employee or agent of the Corporation shall be successful on the merits or otherwise in defense of any action, suit or proceeding referred to in paragraphs (a) and (b), or in defense of any claim, issue or matter therein, he shall be indemnified, in the manner and to the full extent permitted by law, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

(d) Any indemnification under paragraphs (a) and (b) (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the directors, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in paragraphs (a) and (b). Such determination shall be made (1) by the Board by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (2) if a quorum cannot be obtained, by a majority vote of a committee of the Board, duly designated to act in the matter by a majority vote of the full Board (in which designation Directors who are parties to such action, suit or proceeding may participate) consisting solely of two or more directors not at the time parties to such action, suit or proceeding, or (3) if such a quorum is not obtainable, by independent legal counsel in a written opinion, or (4) by the shareholders.

(e) Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board in the manner provided in paragraph (d) upon receipt of (1) a written affirmation by the Director of his good faith belief that he has met the standard of conduct necessary for indemnification by the Corporation pursuant to applicable law and (2) an undertaking by or on behalf of the directors, officer, employee or agent to repay such amount unless it shall ultimately be determined that he is entitled to be indemnified by the Corporation as authorized in this Article X.

(f) The indemnification provided by this Article X shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any agreement, vote of shareholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators.

(g) The Board may authorize, by a vote of a majority of the full Board, the Corporation to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him against such liability under the provisions of this Article X.

(h) For purposes of this Article X, references to "the Corporation" shall include, in addition to the resulting corporation, any constituent corporation (including any constituent of a constituent) absorbed in a consolidation or merger which, if its separate existence had continued, would have had power and authority to indemnify its directors, officers, and employees or agents, so that any person who is or was a directors, officer, employee or agent of such constituent corporation, or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, shall stand in the same position under the provisions of this Article X with respect to the resulting or surviving corporation as he would have with respect to such constituent corporation if its separate existence had continued.

(i) For purposes of this Article X, references to "other enterprises" shall include employee benefit plans; references to "fines" shall include any excise taxes assessed on a person with respect to any employee benefits plan; and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation which imposes duties on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants, or beneficiaries; and a person who acted in good faith and in a manner he reasonably believed to be in the interest of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Article X.

ARTICLE XI

Certain Operating Provisions

SECTION 11.01. *Execution of Contracts.* Unless the Board shall otherwise determine, the Chairman of the Board, the President, or the Treasurer may enter into any contract or execute any contract or other instrument, the execution of which is not otherwise specifically provided for, in the name and on behalf of the Corporation and such contract may be attested by the Secretary or any Assistant Secretary. The Board, or any committee designated thereby with power so to act, except as otherwise provided in these By-Laws, may authorize any other or additional officer or officers or agent or agents of the Corporation to enter into any contract or execute and deliver any instrument in the name and on behalf of the Corporation, and such authority may be general or confined to specific

instances. Unless authorized so to do by these By-Laws or by the Board or by any such committee, no officer, agent or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable pecuniarily for any purpose or to any amount.

SECTION 11.02 *Conveyances and Foreclosures.* Unless otherwise provided by law or the Board, the Chairman of the Board, the President, any Vice President, any Assistant Vice President, the Treasurer, any Vice Treasurer, and any Assistant are authorized and empowered severally to execute, acknowledge and deliver, in the name and on behalf of the Corporation, whenever authorized by the Board or the Executive Committee by general or specific vote, all deeds and conveyances of real estate, all assignments, extensions, releases, partial releases and discharges of mortgages, and all assignments and transfers of bonds and other securities, and in connection with any of the foregoing said officers are authorized and empowered severally to release or assign the interest of the Corporation in any policy of insurance held by it.

Unless otherwise provided by law or the Board, in the event of a breach of condition of any mortgage held by the Corporation, the Chairman of the Board, the President, any Vice President, any Assistant Vice President, the Treasurer, any Vice Treasurer, and any Assistant Treasurer are authorized and empowered severally, in the name and on behalf of the Corporation, whenever authorized by the Executive Committee or by the Board by general or specific vote, to make entry for the purpose of taking possession of the mortgaged property or of foreclosing such mortgage and to perform any and all acts necessary or proper to consummate such foreclosure and effect the due execution of any power of sale contained in such mortgage, including the execution, acknowledgment and delivery of all deeds and instruments of conveyance to the purchaser and the execution of all affidavits and certificates required by law or deemed necessary by any of such officers.

SECTION 11.03 *Voting of Securities.* Unless otherwise provided by the Board, the Chairman of the Board, the President or Treasurer may waive notice of and act on behalf of the Corporation, or appoint another person or persons to act as proxy or attorney in fact for the Corporation with or without discretionary power and/or power of substitution, at any meeting of shareholders or shareholders of any other organization, any of whose securities are held by the Corporation.

ARTICLE XII

Amendments

These By-Laws may be altered, amended or repealed, in whole or in part, and new By-Laws may be adopted, in whole or in part only as provided in the Articles of Incorporation.

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Exhibit 10.6

BANK RHODE ISLAND

SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN

As Amended and Restated

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ARTICLE I. INTRODUCTION

1.1 *Purpose of Plan.* The purpose of this Plan is to promote loyalty, to attract new employees and to encourage employees to make and continue careers with the Bank and its subsidiaries by supplementing their retirement benefits, thereby giving them assurance of retirement security and promoting their continued loyalty to the Bank.

1.2 *Status.* The Plan is intended to be a plan that is unfunded and is maintained by the Bank primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974 (ERISA), and shall be interpreted and administered accordingly.

1.3 *Authorization.* The Plan was approved by the Board of Directors on January 26, 1999.

1.4 *Restatement.* This plan document is a restatement of the original plan and Amendments numbered 1–8.

ARTICLE II. DEFINITIONS

The following terms have the following meanings:

- 2.1 "Administrator" means the person designated by the Board to administer the Plan pursuant to Article VII.
- 2.2 "Board" means the Board of Directors of the Bank or the Compensation Committee or other committee of the Board duly appointed to administer the Plan and having such powers as shall be specified by the Board.
- 2.3 "Change of Control" is defined in Schedule A.
- 2.4 "Bank" means Bank Rhode Island, a Rhode Island banking corporation.
- 2.5 "Effective Date" means January 1, 1999.
- 2.6 "Employee" means an individual employed by the Bank.
- 2.7 "Normal Retirement Age" means age 65.
- 2.8 "Normal Retirement Benefit" means the benefit referred to in Section 5.1 hereof.
- 2.9 "Normal Retirement Date" means the first day of the month coinciding with or next following the Participant's sixty-fifth birthday.
- 2.10 "Participant" means any Employee selected to participate in the Plan in accordance with Section 3.1.
- 2.11 "Plan" means this Supplemental Executive Retirement Plan as set forth herein and in all subsequent amendments hereto.
- 2.12 "Years of Service" means the period of an Employee's employment with the Bank and its predecessor, EFC, Inc., measured from the Employee's employment commencement date to the date the Employee quits or is discharged for any reason.
- 2.13 "Applicable Benefit Amounts", with respect to a Participant, is defined in Schedule B or C, as the case may be.
- 2.14 "Average Compensation" means a Participant's average annual Eligible Compensation from the Bank during the three consecutive calendar years as an Employee in which such compensation was greatest. For this purpose, "Eligible Compensation" shall mean: (i) the Participant's base salary including any salary reductions made on behalf of the Participant under any cafeteria, flexible benefits, or 401(k) plan sponsored by the Bank which are excluded from gross income under Sections 125 or 402(e) (3) of the Internal Revenue Code, and (ii) any amount deferred by the Participant on an elective basis under any other non-qualified deferred compensation plan of the Bank.
- 2.15 "401K Plan Benefit" means the annual payment calculated by converting that portion of the Participant's Bank Rhode Island 401K Plan Account Balance that is attributable to the Bank's matching and profit-sharing contributions to an annuity, payable for the life of the Participant only, using factors set forth in Schedule D.
- 2.16 "Primary Social Security Benefit" means the annual amount of old age insurance benefits payable to a Participant at his or her Normal Retirement Date computed under the Social Security Act in effect on the date as of which such computation is made.

ARTICLE III. PARTICIPATION AND VESTING

3.1 *Selection of Participants.* The Board will select from time to time those Employees who will be Participants in the Plan and the Applicable Benefit Amount. The Employees set forth in the attached Schedules B and C will become Participants on the Effective Date. If and when additional Participants are named by the Board, they will be added to the appropriate Schedule and will become Participants at that time.

3.2 *Vesting.*

(a) Except as provided in paragraph (b) and in Sections 6 and 9.3, a Participant will be vested and entitled to receive benefits under this Plan only if he or she is (i) an Employee listed on Schedule B, or (ii) an Employee listed on Schedule C who has accumulated 5 Years of Service. A Participant who ceases to be an Employee without becoming vested will forfeit all rights under the Plan.

(b) A Participant who ceases to be an Employee because of death before satisfying the requirements of paragraph (a) shall become vested immediately and entitled to receive benefits subject to the other provisions of the Plan.

ARTICLE IV. SOURCE OF BENEFIT PAYMENTS

4.1 *Obligations of the Bank.* The Bank will establish on its books liabilities for obligations to pay benefits under the Plan. With respect to all benefits payable under the Plan, each Participant (or other person entitled to receive benefits with respect to a Participant) will be an unsecured general creditor of the Bank.

4.2 *No Funding Required.* Except as otherwise provided in Article VI, the Bank may, but shall not be required to, establish a trust of which it is treated as the owner under Subpart E of Subchapter J, Chapter 1 of the Internal Revenue Code of 1986, as amended (a "rabbi trust"). The Bank may from time to time deposit funds with the trustee to provide a sound long-term funding program.

4.3 *No Claim to Specific Assets.* Nothing in the Plan will be construed to give any individual rights to any specific assets of the Bank, person or entity.

ARTICLE V. RETIREMENT BENEFITS

5.1 *Normal Retirement Benefit.*

(a) Subject to Section 5.2, the Normal Retirement Benefit payable under the Plan to a Participant will be a monthly benefit equal to one-twelfth of (i) the Applicable Benefit Amount. For this purpose, the Applicable Benefit Amount for a Participant is listed on Schedule B or Schedule C as the case may be.

(b) The Participant's Normal Retirement Benefit will commence at his or her Normal Retirement Date (or such later date on which the Participant actually retires) and continue for his or her lifetime.

(c) The benefit with respect to a Participant who ceases to be an Employee for any reason other than retirement at Normal Retirement Date may not commence prior to his or her Normal Retirement Date and the Applicable Benefit Amount shall be adjusted for such early termination pursuant to the provisions of Schedule B and C.

(d) In the event that a distribution is made to a Key Employee (as defined in Section 416(i) of the Code), other than by reason of death, such distribution shall not be made before a date that is six months following a separation of service.

5.2 *Death Benefits.* Except as otherwise provided in this paragraph, no death benefits will be payable to anyone following the death of the Participant.

(a) *Post Retirement.* If a Participant for whom retirement benefits have commenced under this Plan dies, there shall be a death benefit payable under this Plan equal to the unpaid portion of the Participant's Applicable Benefit Amount set forth in Schedule B or Schedule C, as the case may be, that can be provided by the amount the Bank has accrued on its books as a liability for the Participant's benefit under this Plan as of the date of the Participant's death, minus the amount of the death benefit, if any, that is payable under any death benefit or insurance arrangement that specifically references this Plan (but not less than zero).

(b) *Pre-Retirement.* If a Participant with a vested benefit for whom retirement benefits have not commenced dies, there shall be a death benefit payable under this Plan equal to the portion of the Participant's Applicable Benefit Amount set forth in Schedule B or Schedule C, as the case may be, that can be provided by the amount the Bank has accrued on its books as a liability for the Participant's benefit under this Plan as of the date of the Participant's death, minus the amount of the death benefit, if any, that is payable under any death benefit or insurance arrangement that specifically references this Plan (but not less than zero).

(c) *Beneficiary.* Any death benefit that is payable under this Plan shall be paid to the beneficiary or beneficiaries designated in writing from time to time in a manner acceptable to the Administrator. If no designation has been made or if all designated beneficiaries are dead, payment shall be made to the following persons in the following priority: to the Participant's surviving spouse, if any; but if none to the Participant's surviving children in equal shares, if any; but if none payment shall be made to the estate of the Participant.

ARTICLE VI. CHANGE OF CONTROL

6.1 *Vesting of Benefits.* In the event of a "Change of Control", a Participant shall, notwithstanding any other provision of the Plan, immediately become fully vested in the greater of: (i) his retirement benefits as described in Section 5.1, or (ii) the Change of Control Benefit Amount set forth in Schedule B or C.

6.2 *Funding of Benefit.* In the event of a Change of Control, the Bank shall immediately establish a rabbi trust with a third party financial institution with a net worth of at least \$100 million (unless all Plan Participants entitled to benefits and all surviving spouses receiving benefits under the Plan consent in writing to the appointment of another trustee), substantially in the form attached hereto as *Exhibit A* and shall deposit funds with the trustee of the trust equal to the difference between the then present value of all accrued benefits provided under the Plan (computed on the basis of the actuarial assumptions stated in Schedule D hereto and taking into account the benefits that become vested or payable in the event of a Change of Control) and the then fair market value of the assets of the trust (if any) and shall thereafter make annual additional deposits with the trustee to reflect increases in the accrued benefits. If the principal of the trust, and any earnings thereon, are not sufficient to make payment of the benefits provided for under this Plan, the Bank shall make the balance of each such payment as it falls due.

6.3 *Excise Tax Equalization Payment.* In the event that (through acceleration of vesting of benefits pursuant to Section 6.1 or otherwise) the Participant becomes entitled to receive a payment under Section 6 ("Change of Control Payment") that will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code (or any similar tax that may hereafter be imposed), then the Bank shall pay to Participant in cash an additional amount (the "Gross-Up Payment") such that the net amount retained by Participant after deduction of any Excise Tax upon the Change of Control Payment and any Federal, state and local income tax and excise tax upon the Gross-Up Payment provided for by this Section 6.3 (including FICA and FUTA), shall be equal to the Change of Control Payment. In the event the Participant makes an election pursuant to the regulations under Section 280G of the Code (or any similar provision) (the "Acceleration Election") to accelerate the payment of any Excise Tax due with respect to a Change of Control Payment which, pursuant to the terms of the Plan, will be paid subsequent to the year in which the Change of Control occurs such Gross-Up Payment shall be made by the Bank to the Participant within thirty (30) days from the later of (i) the Change of Control that triggers the payment obligation and (ii) the date on which the Participant notifies the Bank in writing of the Participant's Acceleration Election. In the event the Participant does not make an Acceleration Election, such Gross-Up Payment(s) shall be made concurrent with the payment of any retirement benefit under the Plan which is treated as a Change of Control Payment. All Gross-Up Payments payable to the Participant shall be subject to all required and customary deductions by the Bank and the Participant acknowledges that if the Participant is an employee of the Bank at the time a Gross-Up Payment is made, all or subsequently all of the Gross-Up Payment shall be withheld and remitted to Federal and/or state tax authorities on behalf of the Participant. For the purpose of this Section 6.3, all defined terms shall be given the meanings provided herein.

ARTICLE VII. ADMINISTRATION

7.1 *Appointment of Administrator.* The Plan will be administered by the person designated by the Board to administer the Plan (the "Administrator"), but the Board will have full discretionary authority to interpret the provisions of the Plan and decide all questions and settle all disputes that may arise in connection with the Plan. The Board may establish its own operative and administrative rules and procedures in connection with the Plan, provided such procedures are consistent with the requirements of Section 503 of ERISA and the regulations thereunder. All interpretations, decisions and determinations made by the Board will be binding on all persons concerned.

7.2 *Delegation.* The Board in its sole discretion may delegate certain of its duties and responsibilities to the Administrator or to an appropriate Employee or Employees. For purposes of the Plan, any action taken by the Administrator or a delegee Employee pursuant to such delegation will be considered to have been taken by the Board. The Bank agrees to indemnify and to defend to the fullest possible extent permitted by law any delegee of the Board (including any person who formerly served as a delegee) against all liabilities, damages, costs and expenses (including attorneys' fees and amounts paid in settlement of any claims approved by the Bank) occasioned by any act or omission to act in connection with the Plan, if such act or omission is in good faith.

7.3 *Expenses.* All expenses incurred in the creation or administration of this Plan shall be paid by the Bank.

ARTICLE VIII. AMENDMENT OR TERMINATION OF PLAN

The Bank hopes and expects to continue the Plan in effect, but the Board necessarily reserves the right to amend the Plan at any time, and from time to time, or to terminate the Plan, provided that such amendment or termination shall not reduce the vested benefit of any Participant or amend Section 6.1 or 6.2 without the consent of all Participants who have vested benefits under the Plan. Any amendment or termination shall be stated in an instrument in writing and signed by a duly authorized representative of the Board.

ARTICLE IX. MISCELLANEOUS

9.1 *No Assignment or Alienation.* None of the benefits, payments, proceeds or claims of any person under this Plan shall be subject to any claim of any creditor, spouse or former spouse of the person or to attachment or garnishment or other legal process by any such creditor, Spouse or former Spouse; nor shall any person have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits, payments or proceeds which he or she may expect to receive, contingently or otherwise, under the Plan.

9.2 *Limitation of Rights.* Neither the establishment of the Plan, nor any amendment thereof, nor the payment of any benefits will be construed as giving any individual any legal or equitable right against the Bank, except for those rights explicitly provided for in the Plan.

9.3 *Forfeiture of Benefits.* A Participant shall forfeit all rights or benefits remaining to him or her under the Plan if such Participant's employment is terminated on account of, or such Participant is convicted of, or confesses to, or permits a plea of nolo contendere to be entered with respect to, a criminal act of fraud, misappropriation, embezzlement, or the like, which is a felony and involves property of the Bank.

9.4 *Governing Law.* The Plan will be construed, administered, and governed under the laws of the State of Rhode Island, to the extent not preempted by federal law.

9.5 *Severability.* If any provision of this Plan is held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions shall continue to be fully effective.

IN WITNESS WHEREOF, the Bank has caused this Plan to be executed by their duly authorized officers this 18th day of December, 2007.

BANK RHODE ISLAND

By: /s/ JOHN R. BERGER

Compensation Committee
Chairman

SCHEDULE A

(A) Change in Control. For purposes of this Plan, a "Change in Control" shall be deemed to have occurred if and when:

(1) a Takeover Transaction is effectuated; or (2) Bancorp Rhode Island, Inc. (the "Company") commences substantive negotiations with a third party with respect to a Takeover Transaction *if* within twelve (12) months of the commencement of such negotiations, enters into a definitive agreement with respect to a Takeover Transaction with any party with which negotiations were originally commenced; or (3) any election of directors of the Company occurs (whether by the directors then in office or by the shareholders at a meeting or by written consent) where a majority of the directors in office following such election are individuals who were not nominated by a vote of two-thirds of the members of the board of directors immediately preceding such election; or (4) either of the Company or the Bank effectuates a complete liquidation.

(B) Takeover Transaction. A "Takeover Transaction" shall mean:

(1) The acquisition of voting securities of the Company by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than by the Company or its subsidiaries or any employee benefit plan (or related trust) of the Company or its subsidiaries, which theretofore did not beneficially own (within the meaning of Rule 13d-3 promulgated under the Exchange Act) securities representing 30% or more of the voting power of all outstanding shares of voting securities of the Company, if such acquisition results in such individual, entity or group owning securities representing more than 30% of the voting power of all outstanding voting securities of the Company; provided, that any acquisition by a corporation with respect to which, following such acquisition, more than 50% of the then outstanding shares of voting securities of such corporation, is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of the Company outstanding immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the outstanding voting securities of the Company, shall not constitute a Change in Control; or

(2) The issuance of additional shares of common stock of the Company or the Bank, as applicable, in a single transaction or a series of related transactions if the individuals and entities who were the beneficial owners of the outstanding voting securities of the Company or the Bank, as applicable, immediately prior to such issuance do not, following such issuance, beneficially own, directly or indirectly, securities representing more than 50% of the voting power of all then outstanding voting securities of the Company or the Bank, as applicable; or

(3) Consummation by the Company or the Bank of (a) a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of such entity immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, securities representing more than 50% of the voting power of then outstanding voting securities of the corporation resulting from such a reorganization, merger or consolidation, or (b) the sale, exchange or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company (on a consolidated basis) or the Bank to a party which is not controlled by or under common control with such entity, or (c) the sale by the Company in one transaction or in a series of related transactions of voting securities of the Bank such that following such transaction or transactions the Company no longer beneficially owns, directly or indirectly, securities representing more than 50% of the voting power of the then outstanding voting securities of the Bank.

For purposes of this Section (B), "voting power" means ordinary voting power for the election of directors.

SCHEDULE B

Participants:

Applicable Benefit Amount and Vesting

Merrill W. Sherman

70% of the Participant's Average Compensation, minus: (i) fifty percent (50%) of the Participant's Primary Social Security Amount and (ii) the 401K Plan Benefit. Except as provided under Sections 3.2 (b) and 6.1, the Benefit Amount in excess of \$250,000 shall be vested as follows: 20% on November 1, 2005, 40% on November 1, 2006, 60% on November 1, 2007, 80% on November 1, 2008 and 100% on November 1, 2009. \$250,000 of the Applicable Benefit amount shall be fully vested.

Linda Haber-Simmons

\$50,000 (the "Base Benefit Amount") *plus* the Increased Benefit Amount, which shall be equal to 70% of the Participant's Average Compensation, minus: (i) the vested portion of the Base Benefit Amount, (ii) fifty percent (50%) of the Participant's Primary Social Security Amount and (iii) the 401K Plan Benefit (the "Increased Benefit Amount", and together with the Base Benefit Amount (if any) the "Benefit Amount"). Except as provided under Sections 3.2(b) and 6.1, the Base Benefit Amount shall be vested as follows: 20% on November 1, 2009, 40% on November 1, 2010, 60% on November 1, 2011, 80% on November 1, 2012 and 100% on November 1, 2013 and the Increased Benefit Amount shall be vested as follows: 20% on August 1, 2010, 40% on August 1, 2011, 60% on August 1, 2012, 80% on August 1, 2013 and 100% on August 1, 2014.

James V. DeRentis

70% of the Participant's Average Compensation, minus: (I) fifty percent (50%) of the Participant's Primary Social Security Amount and (iii) the 401K Plan Benefit. Except as provided under Sections 3.2 (b) and 6.1, the Benefit Amount in excess of \$35,000 shall be vested as follows: 20% on November 1, 2008, 40% on November 1, 2009, 60% on November 1, 2010, 80% on November 1, 2011 and 100% on November 1, 2012. \$35,000 of the Applicable Benefit Amount shall be fully vested after five Years of Service.

Mark Meiklejohn

\$25,000. Except as provided under Sections 3.2(b) and 6.1, the Benefit Amount shall be vested as follows: 20% on November 1, 2011; 20% on November 1, 2012; 20% on November 1, 2013, 20% on 2014 and 20% on 2015.

Adjustment for Early Termination under Section 5.1(c): The Applicable Benefit Amount with respect to a Participant who ceases to be an Employee for any reason prior to the Normal Retirement Date shall be that portion of the Participant's Applicable Benefit Amount set forth above that can be provided by the amount the Bank has accrued on its books as a liability for the Participant's benefit as of the date of the Participant's early termination multiplied by the vested percentage as of such date of termination.

Change of Control Benefit Amount:

Participants:		Benefit Amount
Merrill W. Sherman	\$	381,034
Linda Haber-Simmons	\$	212,441
James V. DeRentis	\$	225,850
Mark Meiklejohn	\$	25,000

SCHEDULE C

Participants:

Applicable Benefit Amount

Albert R. Rietheimer	\$	50,000
Donald C. McQueen	\$	50,000

SCHEDULE D

Actuarial Assumptions:

Mortality:	Blended GAM-1983
Interest:	6.75%

**BANK RHODE ISLAND
SUPPLEMENTAL EXECUTIVE RETIREMENT PLAN
TRUST AGREEMENT**

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TRUST AGREEMENT

This Agreement is made by and between Bank Rhode Island (hereinafter the "Bank"), and [] as Trustee(s) (hereinafter referred to as the "Trustee").

WITNESSETH:

WHEREAS, the Bank has established the Bank Rhode Island Supplemental Executive Retirement Plan (the "Plan") for certain of its employees; and

WHEREAS, the Bank wishes to establish a trust ("Trust") and to contribute to the Trust assets that shall be held therein, subject to the claims of the Bank's creditors in the event of the Bank's insolvency, as herein defined, for the benefit of Plan Participants (as defined in Section 2.13 of the Plan) and their surviving spouses in such manner and at such times as specified in the Plan; and

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Plan as an unfunded Plan maintained for the purpose of providing deferred compensation for a select group of management or highly-compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA"); and

WHEREAS, the Trustee has consented to act as trustee of the trust fund and to hold and distribute the assets transferred to the trustee and accumulated in respect of the Plan on the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing premises and the mutual covenants hereinafter set forth, the Bank and the Trustee hereby agree as set forth below.

ARTICLE I

Establishment of Trust

1.1 The Trust Fund shall consist of such sums of money or other property, in a form acceptable to the Trustee, as shall from time to time be paid or delivered to the Trustee pursuant to the Plan which, together with all earnings, profits, increments and accruals thereon, without distinction between principal and income, shall constitute the Trust Fund hereby created and established. The Trust Fund shall be held, administered and disposed of by the Trustee as provided in this Trust Agreement. The Trust hereby established shall be irrevocable.

1.2 The Trust is intended to be a grantor trust, of which the Bank is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended, and shall be construed accordingly.

1.3 The Trust Fund shall be held separate and apart from other funds of the Bank and shall be used exclusively for the uses and purposes of Plan Participants and general creditors as herein set forth. Plan Participants and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of the Trust. Any rights created under the Plan and this Trust Agreement shall be mere unsecured contractual rights of Plan Participants and their beneficiaries against the Bank. Any assets held by the Trust will be subject to the claims of the Bank's general creditors under federal and state law in the event of insolvency, as defined in Article III herein.

1.4 Except as provided below or in Article III hereof, the Bank shall have no right or power to direct the Trustee to return to the Bank or to divert to others any of the Trust assets before all payment of benefits have been made to Plan Participants and their beneficiaries pursuant to the terms of the Plan.

ARTICLE II

Payments to Plan Participants

2.1 The Bank shall designate an Administrator ("Administrator") in accordance with the Plan and the Administrator shall deliver to the Trustee, at least annually, a schedule ("the Payment Schedule") that indicates the amounts payable in respect of each Plan Participant who has ceased to be an employee of the Bank and each surviving spouse, that provides a formula or other instructions acceptable to the Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Plan), and the time of commencement for payment of such amounts. Except as otherwise provided herein, the Trustee shall make payments to the Plan Participants and their beneficiaries in accordance with such Payment Schedule. The Trustee shall make provisions for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plan and shall pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Bank. The Administrator shall provide the Trustee with all information necessary to make such tax withholding provisions and the Trustee shall be entitled to rely on such information. The Bank shall be responsible for the remittance to the appropriate tax authorities of its share of any applicable employment taxes, as distinguished from those employment taxes required to be withheld from the benefits due Plan Participants and their beneficiaries.

2.2 The entitlement of a Plan Participant or his or her beneficiary to benefits under the Plan shall be determined by the Bank and/or the Administrator as provided for in the Plan and any claim for such benefits shall be considered and reviewed by the Administrator under the procedures set out in the Plan.

2.3 The Bank may make payment of benefits directly to Plan Participants or their beneficiaries as they become due under the terms of the Plan. The Bank shall notify the Trustee of its decision to make payment of benefits directly prior to the time amounts are payable to Plan Participants or their beneficiaries. In addition, if the principal of the Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Plan, the Bank shall make the balance of each such payment as it falls due. Trustee shall notify the Bank where principal and earnings are not sufficient to cover payments required by the Payment Schedule under paragraph 2.1 hereof.

ARTICLE III

Trustee Responsibility Regarding Payments to Trust Beneficiary When Bank Is Insolvent

3.1 The Trustee shall cease payment of benefits to Plan Participants and their beneficiaries if the Bank is Insolvent. The Bank shall be considered "Insolvent" for purposes of this Trust Agreement if (i) the Bank is unable to pay its debts as they become due, or (ii) the Bank is subject to a pending proceeding as a debtor under the United States Bankruptcy Code or under state court receivership law.

3.2 At all times during the continuance of this Trust as provided in paragraph 1.3 hereof, the principal and income of the Trust shall be subject to claims of general creditors of the Bank under federal and state law as set forth below:

3.2.1 The Board of Directors and the Chief Executive Officer of the Bank shall have the duty to inform the Trustee in writing of the Bank's Insolvency. If a person claiming to be a creditor of the Bank alleges in writing to the Trustee that the Bank has become Insolvent, the Trustee shall determine whether the Bank is Insolvent and, pending such determination, the Trustee shall discontinue payment of benefits to Plan Participants or their beneficiaries.

3.2.2 Unless the Trustee has actual knowledge of the Bank's Insolvency, or has received notice from the Bank or a person claiming to be a creditor alleging that the Bank is Insolvent, the Trustee shall have no duty to inquire whether the Bank is Insolvent. The Trustee may in all events rely on such evidence concerning the Bank's solvency as may be furnished to the Trustee by the Bank and that provides the Trustee with a reasonable basis for making a determination concerning the Bank's solvency.

3.2.3 If at any time the Trustee has determined that the Bank is Insolvent, the Trustee shall discontinue payments to Plan Participants or their beneficiaries and shall hold the assets of the Trust for the benefit of the Bank's general creditors. While so holding such assets, the Trustee shall make payments to such creditors if the Bank shall so direct or, if the Bank is subject to a pending proceeding as a debtor under the United States Bankruptcy code or state receivership law, as a court of competent jurisdiction shall direct. Nothing in this Trust Agreement shall in any way diminish any rights of Plan Participants or their beneficiaries to pursue their rights as general creditors of the Bank with respect to benefits due under the Plan or otherwise.

3.2.4 The Trustee shall resume the payment of benefits to Plan Participants or their beneficiaries in accordance with Article II of this Trust Agreement only after the Trustee has determined that the Bank is not Insolvent (or is no longer Insolvent).

3.3 If the Trustee discontinues the payment of benefits from the Trust pursuant to paragraph 3.2 hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due to Plan Participants or their beneficiaries under the terms of the Plan for the period of such discontinuance, less the aggregate amount of any payments made to Plan Participants or their beneficiaries by the Bank in lieu of the payments provided for hereunder during any such period of discontinuance provided that there are sufficient assets.

ARTICLE IV

Duties and Powers of the Trustee

4.1 The Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that the Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Bank or the Administrator which is contemplated by, and in conformity with, the terms of the Plan or this Trust and is given in writing by the Bank or the Administrator. In the event of a dispute between the Bank and a party, the Trustee may apply to a court of competent jurisdiction to resolve the dispute.

4.2 The Trustee shall invest and reinvest the Trust Fund, without distinction between principal and income. In addition to the powers and authority granted to the Trustee pursuant to state law, the provisions of ERISA (to the extent applicable), and the common law, the Trustee shall have the power and authority:

4.2.1 To purchase or subscribe for and invest in any securities, but not including any securities of the Bank or any affiliate of the Bank, or any securities of the Trustee or any affiliate of the Trustee if the Trustee is a corporation, and to retain any such securities in the Trust Fund. Without in any way intending to limit the generality of the foregoing, the said term "securities" shall be deemed to include common and preferred stocks, mortgages, debentures, bonds, notes or other evidences of indebtedness, and other forms of securities. All rights associated with assets of the Trust shall be exercised by the Trustee or the person designated by the Trustee. The Trustee may invest and reinvest all or a portion of the Trust Fund in shares of any open-ended investment fund or Bank.

4.2.2 To deal with all or any part of the Trust Fund; to acquire any property by purchase, subscription, lease, or other means; to sell for cash or on credit, convey, lease for long or short terms, or convert, redeem, or exchange all or any part of the Trust Fund; to hold part of the Trust Fund uninvested or in savings accounts or certificates of deposit including those offered by the Trustee if the Trustee is a bank, or in money market funds managed by the Trustee or an affiliate of the Trustee.

4.2.3 To vote, or give proxies to vote, any stock or other security, and to waive notice of meetings, to oppose, participate in, and consent to the reorganization, merger, consolidation, or readjustment of the finances of any enterprise, to pay assessments and expenses in connection therewith and to deposit securities under deposit agreements.

4.2.4 To register any investment held in the Trust in its own name or in the name of its nominee, or to hold any investment in bearer form, but the books and records of the Trustee shall at all times show that all such investments are part of the Trust.

4.2.5 To make, execute, acknowledge and deliver any and all documents, deeds and conveyance, and any and all other instruments necessary or appropriate to carry out the powers herein granted.

4.2.6 To enforce by suit or otherwise, or to waive, its rights on behalf of the Trust Fund, and to defend claims asserted against it or the Trust Fund; to compromise, adjust and settle any and all claims against or in favor of it or the Trust Fund.

4.2.7 To renew, extend, or foreclose any mortgage or other security; to bid on property in foreclosure; to take deeds in lieu of foreclosure, with or without paying a consideration therefor.

4.2.8 To employ agents, investment advisers, consultants and actuaries necessary for the operation of the Trust and to request the advice and assistance of counsel, including counsel for the Bank, or other counsel designated by the Administrator or by the Trustee.

4.2.9 In the event that the Bank authorizes the transfer of all or a portion of the assets of the Trust to an insurance company, to enter into and execute on behalf of the Trust all such documents and instruments necessary or appropriate to carry out such transfer.

4.2.10 To do all such other acts, execute all such other instruments and take such other proceedings and exercise all such other privileges and rights with relation to any asset constituting a part of the Trust as are necessary to carry out the purpose of the Trust, and no person dealing with the Trustee shall be bound to see to the application of any money or property paid or delivered to the Trustee or to inquire into the validity or propriety of any such transaction.

4.3 No persons dealing with the Trustee shall be under any obligation to see to the proper application of any money paid or property delivered to the Trustee or to inquire into the Trustee's authority as to any transaction.

4.4 The Trustee may make any distribution required hereunder by mailing its check for the specified amount, or delivering the specified property, to the person to whom such distribution or payment is to be made, at such address as may have been last furnished to the Trustee, or if no such address shall have been furnished, to such person in care of the Bank, or to the Administrator or (if so directed by the Administrator) by crediting the account of such person or by transferring the funds to such person's account by bank or wire transfer.

ARTICLE V

Disposition of Income

During the term of this Trust, all income received, net of expenses and taxes, shall be accumulated and reinvested.

ARTICLE VI

Limitation of the Trustee's Liability

6.1 The Trustee shall be accountable only for funds actually received by it hereunder and shall have no duty or liability to determine that the amount of the funds received by it comply with the provisions of the Plan. If the Bank has established a contract with an insurance company to carry out the purposes of the Plan, the Trustee shall not be liable for the acts or omissions of such insurance company, or be under an obligation to invest or otherwise manage the portion of the Trust Fund which is subject to the management of such insurance company.

6.2 Whenever the Trustee is required or authorized to take any action hereunder pursuant to any written direction or notice of the Administrator or the Bank, the Trustee, acting in accordance with such direction or notice, shall not be responsible for the administration of such Plan or Trust, for the correctness of any payments or disbursements from the Trust, or for any other action taken by the Trustee in accordance with such written direction or notice. Such direction or notice shall be sufficient protection to the Trustee if contained in a writing signed by the Administrator or such other person authorized to execute documents on behalf of the Administrator, in the case of direction or notice required to be given by the Administrator; or by any officer of the Bank, in the case of direction or notice required to be given by the Bank, and the Trustee has actual knowledge that the payment or disbursement is improper or incorrect.

6.3 The Bank shall indemnify and hold harmless the Trustee from and against any losses, costs, damages or expenses, including reasonable attorneys' fees, which the Trustee may incur or pay out by reason of (i) the Trustee's acting in accordance with the directions of the Bank or the Administrator or failing to act in the absence of such directions; (ii) the Trustee's exercise and performance of its powers and duties hereunder, unless the same are determined to be due to the Trustee's negligence, bad faith or willful misconduct; (iii) any (alleged or actual) action or inaction on the part of the Bank or the Administrator, unless such losses, costs, damages, or expenses arise out of the Trustee's negligence, bad faith, or willful misconduct; or (iv) the failure of the Plan to be exempt from the requirements of Parts 2, 3 and 4 of Title I of the Employee Retirement Income Security Act of 1974, as amended. In addition, in the event that the Trustee undertakes or defends any litigation (including but not limited to any audit, proceeding or any other administrative action of any state, local or federal taxing authority) arising in connection with the Trust Fund, the Bank agrees to indemnify the Trustee against the Trustee's reasonable costs, expenses, and liabilities (including, without limitation, reasonable attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If the Bank does not pay such costs, expenses, and liabilities described in this paragraph in a reasonably timely manner, the Trustee may obtain payment from the Trust Fund.

ARTICLE VII

Expenses and Compensation

The Trustee, other than a trustee who is also an employee or officer of the Bank, shall be paid such reasonable compensation as shall from time to time be agreed upon by the Trustee and the Bank. All administrative expenses, charges, taxes and assessments of the Trust Fund and Trustee's fees shall be the obligation of the Bank.

Any such fees may be paid from the Trust Fund, but the Bank shall reimburse the Trust Fund for all such payments within seven (7) business days.

ARTICLE VIII

Substitution and Succession of the Trustee

8.1 The Trustee may resign at any time by giving written notice to the Administrator. Such resignation shall become effective thirty (30) days thereafter or upon the appointment of a successor Trustee, whichever occurs first. In the event a successor Trustee is not appointed within thirty (30) days, the Trustee may turn over the assets of the Trust to the Administrator as successor Trustee. Except as provided below, the Administrator may remove the Trustee by giving thirty (30) days written notice to the Trustee of such intent to remove, and by then giving written notice of the appointment of a successor Trustee. The removal shall become effective upon acknowledgment of the receipt of the assets of the Trust by the successor Trustee. Each successor Trustee under this Trust shall be appointed in writing by the Administrator and shall accept the Trust in writing. Such successor Trustee shall become vested with any estate, property, right, power and duty of the predecessor Trustee hereunder with like effect, as if originally named Trustee. No successor Trustee shall be liable for any act or failure of any predecessor Trustee, and with the approval of the Administrator, a successor Trustee may accept the account rendered and the property delivered to it by the predecessor Trustee without in so doing incurring any liability or responsibility with respect to acts of default, if any, of the predecessor Trustee.

8.2 If the Trustee is a corporation, any corporation into which the Trustee may merge or with which it may consolidate, or any corporation resulting from any merger or consolidation to which the Trustee may be a party, shall be the successor of the Trustee hereunder, without the execution or filing of any additional instrument or the performance of any further act.

ARTICLE IX

Accounting Provisions

9.1 The Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made in the administration of the Trust Fund.

9.2 Within a reasonable time after the close of each fiscal year, or of any termination of the duties of the Trustee hereunder, the Trustee shall prepare and deliver to the Administrator an account of its acts and transactions as Trustee during such fiscal year or during such period from the close of the last fiscal year to the termination of the Trustee's duties, respectively, including a statement of the then current value of the Trust Fund. Any such account shall be deemed accepted and approved by the Administrator, and the Trustee shall be relieved and discharged, as if such account had been settled and allowed by a judgment or decree of a court of competent jurisdiction, unless protested by written notice to the Trustee within sixty (60) days of receipt thereof by the Administrator.

9.3 The Trustee or the Administrator shall have the right to apply at any time to a court of competent jurisdiction for judicial settlement of any account of the Trustee not previously settled as herein provided or for the determination of any question of construction or for instructions. In any such action or proceeding it shall be necessary to join as parties only the Trustee and the Administrator (although the Trustee may also join such other parties as it may deem appropriate), and any judgment or decree entered therein shall be conclusive.

ARTICLE X

Amendment and Termination

10.1 This Trust Agreement may be amended by a written instrument executed by the Trustee and the Bank. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Plan or shall make the Trust revocable.

10.2 The Trust shall not terminate until the date on which Plan Participants and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Plan unless sooner revoked as hereinafter provided in this paragraph. Upon the written approval of all Plan Participants and all beneficiaries receiving benefits pursuant to the terms of the Plan, the Bank may terminate this Trust prior to the time all benefit payments under the Plan have been made. Upon termination of the Trust, any assets remaining in the Trust shall be returned to the Bank.

ARTICLE XI

Successor Bank

Unless this Trust be sooner terminated, a successor to the business of the Bank, by whatever form or manner resulting, which succeeds said Bank under the Plan as therein provided shall, upon notice in writing from the Administrator that all action required by the Plan to effect such succession has been taken, also succeed to all the rights, powers and duties of such Bank hereunder.

ARTICLE XII

Construction and Payment

12.1 The Trust shall be construed and administered according to the laws of the jurisdiction in which the principal office of the Trustee is located. In any question of interpretation or other matter of doubt, the Trustee may rely upon the opinion of counsel for the Bank or Administrator or any other attorney at law designated by the Bank with approval of the Trustee.

12.2 No person having any present or future interest in the Trust shall have any right to assign, transfer, encumber, commute or anticipate his payment under this Trust and such payment shall not in any way be subject to any legal process or levy of execution upon, or attachment or garnishment proceeding against, the same for the payment of any claim against any person having an interest hereunder, nor shall such payment be subject to the jurisdiction of any family court, bankruptcy court or insolvency proceedings.

ARTICLE XIII

Miscellaneous

13.1 The titles to the Articles in this Trust Agreement are included for convenience of reference only and are not to be used in interpreting this Trust Agreement.

13.2 Neither the gender nor the number (singular or plural) of any word shall be construed to exclude another gender or number when a different gender or number would be appropriate.

13.3 This Trust Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which shall together constitute only one Trust Agreement.

13.4 Communications to the Trustee shall be sent to the Trustee's principal office or to such other address as the Trustee may specify in writing. No communication shall be binding upon the trustee until it is received by the Trustee. Communications to the Administrator or the Bank shall be sent to the Bank's principal office or to such other address as the Bank may specify in writing.

IN WITNESS WHEREOF, the Bank and the Trustee have caused this instrument to be executed this _____ day of _____, 200 .

BANK: Bank Rhode Island
By: _____
Signature of Officer

TRUSTEE: _____

STATE OF RHODE ISLAND
COUNTY OF PROVIDENCE

In Providence on the _____ day of _____, 200 , before me personally appeared _____, to me known and known by me to be the _____ of and the person who executed the foregoing instrument for and on behalf of Bank Rhode Island and he acknowledged said instrument by him executed to be the free act and deed of Bank Rhode Island and his own free and voluntary act and deed in his capacity as _____ of said Bank.

Notary Public

STATE OF
COUNTY OF

In _____ on the _____ day of _____, 200 , before me personally appeared _____, to me known and known by me to be the _____ of and the person who executed the foregoing instrument for and on behalf of _____ and he acknowledged said instrument by him executed to be the free act and deed of _____ and his own free and voluntary act and deed in his capacity as _____ of said _____.

Notary Public

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Section 4: EX-10.7(B) (EX-10.7(B))

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Exhibit 10.7(b)

BANK RHODE ISLAND NONQUALIFIED DEFERRED COMPENSATION PLAN

AMENDMENT NO. 3

WHEREAS, Bank Rhode Island (the "Company") established and has maintained the Bank Rhode Island Nonqualified Deferred Compensation Plan (the "Plan") effective January 1, 1997, to provide unfunded deferred compensation for a select group of management or highly compensated employees; and

WHEREAS, the Company has maintained the right to amend the Plan from time to time; and

WHEREAS, the Company desires to amend the Plan to comply with the requirements of the American Jobs Creation Act of 2004;

NOW THEREFORE, the Plan is hereby amended, effective January 1, 2005, or as otherwise provided in regulations issued by the Internal Revenue Service under Code Section 409A:

1. The definition of "Unforeseeable Financial Emergency" in Section 1.14 of the Plan shall be amended by deleting that section in its entirety and replacing that language with the following new definition:

"1.14 *Unforeseeable Financial Emergency*" means a severe financial hardship to the Participant resulting from:

- (a) illness or accident of the Participant, the Participant's spouse, or a dependent (as defined in Section 152(a) of the Code) of the Participant,
- (b) loss of the Participant's property due to casualty, or
- (c) other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant.

Whether a Participant has an Unforeseeable Financial Emergency shall be determined in the sole discretion of the Plan Administrator."

2. Section 3.2 of the Plan is hereby amended by inserting the following new paragraph (b) after paragraph (a) and by designating current paragraphs (b) and (c) as "(c)" and "(d):"

"(b) The election to defer a bonus must be made prior to the beginning of the Plan Year in which the services are performed, unless the bonus is a non-discretionary bonus with specific performance-related goals as provided under Code Section 409A. In the case of performance-based compensation based upon services performed over a period of at least twelve months, the election may be made no later than six months prior to the end of that period."

3. Section 5.1 of the Plan is hereby amended by inserting the following new paragraph at the end thereof:

"In the event that a distribution is made to a Key Employee (as defined in Section 416(i) of the Code), other than by reason of death, such distribution shall not be made before a date that is six months following a separation of service."

4. Section 5.2 of the Plan is hereby amended by deleting that section in its entirety and replacing that language with the following new language:

"5.2 *Payment Upon Disability*. In the event a Participant becomes Disabled (as defined below) while the Participant is employed by the Company, payment of the Participant's Deferred Compensation Account shall be made as soon as practicable after the Valuation Date coincident with or next following the date on which the Participant is determined to be Disabled.

The term "Disabled" means that the Participant is (i) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (ii) is, by reason of determinable physical or mental impairment which can be expected to last for a period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering Participants of the Company.

Whether a Participant is Disabled for purposes of the Plan shall be determined by the Plan Administrator, and in making such determination, the Plan Administrator may rely on the opinion of a physician (or physicians) selected by the Plan Administrator for such purpose."

5. Section 7.1 of the Plan is hereby amended by deleting that section in its entirety and replacing that language with the following new language:

"7.1 The Company intends the Plan to be permanent, but reserves the right at any time to modify, amend or terminate the Plan; provided however, that except as provided below, any amendment or termination of the Plan shall not reduce or eliminate any balance in a Participant's Deferred Compensation Account accrued through the date of such amendment or termination. Upon termination of the Plan, all Deferred Compensation Account balances shall be distributed in accordance with Section 5.1 above."

IN WITNESS WHEREOF, the Company has executed this Third Amendment this *24th* day of *October*, 2007.

BANK RHODE ISLAND

By: /s/ JOHN R. BERGER

Compensation Committee
Chairman

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[BANK RHODE ISLAND NONQUALIFIED DEFERRED COMPENSATION PLAN AMENDMENT NO. 3](#)

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Exhibit 10.7(c)

BANK RHODE ISLAND NONQUALIFIED DEFERRED COMPENSATION PLAN

AMENDMENT NO. 4

WHEREAS, Bank Rhode Island (the "Company") established and has maintained the Bank Rhode Island Nonqualified Deferred Compensation Plan (the "Plan") effective January 1, 1997, to provide unfunded deferred compensation for a select group of management or highly compensated employees; and

WHEREAS, the Company has maintained the right to amend the Plan from time to time; and

WHEREAS, the Company desires to clarify that the Plan include employees of the Company's subsidiaries;

NOW THEREFORE, the Plan is hereby amended as follows:

1. The definition of "Company" in Section 1.2 of the Plan document is deleted in its entirety and replaced with the following new definition.

"1.2 "Company" means Bank Rhode Island, a Rhode Island financial institution, and any wholly-owned subsidiaries of Bank Rhode Island."

IN WITNESS WHEREOF, the Company has executed this Fourth Amendment this *18th* day of *December*, 2007.

BANK RHODE ISLAND

By: /s/MERRILL W. SHERMAN

Title: *President & CEO*

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[BANK RHODE ISLAND NONQUALIFIED DEFERRED COMPENSATION PLAN AMENDMENT NO. 4](#)

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Exhibit 10.9

CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (this "Agreement") is between Bank Rhode Island, a financial institution organized under the laws of the State of Rhode Island (the "Bank") and wholly owned subsidiary of Bancorp Rhode Island, Inc. (the "Company"), and Mark Meiklejohn (the "Executive").

WHEREAS, the Executive serves as Director of Corporate Banking for the Bank; and

WHEREAS, the parties hereto seek to set forth the terms of certain severance benefits to be granted to the Executive upon a change in control event.

IT IS MUTUALLY AGREED by the parties as follows:

1. *Purpose.* In order to allow Executive to consider the prospect of a Change in Control (as defined in Section 2(b)) in an objective manner and in consideration of the services rendered and to be rendered by Executive to the Bank, the Bank is willing to provide, subject to the terms of this Agreement, certain severance benefits to protect Executive from the consequences of a Terminating Event (as defined in Section 2(e)) occurring subsequent to a Change in Control.

2. *Definitions.*

(a) "Cause" means any of the following:

- (i) Continuing any arrangement, holding any position or engaging in any activities that conflict with the interest of, or that interfere with, Executive's duties owed to the Bank, after ten (10) days prior written notice by the Bank to Executive of the same;
- (ii) Conviction of embezzlement or other crimes against the Bank, deliberate misappropriation of the Bank's or the Company's funds or dishonesty;
- (iii) Material violation of written policies of the Bank, irresponsible acts in the performance of Executive's duties or material breach of any of Executive's obligations under the terms of this Agreement;
- (iv) Material non-performance of Executive's duties or material acts (or omissions) of mismanagement; and
- (v) Refusal to perform assigned duties when such refusal is not justified or excused either by the terms of this Agreement or by actions taken by the Bank in violation of this Agreement.

(b) "Change in Control" means: (i) a Takeover Transaction (as defined in Section 2(d)) is effectuated; or (ii) the Company commences substantive negotiations with a third party with respect to a Takeover Transaction *if* within twelve (12) months of the commencement of such negotiations, the Company enters into a definitive agreement with respect to a Takeover Transaction with any party with which negotiations were originally commenced; or (iii) any election of directors of the Company occurs (whether by the directors then in office or by the shareholders at a meeting or by written consent) where a majority of the directors in office following such election are individuals who were not nominated by a vote of two-thirds of the members of the board of directors immediately preceding such election; or (iv) either of the Company or the Bank effectuates a

complete liquidation.

(c) "Person" means an individual, a corporation, an association, a partnership, an estate, a trust and any other entity or organization.

(d) "Takeover Transaction" means:

(i) The acquisition of voting securities of the Company by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than by the Company or its subsidiaries or any employee benefit plan

(or related trust) of the Company or its subsidiaries, which theretofore as of the date hereof did not beneficially own (within the meaning of Rule 13d-3 promulgated under the Exchange Act) securities representing 30% or more of the voting power of all outstanding shares of voting securities of the Company, if such acquisition results in such individual, entity or group owning securities representing more than 30% of the voting power of all outstanding voting securities of the Company; provided, that any acquisition by a corporation with respect to which, following such acquisition, more than 50% of the then outstanding shares of voting securities of such corporation, is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of the Company outstanding immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the outstanding voting securities of the Company, shall not constitute a Change in Control; or

(ii) The issuance of additional shares of common stock of the Company or the Bank, as applicable, in a single transaction or a series of related transactions if the individuals and entities who were the beneficial owners of the outstanding voting securities of the Company or the Bank, as applicable, immediately prior to such issuance do not, following such issuance, beneficially own, directly or indirectly, securities representing more than 50% of the voting power of all then outstanding voting securities of the Company or the Bank, as applicable; or

(iii) Consummation by the Company or the Bank of (i) a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of the Company immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, securities representing more than 50% of the voting power of the outstanding voting securities of the corporation resulting from such a reorganization, merger or consolidation, or (ii) the sale, exchange or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company (on a consolidated basis) or the Bank to a party which is not controlled by or under common control with such entity, or (iii) the sale by the Company on one transaction or in a series of related transactions of voting securities of the Bank such that following such transaction or transactions the Company no longer beneficially owns, directly or indirectly, securities representing more than 50% of the voting power of the then outstanding voting securities of the Bank.

(e) "Terminating Event" means either:

(i) Termination by the Bank of Executive's employment for any reason other than (i) Executive's death or disability or (ii) for "Cause" (as such term is defined in Section 2(a) hereof); or

(ii) Executive's resignation as an employee of the Bank, other than for reasons of disability, following (i) a significant reduction in the nature or scope of Executive's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by Executive immediately prior to the Change in Control; or (ii) a greater than 10% reduction in Executive's annual base salary or fringe benefits as in effect on the date of the Change in Control; or (iii) any requirement by the Company or the Bank or of any Person in control of the Bank that the location at which Executive performs the principal duties of the Bank be outside a radius of 50 miles from the location at which Executive performed such duties immediately prior to the Change in Control; or (iv) the failure of any successor of the Company or the Bank to agree in writing upon terms and conditions of employment with Executive which are substantially similar to those of Executive's employment immediately prior to the Change in Control and which are reasonably satisfactory to Executive within ninety (90) days following a Change in Control.

3. *Payment in Connection With Terminating Event.* If a Terminating Event occurs within one (1) year after a Change in Control (which one (1) year period shall be calculated from the effective

date of the Takeover Transaction if the Terminating Event occurs after a Takeover Transaction), the Bank will pay to Executive an amount (the "Severance Payment") equal to Executive's annual base salary plus Executive's most recent annual bonus payment in effect at the time of the Change in Control, which Severance Payment shall be payable in one lump sum within thirty (30) days of the date of termination of Executive's employment, or if such Change in Control is governed by clause (ii) of Section 2(b) and the Terminating Event occurs prior to entering into a definitive agreement, upon the entering into of a definitive agreement by the Company. No Severance Payment will be made to Executive under this Section 3 if Executive's employment with the Company terminates for any reason prior to a Change in Control (except as may be provided below), or if Executive's employment with the Company terminates after a Change in Control but such termination or resignation is not a Terminating Event. In addition, no Severance Payment will be made to Executive under this Section 3 with respect to a Terminating Event which occurs more than one (1) year after a Change in Control (which one (1) year period shall be calculated from the effective date of the Takeover Transaction if the Terminating Event occurs after a Takeover Transaction).

4. *Applicability of Change in Control Provisions.* The provisions of Section 3 shall terminate upon the earliest of (i) the termination by the Bank of Executive's employment for any reason prior to a Change in Control, (ii) the termination of Executive's employment by the Bank after a Change in Control because of death or disability or for Cause, (iii) Executive's resignation or termination of employment with the Bank prior to a Change in Control for any reason other than one that constitutes a Terminating Event under Section 2(e), and (iv) Executive's resignation or termination of employment after a Change in Control on or after the first anniversary of the Takeover Transaction or events specified in Sections 2 (b)(iii) or (iv).

5. *Notices.* All notices, requests, demands and other communications required or permitted to be given or made under this Agreement shall be in writing and shall be deemed to have been given if delivered by hand, sent by generally recognized overnight courier service, telex or telecopy, or certified mail, return receipt requested:

(a) to the Bank at:

One Turks Head Place
Providence, Rhode Island 02903
Attn: Merrill W. Sherman, President and CEO

(b) to Executive at:

P.O. Box 1562
Kingston, RI 02881

Any such notice or other communication will be considered to have been given (i) on the date of the delivery in person, (ii) on the third day after mailing by certified mail, provided that receipt of delivery is confirmed in writing, (iii) on the first business day following delivery to a commercial overnight courier, or (iv) on the date of facsimile transmission (telecopy) provided that the giver of the notice obtains telephone confirmation of receipt.

6. *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns. For the avoidance of doubt, in the case of the Company, the successors and permitted assigns hereunder shall include, without limitation, any successor-in-interest of the Company (whether by merger, liquidation (including successive mergers or liquidations) or otherwise); provided, however, that no such assignment of this Agreement by the Company shall serve to relieve the Company from any liability to Executive hereunder. This Agreement or any right or interest hereunder may not be assigned by Executive. Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon any person other than the

parties and successors and assigns permitted by this Section 7 any right, remedy or claim under or by reason of this Agreement.

7. *Governing Law/Jurisdiction.* This Agreement shall be governed by and interpreted in accordance with the laws of the State of Rhode Island. The parties agree that this Agreement was made and entered into in Rhode Island and each party hereby consents to the jurisdiction of a competent court in Rhode Island to hear any dispute arising out of this Agreement.

8. *Right to Employment.* This Agreement does not constitute any entitlement to employment by, nor confer on Executive any right to continue in the employ of, the Bank or an affiliate of the Bank nor interfere in any way with the right of the Bank to determine the terms of, or terminate, Executive's employment.

9. *Entire Agreement.* This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any and all previous agreements, written or oral, regarding the subject matter hereof between the parties hereto. This Agreement shall not be changed, altered, modified or amended, except by a written agreement signed by both parties hereto.

10. *Severability.* If any term or provision of this Agreement, or the application thereof to any person or under any circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such terms to the persons or under circumstances other than those as to which it is invalid or unenforceable, shall be considered severable and shall not be affected thereby, and each term of this Agreement shall be valid and enforceable to the fullest extent permitted by law. The invalid or unenforceable provisions shall, to the extent permitted by law, be deemed amended and given such interpretation as to achieve the economic intent of this Agreement.

11. *Counterparts.* This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

[Signatures Appear on Following Page]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the 14th day of February, 2006.

BANK RHODE ISLAND

/s/ MERRILL W. SHERMAN

Merrill W. Sherman
President and Chief Executive Officer

EXECUTIVE

By: /s/ MARK MEIKLEJOHN

Mark Meiklejohn

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Section 7: EX-10.10 (EX-10.10)

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Exhibit 10.10

CHANGE IN CONTROL SEVERANCE AGREEMENT

THIS CHANGE IN CONTROL SEVERANCE AGREEMENT (this "Agreement") is between Bank Rhode Island, a financial institution organized under the laws of the State of Rhode Island (the "Bank") and wholly owned subsidiary of Bancorp Rhode Island, Inc. (the "Company"), and William C. DeWitt (the "Executive").

WHEREAS, the Executive serves as Senior Vice President of Marketing for the Bank; and

WHEREAS, the parties hereto seek to set forth the terms of certain severance benefits to be granted to the Executive upon a change in control event.

IT IS MUTUALLY AGREED by the parties as follows:

1. *Purpose.* In order to allow Executive to consider the prospect of a Change in Control (as defined in Section 2(b)) in an objective manner and in consideration of the services rendered and to be rendered by Executive to the Bank, the Bank is willing to provide, subject to the terms of this Agreement, certain severance benefits to protect Executive from the consequences of a Terminating Event (as defined in Section 2(e)) occurring subsequent to a Change in Control.

2. *Definitions.*

(a) "Cause" means any of the following:

- (i) Continuing any arrangement, holding any position or engaging in any activities that conflict with the interest of, or that interfere with, Executive's duties owed to the Bank, after ten (10) days prior written notice by the Bank to Executive of the same;
- (ii) Conviction of embezzlement or other crimes against the Bank, deliberate misappropriation of the Bank's or the Company's funds or dishonesty;
- (iii) Material violation of written policies of the Bank, irresponsible acts in the performance of Executive's duties or material breach of any of Executive's obligations under the terms of this Agreement;
- (iv) Material non-performance of Executive's duties or material acts (or omissions) of mismanagement; and
- (v) Refusal to perform assigned duties when such refusal is not justified or excused either by the terms of this Agreement or by actions taken by the Bank in violation of this Agreement.

(b) "Change in Control" means: (i) a Takeover Transaction (as defined in Section 2(d)) is effectuated; or (ii) the Company commences substantive negotiations with a third party with respect to a Takeover Transaction *if* within twelve (12) months of the commencement of such negotiations, the Company enters into a definitive agreement with respect to a Takeover Transaction with any party with which negotiations were originally commenced; or (iii) any election of directors of the Company occurs (whether by the directors then in office or by the shareholders at a meeting or by written consent) where a majority of the directors in office following such election are individuals who were not nominated by a vote of two-thirds of the members of the board of directors immediately preceding such election; or (iv) either of the Company or the Bank effectuates a

complete liquidation.

(c) "Person" means an individual, a corporation, an association, a partnership, an estate, a trust and any other entity or organization.

(d) "Takeover Transaction" means:

(i) The acquisition of voting securities of the Company by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), other than by the Company or its subsidiaries or any employee benefit plan

(or related trust) of the Company or its subsidiaries, which theretofore as of the date hereof did not beneficially own (within the meaning of Rule 13d-3 promulgated under the Exchange Act) securities representing 30% or more of the voting power of all outstanding shares of voting securities of the Company, if such acquisition results in such individual, entity or group owning securities representing more than 30% of the voting power of all outstanding voting securities of the Company; provided, that any acquisition by a corporation with respect to which, following such acquisition, more than 50% of the then outstanding shares of voting securities of such corporation, is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of the Company outstanding immediately prior to such acquisition in substantially the same proportion as their ownership, immediately prior to such acquisition, of the outstanding voting securities of the Company, shall not constitute a Change in Control; or

(ii) The issuance of additional shares of common stock of the Company or the Bank, as applicable, in a single transaction or a series of related transactions if the individuals and entities who were the beneficial owners of the outstanding voting securities of the Company or the Bank, as applicable, immediately prior to such issuance do not, following such issuance, beneficially own, directly or indirectly, securities representing more than 50% of the voting power of all then outstanding voting securities of the Company or the Bank, as applicable; or

(iii) Consummation by the Company or the Bank of (i) a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the individuals and entities who were the beneficial owners of the voting securities of the Company immediately prior to such reorganization, merger or consolidation do not, following such reorganization, merger or consolidation, beneficially own, directly or indirectly, securities representing more than 50% of the voting power of the outstanding voting securities of the corporation resulting from such a reorganization, merger or consolidation, or (ii) the sale, exchange or other disposition (in one transaction or a series of related transactions) of all or substantially all of the assets of the Company (on a consolidated basis) or the Bank to a party which is not controlled by or under common control with such entity, or (iii) the sale by the Company on one transaction or in a series of related transactions of voting securities of the Bank such that following such transaction or transactions the Company no longer beneficially owns, directly or indirectly, securities representing more than 50% of the voting power of the then outstanding voting securities of the Bank.

(e) "Terminating Event" means either:

(i) Termination by the Bank of Executive's employment for any reason other than (i) Executive's death or disability or (ii) for "Cause" (as such term is defined in Section 2(a) hereof); or

(ii) Executive's resignation as an employee of the Bank, other than for reasons of disability, following (i) a significant reduction in the nature or scope of Executive's duties, responsibilities, authority and powers from the duties, responsibilities, authority and powers exercised by Executive immediately prior to the Change in Control; or (ii) a greater than 10% reduction in Executive's annual base salary or fringe benefits as in effect on the date of the Change in Control; or (iii) any requirement by the Company or the Bank or of any Person in control of the Bank that the location at which Executive performs the principal duties of the Bank be outside a radius of 50 miles from the location at which Executive performed such duties immediately prior to the Change in Control; or (iv) the failure of any successor of the Company or the Bank to agree in writing upon terms and conditions of employment with Executive which are substantially similar to those of Executive's employment immediately prior to the Change in Control and which are reasonably satisfactory to Executive within ninety (90) days following a Change in Control.

3. *Payment in Connection With Terminating Event.* If a Terminating Event occurs within one (1) year after a Change in Control (which one (1) year period shall be calculated from the effective

date of the Takeover Transaction if the Terminating Event occurs after a Takeover Transaction), the Bank will pay to Executive an amount (the "Severance Payment") equal to Executive's annual base salary in effect at the time of the Change in Control, which Severance Payment shall be payable in one lump sum within thirty (30) days of the date of termination of Executive's employment, or if such Change in Control is governed by clause (ii) of Section 2(b) and the Terminating Event occurs prior to entering into a definitive agreement, upon the entering into of a definitive agreement by the Company. No Severance Payment will be made to Executive under this Section 3 if Executive's employment with the Company terminates for any reason prior to a Change in Control (except as may be provided below), or if Executive's employment with the Company terminates after a Change in Control but such termination or resignation is not a Terminating Event. In addition, no Severance Payment will be made to Executive under this Section 3 with respect to a Terminating Event which occurs more than one (1) year after a Change in Control (which one (1) year period shall be calculated from the effective date of the Takeover Transaction if the Terminating Event occurs after a Takeover Transaction).

4. *Applicability of Change in Control Provisions.* The provisions of Section 3 shall terminate upon the earliest of (i) the termination by the Bank of Executive's employment for any reason prior to a Change in Control, (ii) the termination of Executive's employment by the Bank after a Change in Control because of death or disability or for Cause, (iii) Executive's resignation or termination of employment with the Bank prior to a Change in Control for any reason other than one that constitutes a Terminating Event under Section 2(e), and (iv) Executive's resignation or termination of employment after a Change in Control on or after the first anniversary of the Takeover Transaction or events specified in Sections 2 (b)(iii) or (iv).

5. *Notices.* All notices, requests, demands and other communications required or permitted to be given or made under this Agreement shall be in writing and shall be deemed to have been given if delivered by hand, sent by generally recognized overnight courier service, telex or telecopy, or certified mail, return receipt requested:

(a) to the Bank at:

One Turks Head Place
Providence, Rhode Island 02903
Attn: Merrill W. Sherman, President and CEO

(b) to Executive at:

4 Old Forge Road
Barrington, Rhode Island 02806

Any such notice or other communication will be considered to have been given (i) on the date of the delivery in person, (ii) on the third day after mailing by certified mail, provided that receipt of delivery is confirmed in writing, (iii) on the first business day following delivery to a commercial overnight courier, or (iv) on the date of facsimile transmission (telecopy) provided that the giver of the notice obtains telephone confirmation of receipt.

6. *Successors and Assigns.* This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns. For the avoidance of doubt, in the case of the Company, the successors and permitted assigns hereunder shall include, without limitation, any successor-in-interest of the Company (whether by merger, liquidation (including successive mergers or liquidations) or otherwise); provided, however, that no such assignment of this Agreement by the Company shall serve to relieve the Company from any liability to Executive hereunder. This Agreement or any right or interest hereunder may not be assigned by Executive. Nothing in this Agreement, expressed or implied, is intended or shall be construed to confer upon any person other than the parties and successors and assigns permitted by this Section 7 any right, remedy or claim under or by reason of this Agreement.

7. *Governing Law/Jurisdiction.* This Agreement shall be governed by and interpreted in accordance with the laws of the State of Rhode Island. The parties agree that this Agreement was made and entered into in Rhode Island and each party hereby consents to the jurisdiction of a competent court in Rhode Island to hear any dispute arising out of this Agreement.

8. *Right to Employment.* This Agreement does not constitute any entitlement to employment by, nor confer on Executive any right to continue in the employ of, the Bank or an affiliate of the Bank nor interfere in any way with the right of the Bank to determine the terms of, or terminate, Executive's employment.

9. *Entire Agreement.* This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and supersedes any and all previous agreements, written or oral, regarding the subject matter hereof between the parties hereto. This Agreement shall not be changed, altered, modified or amended, except by a written agreement signed by both parties hereto.

10. *Severability.* If any term or provision of this Agreement, or the application thereof to any person or under any circumstance, shall to any extent be invalid or unenforceable, the remainder of this Agreement, or the application of such terms to the persons or under circumstances other than those as to which it is invalid or unenforceable, shall be considered severable and shall not be affected thereby, and each term of this Agreement shall be valid and enforceable to the fullest extent permitted by law. The invalid or unenforceable provisions shall, to the extent permitted by law, be deemed amended and given such interpretation as to achieve the economic intent of this Agreement.

11. *Counterparts.* This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

[Signatures Appear on Following Page]

IN WITNESS WHEREOF, the parties have executed this Agreement as of the 18th day of October, 2006.

BANK RHODE ISLAND

By: /s/ MERRILL W. SHERMAN

Merrill W. Sherman
President and Chief Executive Officer

EXECUTIVE

/s/ WILLIAM C. DEWITT

William C. DeWitt

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[Exhibit 10.10](#)

[CHANGE IN CONTROL SEVERANCE AGREEMENT](#)

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Section 8: EX-21 (EX-21)

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EXHIBIT 21

LIST OF SUBSIDIARIES OF THE COMPANY

Name	Jurisdiction of Organization
Bank Rhode Island	Rhode Island
BRI Investment Corp.	Rhode Island
Acorn Insurance Agency	Rhode Island
Macrolease Corporation	Rhode Island

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[LIST OF SUBSIDIARIES OF THE COMPANY](#)

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Section 9: EX-23 (EX-23)

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EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

The Board of Directors
Bancorp Rhode Island, Inc.

We consent to incorporation by reference in the registration statements on Form S-8 and Form S-3, File Nos. 333-46438, 333-89148, 333-126153, 333-107130, 333-118293, 333-126151, 333-135898, 333-145219 of Bancorp Rhode Island, Inc. of our reports dated March 10, 2008, with respect to the consolidated balance sheets of Bancorp Rhode Island, Inc. and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2007 and the effectiveness of the internal control over financial reporting as of December 31, 2007, which reports appear in the December 31, 2007 Annual Report on Form 10-K of Bancorp Rhode Island, Inc.

/s/ KPMG LLP

Providence, Rhode Island
March 10, 2008

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[Consent of Independent Registered Public Accounting Firm](#)
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Section 10: EX-31.1 (EX-31.1)

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EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Merrill W. Sherman, certify that:

1. I have reviewed this annual report on Form 10-K of Bancorp Rhode Island, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on our evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2008

/s/ MERRILL W. SHERMAN

Merrill W. Sherman
President and Chief Executive Officer

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[EXHIBIT 31.1](#)

[CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002](#)

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Section 11: EX-31.2 (EX-31.2)

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EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Linda H. Simmons, certify that:

1. I have reviewed this annual report on Form 10-K of Bancorp Rhode Island, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on our evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2008

/s/ LINDA H. SIMMONS

Linda H. Simmons
Chief Financial Officer and Treasurer

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[EXHIBIT 31.2](#)

[CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002](#)

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Section 12: EX-32.1 (EX-32.1)

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EXHIBIT 32.1

**CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Bancorp Rhode Island, Inc. (the "Company") on Form 10-K for the year ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned President and Chief Executive Officer hereby certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated this 10th day of March, 2008.

/s/ MERRILL W. SHERMAN

Merrill W. Sherman
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Bancorp Rhode Island, Inc. and will be retained by Bancorp Rhode Island, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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[EXHIBIT 32.1](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

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EXHIBIT 32.2

**CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Bancorp Rhode Island, Inc. (the "Company") on Form 10-K for the year ending December 31, 2007, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Financial Officer and Treasurer hereby certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated this 10th day of March, 2008.

/s/ LINDA H. SIMMONS

Linda H. Simmons
Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906 has been provided to Bancorp Rhode Island, Inc. and will be retained by Bancorp Rhode Island, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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[EXHIBIT 32.2](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)

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