

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

BANCORP RHODE ISLAND INC
Form 10-Q
May 15, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 10-Q

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

For quarter ended: March 31, 2001

Commission File No. 001-16101

BANCORP RHODE ISLAND, INC.

(Exact Name of Registrant as Specified in Its Charter)

RHODE ISLAND

05-0509802

(State or Other Jurisdiction
of Incorporation or Organization)

(IRS Employer
Identification No.)

ONE TURKS HEAD PLACE, PROVIDENCE, RI 02903

(Address of Principal Executive Offices)

(401) 456-5000

(Issuer's Telephone Number, Including Area Code)

Not Applicable

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

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of May 8, 2001:

Common Stock - Par Value \$0.01	3,736,650 shares
-----	-----
(class)	(outstanding)

BANCORP RHODE ISLAND, INC.

FORM 10-Q

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

INDEX

	PAGE NUMBER	

Cover Page	1	
Index	2	
PART I - FINANCIAL INFORMATION		
Item 1	Financial Statements	
	Consolidated Balance Sheets	3
	Consolidated Statements of Operations	4
	Consolidated Statements of Changes in Shareholders' Equity	5
	Consolidated Statements of Cash Flows	6
	Notes to Consolidated Financial Statements	7 - 8
Item 2	Management's Discussion and Analysis	9 - 17
Item 3	Quantitative and Qualitative Disclosures About Market Risk	18
PART II - OTHER INFORMATION		
Item 1	Legal Proceedings	19
Item 2	Changes in Securities	19
Item 3	Default upon Senior Securities	19
Item 4	Submission of Matters to a Vote of Security Holders	19
Item 5	Other Information	19
Item 6	Exhibits and Reports on Form 8-K	19
	Signature Page	21

2

BANCORP RHODE ISLAND, INC.
Consolidated Balance Sheets

March 31, Decem
2001 2

(In thousands)

ASSETS:

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

Cash and due from banks	\$ 26,035	\$ 2
Federal funds sold	12,050	
Investment securities available for sale (amortized cost of \$38,474 and \$47,459 at March 31, 2001 and December 31, 2000, respectively)	38,574	4
Mortgage-backed securities available for sale (amortized cost of \$128,415 and \$117,543 at March 31, 2001 and December 31, 2000, respectively)	129,446	11
Stock in Federal Home Loan Bank of Boston	4,915	
Loans receivable:		
Residential mortgage loans	306,996	24
Commercial loans	216,054	21
Consumer and other loans	61,912	5
	-----	-----
Total loans	584,962	51
Less allowance for loan losses	(7,579)	(7)
	-----	-----
Net loans	577,383	51
Premises and equipment, net	6,326	
Other real estate owned	47	
Goodwill, net	11,639	1
Accrued interest receivable	6,600	
Prepaid expenses and other assets	770	
	-----	-----
Total assets	\$813,785	\$73
	=====	=====
LIABILITIES:		
Deposits:		
Demand deposit accounts	\$ 99,587	\$10
NOW accounts	37,375	3
Money market accounts	11,681	1
Savings accounts	223,877	21
Certificate of deposit accounts	259,028	26
	-----	-----
Total deposits	631,548	63
Overnight and short-term borrowings	17,294	1
Federal Home Loan Bank of Boston borrowings	98,289	3
Other borrowings	4,750	
Company-obligated mandatorily redeemable capital securities	3,000	
Other liabilities	3,568	
	-----	-----
Total liabilities	758,449	68
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, par value \$0.01 per share, authorized 11,000,000 shares:		
Voting: Issued and outstanding 3,508,173 shares 2001 and 3,448,950 shares in 2000	35	
Non-Voting: Issued and outstanding 228,477 shares in 2001 and 280,000 shares in 2000	2	
Additional paid-in capital	39,626	3
Retained earnings	14,927	1
Accumulated other comprehensive income (loss), net	746	
	-----	-----
Total shareholders' equity	55,336	5
	-----	-----
Total liabilities and shareholders' equity	\$813,785	\$73
	=====	=====

See accompanying notes to consolidated financial statements

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

BANCORP RHODE ISLAND, INC.
Consolidated Statements of Operations

	Three Months Ended March 31,	
	2001	2000
	-----	-----
	(In thousands, except per share data)	
Interest and dividend income:		
Residential mortgage loans	\$ 5,214	\$ 4,403
Commercial loans	4,713	3,892
Consumer and other loans	1,270	998
Investment securities	742	769
Mortgage-backed securities	2,003	1,275
Federal funds sold and other	141	91
Federal Home Loan Bank of Boston stock dividends	74	65
	-----	-----
Total interest and dividend income	14,157	11,493
	-----	-----
Interest expense:		
NOW accounts	50	44
Money market accounts	78	110
Savings accounts	1,869	1,218
Certificate of deposit accounts	3,708	3,036
Overnight and short-term borrowings	192	130
Federal Home Loan Bank of Boston borrowings	950	764
Other borrowings	70	70
Company-obligated mandatorily redeemable capital securities	34	--
	-----	-----
Total interest expense	6,951	5,372
	-----	-----
Net interest income	7,206	6,121
Provision for loan losses	488	340
	-----	-----
Net interest income after provision for loan losses	6,718	5,781
	-----	-----
Noninterest income:		
Loan related fees	49	43
Service charges on deposit accounts	766	605
Commissions on loans originated for others	59	5
Other income	228	123
	-----	-----
Total noninterest income	1,102	776
	-----	-----
Noninterest expense:		
Salaries and employee benefits	2,650	2,171
Occupancy	430	366
Equipment	231	209
Data processing	419	285
Marketing	188	235
Professional services	215	260
Loan servicing	209	204
Other real estate owned expense	43	3
Amortization of goodwill	291	291

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

Deposit tax and assessments	29	26
Other expenses	684	506

Total noninterest expense	5,389	4,556

Income before income taxes	2,431	2,001
Income tax expense	871	695

Net income	\$ 1,560	\$ 1,306
	=====	

Per share data:

Basic earnings per common share	\$ 0.42	\$ 0.35
Diluted earnings per common share	\$ 0.40	\$ 0.35
Average common shares outstanding - basic	3,734,828	3,728,550
Average common shares outstanding - diluted	3,865,939	3,728,550

See accompanying notes to consolidated financial statements

4

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

Three months ended March 31, -----	Preferred Stock -----	Common Stock -----	Additional Paid-in Capital -----	Retained Earnings -----	Accumulated Other Comprehensive Income (Loss) -----
(In thousands)					
2001					

Balance at December 31, 2000	\$ --	\$ 37	\$39,621	\$13,815	\$
Net income	--	--	--	1,560	
Other comprehensive income, net of tax:					
Unrealized gain (loss) on securities available for sale					
Comprehensive income					
Common stock issued for incentive stock award, net	--	--	5	--	
Dividends on common stock	--	--	--	(448)	

Balance at March 31, 2001	\$ --	\$ 37	\$39,626	\$14,927	\$
	=====				
2000					

Balance at December 31, 1999	\$ --	\$ 37	\$39,617	\$ 9,763	\$(1
Net income	--	--	--	1,306	
Other comprehensive income, net of tax:					
Unrealized gain (loss) on					

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

securities available for sale

Comprehensive income				
Dividends on common stock	--	--	--	(373)
Balance at March 31, 2000	\$ --	\$ 37	\$39,617	\$10,696
				\$ (2)

See accompanying notes to consolidated financial statements

5

BANCORP RHODE ISLAND, INC.
Consolidated Statements of Cash Flows

	Three Months March 31	2001
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 1,560	\$
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	684	
Provision for loan losses	488	
Compensation expense from restricted stock grant	5	
(Increase) decrease in:		
Accrued interest receivable	(970)	
Prepaid expenses and other assets	(218)	
Increase (decrease) in:		
Other liabilities	961	
Other, net	20	
Net cash provided (used) by operating activities	2,530	
Cash flows from investing activities:		
Origination of:		
Residential mortgage loans	(2,703)	
Commercial loans	(9,331)	
Consumer loans	(4,033)	
Purchase of:		
Investment securities available for sale	(4,027)	
Mortgage-backed securities available for sale	(16,066)	
Residential mortgage loans	(74,969)	
Consumer loans	(5,045)	
Federal Home Loan Bank of Boston stock	(1,211)	
Principal payments on:		
Investment securities available for sale	13,000	
Mortgage-backed securities available for sale	5,175	
Residential mortgage loans	18,504	
Commercial loans	5,912	
Consumer loans	5,190	
Capital expenditures for premises and equipment	(206)	

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

Net cash provided (used) by investing activities	(69,810)	
<hr style="border-top: 1px dashed black;"/>		
Cash flows from financing activities:		
Net increase (decrease) in deposits	(84)	
Net increase (decrease) in overnight and short-term borrowings	3,447	
Proceeds from long-term borrowings	71,000	
Repayment of long-term borrowings	(3,003)	
Dividends on common stock	(448)	
<hr style="border-top: 1px dashed black;"/>		
Net cash provided (used) by financing activities	70,912	
<hr style="border-top: 1px dashed black;"/>		
Net increase (decrease) in cash and cash equivalents	3,632	
Cash and cash equivalents at beginning of period	34,453	
<hr style="border-top: 1px dashed black;"/>		
Cash and cash equivalents at end of period	\$ 38,085	\$
<hr style="border-top: 3px double black;"/>		
Supplementary Disclosures:		
Cash paid for interest	\$ 6,443	\$
Cash paid for income taxes	165	
Non-cash transactions:		
Additions to other real estate owned in settlement of loans	17	
Change in other comprehensive income, net of taxes	927	

See accompanying notes to consolidated financial statements

6

BANCORP RHODE ISLAND, INC. Notes to Consolidated Financial Statements

(1) Basis of Presentation

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

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

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

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

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses.

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

(2) Earnings Per Share

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

7

(3) Recent Accounting Developments

On December 20, 2000, FASB tentatively concluded that upon the effective date of its final statement on business combinations and intangible assets, goodwill recorded on an entity's balance sheets would no longer be amortized. This would include existing goodwill (i.e., recorded goodwill at the date the financial statement is issued), as well as goodwill arising subsequent to the effective date of the final statement. Goodwill will not be amortized but will be reviewed for impairment periodically or upon the occurrence of certain triggering events. The FASB decided to issue a revised Exposure Draft during the first quarter of 2001, limited to its tentative conclusions regarding an impairment-only approach to accounting for goodwill. The FASB plans to issue a final statement in 2001 that incorporates its tentative decisions. At March 31, 2001, the Company had \$11.6 million of goodwill on its balance sheet that was being amortized at rate of \$1.2 million annually.

(4) Company-Obligated Mandatorily Redeemable Capital Securities

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

8

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

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

ITEM 2. Management's Discussion and Analysis

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

GENERAL

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

NON-GAAP MEASURES OF FINANCIAL PERFORMANCE

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

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

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

a difference between GAAP and cash basis presentation. Also see discussion under "Recent Accounting Developments".

The following table sets forth selected financial measures according to GAAP and on a cash basis:

	Three Months Ended March 31, -----	
	2001 ----	2000 ----
Basic earnings per share	\$0.42	\$0.35
Basic cash earnings per share	\$0.47	\$0.40
Diluted earnings per share	\$0.40	\$0.35
Diluted cash earnings per share	\$0.45	\$0.40
Return on average assets	0.82%	0.81%
Cash basis return on average assets	0.94%	0.95%
Return on average equity	11.75%	11.11%
Cash basis return on average equity	13.16%	12.72%
Efficiency ratio	64.87%	66.06%
Cash basis efficiency ratio	61.36%	61.84%

OVERVIEW

Total assets increased \$74.4 million, or 10.1%, to \$813.8 million at March 31, 2001 from \$739.4 million at December 31, 2000. The increase was predominantly in residential mortgage loans and mortgage-backed securities ("MBSs") and was funded by borrowings from the FHLB. In February 2001, the Company through its subsidiary, BRI Statutory Trust I, issued \$3.0 million of trust preferred securities. These securities qualify as Tier I capital for regulatory purposes and supported the growth in assets that occurred during the quarter. Since the end of last year, total loans rose to \$585.0 million, from \$518.8 million, an increase of \$66.1 million, or 12.7%, while total deposits remained stable, at \$631.5 million. Shareholders' equity was \$55.3 million at March 31, 2001, representing a \$2.0 million, or 3.8%, increase over shareholders' equity at the end of 2000.

FINANCIAL CONDITION

-- Investments. Total investments (consisting of federal funds sold, investment securities, MBSs, and stock in the FHLB) totaled \$185.0 million, or 22.7% of total assets, at March 31, 2001, compared to \$174.0 million, or 23.5% of total assets, at December 31, 2000. All \$168.0 million of investment and mortgage-backed securities at March 31, 2001 were classified as available for sale and carried a total of \$1.1 million in net unrealized gains at the end of the quarter. The increase in total investments of \$11.0 million, or 6.3%, was centered in MBSs and was associated with the additional capital created through the issuance of the trust preferred securities.

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

-- Loans. Total loans were \$585.0 million, or 71.9% of total assets, at March 31, 2001, compared to \$518.8 million, or 70.2% of total assets, at December 31, 2000. During the first quarter of 2001, the residential mortgage loan portfolio increased \$59.1 million, or 23.8%, as the Bank purchased a number of residential mortgage loans in the secondary market. These purchases were funded by a series of FHLB borrowings and resulted in (at the time of settlement) an interest rate spread of approximately 175 basis points.

10

The commercial loan portfolio (consisting of commercial & industrial, small business, commercial real estate, multi-family real estate, and construction loans) increased \$3.2 million, or 1.5%, during the first quarter of 2001. Particular emphasis is placed on generation of small- to medium-sized commercial relationships (those relationships with \$5.0 million or less in loan commitments). The Bank is active in small business lending (loans of \$250,000 or less) in which it utilizes credit scoring, in conjunction with traditional review standards, and employs streamlined documentation. The Bank is a participant in the U.S. Small Business Administration ("SBA") Preferred Lender Program in Rhode Island and the 7a Guarantee Loan Program in Massachusetts.

Also during the first quarter of 2001, the consumer loan portfolio increased \$3.8 million, or 6.6%, as the Bank purchased \$5.0 million in automobile loan receivables. While the Bank continues to concentrate its origination efforts on commercial and consumer loan opportunities, management anticipates that the Bank will continue to originate residential mortgage loans on a limited basis for its customers. Until such time as the Bank can originate sufficient commercial and consumer loans to utilize available cash flow, or to otherwise meet investment objectives, it also intends to continue purchasing residential mortgage and automobile loans as opportunities develop.

The following is a breakdown of loans receivable:

	March 31, 2001	December 31, 2000
	-----	-----
	(In thousands)	
Residential mortgage loans:		
One- to four-family adjustable rate	\$272,528	\$212,197
One- to four-family fixed rate	33,000	34,609
	-----	-----
Subtotal	305,528	246,806
Premium on loans acquired	1,524	1,166
Net deferred loan origination fees	(56)	(49)
	-----	-----
Total residential mortgage loans	\$306,996	\$247,923
	=====	=====
Commercial loans:		
Commercial real estate - nonowner occupied	\$ 71,335	\$ 69,315
Commercial and industrial	52,228	51,470
Commercial real estate - owner occupied	38,003	38,272
Small business	20,646	19,170
Multi-family real estate	14,685	15,933

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

Leases	10,989	11,731
Construction	8,360	7,070
	-----	-----
Subtotal	216,246	212,961
Net deferred loan origination fees	(192)	(143)
	-----	-----
Total commercial loans	\$216,054	\$212,818
	=====	=====
Consumer loans:		
Home equity - lines of credit	\$ 26,141	\$ 26,215
Home equity - term loans	22,687	23,292
Automobile	9,013	4,643
Installment	1,317	1,348
Savings secured	967	987
Unsecured and other	1,099	1,044
	-----	-----
Subtotal	61,224	57,529
Premium on loans acquired	272	144
Net deferred loan origination costs	416	411
	-----	-----
Total consumer loans	\$ 61,912	\$ 58,084
	=====	=====

11

-- Deposits and Borrowings. Total deposits remained relatively unchanged during the first three months of 2001, beginning at \$631.6 million, or 85.4% of total assets, at December 31, 2000, and ending at \$631.5 million, or 77.6% of total assets, at March 31, 2001. The decrease in the relative percentage of total assets that occurred during the quarter resulted from the growth in total assets being primarily funded by FHLB borrowings. Meanwhile, the composition of total deposits did change during the quarter. Core accounts (checking and savings) increased \$6.5 million, or 1.8%, during the quarter, while certificates of deposit decreased \$6.6 million, or 2.5%, during this time period. The Bank continues its strategy of emphasizing core deposit growth over certificate of deposit growth.

The following table sets forth certain information regarding deposits:

	March 31, 2001			December 31, 2000	
	Amount	Percent of Total	Weighted Average Rate	Amount	Percent of Total
	-----	-----	-----	-----	-----
	(Dollars in thousands)				
NOW accounts	\$ 37,375	5.9%	0.55%	\$ 36,910	5.8%
Money market accounts	11,681	1.8%	2.46%	12,283	1.9%
Savings accounts	223,877	35.5%	3.51%	210,728	33.2%
Certificate of deposit accounts	259,028	41.0%	5.65%	265,623	41.1%
	-----	-----	-----	-----	-----
Total interest bearing deposits	531,961	84.2%	4.32%	525,544	82.0%
Noninterest bearing accounts	99,587	15.8%	--	106,088	16.6%
	-----	-----	-----	-----	-----
Total deposits	\$631,548	100.0%	3.64%	\$631,632	100.0%

The Company, through the Bank's membership in the FHLB, has access to a variety of borrowing alternatives, and management will from time to time take advantage of these opportunities to fund asset growth. During the first quarter of 2001, FHLB borrowings increased \$65.0 million, or 195.2%, as the Company sought to take advantage of lower, long-term borrowing rates and fund its asset growth. However, on a long-term basis, the Company intends to concentrate on increasing its core deposits.

Asset Quality

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

Nonperforming Assets. At March 31, 2001, the Company had nonperforming assets of \$1.1 million, which represented 0.13% of total assets. This compares to nonperforming assets of \$538,000, or 0.07% of total assets, at December 31, 2000. While the level of nonperforming assets increased \$525,000, or 97.6%, during the first quarter of 2001, they still remain at a low level. Nonperforming assets at March 31, 2001, consisted of nonaccrual residential mortgage loans aggregating \$481,000, nonaccrual commercial loans aggregating \$502,000, nonaccrual consumer loans aggregating \$33,000 and OREO aggregating \$47,000. Included in nonaccrual loans were

12

\$365,000 of impaired loans at March 31, 2001. There were no impaired loans as of December 31, 2000. No reserves were necessary against impaired loans as of March 31, 2001. The Company evaluates the underlying collateral of each nonperforming loan and continues to pursue the collection of interest and principal.

Delinquencies. At March 31, 2001, loans with an aggregate balance of \$266,000 were 60 to 89 days past due, a decrease of \$71,000, or 21.1%, from \$337,000 reported at December 31, 2000. The majority of these loans at both dates were residential mortgage loans and are secured.

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

	March 31, 2001	December 31, 2000
	-----	-----
	(Dollars in thousands)	
Loans accounted for on a nonaccrual basis	\$1,016	\$508
Loans past due 90 days or more, but still accruing	--	--
Impaired loans (not included in nonaccrual loans)	--	--
	-----	-----

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

Total nonperforming loans	1,016	508
Other real estate owned	47	30
	-----	-----
Total nonperforming assets	\$1,063	\$538
	=====	=====
Delinquent loans 60-89 days past due	\$ 266	\$337
Nonperforming loans as a percent of total loans	0.17%	0.10%
Nonperforming assets as a percent of total assets	0.13%	0.07%
Delinquent loans 60-89 days past due as a percent of total loans	0.05%	0.07%

Management believes that the December 31, 2000 level of nonperforming assets and the charge-off experience for 2000 were unusually low. As the loan portfolio continues to grow and mature, or if economic conditions worsen, management believes it likely that the level of nonperforming assets will increase, as will its level of delinquencies and charge-offs.

Allowance for Loan Losses

During the first quarter of 2001, the Company made provisions to the allowance for loan losses totaling \$488,000 and had \$203,000 of net charge-offs, bringing the balance in the allowance to \$7,579,000, compared to \$7,294,000 at December 31, 2000. The allowance, expressed as a percentage of total loans, was 1.30% as of March 31, 2001, compared to 1.41% at the prior year end and stood at 746.0% of nonperforming loans at March 31, 2001, compared to 1,435.8% of nonperforming loans at December 31, 2000.

Assessing the adequacy of the allowance for loan losses involves substantial uncertainties and is based upon management's evaluation of the amounts required to meet estimated charge-offs in the loan portfolio after weighing various factors. Among these factors are the risk characteristics of the loan portfolio, the quality of specific loans, the level of nonaccruing loans, current economic conditions, trends in delinquencies and charge-offs, and the value of underlying collateral, all of which can change frequently. Based on this evaluation, management believes that the allowance for loan losses, as of March 31, 2001, is adequate.

13

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

RESULTS OF OPERATIONS

The Company's operating results depend primarily on its "net interest income," or the difference between its interest income and its cost of money, and on the quality of its assets. Interest income depends on the average amount of interest-earning assets outstanding during the period and the interest rates earned thereon. Cost of money is a function of the

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

average amount of deposits and borrowed money outstanding during the period and the interest rates paid thereon. The quality of assets further influences the amount of interest income lost on nonaccrual loans and the amount of additions to the allowance for loan losses.

Three Months Ended March 31, 2001 and 2000

-- Overview. The Company reported net income for the first quarter of 2001 of \$1.6 million, up \$254,000, or 19.4%, from the first quarter of 2000. Diluted earnings per common share were \$0.40 for the first quarter of 2001, compared to \$0.35 for the first quarter of 2000. Diluted cash earnings per common share were \$0.45 for the 2001 period, compared to \$0.40 for the 2000 period.

The Company reported a return on average assets of 0.82% and a return on average equity of 11.75% for the 2001 period, as compared to a return on average assets of 0.81% and a return on average equity of 11.11% for the 2000 period. Cash basis return on average assets and cash basis return on average equity were 0.94% and 13.16% for the 2001 period, and 0.95% and 12.72% for the 2000 period, respectively.

-- Net Interest Income. For the quarter ended March 31, 2001, net interest income was \$7.2 million, compared to \$6.1 million for the first quarter of 2000. The net interest margin for the first quarter of 2001 was 3.99% compared to a net interest margin of 4.04% for the 2000 period. The increase in net interest income of \$1.1 million, or 17.7%, was primarily attributable to the continued growth of the Company. Average earning assets were \$123.0 million, or 20.2%, higher, and average interest-bearing liabilities were \$95.4 million, or 18.3%, higher, than the comparable period a year earlier. The decrease of 5 basis points in the net interest margin resulted primarily from the lower spreads associated with the recent wholesale transaction (purchase of residential mortgage loans funded with FHLB borrowings) compared to the spreads associated with traditional commercial lending funded by core deposits.

-- Interest Income. Investments. Total investment income was \$3.0 million for the quarter ended March 31, 2001, compared to \$2.2 million for the first quarter of 2000. This increase in total investment income of \$760,000, or 34.5%, was primarily attributable to an increase of \$40.7 million, or 50.7%, in the average balance of MBSs. The Company's investments at the end of the first quarter of 2001 were primarily comprised of Agency securities or MBSs with remaining maturities

14

or repricing periods of less than five years. In addition to assisting in overall tax planning, management believes that this composition, along with a structured maturity ladder, provides more stable earnings and predictable cash flows from the portfolio.

-- Interest Income. Loans. Interest from loans was \$11.2 million for the three months ended March 31, 2001, and represented a yield on total loans of 8.20%. This compares to \$9.3 million of interest, and a yield of 7.92%, for the first quarter of 2000. Interest from commercial loans increased \$821,000, or 21.1%, between the two quarters and represented the fastest growing segment of the total loan portfolio. Income from residential mortgage loans increased \$811,000, or 18.4%, and consumer and other loan income increased \$272,000, or 27.3%. Since its inception, the Bank has concentrated its origination efforts on commercial and consumer loan opportunities, while purchasing residential mortgage loans, and more

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

recently automobile loans, as cash flows dictated. The average balance of the various components of the loan portfolio changed from the first quarter of 2000 as follows: commercial loans increased \$35.8 million, or 19.9%, consumer and other loans increased \$12.6 million, or 26.9%, and residential mortgage loans increased \$31.2 million, or 12.8%, respectively. In response to rising market interest rates, the yields on the various loan portfolio components changed as follows: commercial loans increased 16 basis points, to 8.88%; consumer and other loans increased 10 basis points, to 8.63%, and residential mortgage loans increased 36 basis points, to 7.58%.

-- Interest Expense. Interest paid on deposits and borrowings increased \$1.6 million, or 29.4%, to \$7.0 million for the three months ended March 31, 2001, from \$5.4 million for the same period during 2000. The increase in total interest expense was primarily the result of an increase in the average balance of interest-bearing liabilities outstanding. The average balance of interest-bearing liabilities increased \$95.4 million, from \$522.8 million in the first quarter of 2000 to \$618.2 million in the first quarter of 2001, as borrowings were utilized to fund asset growth. Meanwhile, the overall average cost for interest-bearing liabilities increased 43 basis points from 4.13% for the first quarter of 2000 to 4.56% for the first quarter of 2001. Liability costs are dependent on a number of factors including general economic conditions, national and local interest rates, competition in the local deposit marketplace, interest rate tiers offered and the Company's cash flow needs. Average costs for the various components of interest-bearing liabilities changed from the first quarter of 2000 as follows: NOW accounts decreased 8 basis points, to 0.56%; money market accounts decreased 16 basis points, to 2.56%; savings deposits increased 69 basis points, to 3.51%; certificate of deposit accounts increased 62 basis points, to 5.72%; and borrowings decreased 37 basis points to 5.60%.

-- Provision for Loan Losses. The provision for loan losses was \$488,000 for the quarter ended March 31, 2001, up \$148,000, or 43.5%, from the same quarter last year as the total loan portfolio grew \$66.1 million, or 12.7%, during the quarter and charge-offs increased \$205,000 from the first quarter of last year. When determining the provision for the quarter, management evaluates several factors including new loan originations, actual and estimated charge-offs, and the risk characteristics of the loan portfolio. Also see discussion under "Allowance for Loan Losses."

-- Noninterest Income. Total noninterest income increased \$326,000, or 42.0%, to \$1.1 million for the first quarter of 2001, from \$776,000 for the first quarter of 2000. Service Charges on Deposit Accounts, which continues to represent the largest source of noninterest income for the Company, rose \$161,000, or 26.6%, from \$605,000 for the three months ended March 31, 2000, to \$766,000 for the same period in 2001. Commissions on Loans Originated for Others increased \$54,000, or

15

1080.0%, from the comparable period, as fixed rate mortgage loan activity increased substantially in response to the falling interest rate environment. Other Income increased \$105,000, or 85.4%, primarily from revitalization of the Company's non-deposit investment sales program, which increased commissions \$71,000 over the first quarter of last year.

-- Noninterest Expense. Noninterest expenses for the first quarter of 2001 increased a total of \$833,000, or 18.3%, to \$5.4 million from \$4.6 million in 2000. This increase occurred primarily in the following areas: Salaries and Benefits (up \$479,000, or 22.1%), Occupancy and Equipment (up

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

\$86,000, or 15.0%), Data Processing (up \$134,000, or 47.0%), OREO Expenses (up \$40,000, or 1,333.3%) and Other Expenses (up \$178,000, or 35.2%). During 2000, the Bank experienced substantial growth in both the commercial loan and core deposit areas that has resulted in the increased costs associated with the first quarter of 2001. In addition, during the third quarter of 2000, the Bank reviewed its salary structure and subsequently made adjustments to certain positions in order to bring their compensation to industry comparable levels. Partially offsetting these increases were decreases in: Marketing (down \$47,000, or 20.0%) and Professional Services (down \$45,000, or 17.3%). The Company's cash basis efficiency ratio for the first quarter of 2001 was 61.36%, compared to 61.84% for the first quarter of 2000, an improvement of 48 basis points.

-- Income Tax Expense. Income tax expense of \$871,000 was recorded for the three months ended March 31, 2001, compared to \$695,000 for the same period during 2000. This represented total effective tax rates of 35.8% and 34.7%, respectively. Tax-favored income from U.S. Treasury and Agency securities along with the utilization of a Rhode Island passive investment company has reduced the effective tax rate from the 39.9% combined statutory federal and state tax rates.

LIQUIDITY AND CAPITAL RESOURCES

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

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

Management is responsible for establishing and monitoring liquidity targets as well as strategies and tactics to meet these targets. In general, the Company maintains a high degree of flexibility with a liquidity target of 10% to 25% of total assets. At March 31, 2001, federal funds sold, investment securities and MBSs available for sale amounted to \$180.1 million, or 22.1% of total assets. This compares to \$170.3 million, or 23.0% of total assets at December 31, 2000. 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

16

have been no adverse trends in the Company's liquidity or capital reserves. Management believes that the Company has adequate liquidity to meet its commitments.

-- Capital Resources. Total shareholders' equity of the Company at March 31, 2001 was \$55.3 million, as compared to \$53.3 million at December

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

31, 2000. This increase of \$2.0 million was the result of net income for the quarter of \$1.6 million, less dividends of \$448,000 and changes in unrealized gains on investment securities of \$927,000.

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

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

As of March 31, 2001, the Company and the Bank met all applicable minimum capital requirements and were considered "well capitalized" by both the FRB and the FDIC. The Company's and the Bank's actual and required capital amounts and ratios are as follows:

	Actual		Minimum Required For Capital Adequacy Purposes		
	Amount	Ratio	Amount	Ratio	
At March 31, 2001:					
Bancorp Rhode Island, Inc.					
Tier I capital (to average assets)	\$ 45,951	6.07%	\$ 22,271	3.00%	\$
Tier I capital (to risk weighted assets)	45,951	9.68%	18,998	4.00%	
Total capital (to risk weighted assets)	51,907	10.93%	37,995	8.00%	
Bank Rhode Island					
Tier I capital (to average assets)	\$ 45,592	6.02%	\$ 22,720	3.00%	\$
Tier I capital (to risk weighted assets)	45,592	9.60%	18,993	4.00%	
Total capital (to risk weighted assets)	51,548	10.86%	37,986	8.00%	
At December 31, 2000:					
Bancorp Rhode Island, Inc.					
Tier I capital (to average assets)	\$ 41,543	5.91%	\$ 21,086	3.00%	\$
Tier I capital (to risk weighted assets)	41,543	9.50%	17,484	4.00%	
Total capital (to risk weighted assets)	47,029	10.76%	34,968	8.00%	
Bank Rhode Island					
Tier I capital (to average assets)	\$ 41,129	5.85%	\$ 21,086	3.00%	\$
Tier I capital (to risk weighted assets)	41,129	9.41%	17,484	4.00%	
Total capital (to risk weighted assets)	46,615	10.66%	34,968	8.00%	

BANCORP RHODE ISLAND, INC.
Quantitative and Qualitative Disclosures About Market Risk

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

INTEREST RATE RISK

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

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

	Estimated Exposure to Net Interest Income	
	Dollar Change	Percent Change
	-----	-----
	(Dollars in thousands)	
Initial Twelve Month Period:		
Up 200 basis points	\$ 631	2.17%
Up 100 basis points	336	1.16%
Down 100 basis points	(347)	(1.19%)
Down 200 basis points	(752)	(2.59%)
Subsequent Twelve Month Period:		
Up 200 basis points	\$ 1,454	5.04%
Up 100 basis points	879	3.05%
Down 100 basis points	(1,159)	(4.01%)
Down 200 basis points	(2,876)	(9.96%)

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

The Company also uses interest rate sensitivity gap analysis to provide a more general overview of its interest rate risk profile. The interest rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. At March 31, 2001, the Company's one year cumulative gap was a positive \$41.3 million, or 5.08% of total assets.

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

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

18

BANCORP RHODE ISLAND, INC. Other Information

PART II. Other Information

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 2. CHANGE IN SECURITIES AND USE OF PROCEEDS

On January 23, 2001, the Company sponsored the creation of BRI Statutory Trust I (the "Trust"), a Connecticut statutory trust. The Company is the owner of all of the common securities of the Trust. On February 22, 2001, the Trust issued \$3.0 million of its 10.20% Capital Securities through a pooled trust preferred securities offering, conducted in compliance with Regulation S and Rule 144A promulgated under the Securities Act of 1933, as amended. First Tennessee Capital Markets and Keefe Bruyette & Woods, Inc. served as co-placement agents and received a placement fee equal to 3% of the offering proceeds. The proceeds from this issuance, along with the Company's \$93,000 capital contribution for the Trust's common securities, were used to acquire \$3.1 million aggregate principal amount of the Company's 10.20% Junior Subordinated Notes due February 22, 2031, which constitute the sole asset of the Trust. The Company has, through the Declaration of Trust establishing the Trust, the Guarantee Agreement, the Notes and the related Indenture, taken together, fully irrevocably and unconditionally guaranteed all of the Trust's obligations under the Capital Securities, to the extent the Trust has funds available therefore.

ITEM 3. DEFAULT UPON SENIOR SECURITIES

No defaults upon senior securities have taken place.

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

No information to report.

ITEM 5. OTHER INFORMATION

No information to report.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit 10.10-CEO Deferred Compensation Agreement by and between Bank Rhode Island and Merrill W. Sherman

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

Exhibit 10.11-Restricted Stock Agreement by and among Bancorp Rhode Island, Inc. Bank Rhode Island and Merrill W. Sherman

(b) Reports on Form 8-K

No information to report.

19

BANCORP RHODE ISLAND, INC.

SIGNATURES

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

Bancorp Rhode Island, Inc.

May 10, 2001

(Date)

/s/ Merrill W. Sherman

Merrill W. Sherman
President and
Chief Executive Officer

May 10, 2001

(Date)

/s/ Albert R. Rietheimer

Albert R. Rietheimer
Chief Financial Officer
and Treasurer

20