BANCORP RHODE ISLAND INC
Form 10-Q
August 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C.

FORM 10-Q

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

For the quarter ended: **June 30, 2008**

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 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

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

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of August 8, 2008:

Common Stock - Par Value $0.01	4,567,204 shares
(class)	(outstanding)

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Special Note Regarding Forward Looking Statements

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

Actual results may differ materially from those set forth in forward looking statements as a result of risks and uncertainties, including those detailed from time to time in our filings with the Federal Deposit Insurance Corporation ("FDIC") and the Securities and Exchange Commission ("SEC"). Our forward looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments we may make. We do not assume any obligation to update any forward looking statements.
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BANCORP RHODE ISLAND, INC.
Consolidated Balance Sheets (unaudited)

	June 30, 2008	December 31, 2007
	(In thousands)	
ASSETS:		
Cash and due from banks	$ 27,810	$ 20,465
Overnight investments	1,750	17,097
Total cash and cash equivalents	29,560	37,562
Investment securities available for sale (amortized cost of $61,963 and $77,193, respectively)	60,785	76,986
Mortgage-backed securities available for sale (amortized cost of $276,202 and $258,094, respectively)	273,027	258,195
Total securities available for sale	333,812	335,181
Stock in Federal Home Loan Bank of Boston	15,671	15,671
Loans and leases receivable:		
Commercial loans and leases	630,773	573,668
Residential mortgage loans	223,801	248,728
Consumer and other loans	205,730	215,736
Total loans and leases receivable	1,060,304	1,038,132
Allowance for loan and lease losses	(13,161)	(12,619)
Net loans and leases receivable	1,047,143	1,025,513

Premises and equipment, net	13,097	13,721
Goodwill, net	12,019	11,772
Accrued interest receivable	5,627	6,557
Investment in bank-owned life insurance	24,703	24,186
Prepaid expenses and other assets	8,422	6,956
Total assets	$ 1,490,054	$ 1,477,119
LIABILITIES:		
Deposits:		
Demand deposit accounts	$ 190,084	$ 172,634
NOW accounts	59,937	65,191
Money market accounts	5,197	6,054
Savings accounts	407,670	396,838
Certificate of deposit accounts	377,626	374,063
Total deposits	1,040,514	1,014,780
Overnight and short-term borrowings	50,494	66,795
Wholesale repurchase agreements	10,000	10,000
Federal Home Loan Bank of Boston borrowings	247,731	241,505
Subordinated deferrable interest debentures	13,403	13,403
Other liabilities	14,818	17,528
Total liabilities	1,376,960	1,364,011
SHAREHOLDERS' EQUITY:		
Preferred stock, par value $0.01 per share, authorized 1,000,000 shares:		
Issued and outstanding: none	--	--
Common stock, par value $0.01 per share, authorized 11,000,000 shares:		
Issued: 4,921,170 shares and 4,867,121 shares, respectively	49	49
Additional paid-in capital	71,616	70,123
Treasury stock, at cost (352,250 and 305,200 shares, respectively)	(12,055)	(10,189)
Retained earnings	56,314	53,194
Accumulated other comprehensive income (loss), net	(2,830)	(69)
Total shareholders' equity	113,094	113,108
Total liabilities and shareholders' equity	$ 1,490,054	$ 1,477,119

See accompanying notes to unaudited consolidated financial statements

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BANCORP RHODE ISLAND, INC.

Consolidated Statements of Operations (unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
	(In thousands, except per share data)			
Interest and dividend income:				
Loans and leases	$ 15,553	$ 16,597	$ 31,718	$ 32,929
Available for sale securities	4,214	4,268	8,147	8,470
Federal Home Loan Bank of Boston stock dividends	156	265	393	546
Overnight investments	58	185	255	472
Total interest and dividend income	19,981	21,315	40,513	42,417
Interest expense:				
Deposits	5,331	7,242	12,023	14,293
Overnight and short-term borrowings	213	636	644	1,303
Wholesale repurchase agreements	133	134	268	330
Federal Home Loan Bank of Boston borrowings	2,650	2,640	5,370	5,231
Subordinated deferrable interest debentures	226	371	476	740
Total interest expense	8,553	11,023	18,781	21,897
Net interest income	11,428	10,292	21,732	20,520
Provision for loan and lease losses	970	100	1,255	200
Net interest income after provision for loan and lease losses	10,458	10,192	20,477	20,320
Noninterest income:				
Service charges on deposit accounts	1,448	1,388	2,883	2,704
Net gains on lease sales and commissions on loans originated for others	100	336	319	723
Income from bank-owned life insurance	262	260	517	511
Loan related fees	144	194	307	349
Commissions on nondeposit investment products	245	171	455	291
Gain on sale of available for sale securities	--	--	242	--
Other income	293	315	672	648
Total noninterest income	2,492	2,664	5,395	5,226

Noninterest expense:				
Salaries and employee benefits	5,000	5,285	10,139	10,547
Occupancy	864	896	1,729	1,802
Data processing	708	734	1,427	1,438
Professional services	854	600	1,489	1,252
Marketing	369	427	733	800
Equipment	266	334	574	667
Loan servicing	151	193	318	386
Loan workout and other real estate owned	80	(5)	236	4
Other expenses	1,320	1,160	2,427	2,239
Total noninterest expense	9,612	9,624	19,072	19,135
Income before income taxes	3,338	3,232	6,800	6,411
Income tax expense	1,097	1,038	2,233	2,039
Net income	$ 2,241	$ 2,194	$ 4,567	$ 4,372
Weighted average common shares outstanding - basic	4,563	4,839	4,560	4,827
Weighted average common shares outstanding - diluted	4,634	4,958	4,636	4,960
Per share data:				
Basic earnings per common share	$ 0.49	$ 0.45	$ 1.00	$ 0.91
Diluted earnings per common share	$ 0.48	$ 0.44	$ 0.98	$ 0.88
Cash dividends declared per common share	$ 0.16	$ 0.15	$ 0.32	$ 0.30

See accompanying notes to unaudited consolidated financial statements

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BANCORP RHODE ISLAND, INC.

Consolidated Statements of Changes in Shareholders' Equity (unaudited)

Six months ended June 30,	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
	(In thousands, except per share data)					
2007						
Balance at December 31, 2006	$48	$67,960	$ --	$47,091	$(3,014)	$112,085
Net income	--	--	--	4,372	--	4,372

Other comprehensive income:						
Unrealized holding losses on securities available for sale, net of taxes of $466					(867)	(867)
Total comprehensive income						3,505
Exercise of stock options	1	968	--	--	--	969
Stock repurchase	--	--	(605)	--	--	(605)
Share-based compensation	--	124	--	--	--	124
Tax benefit from exercise of stock options	--	453	--	--	--	453
Dividends on common stock ($ 0.30 per common share)	--	--	--	(1,451)	--	(1,451)
Balance at June 30, 2007	$49	$69,505	$ (605)	$50,012	$(3,881)	$115,080
2008						
Balance at December 31, 2007	$49	$70,123	$(10,189)	$53,194	$ (69)	$113,108
Net income	--	--	--	4,567	--	4,567
Other comprehensive income:						
Unrealized holding losses on securities available for sale, net of taxes of $1,401					(2,604)	(2,604)
Reclassification adjustment, net of taxes of $85					(157)	(157)
Total comprehensive income						1,806
Exercise of stock options	--	476	--	--	--	476
Contingent payments related to Macrolease acquisition	--	656	--	--	--	656
Stock repurchase	--	--	(1,866)	--	--	(1,866)
Share-based compensation	--	174	--	--	--	174
Tax benefit from exercise of stock	--	187	--	--	--	187

options						
Dividends on common stock ($ 0.16 per common share)	--	--	--	(1,447)	--	(1,447)
Balance at June 30, 2008	$49	$71,616	$(12,055)	$56,314	$(2,830)	$113,094

See accompanying notes to unaudited consolidated financial statements

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BANCORP RHODE ISLAND, INC.
Consolidated Statements of Cash Flows (unaudited)

	Six Months Ended June 30,	
	2008	2007
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 4,567	$ 4,372
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, amortization and accretion, net	(1,275)	(438)
Provision for loan and lease losses	1,255	200
Income from bank-owned life insurance	(517)	(511)
Share-based compensation	174	124
Net gains on lease sales	(254)	(490)
Gain on sale of available for sale securities, net	(242)	--
Proceeds from sales of leases	8,825	12,997
Leases originated for sale	(5,304)	(12,507)
(Increase) decrease in accrued interest receivable	930	(139)
Decrease in prepaid expenses and other assets	145	910
Increase (decrease) in other liabilities	(2,301)	(1,342)
Other, net	(24)	2
Net cash provided by operating activities	5,979	3,178
Cash flows from investing activities:		
Investment securities available for sale:		
Purchases	(35,000)	(30,000)
Maturities and principal repayments	50,223	18,161
Mortgage-backed securities available for sale:		
Purchases	(56,033)	--
Maturities and principal repayments	25,087	23,993
Proceeds from sales	13,097	--
Net (increase) decrease in loans and leases	(15,131)	14,874
Purchases of loans and leases, including purchased interest	(9,000)	(33,317)
Proceeds from sale of Federal Home Loan Bank of Boston stock	--	859

Capital expenditures for premises and equipment	(269)	(1,740)
Proceeds from sale of premises and equipment	36	--
Net cash used in investing activities	(26,990)	(7,170)
Cash flows from financing activities:		
Net increase in deposits	25,734	9,284
Net decrease in overnight and short-term borrowings	(16,301)	(5,069)
Proceeds from long-term borrowings	30,000	80,710
Repayment of long-term borrowings	(23,774)	(98,962)
Exercise of stock options	476	969
Repurchase of common stock	(1,866)	(605)
Tax benefit from exercise of stock options	187	453
Dividends on common stock	(1,447)	(1,451)
Net cash provided by (used in) financing activities	13,009	(14,671)
Net decrease in cash and cash equivalents	(8,002)	(18,663)
Cash and cash equivalents at beginning of period	37,562	61,764
Cash and cash equivalents at end of period	$ 29,560	$ 43,101
Supplementary Disclosures:		
Cash paid for interest	$ 20,678	$ 20,510
Cash paid for income taxes	2,350	2,065
Non-cash transactions:		
Change in accumulated other comprehensive income, net of taxes	(2,761)	(867)
Contingent payments related to Macrolease acquisition	656	--

See accompanying notes to unaudited consolidated financial statements

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BANCORP RHODE ISLAND, INC.
Notes to Consolidated Financial Statements (unaudited)

(1) Basis of Presentation

Bancorp Rhode Island, Inc. (the "Company"), a Rhode Island corporation, is the holding company for Bank Rhode Island (the "Bank"). The Company has no significant assets other than the common stock of the Bank. For this reason, substantially all of the discussion in this Quarterly Report on Form 10-Q relates to the operations of the Bank and its subsidiaries.

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

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Bank Rhode Island, along with the Bank's wholly-owned subsidiaries, BRI Investment Corp. (a

Rhode Island passive investment company), BRI Realty Corp. (a Rhode Island real estate holding company), Acorn Insurance Agency, Inc. (a licensed insurance agency) and Macrolease Corporation (an equipment leasing company). All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited interim consolidated financial statements of the Company conform to U.S. generally accepted accounting principles 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. Certain prior period amounts have been reclassified to conform to the current year classification. Such reclassifications have no effect on previously reported net income or shareholders' equity.

The unaudited 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 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC").

(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 or converted into common stock or resulted in the issuance of additional common stock that then share in the earnings of the Company.

(3) Supplemental Executive Retirement Plans

The Bank maintains Supplemental Executive Retirement Plans ("SERPs") for certain of its senior officers under which participants designated by the Board of Directors are entitled to an annual retirement benefit. Expenses associated with the SERPs were $332,000 and $285,000 for the six months ending June 30, 2008 and 2007, respectively. Accrued liabilities associated with the SERPs were $3.1 million and $2.8 million for June 30, 2008 and December 31, 2007, respectively.
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(4) Recently Adopted Accounting Pronouncements

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

In September 2006, the FASB issued SFAS No. 157 ("SFAS 157"), *"Fair Value Measurements."* SFAS 157 provides guidance for measuring assets and liabilities at fair value. In February 2008, the FASB issued Staff Position ("FSP") 157-2, *"Effective Date of FASB Statement No. 157."* This FSP delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. The adoption of SFAS 157 on January 1, 2008 did not have a material impact on the Company's consolidated financial statements.

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability is adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, able to transact and willing to transact.

SFAS 157 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about what assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. SFAS 157 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for assets or liabilities identical to those reported at fair value.

Level 2: Inputs other than quoted prices included within Level 1, Level 2 inputs are observable either directly or indirectly. These inputs include quoted prices in active or not active markets or inputs derived from or corroborated by observable market data.

Level 3: Inputs are unobservable inputs for an asset or liability. These inputs are used to determine fair value only when observable inputs are not available.
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The Company did not make any changes to its valuation techniques during the six months ended June 30, 2008.

The following table summarizes the financial assets measured at fair value on a recurring basis:

		Fair Value Measurements at June 30, 2008 Using
(In thousands)	June 30, 2008	

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Available for sale securities	$333,812	--	$331,281	$2,531

Available for sale securities are reported at fair value primarily utilizing observable inputs (Level 2). The Company obtains fair value measurements from independent pricing services, which base their fair value measurements upon observable inputs such as reported trades of comparable securities, broker quotes, the Treasury yield curve, benchmark interest rates, market spread relationships, historic and consensus prepayment rates, credit information and the security's terms and conditions.

The Company used significant unobservable inputs (Level 3) to value two of its available for sale securities. Each of these securities is a private placement tranche of a collateralized debt obligation backed by trust preferred securities. There is limited trading in these securities and in comparable securities. The Level 3 security composing the January 1, 2008 balance was valued based upon market-maker bid level pricing estimates. Fair value for the security newly transferred to Level 3 was provided by an independent pricing service. Lack of current observable market demand for this security was the impetus for the transfer from Level 2 to Level 3.

The following table shows a reconciliation of the beginning and ending balances for fair value measurements using significant unobservable inputs:

	Fair Value Measurements Using Significant Unobservable Inputs
Available for sale securities	(In thousands)
Balance, January 1, 2008	$ 974
Total unrealized losses included in other comprehensive loss	(85)
Purchases	--
Sales/Maturities	--
Transfers in and/out of Level 3	1,642
Balance, June 30, 2008	$2,531

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The following table summarizes the financial assets measured at fair value on a non-recurring basis.

		Fair Value Measurements at June 30, 2008 Using		
(In thousands)	June 30, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Collateral dependent impaired loans	$2,655	--	$2,655	--

Impaired loans, which are measured for impairment using the fair value of the collateral (Level 2) for collateral dependent loans, were $3.3 million on June 30, 2008. On June 30, 2008, the valuation allowance for impaired loans was $634,000. The valuation allowance increased $148,000 during the first six months of 2008. In February 2007, the FASB issued SFAS No. 159 ("SFAS 159"), *"The Fair Value Option for Financial Assets and Financial Liabilities."* SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value and to provide additional information that will help investors and other users of financial statements to understand more easily the effect on earnings of the company's choice to use fair value. It also requires companies to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. The Company did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008, the effective date of this standard.

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

(5) Recent Accounting Pronouncements

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

Company does not anticipate the adoption of SFAS 141R will materially impact its consolidated financial statements upon adoption on January 1, 2009.

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In December 2007, the FASB issued SFAS No.160, ("SFAS 160"), "*Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*". SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. Earlier adoption is prohibited. The Company does not expect the implementation of SFAS 160 to have a material impact on its consolidated financial statements upon adoption on Janaury 1, 2009.

In March 2008, the FASB issued SFAS No. 161, ("SFAS 161"), "*Disclosures about Derivative Instruments and Hedging Activities - an amendment of FASB Statement No. 133*". SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early application permitted. The Company does not expect the implementation of SFAS 161 to have a material impact on its consolidated financial statements upon adoption on January 1, 2009.

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

ITEM 2. Management's Discussion and Analysis

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 Rhode Island and nearby areas of Massachusetts. The Bank is subject to competition from a variety of traditional and nontraditional financial service providers both within and outside of Rhode Island. The Bank offers its customers a wide range of business, commercial real estate, consumer and residential loans and leases, deposit products, nondeposit investment products, cash management, private banking and other banking products and services designed to meet the financial needs of individuals and small- to mid-sized businesses. The Bank also offers both commercial and consumer online banking products and maintains a web site at http://www.bankri.com. The Company and Bank are subject to the regulations of certain federal and state agencies and undergo periodic examinations by certain of those regulatory authorities. The Bank's deposits are insured by the FDIC, subject to regulatory limits. The Bank is also a member of the Federal Home Loan Bank of Boston ("FHLB"). The Company's common stock is traded on the Nasdaq Global Select Market℠ under the symbol "BARI." The Company's financial reports can be accessed through its website within 24 hours of filing with the SEC.

Critical Accounting Policies

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets or net income, are considered critical accounting policies. The preparation of financial statements in accordance with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. As discussed in the Company's 2007 Annual Report on Form 10-K, management has identified the accounting for the allowance for loan and lease losses, review of goodwill for impairment and accounting for income taxes as the Company's most critical accounting policies. There have been no significant changes in the methods or assumptions used in accounting policies that require material estimates or assumptions.

Overview

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

The Company's net interest income represents the difference between interest income and its cost of funds. Interest income depends on the amount of interest-earning assets outstanding during the year and the interest rates earned thereon. Cost of funds is a function of the average amount of deposits and borrowed money outstanding during the year and the interest rates paid thereon. The net interest margin is calculated by dividing net interest income by average interest-earning assets. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. Net interest margin generally exceeds the net interest spread as a portion of interest-earning assets are funded by various noninterest-bearing sources (primarily noninterest-bearing deposits and shareholders' equity). The increases (decreases) in the components of interest income and interest expense, expressed in terms of fluctuation in average volume and rate, are summarized in the Rate/Volume Analysis tables shown on page 25. Information as to the components of interest income and interest expense and average rates is provided under *"Average Balances, Yields and Costs"* on page 24.
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Because the Company's assets are not identical in duration and in repricing dates to its liabilities, the spread between the two is vulnerable to changes in market interest rates as well as the overall shape of the yield curve. These vulnerabilities are inherent to the business of banking and are commonly referred to as "interest rate risk." How to measure interest rate risk and, once measured, how much risk to take are based on numerous assumptions and other subjective judgments. See also discussion under "*Interest Rate Risk*" on page 33.

The quality of the Company's assets also influences its earnings. Loans and leases that are not paid on a timely basis and exhibit other weaknesses can result in the loss of principal and/or interest income. Additionally, the Company must make timely provisions to the allowance for loan and lease losses based on estimates of probable losses inherent in the loan and lease portfolio; these additions, which are charged against earnings, are necessarily greater when greater probable losses are expected. Further, the Company incurs expenses as a result of resolving troubled assets. All of these reflect the "credit risk" that the Company takes on in the ordinary course of business and is further discussed under "*Financial Condition - Asset Quality"* on page 18.

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

Company because of their generally lower interest cost and potential for fee income.

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

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

For the six months ended June 30, 2008, approximately 80.1% of the Company's revenues (defined as net interest income plus noninterest income) were derived from its level of net interest income. In a continuing effort to diversify its sources of revenue, the Company has sought to expand its sources of noninterest income (primarily fees and charges for products and services the Bank offers). Service charges on deposit accounts remain the largest component of noninterest income. The future operating results of the Company are dependent upon on its ability to maintain and expand its net interest margin, while minimizing its exposure to credit, market and operating risk, along with increasing sources of noninterest income, while controlling the growth of noninterest or operating expenses.

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Financial Condition - Executive Summary

Selected balance sheet data is presented in the table below as of the dates indicated:

(In thousands)	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Balance sheet data:					
Total assets	$1,490,054	$1,490,720	$1,477,119	$1,492,695	$1,466,715
Loans and leases receivable	1,060,304	1,024,901	1,038,132	1,025,875	1,024,235
Securities available for sale	333,812	342,512	335,181	330,749	330,304
Core deposits [(a)]	662,888	658,557	640,717	637,290	641,164
Certificates of deposit	377,626	379,673	374,063	381,821	384,543
Borrowings	321,628	317,099	331,703	339,692	313,776
Total shareholders' equity	113,094	114,831	113,108	117,868	115,080
Core deposit ratio	63.7%	63.4%	63.1%	62.5%	62.5%

(a) Core deposits consist of demand deposit, NOW, money market and savings accounts.

Total assets increased by $12.9 million since December 31, 2007. Total loans and leases increased by $22.2 million during the first six months of 2008, as the increase in commercial loans of $57.1 million, or 10.0%, was offset by decreases in the primarily purchased residential mortgage loan portfolio of $24.9 million, or 10.0%, and a decrease in consumer and other loans of $10.0 million, or 4.6%. Available for sale securities decreased $1.4 million, or 0.4%, since year-end. The Bank increased its core deposits by $22.2 million, or 3.5%, since year-end. Within this growth, savings accounts grew by $10.8 million, or 2.7%, and demand deposit accounts increased by $17.5 million, or 10.1%. Borrowings decreased by $10.1 million, or 3.0%, primarily from a decrease in customer retail repurchase agreements. Shareholders' equity as a percentage of total assets was 7.6% at June 30, 2008, a decrease from the December 31, 2007 ratio of 7.7%.

The Company's financial position at June 30, 2008 as compared to the prior year quarter-end (June 30, 2007) reflects net growth of $36.1 million in total loans and leases. This increase reflects the continuing conversion of the balance sheet to a more commercial profile with increases in commercial loans and leases of $88.1 million (up 16.2%). Consumer loans declined $14.1 million (down 6.4%) from the prior year quarter-end. The residential mortgage portfolio declined $37.9 million (down 14.5%) from June 30, 2007 as repayments exceeded new purchases. Also, available for sale securities at June 30, 2008 increased by $3.5 million (up 1.1%). Deposits have increased $14.8 million, or 1.4%, since the prior year quarter-end, with growth centered in savings accounts (up $38.6 million). This increase was offset by decreases in NOW accounts (down $7.1 million), certificate of deposit accounts (down $6.9 million), demand deposit accounts (down $8.3 million), and money market accounts (down $1.5 million). Borrowings have increased since June 30, 2007 by $7.9 million.

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Financial Condition - Detailed Analysis

Investments

Total investments consists of available for sale securities (investment securities and mortgage-backed securities ("MBSs"), stock in the FHLB and overnight investments. Total investments comprised $351.2 million, or 23.6% of total assets, at June 30, 2008, compared to $367.9 million, or 24.9% of total assets, at December 31, 2007, representing a decrease of $16.7 million, or 4.5%. All $333.8 million of investment securities and MBSs at June 30, 2008 were classified as available for sale and recorded at fair value. These available for sale securities carried a total of $4.4 million in net unrealized losses at the end of the quarter, compared to $106,000 of net unrealized losses at December 31, 2007.

The Company's securities in an unrealized loss position were deemed to be not other-than-temporarily impaired after considering that substantially all available for sale securities were rated "investment grade" with unrealized losses primarily caused by market interest rate changes. In addition, the Company has the intent and ability to hold all securities with unrealized losses until recovery or maturity. In making these other-than-temporary impairment determinations, management considers, among other things, the length of time and extent to which the fair value has been less than cost and the credit worthiness and near-term prospects of the issuer. Also, management considers capital adequacy, interest rate risk, liquidity and business plans in assessing the intent and ability to hold all securities with unrealized losses until recovery or maturity. For the private placement mezzanine tranch of a collaterized debt obligation backed by trust preferred securities, the company also considered whether a market participant would anticipate that there has been an adverse change in estimated cash flows.

The Company's available for sale securities are reported at fair value primarily utilizing observable inputs (Level 2 under SFAS 157). The Company obtains fair value measurements from independent pricing services, which base their fair value measurements upon observable inputs such as reported trades of comparable securities, broker quotes, the Treasury yield curve, benchmark interest rates, market spread relationships, historic and consensus prepayment rates, credit information and the security's terms and conditions. The Company validates its valuation techniques by periodically performing procedures such as obtaining market values from other pricing sources. See also Note 4 - Recently Adopted Accounting Pronouncements in the accompanying notes to unaudited consolidated financial statements on page 8 for further discussion.

The investment portfolio provides the Company a source of short-term liquidity and acts as a counterbalance to loan and deposit flows. During the first six months of 2008, the Company purchased $91.0 million of available for sale securities, while maturities/calls and principal repayments totaled $75.3 million. Additionally, in the first six months of 2008, the Company sold $13.1 million of mortgage-backed securities generating gross gains of $242,000. Fluctuations in market interest rates during the first six months of 2008 led to a large number of calls on the Company's investment holdings resulting in increased volume of investment and mortgage-backed security purchases compared to the first six months of 2007.

Loans and Leases

Total loans and leases increased by $22.2 million since December 31, 2007 to stand at $1.06 billion at June 30, 2008. As a percentage of total assets, loans and leases increased to 71.2% at June 30, 2008, compared to 70.3% at December 31, 2007. The Company attempts to concentrate its asset growth in its loan and lease portfolios to maximize the yield on new assets and to take advantage of demand for both commercial and home equity loan products in its market area. Total loans and leases as of June 30, 2008 is comprised of three broad categories: commercial loans and leases that aggregate $630.8 million, or 59.5% of the portfolio; residential mortgages that aggregate $223.8 million, or 21.1% of the portfolio; and consumer and other loans that aggregate $205.7 million, or 19.4% of the portfolio.

Commercial loans and leases - The commercial loan and lease portfolio (consisting of commercial real estate loans, business lending, equipment leases, multi-family real estate, small business and construction

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loans) increased $57.1 million, or 10.0%, during the first six months of 2008. During this period, new commercial commitments increased $47.3 million compared to the first six months of 2007.

The Bank's business lending group originates business loans, also referred to as commercial and industrial loans, including owner-occupied commercial real estate loans, term loans and revolving lines of credit. Within the business lending portfolio, commercial and industrial loans increased $20.0 million, or 15.2%, while owner-occupied commercial real estate loans increased by $6.4 million, or 4.0%, since year-end.

The Bank's commercial real estate ("CRE") group originates nonowner-occupied commercial real estate, multi-family residential real estate and construction loans. These real estate secured commercial loans are offered as both fixed and adjustable-rate products. Since December 31, 2007, CRE loans have increased $21.5 million, or 11.6%, on a net basis.

With the Macrolease platform, the Bank originates equipment leases for its own portfolio, as well as originates leases for third parties as a source of noninterest income based on demand. In addition, the Bank historically has purchased equipment leases from originators outside of the Bank. The U.S. Government and its agencies are the principal lessees on the vast majority of these purchased leases. These "government" leases generally have maturities of five years or less. At June 30, 2008, leases comprised 10.5% of the commercial loan and lease portfolio, with $46.1 million of Macrolease-generated leases and $19.8 million of purchased government leases.

At June 30, 2008, small business loans were $47.8 million, or 7.6% of the portfolio, compared to $45.8 million, or 8.0% of the portfolio at December 31, 2007. These loans reflect those historically originated by the Bank's small business lending group and branch system and now primarily originated by the Bank's branch system. The Bank utilizes credit scoring and streamlined documentation, as well as traditional review standards in originating these credits.

The Bank is a participant in the U.S. Small Business Administration ("SBA") Preferred Lender Program in both Rhode Island and Massachusetts. SBA guaranteed loans are found throughout the portfolios managed by the Bank's various lending groups.

The Company believes it is well positioned for continued commercial growth. The Bank places particular emphasis on the generation of small- to medium-sized commercial relationships (those with $10 million or less in total loan commitments). Additionally, the Bank offers asset-based commercial loan facilities that monitor advances against receivables and inventories on a formula basis.

Residential mortgage loans - During the first six months of 2008, residential mortgage loans decreased $24.9 million, or down 10.0%. During this period, the Bank originated $740,000 of mortgages for the portfolio and did not purchase any mortgages. Comparatively, during the first six months of 2007, the Bank purchased $25.2 million of mortgages and originated $143,000 of mortgages for its own portfolio. Since inception, the Bank has concentrated its portfolio lending efforts on commercial and consumer lending opportunities, but originates mortgage loans for its own portfolio on a limited basis. The Bank employs one mortgage originator who supports the Bank's customer base. The Bank does not employ any outside mortgage originators, but periodically purchases residential mortgage loans from third-party originators. The Bank may purchase residential mortgage loans to utilize available cash flow as opportunities arise. At June 30, 2008, the Bank did not have any commitments to purchase residential mortgage loans within the next 60 days.

Consumer loans - The consumer loan portfolio decreased $10.0 million, or 4.6%, during the first six months of 2008 as repayments of $22.6 million exceeded originations of $12.6 million. The decline in growth through June 30, 2008 was reflective of the softening of housing prices in the local market area over the past few years. The Company believes the softening prices and the general economic climate have reduced consumer appetite for borrowing against the value of their homes. However, the Company continues to promote consumer lending as it believes that these ten- to twenty-year fixed rate products, along with floating rate lines of credit, possess attractive cash flow characteristics.

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The following is a summary of loans and leases receivable:

	June 30, 2008	December 31, 2007
	(In thousands)	
Commercial loans and leases:		
Commercial real estate - owner occupied	$ 163,793	$ 157,431
Commercial and industrial	151,940	131,927
Commercial real estate - nonowner occupied	122,930	102,990
Small business	47,782	45,778
Multi-family	50,236	42,536
Construction	32,642	38,832
Leases and other [(a)]	65,921	58,702

Subtotal	635,244	578,196
Unearned lease income	(6,014)	(5,742)
Net deferred loan origination costs	1,543	1,214
Total commercial loans and leases	630,773	573,668
Residential mortgage loans:		
One- to four-family adjustable rate	134,266	155,087
One- to four-family fixed rate	88,525	92,485
Subtotal	222,791	247,572
Premium on loans acquired	1,049	1,198
Net deferred loan origination fees	(39)	(42)
Total residential mortgage loans	223,801	248,728
Consumer loans:		
Home equity - term loans	136,523	149,192
Home equity - lines of credit	65,456	62,357
Unsecured and other	2,431	2,774
Subtotal	204,410	214,323
Net deferred loan origination costs	1,320	1,413
Total consumer loans	205,730	215,736
Total loans and leases receivable	$1,060,304	$1,038,132

(a) Included within commercial loans and leases were leases held for sale of $0 million at June 30, 2008 and $3.3 million at December 31, 2007.

Deposits

Total deposits increased by $25.7 million, or 2.5%, during the first six months of 2008, from $1.01 billion, or 68.7% of total assets, at December 31, 2007, to $1.04 billion, or 69.8% of total assets, at June 30, 2008.

The following table sets forth certain information regarding deposits:

	June 30, 2008			December 31, 2007		
	Amount	Percent Of Total	Weighted Average Rate	Amount	Percent of Total	Weighted Average Rate

(In thousands)

NOW accounts	$ 59,937	5.7%	0.18%	$ 65,191	6.4%	0.60%
Money market accounts	5,197	0.5%	1.40%	6,054	0.6%	2.32%
Savings accounts	407,670	39.2%	1.59%	396,838	39.1%	3.01%
Certificate of deposit accounts	377,626	36.3%	3.39%	374,063	36.9%	4.46%
Total interest bearing deposits	850,430	81.7%	2.29%	842,146	83.0%	3.46%
Noninterest bearing accounts	190,084	18.3%	--	172,634	17.0%	--
Total deposits	$1,040,514	100.0%	1.86%	$1,014,780	100.0%	2.86%

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The overall composition of total deposits remained relatively the same during the first six months of the year. At June 30, 2008, core deposit accounts comprised 63.7% of total deposits, up moderately from 63.1% of total deposits at December 31, 2007. The Bank continued its strategy of emphasizing the normally lower cost core deposits over CDs. This strategy resulted in an increase in core deposits since December 31, 2007 of $22.2 million, or 3.5%.

During the first six months of 2008, competition for deposits remained strong in the Company's market areas. During this period, the Bank increased its total deposits by $25.7 million as compared to December 31, 2007, with growth in most deposit categories. Savings and CD accounts grew $10.8 million and $3.6 million, respectively, over the past six months. By June 30, 2008, demand deposit accounts grew to $190.1 million, an increase of $17.5 million from $172.6 million at December 31, 2007. These increases offset the decline of NOW accounts of $5.3 million. At June 30, 2008, brokered CDs were $10.0 million, or 1.0% of total deposits, down from $20.0 million, or 2.0% of total deposits, at the prior year-end. The Bank may utilize brokered CDs if their rates are attractive compared to wholesale funding.

Borrowings

Overnight and short-term borrowings decreased $16.3 million during the first six months of 2008 from the December 31, 2007 level of $66.8 million, with one larger customer retail repurchase agreement comprising the majority of this decline. Through the Bank's membership in the FHLB, the Company has access to a number of different funding structures. FHLB borrowings increased by $6.2 million from the December 31, 2007 amount of $241.5 million. Wholesale repurchase agreements remained constant with the December 31, 2007 balance of $10.0 million. The Bank may utilize wholesale repurchase agreement funding in the future if spreads are favorable compared to FHLB borrowings or for diversification purposes.

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

Asset Quality

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

Nonperforming assets - At June 30, 2008, the Company had nonperforming assets of $7.0 million, which represented 0.47% of total assets. This compares to nonperforming assets of $4.1 million, or 0.28% of total assets, at December 31, 2007. Total nonperforming assets at June 30, 2008 consisted of nonaccrual loans and leases with commercial loans and leases aggregating $3.5 million, residential mortgage loans aggregating $3.3 million, consumer loans aggregating $49,000 and other real estate owned aggregating $125,000. Nonperforming assets at December 31, 2007 were comprised of nonaccrual residential and commercial loans.

Included in nonaccrual loans and leases at June 30, 2008 were $3.3 million of impaired loans and leases, with specific impairment reserves against these loans of $634,000. At December 31, 2007, there were $3.0 million of impaired loans and leases with specific impairment reserves of $486,000. The increase in nonaccrual loans and leases since year-end relates primarily to residential mortgage loans.

The Company evaluates the underlying collateral of each nonperforming loan and continues to pursue the collection of interest and principal. Management believes that the current level of nonperforming assets remains low relative to the size of the Company's loan portfolio and as compared to peer institutions. The weak economy has resulted in an increase in charge-offs and nonperforming assets in the first half of

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2008. If current economic conditions continue or worsen, management believes it is likely that the level of nonperforming assets would increase, as would the level of charged-off loans.

Delinquencies - At June 30, 2008, loan balances of $1.8 million were 60 to 89 days past due, down from $3.7 million at December 31, 2007.

The following table sets forth information regarding nonperforming assets and loans 60-89 days past due as of the dates indicated:

	June 30, 2008	December 31, 2007
	(In thousands)	
Loans and leases accounted for on a nonaccrual basis	$6,824	$4,012
Restructured loans and leases	34	37
Loans and leases past due 90 days or more, but still accruing	--	100
Impaired loans and leases (not included in nonaccrual loans and leases)	--	--
Total nonperforming loans and leases	6,858	4,149
Other real estate owned	125	--
Total nonperforming assets	$6,983	$4,149

Delinquent loans 60-89 days past due	$1,775	$3,702
Nonperforming loans and leases as a percent of total loans and leases	0.66%	0.40%
Nonperforming assets as a percent of total assets	0.47%	0.28%
Delinquent loans and leases 60-89 days past due as a percent of total loans	0.17%	0.36%

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

At June 30, 2008, the Company had $10.2 million of assets that were classified as substandard. This compares to $9.5 million of assets that were classified as substandard at December 31, 2007. The Company had no assets that were classified as doubtful or loss at either date. Performing loans may or may not be adversely classified depending upon management's judgment with respect to each individual loan. At June 30, 2008, included in the assets that were classified as substandard were $3.3 million of performing loans. This compares to $5.3 million of adversely classified performing loans as of December 31, 2007. These amounts constitute assets that, in the opinion of management, could potentially migrate to nonperforming or doubtful status. Management believes that the June 30, 2008 level of adversely classified assets is low relative to the size of the Company's loan and lease portfolio and as compared to peer institutions. If the current economic or market conditions continue to worsen, management believes it is likely that the level of adversely classified assets would increase. This in turn may further necessitate an increase to the provision for loan losses in future periods.

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Allowance for Loan and Lease Losses

During the first six months of 2008, the Company made additions to the allowance for loan and lease losses of $1.3 million and experienced net charge-offs of $713,000 compared to additions to the allowance for loan and lease losses of $200,000 and net charge-offs of $32,000 for the first six months of 2007. The net charge-offs were almost evenly divided between the residential mortgage and commercial loan portfolios. At June 30, 2008, the allowance for loan and lease losses stood at $13.2 million and represented 188.47% of nonperforming loans and 1.24% of total loans and leases outstanding. This compares to an allowance for loan and lease losses of $12.6 million, representing 304.2% of nonperforming loans and 1.22% of total loans and leases outstanding at December 31, 2007.

An analysis of the activity in the allowance for loan and lease losses is as follows:

	Six Months Ended	Year Ended December 31,

	June 30, 2008	2007
	(In thousands)	
Balance at beginning of period	$12,619	$12,377
Loans charged-off:		
Commercial loans and leases	(297)	(184)
Residential mortgage loans	(418)	(248)
Consumer and other loans	(50)	(96)
Total loans charged-off	(765)	(528)
Recoveries of loans previously charged-off:		
Commercial loans and leases	42	32
Residential mortgage loans	--	--
Consumer and other loans	10	38
Total recoveries of loans previously charged-off	52	70
Net charge-offs	(713)	(458)
Provision for loan and lease losses charged against income	1,255	700
Balance at end of period	$13,161	$12,619

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

	June 30, 2008	December 31, 2007
	(In thousands)	
Loan category		
Commercial loans and leases	$ 9,458	$ 8,786
Residential mortgage loans	1,238	1,002
Consumer and other loans	1,587	1,637
Unallocated	878	1,194
Total	$13,161	$12,619

Assessing the appropriateness of the allowance for loan and lease losses involves substantial uncertainties and is based upon management's evaluation of the amounts required to meet estimated charge-offs in the loan and lease portfolio after weighing various factors. Management's methodology to estimate loss exposure includes an analysis of individual loans and leases deemed to be impaired, reserve allocations for various loan types based on payment status or loss experience and an unallocated allowance that is maintained based on management's assessment of many factors including the growth, composition and quality of the loan portfolio, historical loss experiences, general economic conditions and other pertinent

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factors. These risk factors are reviewed and revised by management where conditions indicate that the estimates initially applied are different from actual results. Based on this evaluation, management believes that the allowance for loan and lease losses, as of June 30, 2008, is appropriate.

A portion of the allowance for loan and lease losses is not allocated to any specific segment of the loan portfolio. This non-specific allowance, also referred to as unallocated allowance, is maintained for two primary reasons: (i) there exists an inherent subjectivity and imprecision to the analytical processes employed, and (ii) the prevailing business environment, as it is affected by changing economic conditions and various external factors, may impact the portfolio in ways currently unforeseen. Management, therefore, has established and maintains a non-specific allowance for loan and lease losses. The amount of this measurement imprecision allocation was $878,000 at June 30, 2008 compared to $1.2 million at December 31, 2007. Factored into the determination of the appropriateness of the non-specific allocation was the substantial growth of the commercial loan portfolio reflecting newly originated credits for which a general allocation was made and which management deemed to have a lower risk of loss in the near term.

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

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Results of Operations - Executive Overview

Selected income statement and per share data and operating ratios are presented in the table below for the three-month periods indicated:

	For the three-month periods ended				
(In thousands, except per share data)	June 30, 2008	March 31, 2008	December 31, 2007	September 30, 2007	June 30, 2007
Income statement data:					
Net interest income	$11,428	$10,304	$10,459	$10,265	$10,292
Noninterest income	2,492	2,903	2,703	2,856	2,664
Noninterest expense	9,612	9,460	9,398	9,492	9,624
Net income	2,241	2,326	2,395	2,278	2,194
Per share data:					
Diluted earnings per share	$ 0.48	$ 0.50	$ 0.50	$ 0.46	$ 0.44
	0.16	0.16	0.16	0.16	0.15

Dividends per common share					
Operating ratios:					
Net interest margin	3.24%	2.97%	2.98%	2.91%	2.97%
Return on average assets	0.61%	0.64%	0.65%	0.61%	0.60%
Return on average equity	7.90%	8.23%	8.21%	7.79%	7.63%
Efficiency ratio	69.05%	71.63%	71.40%	72.34%	74.28%

The Company's 2008 second quarter net income of $2.2 million decreased by $85,000, or 3.7%, from the prior quarter (three months ended March 31, 2008). Net income was up $47,000, or 2.1%, on a comparative quarter basis (as compared to the three months ended June 30, 2007). Diluted earnings per common share ("EPS") was down 4.0% on a linked-quarter basis (as compared to the three months ended March 31, 2008) and increased 9.0% as compared to the same quarter a year ago.

The second quarter 2008 net interest income increased by $1.1 million, or 10.9%, as compared to the first quarter of 2008. The yield on earning assets declined 26 basis points ("bps"), while the cost of liabilities fell 61 bps. These decreases were due in large part to the 250 bps reduction in the Federal Funds rate in the first two quarters of 2008.

Compared to the second quarter of 2007, net interest income increased by $1.1 million, or 11.0%, with decreases in the yield of earning assets of 49 bps being outpaced by decreases in the cost of funds of 93 bps. Available funds from deposit growth, loan repayments, maturities of securities and calls of investment securities were redeployed into commercial loan growth, investment securities and mortgage-backed securities. The Company's disciplined deposit pricing enabled the Company to expand its net interest margin on both a linked-quarter and comparative quarter basis.

Noninterest income for the second quarter of 2008 decreased on a linked-quarter basis by $411,000. The first quarter 2008 benefited from a gain on the sale of available for sale securities of $242,000. There were no similar sales of securities in the second quarter of 2008. In addition, net gains on lease sales and commissions on loans originated for others declined by $119,000 and other income declined $86,000. Partially offsetting these decreases were higher commissions on nondeposit investment products, which were up $35,000. In comparison to the 2007 second quarter, noninterest income was down $172,000 . Net gains on lease sales and commissions on loans originated for others were down $236,000, due to a lack of buyers in the market, and loan related fees were also down $50,000. These declines were off set by an increase in service charges on deposit accounts, as well as an increase in commissions on nondeposit investment products.

Noninterest expenses increased on a linked-quarter basis by $152,000, or 1.6%, with increases in professional fees, and higher other expenses. Second quarter 2008 noninterest expenses decreased $12,000,

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or 0.1%, compared to the second quarter of 2007. Salaries and employee benefits costs declined $285,000, or 5.4%, compared to the second quarter a year ago. Expenses related to equipment, marketing and loan servicing declined $168,000. Within the net decrease in noninterest expenses were increases in professional services costs of $254,000, or 42.3%, loan workout cost of $85,000 and other expenses which were up $160,000.

The Company's key operating ratios are return on average assets, return on average equity, and the efficiency ratio. For the second quarter of 2008, return on average assets was consistent while the return on average equity declined and the efficiency ratio improved 258 bps. All of these metrics improved compared to the second quarter of 2007. The Company continues to focus on growing revenue while controlling the increase in expenses as part of its efforts to improve earnings and build shareholder value.

Results of Operations - Comparison of the Three Months Ended June 30, 2008 and 2007

Net Interest Income

Net interest income for the quarter ended June 30, 2008 was up $1.1 million, or 11.0%, from the $10.3 million earned in the second quarter of 2007. The net interest margin for the second quarter of 2008 was 3.24%, up from the net interest margin for the 2007 period of 2.97%. Average earning assets were $28.2 million, or 2.0%, higher, and average interest-bearing liabilities were $28.9 million, or 2.5%, higher, than the comparable period a year earlier.

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

(In thousands)	For the three months ended June 30,					
	2008			2007		
Assets	Average Balance	Interest Earned/ Paid	Average Yield	Average Balance	Interest Earned/ Paid	Average Yield
Earning assets:						
Overnight investments	$ 9,142	$ 58	2.55%	$ 13,651	$ 185	5.43%
Investment securities	67,796	759	4.48%	119,917	1,534	5.12%
Mortgage-backed securities	277,700	3,455	4.98%	227,289	2,734	4.81%
Stock in the FHLB	15,671	156	4.00%	15,671	265	6.77%
Loans receivable:						
Commercial loans and leases	606,019	9,742	6.46%	530,038	9,761	7.38%
Residential mortgage loans	229,245	3,037	5.30%	261,019	3,446	5.28%
Consumer and other loans	208,386	2,774	5.35%	218,195	3,390	6.23%
Total earning assets	1,413,959	19,981	5.67%	1,385,780	21,315	6.16%
Cash and due from banks	19,600			24,015		

Allowance for loan and lease losses	(12,781)			(12,494)		
Premises and equipment	13,294			14,706		
Goodwill, net	12,019			11,317		
Accrued interest receivable	4,744			5,833		
Bank-owned life insurance	24,531			23,492		
Prepaid expenses and other assets	7,292			9,206		
Total assets	$1,482,658			$1,461,855		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
NOW accounts	$ 61,563	$ 37	0.24%	$ 64,202	$ 100	0.63%
Money market accounts	5,414	19	1.42%	6,642	25	1.54%
Savings accounts	406,957	1,691	1.67%	370,475	2,667	2.89%
Certificate of deposit accounts	381,111	3,584	3.78%	384,989	4,450	4.64%
Overnight and short-term borrowings	52,168	212	1.64%	50,689	636	5.03%
Wholesale repurchase agreements	10,000	134	5.32%	10,000	134	5.32%
FHLB borrowings	243,567	2,650	4.38%	239,753	2,640	4.42%
Subordinated deferrable interest debentures	13,403	226	6.77%	18,558	371	8.00%
Total interest-bearing liabilities	1,174,183	8,553	2.93%	1,145,308	11,023	3.86%
Noninterest-bearing deposits	180,109			184,605		
Other liabilities	14,278			16,672		
Total liabilities	1,368,570			1,346,585		
Shareholders' Equity:	114,088			115,270		
Total liabilities and shareholders' equity	$1,482,658			$1,461,855		

Net interest income	$11,428	$10,292
Net interest rate spread	2.74%	2.30%
Net interest rate margin	3.24%	2.97%

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

	Three Months Ended June 30, 2008 vs. 2007 Increase/(decrease) due to		
(In thousands)	Rate	Volume	Total
Interest income:			
Overnight investments	$ (78)	$ (49)	$ (127)
Investment securities	(148)	(627)	(775)
Mortgage-backed securities	93	628	721
Stock in the FHLB	(109)	--	(109)
Commercial loans and leases	(1,379)	1,360	(19)
Residential mortgage loans	11	(420)	(409)
Consumer and other loans	(479)	(137)	(616)
Total interest income	(2,089)	755	(1,334)
Interest expense:			
NOW accounts	(59)	(4)	(63)
Money market accounts	(2)	(4)	(6)
Savings accounts	(1,217)	241	(976)
Certificate of deposit accounts	(822)	(44)	(866)
Overnight and short-term borrowings	(442)	18	(424)
Wholesale repurchase agreements	--	--	--
FHLB borrowings	(32)	42	10
Subordinated deferrable interest debentures	(52)	(93)	(145)
Total interest expense	(2,626)	156	(2,470)
Net interest income	$ 537	$ 599	$ 1,136

Interest Income - Investments - Total investment income (consisting of interest on overnight investments, investment securities and MBSs and dividends on FHLB stock) was $4.4 million for the quarter ended June 30, 2008, compared to $4.7 million for the 2007 period. The decrease in total investment income of $290,000, or 6.1%, was primarily attributable to lower average balances.

The Company intends to redeploy cash flows available from maturing investment securities and MBSs primarily into higher-yielding internally generated assets, such as commercial loans and leases. With respect to duration and repricing of the Company's available for sale investment portfolio, the majority of the Company's investments are comprised of U.S. Agency securities and MBSs with repricing periods or expected duration of less than five years.

Interest Income - Loans and Leases - Interest from loans and leases was $15.6 million for the quarter ended June 30, 2008, and represented a yield on total loans and leases of 5.98%. This compares to $16.6 million of interest, and a yield of 6.59%, for the second quarter of 2007. Interest income decreased $1.0 million, or 6.3%, with the decrease in yield on loans and leases of 61 bps partially offset by the increase in the average balance of loans and leases of $34.4 million, or 3.4%.

The average balance of the various components of the loan and lease portfolio changed from the second quarter of 2007 as follows: commercial loans and leases increased $76.0 million, or 14.3%, residential mortgage loans decreased $31.8 million, or 12.2%, while consumer and other loans decreased $9.8 million, or 4.5%. Changes in the average yields from the second quarter of 2007 were as follows: commercial loans
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and leases decreased 92 bps, to 6.46%, and consumer and other loans decreased 88 bps, to 5.35%, while residential mortgage loans increased 2 bps, to 5.30%.

Interest Expense - Deposits and Borrowings - Interest paid on deposits and borrowings decreased $2.4 million, or 22.4%, to $8.6 million for the three months ended June 30, 2008, down from $11.0 million for the same period during 2007. The overall average cost for interest-bearing liabilities decreased 93 bps to 2.93% for the second quarter of 2008, compared to 3.86% for the second quarter of 2007. The average balance of total interest-bearing liabilities for the three months ended June 30, 2008 was $1.17 billion, up from $1.15 billion for the same period during 2007.

The growth in deposit average balances was centered in savings accounts (up $36.5 million, or 9.9%). The increase was somewhat countered by decreases in CDs (down $3.9 million, or 1.0%), NOW accounts (down $2.6 million, or 4.1%) and money market accounts (down $1.2 million, or 18.5%).

Borrowings increased as compared to the second quarter of 2007, with increases in customer short-term borrowings (up $1.5 million, or 2.9%) and FHLB funding (up $3.8 million, or 1.6%). The average balance of subordinated deferrable interest debentures declined $5.2 million, or 27.8%, resulting from the Company's September 2007 redemption of the subordinated deferrable interest debentures held by BRI Statutory Trust II.

The decrease in deposit and borrowing costs was primarily attributable to the reduction in the Federal Funds rate by 250 bps in the first two quarters of 2008. However, market competition from bank and non-bank financial institutions continues to be strong in the Company's market area, as does customer demand for higher-yielding deposit products. These two factors, as well as contractual maturities on borrowings and CDs, partially limit the Company's ability to reduce its deposit and borrowing costs as quickly as benchmark rates decrease.

Overall, the Company's liability costs continue to be dependent upon 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.

Provision for Loan and Lease Losses

The provision for loan and lease losses was $970,000 for the quarter ended June 30, 2008, up $870,000 from the second quarter of 2007. The Bank made additions to the allowance for loan and lease losses during the second quarter of 2008 in response to growth in the commercial loan portfolio, higher charge-offs compared to the prior year second quarter, increased nonperforming loans since December 31, 2007 and general economic conditions.

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

Noninterest Income

Total noninterest income decreased $172,000, or 6.5%, to $2.5 million for the second quarter of 2008, from $2.7 million for the second quarter of 2007. Commissions on nondeposit investment products increased by $74,000, or 43.3%, compared to the second quarter of 2007. Also, service charges on deposit accounts increased compared to the second quarter of 2007, with an increase of $60,000, or 4.3%, primarily due to an increase in cash management account fees and deposit fee enhancement programs. These increases were offset by lower gains on lease sales and loan commissions, which were down $236,000, or 70.2%.
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Noninterest Expense

Noninterest expense for the second quarter of 2008 of $9.6 million remained relatively consistent year-over-year. Noninterest expense decreased $12,000, or 0.1%, compared to the second quarter of 2007. This moderate decrease reflected the Company's ongoing initiatives to control expense growth.

Salaries and benefits costs decreased $285,000, or 5.4%, compared to the second quarter a year ago, with savings in salaries expense due to reallocation of positions in the Company's retail branch network, outsourcing of internal audit, as well as in its back-office operations area. Additionally, equipment costs declined by $68,000, or 20.4%, compared to the second quarter a year ago. In the second quarter of 2008, marketing costs declined $58,000, or 13.6%. The Company also had decreases in loan servicing, occupancy and data processing costs.

Professional services expenses increased $254,000, or 42.3%, on a net basis, reflecting an increase in legal costs, outsourcing of the internal audit function and investor relations costs surrounding the Company's contested election for its Board of Directors. Loan workout costs increased in the second quarter of 2008 compared to the same period a year ago by $85,000, reflective of increased nonperforming loans.

Other miscellaneous expenses increased by $160,000, or 13.8%, compared to the same period a year ago. This net increase was primarily driven by increases in FDIC insurance costs of $132,000 being partially offset by lower investment sweep expenses of $63,000. Overall, with the net decrease in noninterest expenses, the

Company improved its efficiency ratio in the second quarter of 2008 to 69.05% from 74.28% in the second quarter of 2007.

Income Tax Expense

Income tax expense of $1.1 million was recorded for the three months ended June 30, 2008, compared to $1.0 million for the same period during 2007. This represented total effective tax rates of 32.8% and 32.1%, respectively. Tax-favored income from BOLI, along with the Company's utilization of a Rhode Island passive investment company, has reduced the effective tax rate from the 40.9% combined statutory federal and state tax rates.

Results of Operations - Comparison of the Six Months Ended June 30, 2008 and 2007

General

Net income for the first six months of 2008 increased $195,000, or 4.5%, to $4.6 million, or $0.99 per diluted common share from $4.4 million, or $0.88 per diluted common share for the first six months of 2007.

Net Interest Income

For the six months ended June 30, 2008, net interest income was $21.7 million, compared to $20.5 million for the 2007 period. The net interest margin for the first six months of 2008 was 3.11%, up from the net interest margin for the 2007 period of 2.97%. The increase in net interest income of $1.2 million, or 5.9%, was attributable to the growth of higher yielding commercial assets and lower cost of funding. Average earning assets were $16.9 million, or 1.2%, higher, and average interest-bearing liabilities were $22.0 million, or 1.9%, higher than the comparable period a year earlier.
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Average Balances, Yields and Costs - The following table sets forth certain information relating to the Company's average balance sheet and reflects the average yield on assets and average cost of liabilities for the six month periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities. Average balances are derived from daily balances and include nonperforming loans. Available for sale securities are stated at amortized cost.

(In thousands)	Six Months Ended June 30,					
	2008			2007		
Asset	Average Balance	Interest Earned/ Paid	Average Yield	Average Balance	Interest Earned/ Paid	Average Yield
Earning assets:						
Overnight investments	$ 15,954	$ 255	3.21%	$ 17,490	$ 472	5.44%
Investment securities	63,242	1,460	4.62%	113,800	2,867	5.04%
Mortgage-backed securities	268,457	6,687	4.98%	233,229	5,603	4.80%

Stock in the FHLB	15,671	393	5.04%	15,776	546	6.97%
Loans receivable:						
Commercial loans and leases	590,754	19,548	6.65%	525,606	19,240	7.37%
Residential mortgage loans	236,463	6,333	5.36%	260,867	6,947	5.33%
Consumer and other loans	211,240	5,837	5.56%	218,108	6,742	6.23%
Total earning assets	1,401,781	40,513	5.80%	1,384,876	42,417	6.15%
Cash and due from banks	23,194			23,650		
Allowance for loan and lease losses	(12,734)			(12,443)		
Premises and equipment	13,440			14,731		
Goodwill, net	11,944			11,317		
Accrued interest receivable	4,991			5,759		
Bank-owned life insurance	24,405			23,363		
Prepaid expenses and other assets	7,180			9,486		
Total assets	$1,474,201			$1,460,739		
Liabilities and Shareholders' Equity						
Interest-bearing liabilities:						
Deposits:						
NOW accounts	$ 60,744	$ 105	0.35%	$ 64,243	$ 201	0.63%
Money market accounts	5,750	48	1.68%	6,651	63	1.91%
Savings accounts	400,108	4,178	2.10%	366,032	5,139	2.83%
Certificate of deposit accounts	377,438	7,692	4.10%	388,547	8,890	4.61%
Overnight and short-term borrowings	57,150	644	2.27%	52,069	1,303	5.05%
Wholesale repurchase agreements	10,000	269	5.32%	12,873	330	5.11%
FHLB borrowings	244,558	5,370	4.42%	238,177	5,231	4.43%
Subordinated deferrable interest debentures	13,403	476	7.12%	18,558	740	7.98%
Total interest-bearing liabilities	1,169,151	18,782	3.23%	1,147,150	21,897	3.85%

Noninterest-bearing deposits	175,375			182,704		
Other liabilities	15,911			16,723		
Total liabilities	1,360,437			1,346,577		
Shareholders' Equity:	113,764			114,162		
Total liabilities and shareholders' equity	$1,474,201			$1,460,739		
Net interest income		$21,731			$20,520	
Net interest rate spread			2.57%			2.30%
Net interest rate margin			3.11%			2.97%

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

	Six Months Ended June 30, 2008 vs. 2007 Increase/(decrease) due to		
(In thousands)	Rate	Volume	Total
Interest income:			
Overnight investments	$ (179)	$ (38)	$ (217)
Investment securities	(202)	(1,205)	(1,407)
Mortgage-backed securities	207	877	1,084
Stock in the FHLB	(149)	(4)	(153)
Commercial loans and leases	(2,129)	2,437	308
Residential mortgage loans	39	(653)	(614)
Consumer and other loans	(732)	(173)	(905)
Total interest income	(3,145)	1,241	(1,904)

Interest expense:			
NOW accounts	(86)	(10)	(96)
Money market accounts	(7)	(8)	(15)
Savings accounts	(1,413)	452	(961)
Certificate of deposit accounts	(959)	(239)	(1,198)
Overnight and short-term borrowings	(776)	117	(659)
Wholesale repurchase agreements	13	(75)	(62)
			139
FHLB borrowings	(25)	164	
Subordinated deferrable interest debentures	(76)	(188)	(264)
Total interest expense	(3,329)	213	(3,116)
Net interest income	$ 184	$ 1,028	$ 1,212

Interest Income - Investments - Total investment income (consisting of interest on overnight investments, investment securities and MBSs and dividends on FHLB stock) was $8.8 million for the six months ended June 30, 2008, compared to $9.5 million for the 2007 period. The decrease in total investment income of $693,000, or 7.3%, was primarily attributable to lower average balances.

Interest Income - Loans and Leases - Interest from loans and leases was $31.7 million for the six months ended June 30, 2008, and represented a yield on total loans and leases of 6.13%. This compares to $32.9 million of interest, and a yield of 6.59%, for the same period a year ago. Interest income decreased $1.2 million, or 3.7%, with the decrease in yield on loans and leases of 46 bps partially offset by the increase in the average balance of loans and leases of $33.9 million, or 3.4%.

The average balance of the various components of the loan and lease portfolio changed compared to the same period in 2007 as follows: commercial loans and leases increased $65.1 million, or 12.4%, while residential mortgage loans decreased $24.4 million, or 9.4%, and consumer and other loans decreased $6.9 million, or 3.2%. Changes in the average yields from the first six months of 2007 were as follows: commercial loans and leases decreased 72 bps, to 6.65%, and consumer and other loans decreased 67 bps, to 5.56%, while residential mortgage loans increased 3 bps, to 5.36%.

Interest Expense - Deposits and Borrowings - Interest paid on deposits and borrowings decreased $3.1 million, or 14.2%, to $18.8 million for the six months ended June 30, 2008, from $21.9 million for the same period during 2007. The overall average cost for interest-bearing liabilities decreased 62 bps to 3.23% for the

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first six months of 2008, compared to 3.85% for the first six months of 2007. The average balance of total interest-bearing liabilities increased $22.0 million, from $1.15 billion for the first six months of 2007 to $1.17 billion for the first six months of 2008. The growth in deposit average balances was centered primarily in savings accounts (up $34.1 million, or 9.3%). Offsetting the increase in savings accounts were decreases in CDs (down $11.1 million, or 2.9%), NOW accounts (down $3.5 million, or 5.4%) and money market accounts (down $901,000, or 13.6%).

Borrowings increased for the first six months of 2008 compared to the prior year, with increases in short-term borrowings (up $5.1 million, or 9.8%), and FHLB borrowings (up $6.4 million, or 2.7%), slightly offset by a decrease in wholesale repurchase agreements (down $2.9 million, or 22.3%).

Provision for Loan and Lease Losses

For the six months ended June 30, 2008, the provision for loan and lease losses was $1.3 million, up from the $200,000 recorded during the same period in 2007. The Bank made additions to the allowance for loan and lease losses during the first six months of 2008 primarily in response to higher charge-offs, increased commercial growth, increased nonperforming loans since December 31, 2007 and general economic conditions. Additions to the allowance for loan and lease losses during the first six months of 2007 were primarily in response to growth of the commercial loan and lease portfolio and concern for general economic conditions.

Noninterest Income

Total noninterest income increased $169,000, or 3.2%, to $5.4 million for the first six months of 2008 as compared to the same period in 2007. In 2008, gain on sale of securities was $242,000. There were no gains on sales of securities in the first six months of 2007. In addition, the company experienced an increase in commissions on nondeposit investment products (up $164,000, or 56.4%) and service charges on deposit accounts (up $179,000, or 6.6%). This was offset by lower gains on lease sales and reduced loan commissions. Service charges remain the largest source of noninterest income for the Company.

Noninterest Expense

Noninterest expense for the first six months of 2008 remained relatively consistent year-over-year at $19.1 million. Noninterest expenses decreased $63,000, or 0.3%, which is reflective of the Company's ongoing initiatives to control expense growth.

Salaries and benefits costs declined $408,000, or 3.9%, in the first six months of 2008 as compared to the same period in 2007. Additionally, equipment expenses decreased by $93,000, or 13.9%, and occupancy costs decreased $73,000, or 4.1%. Included within the net decrease in noninterest expenses were increases in professional services expenses of $237,000, or 18.9%, primarily due to costs related to the outsourcing of internal audit, legal fees and costs incurred in connection with the Company's contested election for its Board of Directors. Other miscellaneous expenses increased $188,000, or 8.4%, from a year ago, with increases in FDIC insurance and data communication expenses. The Company's efficiency ratio decreased from 74.32% during the first six months of 2007 to 70.31% in 2008.

Income Tax Expense

Income tax expense of $2.2 million was recorded for the six months ended June 30, 2008, compared to $2.0 million for the same period during 2007. This represented total effective tax rates of 32.8% and 31.8%, respectively. Tax-favored income from BOLI, along with the Company's utilization of a Rhode Island passive investment company, has reduced the effective tax rate from the 40.9% combined statutory federal and state tax rates.
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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 and 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 seeks to maintain a high degree of flexibility with a liquidity target of 10% to 30% of total assets. At June 30, 2008, overnight investments, investment securities and MBSs available for sale amounted to $335.6 million, or 22.5% of total assets. This compares to $352.3 million, or 23.8% of total assets at December 31, 2007. 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. The Bank also has access to funding through wholesale repurchase agreements. Management believes that the Company has adequate liquidity to meet its commitments.

Capital Resources

Total shareholders' equity of the Company was $113.1 million at June 30, 2008 and December 31, 2007. Net income of $4.6 million, proceeds from the exercise of stock options and related tax effects of $663,000, contingent share payments of $656,000 and non-cash share-based compensation of $174,000 were offset by a decrease in accumulated other comprehensive income of $2.8 million (attributable to increases in net unrealized losses on investments and MBSs), dividend payments of $1.4 million and stock repurchases of $1.9 million.

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."

The Federal Reserve Board ("FRB") has also issued capital guidelines for bank holding companies. These guidelines require the Company to maintain minimum capital levels for capital adequacy purposes. In general, the FRB has adopted substantially identical capital adequacy guidelines as the FDIC. Such standards are applicable to bank holding companies and their bank subsidiaries on a consolidated basis.
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As of June 30, 2008, 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		Minimum Required To Be Considered "Well Capitalized"	
	Amount	Ratio	Amount	Ratio	Amount	Ratio

			(Dollars in thousands)			
At June 30, 2008:						
Bancorp Rhode Island, Inc.						
Tier I capital (to average assets)	$116,904	7.95%	$58,817	4.00%	$ 73,521	5.00%
Tier I capital (to risk weighted assets)	116,904	11.35%	41,216	4.00%	61,825	6.00%
Total capital (to risk weighted assets)	129,781	12.60%	82,433	8.00%	103,041	10.00%
Bank Rhode Island						
Tier I capital (to average assets)	$115,867	7.89%	$58,736	4.00%	$ 73,420	5.00%
Tier I capital (to risk weighted assets)	115,867	11.25%	41,195	4.00%	61,793	6.00%
Total capital (to risk weighted assets)	128,744	12.50%	82,390	8.00%	102,988	10.00%
At December 31, 2007:						
Bancorp Rhode Island, Inc.						
Tier I capital (to average assets)	$114,403	7.87%	$58,119	4.00%	$ 72,649	5.00%
Tier I capital (to risk weighted assets)	114,403	11.06%	41,361	4.00%	62,042	6.00%
Total capital (to risk weighted assets)	127,022	12.28%	82,722	8.00%	103,403	10.00%
Bank Rhode Island						
Tier I capital (to average assets)	$112,323	7.72%	$58,165	4.00%	$ 72,706	5.00%
Tier I capital (to risk weighted assets)	112,323	10.87%	41,325	4.00%	61,987	6.00%
Total capital (to risk weighted assets)	124,942	12.09%	82,650	8.00%	103,312	10.00%

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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 maintaining interest rate risk exposure within established parameters over a range of possible interest rate scenarios.

Interest rate risk management is governed by the Bank's Asset/Liability Committee ("ALCO"). The ALCO establishes exposure limits that define the Company's tolerance for interest rate risk. The ALCO monitors current exposures versus limits and reports results to the Board of Directors. The policy limits and guidelines serve as benchmarks for measuring interest rate risk and for providing a framework for evaluation and interest rate risk management decision making. The primary tools for managing interest rate risk currently are the securities portfolio, purchased mortgages, wholesale repurchase agreements and borrowings from the FHLB.

The Company's interest rate risk position is measured using both income simulation and interest rate sensitivity "gap" analysis. Income simulation is the primary tool for measuring the interest rate risk inherent in the Company's balance sheet at a given point in time by showing the effect on net interest income, over a 24-month period, of 200 bps interest rate ramps. These simulations take into account repricing, maturity and prepayment characteristics of individual products. The ALCO reviews simulation results to determine whether the exposure resulting from changes in market interest rates remains within established tolerance levels over both a 12-month and 24-month horizon, and develops appropriate strategies to manage this exposure. The Company's guidelines for interest rate risk specify that if interest rates were to shift up or down 200 bps over a 12-month and 24-month period, estimated net interest income should decline by no more than 10.0%. As of June 30, 2008, net interest income simulation indicated that the Company's exposure to changing interest rates was within these tolerances. The ALCO reviews the methodology utilized for calculating interest rate risk exposure and may periodically adopt modifications to this methodology.

The following table presents the estimated impact of interest rate ramps on the Company's estimated net interest income over a twenty-four month period beginning July 1, 2008:

	Estimated Exposure to Net Interest Income	
	Dollar Change	Percent Change
	(Dollars in thousands)	
Initial Twelve Month Period:		
Up 200 bps	$ (535)	-1.1%
Down 200 bps	(268)	-0.5%
Subsequent Twelve Month Period:		
Up 200 bps	$(1,180)	-2.4%
Down 200 bps	(2,736)	-5.6%

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The Company also uses interest rate sensitivity "gap" analysis to provide a more general overview of its interest rate risk profile. The interest rate sensitivity gap is defined as the difference between interest-earning assets and interest-bearing liabilities maturing or repricing within a given time period. At June 30, 2008, the Company's one year cumulative gap was a positive $39.7 million, or 2.7% of total assets.

For additional discussion on interest rate risk see the section titled "Asset and Liability Management" on pages 57 through 58 of the Company's 2007 Annual Report on Form 10-K.

ITEM 4. Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms.

There was no significant change in the Company's internal control over financial reporting that occurred 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. The Company continues to enhance its internal controls over financial reporting, primarily by evaluating and enhancing process and control documentation. Management discusses with and discloses these matters to the Audit Committee of the Board of Directors and the Company's auditors.

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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 1A. Risk Factors

There have been no material changes from the risk factors as previously disclosed in the Company's 2007 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

In 2005, the Company, through its Macrolease subsidiary, purchased substantially all of the operating assets of DWW Leasing Corp. (formerly Macrolease International Corporation) (the "Seller") pursuant to the terms of an Asset Purchase Agreement dated April 29, 2005 among the Company, the Bank, Macrolease, the Seller and certain shareholders of the Seller (the "Agreement"). Pursuant to the terms of the Agreement, on June 30, 2008, the Company issued 8,605 shares of its common stock to the shareholders of the Seller, which shares represented additional consideration contingent upon Macrolease achieving certain performance goals for the remainder of a three year performance period (which expires on April 29, 2009). These additional shares were issued in a private placement pursuant to Section 4(2) of the Securities Act of 1933. In addition, the Company has reserved up to 23,123 additional shares of its common stock for issuance to the Seller in the event Macrolease achieves certain performance goals pursuant to an earn-out through 2010. The Company has filed a registration statement on Form S-3 covering up to 51,532 shares of its common stock issued or reserved for issuance to the Seller, which registration statement was declared effective on July 12, 2005.

Item 3. Defaults Upon Senior Securities

No defaults upon senior securities have taken place.

Item 4. Submission of Matters to a Vote of the Security Holders

At the Annual Meeting of Shareholders held May 21, 2008, holders of common stock elected the Board's nominees to the Board of Directors and ratified the appointment of independent registered public accountants.

The vote for Class III director nominees with terms expiring in 2011 was:

	FOR	WITHHOLD
CLASS III DIRECTORS:		
Anthony F. Andrade	2,670,966	49,176
Malcolm G. Chace	4,136,147	48,316
Ernest J. Chornyei, Jr.	4,131,597	52,866
Edward J. Mack II	2,662,716	57,426
Merrill W. Sherman	2,670,650	49,492

	FOR	WITHHOLD
Daniel J. Mullane	1,462,348	1,973
Richard J. Lashley	1,462,348	1,973
John W. Palmer	1,462,348	1,973

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

FOR	AGAINST	ABSTAIN
4,170,121	9,430	4,912

Item 5. Other Information

No information to report.

Item 6. Exhibits

10.9	Employment Agreement between Mark J. Meiklejohn, Bancorp Rhode Island, Inc. and Bank Rhode Island dated as of April 28, 2008.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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BANCORP RHODE ISLAND, INC.

SIGNATURES

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

Bancorp Rhode Island, Inc.

August 8, 2008	/s/ Merrill W. Sherman
(Date)	Merrill W. Sherman President and Chief Executive Officer
August 8, 2008	/s/ Linda H. Simmons
(Date)	Linda H. Simmons Chief Financial Officer and Treasurer

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