

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

BANCORP RHODE ISLAND INC  
Form 10-K  
March 08, 2004

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, 2003

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)

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 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 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 an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes [ ] No [X]

As of June 30, 2003, 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 Stock Market was \$65,935,000.

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

As of February 27, 2004, there were 3,971,153 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 2003 Annual Report to Shareholders and Definitive Proxy Statement for the 2004 Annual Meeting of Shareholders are incorporated by reference into Parts II and III of this Form 10-K.

=====

### Bancorp Rhode Island, Inc. Annual Report on Form 10-K Table of Contents

Description	Page Number
-----	-----
Part I.	
Item 1 -- Business	3
Item 2 -- Properties	14
Item 3 -- Legal Proceedings	14
Item 4 -- Submission of Matters to a Vote of Security Holders	14
Part II.	
Item 5 -- Market for the Company's Common Equity and Related Stockholder Matters	15
Item 6 -- Selected Consolidated Financial Data	15
Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations	15
Item 7A -- Qualitative and Quantitative Disclosures About Market Risk	15
Item 8 -- Financial Statements and Supplementary Data	15
Item 9 -- Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	15
Item 9A -- Controls and Procedures	15
Part III.	
Item 10 -- Directors and Executive Officers of the Company	16
Item 11 -- Executive Compensation	16
Item 12 -- Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	17
Item 13 -- Certain Relationships and Related Transactions	17
Item 14 -- Principal Accountant Fees and Services	17
Part IV.	
Item 15 -- Exhibits, Financial Statement Schedules and Reports on Form 8-K	18
Signatures	21

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

### Cautionary Statement

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 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").

### ITEM 1. BUSINESS

#### General

Bancorp Rhode Island, Inc. (the "Company"), a Rhode Island corporation, was organized by Bank Rhode Island (the "Bank") 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 this reason, substantially all of the discussion in this document relates to the operations of the Bank and its subsidiaries.

The Company's wholly-owned subsidiary, the Bank, is a commercial bank chartered as a financial institution in the State of Rhode Island. The Bank 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 13 full service branches, with nine located in Providence County and four located in Kent County.

The Bank provides a community banking alternative in the greater Providence market which is dominated by three large regional banking institutions. Based on total deposits as of June 30, 2003, the Bank is the fifth largest bank in Rhode Island and the only mid-sized commercially focused bank headquartered in the greater Providence area. The Bank offers a wide variety of deposit products, nondeposit investment products, commercial, residential and consumer loans, online banking services and other banking products and services, designed to meet the needs of individuals and small- to mid-sized businesses. As a full service community bank, the Bank seeks to differentiate itself from its competitors through superior personal service, responsiveness and local decision making. The Bank's deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"), subject to regulatory limits.

The Bank's principal subsidiary, 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

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

<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>.

### Lending Activities

General. At its formation, the Bank acquired \$85.4 million of commercial loans and \$32.1 million of consumer loans that were in-market loans largely associated with acquired branches. To provide sufficient assets to operate profitably, the Bank also purchased \$276.4 million of residential mortgage loans, resulting in an asset mix more characteristic of a thrift institution than that of a commercial bank. The Bank's business strategy has been to grow its commercial and consumer loan portfolios and to allow the residential mortgage loan portfolio to decline gradually (as a percent of total loans) as the Bank is able to replace residential mortgage loans with higher yielding commercial and consumer loans. The Bank has allocated

3

substantial resources to its commercial and consumer lending functions to facilitate and promote such growth. From March 22, 1996, when the Bank commenced operations, until December 31, 2003, commercial loan outstandings have increased \$246.9 million, or 289.1%, and consumer loan outstandings have increased \$83.7 million, or 260.7%.

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. Commercial and industrial loan products include revolving lines of credit and term loans offered at fixed and variable rates. The Bank's real estate lending activities include originating loans secured by commercial and residential properties and also purchasing residential mortgage loans. Loans are made on existing properties as well as on properties under construction. The Bank 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. From time to time, the Bank has also purchased packages of automobile loans.

The Bank has tiered lending authorities. Loan commitments up to \$1.0 million per customer relationship may be approved by Department Heads of the Bank's Business Lending, Commercial Real Estate and Retail Lending departments. All extensions of credit of more than \$1.0 million (up to the Bank's house lending limit of \$7.0 million) per customer relationship requires the approval of the Credit Committee, which consists of members of the Bank's senior management and one outside director. 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, 2003, the Bank had \$165.8 million of aggregate loan commitments outstanding to fund a variety of loans.

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

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, 2003, owner-occupied commercial real estate loans totaled \$77.3 million, or 9.5% 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. Nonowner-occupied commercial real estate loans totaled \$78.1 million, or 9.6% of the total loan portfolio, and multi-family residential loans totaled \$28.7 million, or 3.5% of the total loan portfolio. The majority of real estate secured commercial loans are originated on a three-, or five-year adjustable rate basis. Interest rates typically charged on these loans are higher than those charged on adjustable rate loans secured by one- to four-family residential units. Additionally, origination fees may be charged on these loans.

The Bank's underwriting practices for commercial real estate and multi-family residential loans are intended to ensure 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. 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.

Approximately 75% of Rhode Island businesses are in Providence and Kent counties. The vast majority of these businesses are small- to mid-sized and have fewer than 50 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 generate loans from

4

this customer base. At December 31, 2003, commercial and industrial loans (including leases) totaled \$87.5 million, or 10.7% of the total loan portfolio. Generally, commercial and industrial loans are granted at higher rates than residential mortgage loans, with relatively shorter maturities,

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

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, fluctuate in value based on the success of the business and deteriorate over time.

**Small Business Loans.** The Bank originates loans of \$250,000 or less to small business customers through its branch network and business development officers. 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, 2003, small business loans totaled \$30.4 million, or 3.7% 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. In many cases traditional underwriting practices, similar to those for commercial and industrial loans, are also employed to provide a more balanced and judgmentally-based credit decision. The Bank distinguishes itself from larger financial institutions by providing personalized service through a loan officer (usually a branch manager) assigned to the customer relationships. Lending to small businesses may involve additional risks as a result of their more limited financial resources and more niche-based operations.

**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, 2003, outstanding construction loans totaled \$30.6 million, or 3.8% of the total loan portfolio. Currently, 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 ensure 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. Property appraisals and generally the personal guarantee of the borrower are required, 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

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

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. In addition, the Bank does not usually lend to fund the construction of property being built for speculative purposes.

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 new fixed and adjustable rate mortgage ("ARM") 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 utilize available cash flows. 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, 2003, approximately 31% of the residential mortgage loan portfolio consisted of loans secured by real estate outside of New England.

Additionally, but to a lesser extent, the Bank originates ARMs for its own portfolio. The Bank also originates fixed rate mortgage loans and sells these mortgages to its correspondents at the time of the loan's closing. While the Bank anticipates that its residential mortgage loan portfolio will decline long-term as it focuses its resources on commercial lending, the Bank

5

plans to continue its own origination of one- to four-family residential mortgage loans, primarily in its market area. Such activity would decrease the Bank's need to purchase residential mortgage loans in order to enhance profitability while it increases its commercial and consumer loan portfolios, as well as facilitate overall growth of customer relationships.

At December 31, 2003 one- to four-family residential mortgage loans totaled \$366.2 million, or 45.0% of the total loan portfolio. The fixed rate portion of this portfolio totaled \$131.7 million and had original maturities of 15 and 30 years. The adjustable rate portion of this portfolio totaled \$232.5 million and had original maturities of 30 years. Interest rates on adjustable rate loans are set for an initial period of either 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, 2003, the consumer loan portfolio totaled \$115.8 million, or 14.2% of the total loan portfolio, and is comprised primarily of home equity term loans and home equity lines

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

of credit. 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. During 2000 and 2001, the Bank purchased automobile loans from another New England institution. At December 31, 2003, purchased automobile loans totaled \$1.5 million, or 0.2% of the total loan portfolio.

### 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 U.S. agency securities, corporate debt securities, mortgage-backed securities, Federal Home Loan Bank of Boston ("FHLB") stock and overnight investments, represents 19.7% of total assets, or \$215.5 million, as of December 31, 2003.

Loans receivable generally provide a better return than investments, and accordingly, the Company seeks to emphasize the generation of loans, rather than increasing its investment portfolio. The investments are managed by the Chief Financial Officer and Treasurer, subject to the supervision and review of the Asset/Liability Committee and in compliance with the Investment Policy established by the Bank's board of directors. Since 2002, the Company has also retained the services of an outside investment advisory firm to assist in the management of this portfolio and further diversify the portfolio through the purchase of corporate debt securities and collateralized mortgage obligations ("CMOs").

Overall, investments produced total interest and dividend income of \$9.3 million, or 18.0% of total interest and dividend income, in 2003 and \$12.4 million, or 23.2% of total interest and dividend income, during 2002.

### Deposits

Deposits are the principal source of funds for use in lending and for other general business purposes. The Bank attracts deposits from businesses and the general public by offering a variety of deposit products ranging in maturity from demand-type accounts to certificates of deposit with maturities of up to ten years. 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 in contrast to wholesale deposits obtained from national or regional deposit brokers.

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 account" base, namely its checking and savings accounts. While the Bank prices certificate of deposit accounts competitively, and from time to time will run special offers, the Bank does not ordinarily solicit high cost certificates of deposit.

6

As a result of the Bank's continuing emphasis on core deposit growth, service charges on deposit accounts have also grown and represent the largest source of noninterest income for the Company. Service charges on deposit accounts rose \$152,000, or 4.0%, from \$3.8 million for 2002, to \$3.9 million for 2003, primarily as a result of growth in checking and savings



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

accounts.

The Bank generally charges early withdrawal penalties on its certificates of deposit 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 certificate of deposit, 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 systematically 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 overall earnings and growth goals. The Pricing Committee analyzes the cost of funds and also reviews the pricing of deposit related fees and charges.

The Bank also derives funds from loan repayments, sales of 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. Borrowings may be used on a short-term basis to compensate for reductions in normal sources of funds, or on a longer term basis to support expanded lending activities.

### 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, 2003, 2002 and 2001 were \$875,000, \$978,000 and \$535,000, respectively.

### Other Products and Services

In August 2001, the Bank introduced a new product called CampusMate(tm). CampusMate is an integrated banking and electronic payment service designed to meet the needs of colleges and universities, their administrative staffs, students and parents. The CampusMate product provides an on-line deposit account, in addition to an on-line vehicle for transferring funds and making tuition and other payments to the college or university. The Bank has a patent pending for the business practices associated with the CampusMate product. As of December 31, 2003, the Bank was providing CampusMate services to three colleges or universities located in Rhode Island and one university located in Pennsylvania.

### Employees

At December 31, 2003, the Company had 225 full-time and 48 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.

### Competition and Marketplace

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

The Company's primary operating subsidiary, the Bank, is headquartered in Providence, Rhode Island, and operates in Rhode Island and nearby areas of Massachusetts. The Bank faces significant competition both in making loans and generating deposits. In the past, the Bank's most significant competition has come from three large regional banks that have dominated the Rhode Island market. Currently, these regional banks are Fleet, Citizens and Sovereign. Bank of America is expected to enter the market in 2004 through its pending acquisition of Fleet. In addition to the three large institutions named, merger and acquisition activity has resulted in the acquisition of other financial institutions with branches in Rhode Island, as

7

well as in nearby Massachusetts, by other large regional competitors. These national and regional banks have well-established distribution networks and greater financial resources than the Bank, which have enabled them to market their products and services extensively, offer access to a greater number of locations and products, and price competitively.

In addition, the Bank faces competition for loans from local banks and out-of-state financial institutions that have established loan production offices as well as from non-bank competitors. Competition for deposits also comes from local banks, short-term money market funds, other corporation and government securities funds and other non-bank financial institutions such as brokerage firms and insurance companies. Non-bank competitors also include credit unions, which following a devastating series of closures and bankruptcies in the early 1990's, are currently experiencing a resurgence in the State of Rhode Island. Many of the Bank's non-bank competitors are not subject to the same degree of regulation as that imposed on federally insured state chartered banks or benefit from tax advantages not available to the Company. As a result, such non-bank competitors have advantages over the Bank in providing certain services. In 2002, and part of 2003, banks in general have seen an inflow of money from the stock markets as a result of the poor performance of equity securities. Whether these funds remain, or for how long, or if they will return to the equity markets in the future, are questions facing many financial institutions.

The population in the Bank's market area is growing slowly, at best, and economic growth in the Rhode Island area has been slow to moderate over the past several years, lagging behind other parts of New England and the United States. Accordingly, the Bank's future growth depends largely upon its ability to increase its market penetration. Moreover, economic conditions beyond the Bank's control may have a significant impact on the Bank's operations. Examples of such conditions include the strength of credit demand by customers and changes in the general levels of interest rates. Furthermore, the Bank's commercial and consumer lending activities are conducted principally in Rhode Island and, to a lesser extent, Southeastern Massachusetts. Its borrowers' ability to honor their repayment commitments is generally dependent upon the level of economic activity and general health of the regional economy, and any economic recession in the Bank's market area adversely affecting growth could cause significant increases in nonperforming assets, thereby causing operating losses, impairing liquidity and eroding capital. Currently, the Greater Boston area is experiencing some softness in the commercial real estate markets. If this softness expands to include the Rhode Island marketplace, it could have an adverse impact on the Bank's borrowers. Additionally, there is concern that the pending acquisition of Fleet by Bank of America may have a negative impact on employment in Rhode Island and the Boston area. That in turn could

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

adversely impact the local economy as well as the Bank's customer base.

### 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. It cannot be predicted 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 recently enacted Sarbanes-Oxley Act of 2002.

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").

8

### 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.

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

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, an examination of a Rhode Island bank holding company, such as the Company, may be conducted. 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 decade 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. 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

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

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 of \$100,000 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%.

9

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. The assessment system is based upon three supervisory categories and three capital categories, resulting in risk-based premiums which range from the current 0 basis points (subject to a \$2,000 minimum annual fee) for the most highly-rated, well-capitalized banks to 27 basis points per \$100 of domestic deposits for troubled banks which are undercapitalized (as discussed below). The Bank currently pays the minimum assessment.

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.

Capital Adequacy. 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 leverage capital ratio (calculated using Tier 1 capital, as defined below, to total assets) 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 a total capital-to-risk weighted assets ratio ("Risk-Based Capital Ratio") of at least 8.0% and a Tier 1 Risk-Based Capital Ratio of at least 4.0%. 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

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

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, 2003, the Bank's Tier 1 leverage ratio was 6.59%, its total Risk-Based Capital Ratio was 10.68% and its Tier 1 Risk-Based Capital Ratio was 9.46%. 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 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.

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.

10

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

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

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.

In addition to the need for obtaining the approval of the FRB for particular kinds of transactions, 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, 2003, on a consolidated basis, the Company's Tier 1 Leverage Ratio was 6.76%, its total Risk-Based Capital Ratio was 10.92% and its Tier 1 Risk-Based Capital Ratio was 9.71%. Based upon the above ratios, the Company is considered "well capitalized" for regulatory capital purposes.

### 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 \$10.2 million at December 31, 2003 and \$6.7 million at

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

December 31, 2002. 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 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

11

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-B-L 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,



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

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 new 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.

At this time, the Company is unable to predict the impact of the G-L-B Act on its future operations. In granting other types of financial institutions more flexibility, the G-L-B Act may increase 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. However, management believes this legislation and implementing regulations are likely ultimately to have a more substantial impact on regional and national holding companies and banks than on community-based institutions engaged principally in traditional banking activities.

### 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, any or all of the

12

following matters, among others: money laundering; suspicious activities and currency transaction reporting; and currency crimes.

Sarbanes-Oxley Act of 2002. On July 30, 2002, President Bush signed into law 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 new requirements governing the composition and responsibilities of audit committees,

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

financial disclosures and reporting and restrictions on personal loans to directors and officers. Sarbanes-Oxley, inter alia, now 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 does not anticipate any significant difficulties in complying with this legislation.

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.

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.

13

## ITEM 2. PROPERTIES

The Bank presently has a network of 13 branch offices located in Providence and Kent Counties and an additional branch office scheduled to open in April 2004 in Washington County. Seven of these branch office facilities are owned and seven 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 adequate to meet the banking needs of the Bank's customers.

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

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

Location	Size (Square feet)	Year Opened or Acquired	Owned or Leased	Le Expirat
Branch offices:				
1047 Park Avenue, Cranston, RI	4,700	1996	Owned	N
383 Atwood Avenue, Cranston, RI	4,700	1996	Owned	N
2104 Plainfield Pike, Cranston, RI	700	2002	Owned	N
999 South Broadway, East Providence, RI	10,500	1996	Owned	N
195 Taunton Avenue, East Providence, RI	3,100	1996	Leased	2/2
1440 Hartford Avenue, Johnston, RI	4,700	1996	Land Leased	12/3
Ten Rod Road, North Kingstown, RI	4,000	2004	Land Leased	6/3
One Turks Head Place, Providence, RI	5,000	1996	Leased	4/3
165 Pitman Street, Providence, RI	3,300	1998	Leased	10/1
445 Putnam Pike, Smithfield, RI	3,500	1996	Leased	7/3
1062 Centerville Road, Warwick, RI	2,600	1996	Owned	N
1300 Warwick Avenue, Warwick, RI	4,200	1996	Leased	6/3
2975 West Shore Road, Warwick, RI	3,500	2000	Leased	3/3
1175 Cumberland Hill Road, Woonsocket, RI	3,100	1998	Owned	N
Administrative and operational offices:				
625 G. Washington Highway, Lincoln, RI	14,600	2003	Leased	12/3
One Turks Head Place, Providence, RI	18,400	1999	Leased	6/3

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 2003.

14

PART II

ITEM 5. MARKET FOR THE COMPANY'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated herein by reference to the Section entitled "Market for the Company's Common Stock and Related Stockholder Matters" contained on page 78 of the Company's 2003 Annual Report to Shareholders filed as Exhibit 13 to this Annual Report on Form 10-K.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The information required by this item pursuant to Item 201 of Regulation S-K is incorporated herein by reference to the Section entitled "Selected Consolidated Financial Data" contained on pages 18 through 19 of the Company's 2003 Annual Report to Shareholders filed as Exhibit 13 to this

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

Annual Report on Form 10-K.

As described in Note 18 to the Company's Consolidated Financial Statements contained in the Company's 2003 Annual Report to Shareholders filed as Exhibit 13 to this Annual Report on Form 10-K, during the fiscal year ended December 31, 2003, the Company issued a total of 66,315 shares of its common stock to Malcolm G. Chace, Chairman of the Company, for \$663,150, upon exercise of a warrant (with a \$10 per share exercise price), which was originally issued by the Bank in connection with its formation. The shares were issued in a private placement under Section 4(2) of the Securities Act of 1933, as amended, pursuant to four separate exercises as follows: 10,000 shares on May 19, 2003, 10,000 shares on July 8, 2003, 10,000 shares on August 20, 2003 and 36,315 shares on September 30, 2003.

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

The information required by this item is incorporated herein by reference to the Section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained on pages 20 through 43 of the Company's 2003 Annual Report to Shareholders filed as Exhibit 13 to this Annual Report on Form 10-K.

### ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is incorporated herein by reference to the Section entitled "Asset and Liability Management" contained on pages 38 through 40 of the Company's 2003 Annual Report to Shareholders filed as Exhibit 13 to this Annual Report on Form 10-K.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item is incorporated herein by reference to the Consolidated Balance Sheets as of December 31, 2003 and 2002 and the Consolidated Statements of Operations, Consolidated Statements of Changes in Shareholders' Equity and Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2003, together with the accompanying notes and the Independent Auditors' Report contained on pages 45 through 77 of the Company's 2003 Annual Report to Shareholders filed as Exhibit 13 to this Annual Report on Form 10-K.

### 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.

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

There have been no significant changes in the Company's internal control over financial reporting during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to affect, the Company's internal control over financial reporting.

### PART III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE COMPANY

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 2004 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	55	President and Chief Executive Officer
Albert R. Rietheimer	47	Chief Financial Officer and Treasurer
Donald C. McQueen	47	Vice President and Assistant Secretary
Margaret D. Farrell	54	Secretary
James V. DeRentis	42	Bank Executive Vice President - Retail Banking

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 and Worcester Railroad Company and The Providence Journal Company, a BELO subsidiary.

Albert R. Rietheimer. Mr. Rietheimer has served as Chief Financial Officer and Treasurer of the Company since its formation and of the Bank since September 1996. Mr. Rietheimer is a certified public accountant.

Donald C. McQueen. Mr. McQueen has served as Vice President and Assistant Secretary of the Company since its formation and as the Bank's Executive Vice President and Chief Credit and Administrative Officer since October 2001. From May 1998 through October 2001, Mr. McQueen served as the Bank's Executive Vice President and Chief Lending Officer.

Margaret D. Farrell. Ms. Farrell has served as Secretary of the Company and Bank since their formation. Ms. Farrell has been a partner of the law firm of Hinckley, Allen & Snyder LLP since 1981. Ms. Farrell is also a director of the Company and the Bank.

James V. DeRentis. Mr. DeRentis has served as the Bank's Executive Vice President - Retail Banking since October 2001. Immediately prior, Mr. DeRentis served as the Bank's Senior Vice President - Retail Banking from December 1998 through October 2001.

Code of Ethics.

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") (who is both the principal financial and accounting officer), Controller and Chief

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

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 will provide a copy of the Codes 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 intends to post the Codes on the Company's website under "Investor Relations" and 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.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the Section entitled "Executive Compensation" in the Company's Definitive Proxy Statement for the 2004 Annual Meeting of Shareholders to be filed with the SEC.

16

### 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" and "Equity Compensation Plan Information" in the Company's Definitive Proxy Statement for the 2004 Annual Meeting of Shareholders to be filed with the SEC.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated herein by reference to the Section entitled "Transactions with Management" in the Company's Definitive Proxy Statement for the 2004 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 2004 Annual Meeting of Shareholders to be filed with the SEC.

17

## PART IV

### ITEM 15. EXHIBITS, FINANCIAL STATEMENTS, SCHEDULES AND REPORTS ON FORM 8-K

#### (a) (1) Financial Statements

The following consolidated financial statements contained within the Company's 2003 Annual Report to Shareholders are incorporated herein by reference in Item 8.

#### 1. Independent Auditors' Report

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

2. Consolidated Balance Sheets as of December 31, 2003 and 2002
3. Consolidated Statements of Operations for the Years Ended December 31, 2003, 2002 and 2001
4. Consolidated Statements of Changes in Shareholders' Equity for the Years Ended December 31, 2003, 2002 and 2001
5. Consolidated Statements of Cash Flows for the Years Ended December 31, 2003, 2002 and 2001
6. Notes to Consolidated Financial Statements

### (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 (1)
3.2(a)	Amendment to By-laws of the Company (2)
10.1	Employment Agreement of Merrill W. Sherman dated December 18, 2000 (3) +
10.2	Employment Agreement of Albert R. Rietheimer dated December 18, 2000 (3) +
10.3	Employment Agreement of Donald C. McQueen dated December 18, 2000 (3) +
10.4	Employment Agreement of James V. DeRentis dated December 18, 2000 (3) +
10.5	Amended and Restated 1996 Incentive and Nonqualified Stock Option Plan (3) +
10.6	Amended and Restated Non-Employee Director Stock Plan (4) +
10.6(a)	Amendment to Amended and Restated Non-Employee Director Stock Plan (5) +
10.7 (a)	Bank Rhode Island Supplemental Executive Retirement Plan, as amended by Amendments No. 1 and No. 2 (1) +
10.7 (b)	Amendment No. 3 to Bank Rhode Island Supplemental Executive Retirement Plan (3) +
10.7 (c)	Amendment No. 4 to Bank Rhode Island Supplemental Executive Retirement Plan (6) +
10.7 (d)	Amendment No. 5 to Bank Rhode Island Supplemental Executive Retirement Plan (7) +

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

- 10.8 Bank Rhode Island Nonqualified Deferred Compensation Plan, as amended by Amendment No. 1 (1) +
- 10.8 (a) Amendment No. 2 to Bank Rhode Island Nonqualified Deferred Compensation Plan (8) +

18

(3) Exhibits (continued)

Exhibit No. -----	Description -----
10.9	Warrant for 136,315 shares of Common Stock issued to Fleet Financial Group, Inc. (1)
10.10	Bank Rhode Island 2002 Supplemental Executive Retirement Plan (8) +
10.10(a)	Amendment No. 1 to Bank Rhode Island 2002 Supplemental Executive Retirement Plan (9) +
10.11	Restricted Stock Agreement by and among Bancorp Rhode Island, Inc., Bank Rhode Island and Merrill W. Sherman (10) +
10.12	Form of Bank Rhode Island Split Dollar Agreement (7) +
10.13	2002 Incentive and Nonqualified Stock Option Plan (5) +
11	Computation of earnings per share (11)
13	Annual Report to Shareholders for 2003, portions of which have been incorporated by reference herein is filed with the Commission. Those portions which have not been incorporated by reference herein are provided for information purposes only.
21	List of Subsidiaries
23	Consent of KPMG LLP, as accountants for the Company
31.1	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
31.2	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
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.
32.3	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.



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

(b) Reports on Form 8-K

Current Report on Form 8-K dated October 21, 2003, announcing the Company's third quarter consolidated earnings.

20

BANCORP RHODE ISLAND, INC.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BANCORP RHODE ISLAND, INC.

Date: February 27, 2004

By: /s/ Merrill W. Sherman

-----  
Merrill W. Sherman  
President and Chief Executive  
Officer

Each person whose signature appears below constitutes and appoints each of Merrill W. Sherman or Albert R. Rietheimer, or either of them, each acting alone, his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for such person and in his or her name, place and stead, in any and all capacities in connection with the annual report on Form 10-K of Bancorp Rhode Island, Inc. for the year ended December 31, 2003, to sign any and all amendments to the Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, each acting alone, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their substitutes or substitute, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Merrill W. Sherman  
-----  
Merrill W. Sherman,  
President, Chief Executive Officer  
and Director (Principal Executive  
and  
Officer)  
Date: February 27, 2004

/s/ Albert R. Rietheimer  
-----  
Albert R. Rietheimer,  
Chief Financial Officer and  
Treasurer (Principal Financial  
Accounting Officer)  
Date: February 27, 2004

/s/ Karen Adams

/s/ Meredith A. Curren

/s/ Bogdan Nowak

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

-----  
Karen Adams, Director  
Date: February 27, 2004

-----  
Meredith A. Curren, Director  
Date: February 27, 2004

-----  
Bogdan Nowak, Director  
Date: February 27, 2004

/s/ Anthony F. Andrade

/s/ Karl F. Ericson

/s/ Cheryl W. Snead

-----  
Anthony F. Andrade, Director  
Date: February 27, 2004

-----  
Karl F. Ericson, Director  
Date: February 27, 2004

-----  
Cheryl W. Snead, Director  
Date: February 27, 2004

/s/ John R. Berger

/s/ Margaret D. Farrell

-----  
John R. Berger, Director  
Date: February 27, 2004

-----  
Margaret D. Farrell, Director  
Date: February 27, 2004

-----  
Pablo Rodriguez, Director  
Date: February , 2004

/s/ Malcolm G. Chace

/s/ Mark R. Feinstein

/s/ John A. Yena

-----  
Malcolm G. Chace, Director and  
Chairman of the Board  
Date: February 27, 2004

-----  
Mark R. Feinstein, Director  
Date: February 27, 2004

-----  
John A. Yena, Director  
Date: February 27, 2004

/s/ Ernest J. Chorneyi, Jr.

/s/ Edward J. Mack

-----  
Ernest J. Chorneyi, Jr., Director  
Date: February 27, 2004

-----  
Edward J. Mack, Director  
Date: February 27, 2004