

Via regular mail and email: SIGTARP.response@do.treas.gov

March 6, 2009

Special Inspector General Neil M. Barofsky
Troubled Asset Relief Program
1500 Pennsylvania Avenue, NW, Suite 1064
Washington DC 20220

Dear Special Inspector General Barofsky:

This letter is being sent in response to your letter of February 6, 2009, concerning the Emergency Economic Stabilization Act of 2008 (EESA) that established the Troubled Asset Relief Program (TARP).

Our holding company, Bancorp Rhode Island, Inc. (Company), is the parent company of Bank Rhode Island (BankRI). BankRI is a \$1.5 billion commercially oriented bank headquartered in Providence, Rhode Island. Both institutions were in strong financial condition prior to the Company's receiving an investment under the Capital Purchase Program (CPP) forming part of the TARP program. We have been profitable for each year since our inception in 1996.

Enclosed herewith is our press release covering 2008. (Exhibit 1) As you can see, the Company's net income increased by 1% over the prior year's net income. Additionally, the Company's nonperforming assets are below peer group level, and we exceed regulatory capital standards in every respect.

The Company participated in the Capital Purchase Program for the reasons that we stated publicly. We believe our country is in very difficult economic times, and it is in the interest of our shareholders and our community for the Company and BankRI to be robustly capitalized. We accepted a \$30 million preferred stock investment from the U.S. Treasury, in exchange for which the Treasury received preferred stock and warrants to purchase 192,967 shares of the Company's common stock at \$23.32. (See Exhibits 2 and 3 referencing our election to apply for the CPP and our consummation of the transaction.)

The Treasury's investment boosted the Company's total risk-based capital ratio from 12.69% at September 30, 2008, to 15.48% at December 31, 2008.

With that background, the following represents specific responses to your questions. Numbers below match the paragraphs as numbered in your letter.

1.(a) Our anticipated use of TARP funds was to more robustly capitalize our institution to be in a position to withstand the stresses of a deteriorating economy. Being robustly capitalize enhances our capacity to lend to Rhode Island's businesses and individuals and our ability to support economic activity in our market area. As indicated, we were well capitalized before receiving the CPP investment and remain well capitalized at this time. Thus, the TARP funds were used for general capital purposes.

(b) TARP funds were received in the form of an investment in exchange for preferred stock and warrants for common shares. As such, those funds were not segregated from any of our other institutional funds all of which support our operations. For your information, we have never separately segregated from other institutional funds, any capital that we have raised over the years. We are not aware of any institutions that do so. Thus, other than an entry on our balance sheet evidencing the preferred stock issuance to the U.S. Treasury, there is no segregation.

(c) In terms of our actual use of TARP funds to date, I would call your attention to three items. The first is our press release announcing that we were applying for the CPP. (Exhibit 2) The stated purposes there are coincident with the ones that have informed you about today. The second is our press release announcing we have received the CPP investment. (Exhibit 3) Again you will notice a similarity in the language. Finally, I am enclosing a third press release. (Exhibit 4) In that press release we announced that we undertook an unprecedented \$30 million home equity loan program.

The TARP investment (which supports our general capital requirements), we believe, enables us to keep actively lending in what is a very difficult environment.

(d) We do not understand the concept of "unspent" TARP funds. This implies a dollar-for-dollar correlation between the TARP equity investment and an institution's outlay of funds, which is inconsistent with how financial institutions operate. Equity capital is not "spent" in this manner. It is our intention to "lever" the TARP capital through additional investments on the Bank's part, including consumer and commercial loans. Our budget for 2008 (which was developed with the knowledge that we would receive TARP capital) calls for continued double-digit commercial loan growth. The bulk of those loans are ones made by us into our local community. Additionally, we saw a market opportunity, following the receipt of the TARP investment, to undertake the home equity loan program as described in the press release. Absent the TARP funds we may not have undertaken the \$30 million home equity loan program.

Additionally, given the difficult economic environment, and the fact that most people anticipate nonperforming assets to rise, we believe it would have been more difficult for us to continue with a robust commercial lending program. At this point our loan "pipeline" is strong, and we are optimistic that we will book good business during this quarter.

Special Inspector General Neil M. Barofsky

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We continue to actively promote our willingness and ability to lend. Please see Exhibit 5 for samples of the campaign we are currently undertaking to promote lending. The TARP funds allow us to be a greater source of strength for our community in these difficult economic times.

Finally, as a publicly traded company, we avoid selective disclosure of financial information, including actual loan levels. We anticipate that when we publicly release our financial results for the first quarter of 2009, we will place special focus on our level of commercial and consumer loans, comparing those year-over-year and on a linked quarter basis. We believe this will help evidence our active deployment of the CPP capital.



2. With respect to the implementation of executive compensation requirements associated with the CPP, we understand those requirements to be:

- Ensuring that the incentive compensation programs for our senior executive officers (SEOs) do not encourage unnecessary and excessive risks that could threaten the value of the Company (including an initial and annual review of such arrangements with the Company's senior risk officers);
- Implementing a "clawback" of any bonus or incentive compensation paid to our SEOs based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate;
- Not making any "golden parachute payment" (as defined in the Internal Revenue Code) to any of our SEOs; and
- Not deducting for tax purposes executive compensation in excess of \$500,000 in any one fiscal year for each of our SEOs.

First, pursuant to the CPP, our compensation committee (comprised solely of directors who qualify as "independent" under the rules of The Nasdaq Stock Market) has met twice to address our incentive compensation arrangements for SEOs. The first such meeting was held on December 15, 2008 (in anticipation of receipt of TARP funds on December 19, 2008). At the December 15, 2008 meeting the compensation committee reviewed a memorandum related to this requirement prepared by legal counsel (Exhibit 6), identified our SEOs and our incentive compensation arrangements, reviewed those incentive compensation arrangements and discussed how to meet the additional requirement to review our incentive compensation arrangements for SEOs with the Company's senior risk officers to determine if any such arrangements contain any features that would encourage our SEOs to take unnecessary and excessive risks that could threaten the value of the Company. A redacted copy of the minutes of the December 15, 2008 meeting (excluding material not pertinent to TARP) is attached as Exhibit 7.

The compensation committee met again on February 17, 2009 to conduct its initial review our incentive compensation arrangements for SEOs with the Company's senior risk officers: [REDACTED]

b(6)

 Although  title does not indicate senior authority, her responsibilities encompass management of the Company's investment portfolio and related risks. In advance of the meeting, legal counsel distributed resource materials to the senior risk officers to enable them to prepare for the discussion. These included a memorandum explaining the requirements under the CPP related to the review (Exhibit 8), a copy of the Compensation Discussion & Analysis from the Company's 2008 proxy statement (Exhibit 9) and a publication prepared by the committee's independent compensation consultant, Pearl Meyer & Partners regarding the review process (Exhibit 10). These materials were also distributed to committee members. The committee engaged in a review of the incentive compensation arrangements for SEOs with these senior risk officers, both with the Chief Executive Officer and Chief Financial Officer (who are SEOs) present and in executive session without them present. After that discussion, the compensation committee determined that our incentive compensation arrangements for SEOs do not contain features that encourage our SEOs to take unnecessary and excessive risks that could threaten the value of the Company. The committee also determined that the Company's internal controls operated to protect the Company from an SEO taking actions that would expose the Company to such risks. A redacted draft of the minutes of the February 17, 2009 meeting (which have not yet been approved) is attached as Exhibit 11. Under the CPP, the Company's Chief Executive Officer is required to certify to the Treasury on or before April 18, 2009 that this review has been conducted. I do not anticipate any problems complying with this requirement.

b(6)

The review of incentive compensation arrangements for SEOs is an annual requirement and the compensation committee has added this to its annual calendar to ensure that the review is conducted on an annual basis.

Second, with respect to the requirements for a "clawback" of any bonus or incentive compensation paid to our SEOs based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate and prohibition of "golden parachute" payments (as defined under the CPP), each of our SEOs executed a letter agreement dated December 15, 2008 agreeing to these provisions. Under the terms of the SEO letter agreements the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements with respect to each SEO was amended to the extent necessary to give effect to these provisions. Copies of the SEO letter agreements are attached as Exhibits 12A through 12E.

Third, our initial analysis indicates that only the Chief Executive Officer's compensation is likely to be subject to the limitation on deductibility for tax purposes. We have increased our effective tax rate for purposes of tax accruals in our 2009 financial statements.

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Under the CPP, the Company's Chief Executive Officer is required to certify to the Treasury on or before May 15, 2009 that the Company has complied with all of the Treasury compensation standards. I do not anticipate any problems complying with this requirement. Under the CPP, the Company is required to maintain for six years following a certification, records sufficient to substantiate the certifications. Our records retention policy currently requires retention of these documents for six years or longer.

Finally, we understand that the recently enacted American Recovery and Reinvestment Act of 2009 (ARRA), imposes certain new executive compensation and corporate expenditure limits on all current and future TARP recipients, including the Company, that are in addition to those previously announced by the Treasury, until the institution has repaid the Treasury. Many of those requirements are tied to standards to be promulgated by the Secretary of the Treasury. We are evaluating what actions the Company may be required to take in order to respond to these new requirements.

The undersigned, President and Chief Executive Officer of the Company, hereby certifies that the statements and representations contained herein and the supporting information provided herewith reflects information that is contained in the books and records of the Company, which books and records are normally relied upon by Company personnel for the conduct of the Company's business, and is true and correct to the best of my knowledge.

We trust this is responsive to your inquiry. If there is any further information we can provide, please do not hesitate to call.

Very truly yours,



Merrill W. Sherman

Enclosures



For Immediate Release

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**BANCORP RHODE ISLAND, INC. ANNOUNCES FOURTH QUARTER
AND FULL YEAR 2008 EARNINGS**

PROVIDENCE, R.I., January 29, 2009 – Bancorp Rhode Island, Inc. (NASDAQ: BARI), the parent company of Bank Rhode Island, today reported net income of \$9.1 million for the year ending December 31, 2008, up one percent from 2007 net income of \$9.0 million. Diluted earnings per share for the year ending 2008 were \$1.96, up 6.5 percent from \$1.84 for year ending 2007.

Net income was \$2.25 million for the quarter ended December 31, 2008, a 5.9 percent decline from \$2.40 million for the fourth quarter of 2007 and, on a linked quarter basis, a 3.1 percent decline from the \$2.32 million for the quarter ending September 30, 2008. Earnings per share for the fourth quarter 2008 were \$0.48, a 4.0 percent decline from the \$0.50 earned in the fourth quarter 2007 and the third quarter of 2008.

Net interest margin for the fourth quarter of 2008 was 3.29 percent, up 31 basis points from fourth quarter 2007 and down 5 basis points from 3.34 percent for the third quarter 2008. Net interest margin for the year 2008 was 3.21 percent, up 25 basis points from fiscal 2007.

Noninterest expense for fiscal 2008 was \$37.9 million, down slightly from \$38.0 million in 2007.

“Despite the unprecedented turmoil in the banking sector and the economic recession, BancorpRI was still able to achieve a modest increase in earnings in 2008,” stated President and CEO Merrill W. Sherman. “Judicious balance sheet management helped us attain an expanded margin. The margin increase, coupled with strong expense controls, enabled us to offset higher credit costs. Our strong commercial loan growth underscores we are open for business and also helped fuel our earnings.”

The bank’s commercial loan portfolio ended the fourth quarter 2008 at \$658.4 million, up 14.8 percent from \$573.7 million in the fourth quarter 2007 and up 2.9 percent from \$639.6 million in the prior quarter. Residential mortgage balances declined year over year as the bank continued its strategic conversion to a more commercially oriented balance sheet. Consumer loan balances were also down year over year, but increased from the prior quarter.

Total deposits were \$1.04 billion at year-end 2008, compared to \$1.01 billion at December 31, 2007, and \$1.02 billion at the prior quarter end.

In 2008, the company added \$4.5 million to its allowance for loan and lease losses. The provision exceeded net charge-offs by \$2.0 million. The increased provision served to strengthen the ratio of the allowance to 1.36 percent at December 31, 2008, from 1.22 percent at December 31, 2007. The fourth quarter's provision for loan and lease losses was \$1.75 million compared to \$1.52 million in the prior quarter and \$210 thousand a year ago. Nonperforming loans at December 31, 2008 totaled \$14.4 million, compared to \$11.7 million in the prior quarter and \$4.1 million a year ago. As a percentage of total loans, nonperforming loans ended the fourth quarter 2008 at 1.33 percent, compared to 1.11 percent in the third quarter 2008 and 0.4 percent at the end of the fourth quarter 2007.

"Our net charge offs and nonperforming asset ratio continue to compare favorably to our peer group. This reflects years of carefully building a culture of prudence and diligence in our risk management practices and approach to our business," said Sherman.

On December 19, 2008, the company announced its participation in the U.S. Treasury Department's Capital Purchase Program and, subsequently, issued \$30 million of preferred stock and related warrants to the U.S. Treasury. As a result of this action, BancorpRI has strengthened its already well-capitalized position. With an estimated Tier 1 capital ratio of 9.8 percent and an estimated total risk-weighted capital ratio in excess of 15 percent, the company is in the strongest capital position in its history and among the best capitalized financial institutions in the nation.

Sherman concluded, "I am proud of the way our company has been able to avoid major pitfalls and profitably navigate through an extraordinarily difficult environment. Our strongly capitalized balance sheet enhances our lending capabilities, allows us to support our community and positions BankRI to continue its leadership in stimulating Rhode Island's economic recovery."

The company's Board of Directors approved a dividend of \$0.17 per share. The dividend will be paid on March 11, 2009 to shareholders of record on February 18, 2009.

Bancorp Rhode Island, Inc. will host a conference call at 10:00 a.m. Eastern Daylight Time (EDT) on Thursday, January 29, to discuss its fourth quarter 2008 earnings. Access the conference call by dialing toll free (800) 762-8779, or via webcast at <http://www.bankri.com/investorrelations>. Please dial in at least 10 minutes prior to the start of the call to ensure a timely connection.

There will be a playback of the call available the same day beginning at approximately 1 p.m. EDT that can be accessed through 11:59 p.m. EDT on Saturday, January 31, 2009. The replay dial-in number is (800) 406-7325; when prompted, enter conference ID number 3959332. The webcast will be archived on the "Investor Relations" page of the Bank Rhode Island website at <http://www.bankri.com/investorrelations>.

Bancorp Rhode Island, Inc. is the parent company of Bank Rhode Island, a full-service, FDIC-insured, state-chartered financial institution. The Bank, headquartered in Providence, Rhode Island, operates 16 branches throughout Providence, Kent and Washington Counties.

This release may contain “forward-looking statements” within the meaning of section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the company’s present expectations or beliefs concerning future events. The company cautions that such statements are necessarily based on certain assumptions which are subject to risks and uncertainties, including, but not limited to, changes in general economic conditions and changing competition which could cause actual future results to differ materially from those indicated herein. Further information on these risk factors is included in the company’s filings with the Securities and Exchange Commission.

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BANCORP RHODE ISLAND, INC.
Selected Financial Highlights (unaudited)

<u>Balance Sheet Data:</u>	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2007</u>
	<i>(Dollars in thousands, except per share data)</i>	
Total Assets	\$ 1,528,974	\$ 1,477,119
Total Loans and Leases	1,077,742	1,038,132
Nonperforming Loans	14,369	4,149
Total Other Real Estate Owned	863	--
Allowance for Loan Losses	14,664	12,619
Allowance for Nonperforming Loans	102.05%	304.15%
Allowance to Total Loans	1.36%	1.22%
Total Deposits	1,042,192	1,014,780
Total Shareholders' Equity	149,605	113,108
Common Shareholders' Equity	119,597	113,108
Book Value Per Share of Common Stock	\$ 26.14	\$ 24.79
Tangible Book Value Per Share of Common Stock	\$ 23.52	\$ 22.21

<u>Quarter Ended</u> <u>December 31,</u>		<u>Year Ended</u> <u>December 31,</u>	
<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<i>(Dollars in millions)</i>			

Average Balance Sheet Data:

Average Total Assets	\$ 1,513	\$ 1,471	\$ 1,485	\$ 1,470
Average Total Loans	1,073	1,025	1,053	1,015
Average Total Interest-bearing Liabilities	1,176	1,161	1,175	1,154
Average Total Shareholders' Equity	124	116	116	115
Average Common Shareholders' Equity	116	116	114	115

<u>Quarter Ended</u> <u>December 31,</u>		<u>Twelve Months Ended</u> <u>December 31,</u>	
<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<i>(Dollars in thousands, except per share data)</i>			

Income Statement Data:

Interest and Dividend Income	\$ 19,648	\$ 21,703	\$ 80,298	\$ 86,070
Interest Expense	7,933	11,244	34,930	44,826
Net Interest Income	11,715	10,459	45,368	41,244
Provision of Loan and Lease Losses	1,750	210	4,520	700
Noninterest Income	2,881	2,703	10,609	10,785
Noninterest Expense	9,510	9,398	37,886	38,025
Income Before Income Taxes	3,336	3,554	13,571	13,304
Income Tax Expense	1,083	1,159	4,427	4,259
Net Income	\$ 2,253	\$ 2,395	\$ 9,144	\$ 9,045
Preferred Stock Dividends	(50)	--	(50)	--
Accretion of Preferred Shares Discount	(8)	--	(8)	--
Net Income Applicable to Common Shares	\$ 2,195	\$ 2,395	\$ 9,086	\$ 9,045

Data Per Common Share:

Earnings Per Common Share – Basic	\$	0.48	\$	0.51	\$	1.99	\$	1.89
Earnings Per Common Share – Diluted	\$	0.48	\$	0.50	\$	1.96	\$	1.84
Average Common Shares Outstanding – Basic		4,569,338		4,693,350		4,560,858		4,791,625
Average Common Shares Outstanding - Diluted		4,614,697		4,799,217		4,631,208		4,918,763

Selected Operating Ratios:

Net Interest Margin		3.29%		2.98%		3.21%		2.96%
Return on Assets		0.59%		0.65%		0.62%		0.62%
Return on Equity		7.72%		8.21%		8.01%		7.87%
Efficiency Ratio ⁽¹⁾		65.15%		71.40%		67.68%		73.08%

⁽¹⁾ Calculated by dividing total noninterest expenses by net interest income plus noninterest income.

BANCORP RHODE ISLAND, INC.
Consolidated Balance Sheets (unaudited)

	<i>December 31,</i> <i>2008</i>	<i>December 31,</i> <i>2007</i>
<i>(In thousands)</i>		
ASSETS:		
Cash and due from banks	\$ 54,344	\$ 20,465
Overnight investments	1,113	17,097
Total cash and cash equivalents	55,457	37,562
Investment securities available for sale (amortized cost of \$61,857 and \$77,193, respectively)	60,842	76,986
Mortgage-backed securities available for sale (amortized cost of \$263,910 and \$258,094, respectively)	265,564	258,195
Total available for sale securities	326,406	335,181
Stock in Federal Home Loan Bank of Boston	15,671	15,671
Loans and leases receivable:		
Commercial loans and leases	658,422	573,668
Residential mortgage loans	212,665	248,728
Consumer and other loans	206,655	215,736
Total loans and leases receivable	1,077,742	1,038,132
Allowance for loan and lease losses	(14,664)	(12,619)
Net loans and leases receivable	1,063,078	1,025,513
Premises and equipment, net	12,641	13,721
Goodwill	12,019	11,772
Accrued interest receivable	5,240	6,557
Investment in bank-owned life insurance	28,765	24,186
Prepaid expenses and other assets	9,697	6,956
Total assets	\$ 1,528,974	\$ 1,477,119
LIABILITIES:		
Deposits:		
Demand deposit accounts	\$ 176,495	\$ 172,634
NOW accounts	56,703	65,191
Money market accounts	4,445	6,054
Savings accounts	381,106	396,838
Certificate of deposit accounts	423,443	374,063
Total deposits	1,042,192	1,014,780
Overnight and short-term borrowings	57,676	66,795
Wholesale repurchase agreements	10,000	10,000
Federal Home Loan Bank of Boston borrowings	238,936	241,505
Subordinated deferrable interest debentures	13,403	13,403
Other liabilities	17,162	17,528
Total liabilities	1,379,369	1,364,011
SHAREHOLDERS' EQUITY:		
Preferred stock, par value \$0.01 per share, authorized 1,000,000 shares:		
Issued and outstanding: Issued: (30,000 and 0 shares, respectively)	--	--
Common stock, par value \$0.01 per share, authorized 11,000,000 shares:		
Issued: (4,926,920 shares and 4,867,121 shares, respectively)	49	49
Additional paid-in capital	101,918	70,123
Treasury stock, at cost (352,250 shares and 305,200 shares, respectively)	(12,055)	(10,189)
Retained earnings	59,278	53,194
Accumulated other comprehensive income (loss), net	415	(69)
Total shareholders' equity	149,605	113,108
Total liabilities and shareholders' equity	\$ 1,528,974	\$ 1,477,119

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

	<i>Three Months Ended</i>		<i>Twelve Months Ended</i>	
	<i>December 31,</i>		<i>December 31,</i>	
	<i>2008</i>	<i>2007</i>	<i>2008</i>	<i>2007</i>
	<i>(In thousands, except per share data)</i>			
Interest and dividend income:				
Commercial loans and leases	\$ 10,085	\$ 10,217	\$ 39,709	\$ 39,657
Residential mortgage loans	2,863	3,394	12,095	13,768
Consumer and other loans	2,585	3,364	11,198	13,613
Mortgage-backed securities	3,398	2,943	13,655	11,166
Investment securities	616	1,263	2,767	5,707
Federal Home Loan Bank of Boston stock dividends	3	256	610	1,056
Overnight investments	98	266	264	1,103
Total interest and dividend income	19,648	21,703	80,298	86,070
Interest expense:				
NOW accounts	24	91	162	391
Money market accounts	4	32	69	135
Savings accounts	1,354	2,934	7,042	11,028
Certificate of deposit accounts	3,401	4,307	14,306	17,676
Overnight and short-term borrowings	49	711	902	2,717
Wholesale repurchase agreements	136	136	540	602
Federal Home Loan Bank of Boston borrowings	2,726	2,770	10,960	10,768
Subordinated deferrable interest debentures	239	263	949	1,509
Total interest expense	7,933	11,244	34,930	44,826
Net interest income	11,715	10,459	45,368	41,244
Provision for loan and lease losses	1,750	210	4,520	700
Net interest income after provision for loan and lease losses	9,965	10,249	40,848	40,544
Noninterest income:				
Service charges on deposit accounts	1,359	1,488	5,711	5,578
Loan related fees	360	181	803	649
Gain on sale of available for sale securities	315	--	725	254
Income from bank-owned life insurance	297	263	1,080	1,038
Commissions on nondeposit investment products	116	138	745	575
Net gains on lease sales and commissions on loans originated for others	80	198	454	1,216
Impairment of available for sale securities	--	--	(219)	--
Other income	354	435	1,310	1,475
Total noninterest income	2,881	2,703	10,609	10,785
Noninterest expense:				
Salaries and employee benefits	4,885	4,996	20,091	20,859
Occupancy	902	843	3,530	3,527
Professional services	770	514	2,968	2,212
Data processing	692	721	2,816	2,850
Marketing	507	415	1,607	1,562
Equipment	241	341	1,048	1,345
Loan workout and other real estate owned	229	143	543	190
Loan servicing	140	161	643	767
Other expenses	1,144	1,264	4,640	4,713
Total noninterest expense	9,510	9,398	37,886	38,025
Income before income taxes	3,336	3,554	13,571	13,304
Income tax expense	1,083	1,159	4,427	4,259
Net income	\$ 2,253	\$ 2,395	\$ 9,144	\$ 9,045
Preferred stock dividends	(50)	--	(50)	--
Accretion of preferred shares discount	(8)	--	(8)	--
Net income applicable to common shares	\$ 2,195	\$ 2,395	\$ 9,086	\$ 9,045
Per share data:				
Basic earnings per common share	\$ 0.48	\$ 0.51	\$ 1.99	\$ 1.89
Diluted earnings per common share	\$ 0.48	\$ 0.50	\$ 1.96	\$ 1.84
Average common shares outstanding – basic	4,569,338	4,693,350	4,560,858	4,791,625
Average common shares outstanding – diluted	4,614,697	4,799,217	4,631,208	4,918,763



For Immediate Release

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Bancorp Rhode Island Elects to Participate in U.S. Treasury's Capital Purchase Program

Providence, R.I. – November 17, 2008 – Bancorp Rhode Island, Inc. (NASDAQ: BARI) today announced that it has elected to participate in the U.S. Treasury Department's Capital Purchase Program, a voluntary program available to healthy financial institutions that is designed to increase the flow of financing to businesses and consumers nationwide. While the extent of the Company's participation has yet to be determined, it is qualified to receive up to \$30 million in additional capital. The program's deadline for participation was Friday, November 14.

"After careful review, we believe this program as it stands today, would provide us with an opportunity to build on our third quarter momentum and further strengthen our lending capabilities for customers," said BancorpRI President & CEO Merrill W. Sherman.

Last month, the Company reported a year-over-year increase in both third-quarter and year-to-date earnings. As of September 30, the Company's total risk-weighted capital ratio was 12.7 percent, substantially in excess of the 10 percent required to be considered "well-capitalized" by regulatory authorities.

"BancorpRI has had a longstanding commitment to the community and the customers which it serves," added Sherman. "We believe that it is in the best interest of all of our constituents – shareholders, customers and community – to develop a 'super-capitalized' balance sheet, which will support increased lending capacity over the coming years."

About Bancorp Rhode Island

Bancorp Rhode Island, Inc. is the parent company of Bank Rhode Island, a full-service, FDIC-insured, state-chartered financial institution. The Bank, headquartered in Providence, Rhode Island, operates 16 branches throughout Providence, Kent and Washington Counties. As of September 30, 2008, Bancorp Rhode Island has more than \$1.5 billion in assets and \$1 billion in deposits.

Forward-Looking Statements

This release may contain "forward-looking statements" within the meaning of section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the company's present expectations or beliefs concerning future events. The Company cautions that such statements are necessarily based on certain assumptions which are subject to risks and uncertainties, including, but not limited to, changes in general economic conditions and changing competition which could cause actual future results to differ materially from those indicated herein. Further information on these risk factors is included in the Company's filings with the Securities and Exchange Commission.

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For Immediate Release

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Bancorp Rhode Island Receives \$30 Million as a Voluntary Participant in the U.S. Treasury's Capital Purchase Program

Providence, R.I. – December 19, 2008 – Bancorp Rhode Island, Inc. (“BancorpRI”) (NASDAQ: BARI), the parent company of Bank Rhode Island (“BankRI”), today announced that it has received \$30 million as a participant in the U.S. Treasury Department’s Capital Purchase Program. The Capital Purchase Program is a voluntary program available to healthy financial institutions such as BankRI, which is designed to increase the availability of credit to businesses and consumers.

In October, BancorpRI reported a year-over-year increase in both third quarter and year-to-date earnings and a 15 percent increase in commercial loan balances from the third quarter of 2007.

“This is good news for our customers and shareholders alike,” said BancorpRI President & CEO Merrill W. Sherman. “In addition to experiencing a profitable year, BankRI will now be super-capitalized, strengthening its position as a leader in business and consumer lending. Participation in this voluntary program increases our already strong capital position and will expand our capacity to lend to Rhode Island’s businesses and individuals, provide greater flexibility in considering strategic opportunities and enhance our ability to support economic activity in our market area.” She added, “We are committed to investing in the local economy and are optimistic that local business owners and banks, working together, will be a major factor in getting our economy moving again.”

In exchange for the Treasury Department’s \$30 million investment, BancorpRI issued 30,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, with a liquidation preference of \$1,000 per share. As part of the transaction, the Treasury Department also received 10-year warrants to purchase 192,967 shares of BancorpRI common stock at an initial exercise price of \$23.32 per share. The preferred stock and warrants will be accounted for as an addition to BancorpRI’s regulatory capital.

At September 30, 2008, all of BancorpRI’s capital ratios were above applicable regulatory benchmarks required to be considered a “well-capitalized” institution. The additional \$30 million of new capital, on a pro forma basis at September 30, 2008, would have increased BancorpRI’s Tier 1 Capital ratio from 7.94 percent to 9.94 percent (compared to the well-capitalized threshold of 6 percent) and its Total Risk-Based Capital ratio from 12.69 percent to 15.58 percent (compared to the well-capitalized threshold of 10 percent).

The preferred stock will pay a cumulative dividend of 5 percent per year for the first five years and 9 percent per year thereafter. BancorpRI cannot redeem the preferred stock during the first three years except with the proceeds from a “qualified equity offering.” Thereafter, BancorpRI may elect to redeem the preferred stock at the original purchase price plus accrued but unpaid dividends, if any, subject to the approval of its federal regulator. Dividend payment dates will be February 15, May 15, August 15 and November 15.

BancorpRI Treasury Program Participant
Page Two

About Bancorp Rhode Island

Bancorp Rhode Island, Inc. is the parent company of Bank Rhode Island, a full-service, FDIC-insured, state-chartered financial institution. The Bank, headquartered in Providence, Rhode Island, operates 16 branches throughout Providence, Kent and Washington Counties. As of September 30, 2008, Bancorp Rhode Island has more than \$1.5 billion in assets and \$1 billion in deposits.

Forward-Looking Statements

This release may contain "forward-looking statements" within the meaning of section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements represent the company's present expectations or beliefs concerning future events. The Company cautions that such statements are necessarily based on certain assumptions which are subject to risks and uncertainties, including, but not limited to, changes in general economic conditions and changing competition which could cause actual future results to differ materially from those indicated herein. Further information on these risk factors is included in the Company's filings with the Securities and Exchange Commission.

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For Immediate Release

Contact: Stephen Hourahan
Corporate Communications
(401) 574-1541

**BANK RHODE ISLAND MAKES \$30 MILLION
AVAILABLE FOR THE LOCAL MARKET**

ANNOUNCES UNPRECEDENTED HOME EQUITY LOAN PROGRAM

Providence, R.I. – January 26, 2009 – Fulfilling an intent of the U.S. Treasury Department's Capital Purchase Program, Bank Rhode Island has announced an aggressively priced \$30 million Home Equity Loan Program, offering consumers the opportunity to take advantage of historically low interest rates. The program, the largest in the bank's history, is targeted at local homeowners and will offer a 5.49 annual percentage rate, no closing costs, no points and up to a 30 year fixed rate.

On December 19, Bancorp Rhode Island, Inc., the parent company of Bank Rhode Island, announced its participation in the U.S. Treasury's Capital Purchase Program and, subsequently, issued \$30 million of preferred stock and related warrants to the U.S. Treasury. The purpose of this program is to help healthy financial institutions increase the flow of credit to businesses and consumers nationwide.

"We are pleased to participate in the Capital Purchase Program and make those dollars available directly to credit worthy borrowers in our local communities," said BankRI President and CEO Merrill W. Sherman. "As I have said many times over the past year, Bank Rhode Island is open for business. This timely program reinforces our goal to be part of the solution through support of local homeowners and our commitment to help stabilize local financial markets. We have the ability to lever the Treasury's investment many times over and look forward to continuing to announce lending programs meaningful to our community," Sherman added.

About Bancorp Rhode Island

Bancorp Rhode Island, Inc. is the parent company of Bank Rhode Island, a full-service, FDIC-insured, state-chartered financial institution. The Bank, headquartered in Providence, Rhode Island, operates 16 branches throughout Providence, Kent and Washington Counties.

-more-

BankRI Home Equity Loan Program

Page Two

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BANKRI.

AN OPEN LETTER TO THE RHODE ISLAND BUSINESS COMMUNITY



I am sure you have many concerns about credit and the banking industry, both on Wall Street and right here in Rhode Island. Many of you have found yourselves shut off from the financing that is vital to running your businesses. Making payroll, paying utilities, purchasing raw materials or taking advantage of opportunities that will help your bottom line suddenly has become a struggle or remains a struggle for many who tell me their stories.

But the good news is that it doesn't have to be that way. As I have said many times recently, BankRI is open for business, YOUR business, with money to lend to creditworthy customers.

Bank Rhode Island was among a minority of banks across the country that reported an increase in profits in 2008. Increased Profits. That profit was a result of our offering a different banking experience, a true relationship, beyond just transactions. In fact, most of our customers meet everyone involved with credit decisions at some point in the process. We have taken the time to become educated about your needs and are committed to your success.

We have built our success through prudent lending, not engaging in risky or exotic practices. We do not roll the dice with our customers' or shareholders' money. Nor will we ever. Professional and accessible, we are a commercial bank with a high-touch retail presence. As a bank dedicated solely to the local market, our people are nimble and responsive to customer needs.

Stop by one of our 16 branches, visit our website at bankri.com or call our offices. We want to fulfill your needs and help you achieve your goals. Let us give you the confidence that comes from knowing that you can rely on us for all your financial needs.

Sincerely,

A handwritten signature in black ink that reads "Merrill W. Sherman". The signature is written in a cursive, flowing style.

Merrill W. Sherman
President & CEO

Getting Rhode Island back to business.

Many businesses have found themselves shut off from the financing vital to their businesses. Purchasing raw materials, paying utilities, taking advantage of profitable opportunities has suddenly become a struggle.

It doesn't have to be this way. BankRI is open for business, YOUR business. We have money to lend to creditworthy customers like those shown here. Call our Chief Lending Officer, Mark Meiklejohn, at 401.456.5000. We want to fulfill your needs and help you achieve your goals.

BANKRI.

APPROVED

\$10 million loan to purchase new and equipment for a leading manufacturer of plastic packaging in the Providence area.

APPROVED

\$5.2 million loan for a major new expansion capital for a high-tech outfit in the West Bay.

APPROVED

\$3 million loan for working capital and infrastructure upgrade for a Providence area not-for-profit community service organization.

APPROVED

\$1.1 million loan for equipment and working capital for West Bay medical practice.

APPROVED

\$3 million loan to finance existing debt and expansion capital for a statewide caterer/restaurant group.

APPROVED

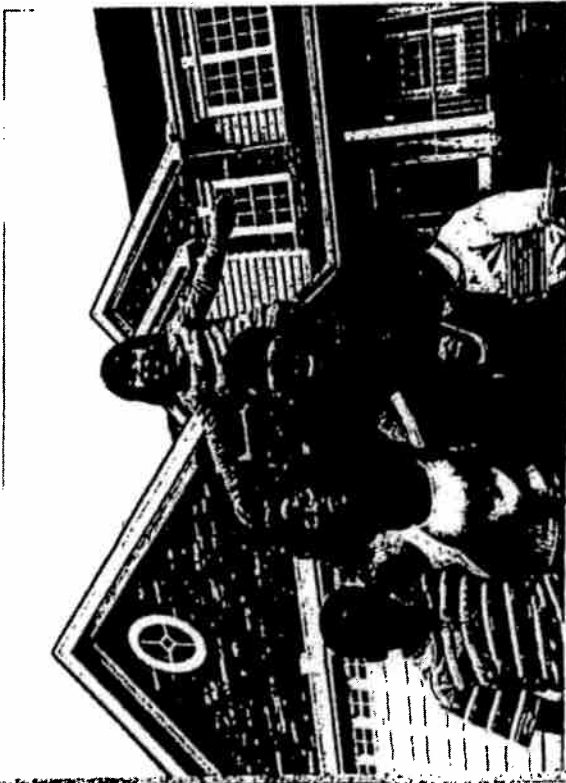
\$32,000,000

For the Rhode Island Economy

Our Home Equity/Refi Program Has Been A Resounding Success

In the last 3 weeks, over 300 Rhode Island households were approved to lower their mortgage payment or ease their budgets, helping to get Rhode Island moving again. Were you one of them?

BANKRI. A Good Time To Switch



MEMBER FDIC EQUAL HOUSING LENDER

Time to borrow? Time to switch.

BANKRI.



Your bank won't even lend an ear?

Time to switch.

BANKRI.

BANKRI.COM

1.866.4.BANKRI

**Time to
borrow?**

**Time to
switch.**

BANKRI®

bankri.com 1.866.4.BANKRI

MEMBER FDIC

EQUAL HOUSING LENDER 

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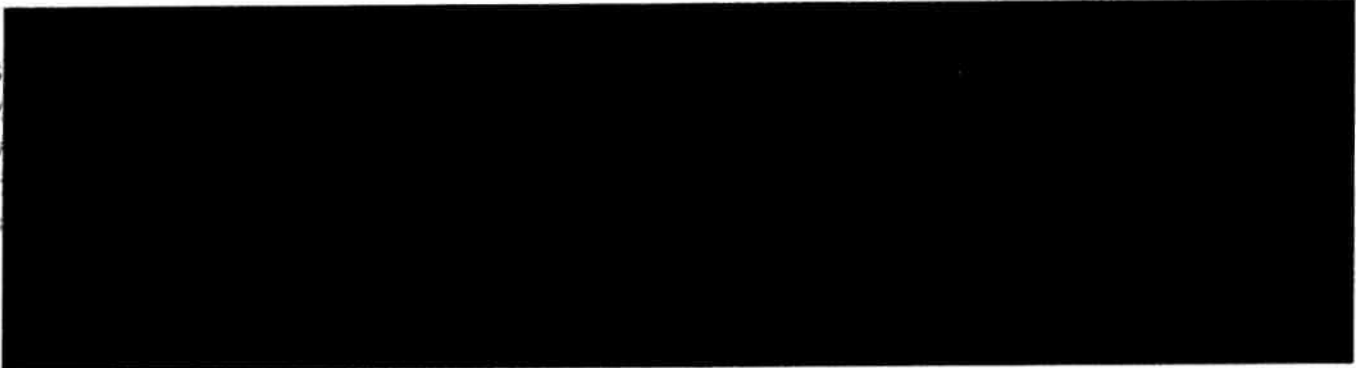
BANCORP RHODE ISLAND, INC.

COMPENSATION COMMITTEE

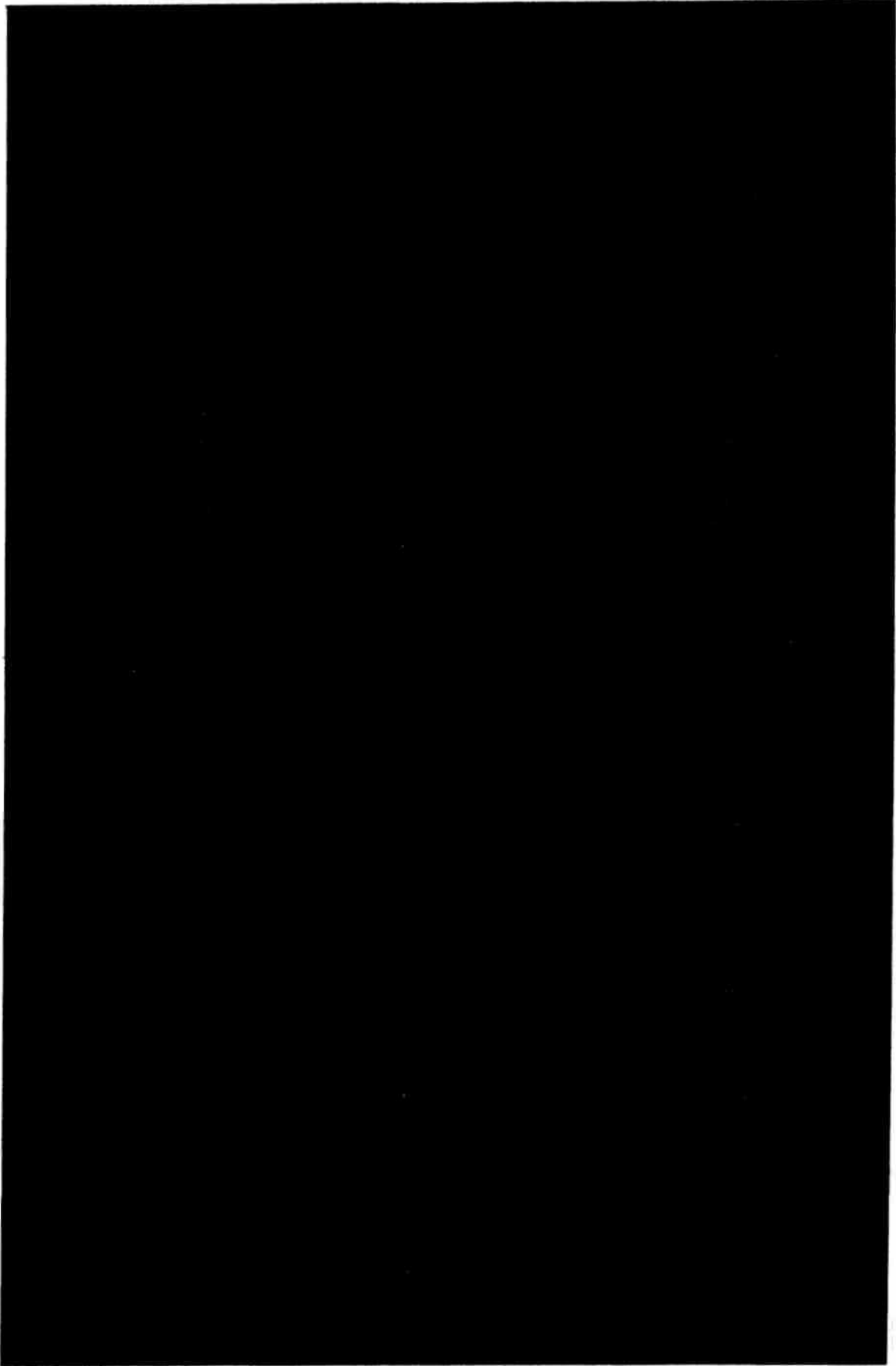
December 15, 2008

A meeting of the Compensation Committee of the Board of Directors of Bancorp Rhode Island, Inc. (the "Company") was held on Monday, December 15, 2008, beginning at 4:20 p.m., at the offices of Bank Rhode Island (the "Bank"), One Turks Head Place, Providence, Rhode Island, pursuant to notice of the meeting duly given to all of the directors on the Committee.

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COMPENSATION DISCUSSION AND ANALYSIS

The Compensation Committee of the Boards of Directors of Bancorp and the Bank (collectively for purposes of this analysis, the "Compensation Committee") is charged with the responsibility for establishing, implementing and monitoring adherence to the Company's compensation philosophy and assuring that executives and key management personnel are effectively compensated in a manner which is internally equitable and externally competitive. The Compensation Committee also reviews and recommends to the Board the compensation of directors.

The Company has five executive officers: Merrill W. Sherman, our CEO, Linda H. Simmons, our Chief Financial Officer ("CFO"), James V. DeRentis, the Chief Business Officer of the Bank, Mark J. Meiklejohn, Chief Lending Officer of the Bank, and William C. DeWitt, Director of Marketing and Corporate Communications of the Bank. In addition, until September 2007, Jeffrey W. Angus served as Chief Operating Officer of the Bank. Ms. Sherman and Simmons and Messrs. DeRentis and Meiklejohn are also officers of Bancorp ("Bancorp Executives").

Compensation Philosophy and Objectives

The Company's executive compensation philosophy seeks to link executive compensation with the objectives, business strategy, management initiatives and financial performance of the Company. We believe that the compensation of our executives should reflect their success as a management team, rather than individuals, in attaining key operating and strategic objectives, such as growth of earnings and growth of our franchise. We also believe that executive compensation should not be based on the short-term performance of our common stock, whether favorable or unfavorable, but rather that the price of our common stock will, in the long-term, reflect both our operating performance and our franchise value. We seek to have the long-term performance of our common stock reflected in executive compensation through our equity incentive programs.

The overall objectives of our compensation programs are:

- to attract and retain highly qualified individuals in key executive positions;
- to motivate executives to achieve goals inherent in the Company's business strategies to position the Company for continued growth;
- to foster a performance-based, team oriented culture; and
- to link executives' and Shareholders' interests.

We also seek to achieve a balance of the compensation paid to a particular individual and the compensation paid to other executives both inside the Company and at comparable corporations and to remain competitive with larger financial institutions in our marketplace with which the Company competes for executive talent.

Elements of Compensation

Our total compensation program for executive officers consists of the following:

- base salary;
- annual cash incentive awards tied to the Company's annual performance (and for more junior executives, their individual performance);
- long-term equity incentive compensation, principally in the form of stock options;
- retirement and other benefits; and

- severance benefits.

We choose to pay each element of compensation in order to attract and retain the necessary executive talent, reward annual performance and provide incentive for a balanced focus on long-term strategic goals as well as short-term performance. Our policy for allocating between currently paid and long-term compensation is to ensure adequate base compensation to attract and retain personnel, while providing incentives to maximize long-term value for our Shareholders.

Setting Executive Compensation

The Compensation Committee makes all compensation decisions for Bancorp Executives, reviews compensation decisions for other executives and approves recommendations regarding all equity awards. The CEO annually reviews the performance of the executive officers (other than the CEO whose performance is reviewed by the Compensation Committee, with input from the full Board of Directors). The conclusions reached and recommendations based on these reviews, including with respect to salary adjustments and annual award amounts, are presented to the Compensation Committee. The Compensation Committee can exercise its discretion in modifying any recommended adjustments or awards to executives. Ms. Sherman does not participate during deliberations regarding her compensation. When appropriate, the Compensation Committee also meets in executive session without the presence of management or consultants.

The Vice President of Human Resources supports the Compensation Committee in its work. From time to time, the Human Resource Department utilizes outside consultants to review and advise management with respect to the competitiveness of its compensation and benefits. In addition, the Compensation Committee has the authority under its charter to engage the services of outside advisers, experts and others to assist the Compensation Committee. In accordance with this authority, the Compensation Committee engages Pearl Meyer & Partners ("Pearl Meyer"), a division of Clark Consulting, as independent outside compensation consultants to advise the Compensation Committee on matters related to director and executive compensation. Pearl Meyer does not advise management of the Company and receives no other compensation from the Company.

In 2007, the Compensation Committee engaged Pearl Meyer to prepare an executive compensation study. The 2007 study provided comparative information on various components of compensation and total compensation against a peer group of twenty-three publicly traded financial institutions (17 banks and 6 thrifts) with assets ranging from \$1.0 billion to \$2.7 billion (with an average of \$1.7 billion in assets) located on the East Coast, primarily in the Northeast, as well as industry survey sources. The companies that comprised our peer group in 2007 were selected based upon asset size, geographic location and functional structure and included:

Alliance Financial Corporation	Independent Bank Corp.
Berkshire Hills Bancorp, Inc.	Lakeland Bancorp, Inc.
Brookline Bancorp, Inc.	Merchants Bancshares, Inc.
Camden National Corporation	OceanFirst Financial Corp.
Canandaigua National Corporation	Peapack-Gladstone Financial Corporation
Center Bancorp, Inc.	Pennsylvania Commerce Bancorp, Inc.
Century Bancorp, Inc.	Rockville Financial, Inc.
Citizens & Northern Corporation	Smithtown Bancorp, Inc.
ESB Financial Corporation	Suffolk Bancorp
Financial Institutions, Inc.	Washington Trust Bancorp, Inc.
First Mariner Bancorp	Willow Financial Bancorp, Inc.
First National Community Bancorp, Inc.	

Only 40% of the companies in the 2007 compensation study were the same as those included in a similar 2004 study conducted by the Compensation Committee's outside consultant, due primarily to consolidation in the banking industry. Where appropriate, Pearl Meyer developed blended market matches to reflect the executive's experience

and responsibilities at the Company. This compensation review confirmed that our compensation program elements individually and in the aggregate support and reflect our compensation philosophy and strategic objectives, both on a cash and long-term incentive basis.

Executive Employment Agreements

The Company entered into employment agreements with each of the Bancorp Executives (other than Mr. Meiklejohn) in connection with their initial employment. These agreements, which have been amended and restated from time to time, most recently in February 2007, are designed to promote stability and continuity of senior management who are critical to the Company's continued success. Ms. Sherman's employment agreement was further amended in March 2008 to comply with the requirements of Section 409A of the Internal Revenue Code, which impose a six-month delay on certain severance payments that are otherwise due under the agreement.

The agreements provide that during the term of the contract, the executive's base salary will not be reduced and he or she will remain eligible for participation in the Company's executive compensation and benefit programs. Ms. Sherman's agreement provides for a rolling three-year term while the agreements with each of Ms. Simmons and Mr. DeRentis provide for a rolling two-year term. Each agreement automatically renews for successive three or two-year terms on each successive one year anniversary unless either the Company or the executive has given the other written notice of election not to renew at least 90 days prior to any anniversary date.

Base Salary. Base salaries for executive officers historically have been substantially dependent upon the base salaries paid for comparable positions at similar corporations, the responsibilities of the position held and the experience level of the particular executive officer. The Compensation Committee sets the base salary for executives by reviewing compensation for competitive positions in the market and the historical compensation levels of the executives. The Compensation Committee generally seeks to place executive salaries at the median of the Company's peer group although more experienced executives may be above the market median. Furthermore, we compete with many larger institutions for top executive-level talent, which may cause base salaries to exceed the targeted level, particularly for more experienced executives. This has been particularly true in recent years as we have recruited from the Boston market and looked to hire executives who can effectively manage a larger and more complex financial institution. Despite these competitive pressures, the 2007 compensation study indicated that base salaries for our executives, taking into account their respective responsibilities and experience, were generally within the targeted range.

Salaries are reviewed on an annual basis in April, as well as at the time of a promotion or other change in responsibilities. In its annual review the Compensation Committee considers general market adjustments as well as the performance of the individual during the prior year and any change in his or her responsibilities. Annual increases normally take effect on May 1st of each year. The salaries of Messrs. Meiklejohn and DeWitt were established at their time of employment in 2006. In April 2007, base salaries for Mses. Sherman and Simmons and Messrs. DeRentis, Meiklejohn, DeWitt and Angus were increased by 2%, which was consistent with increases for other officers and below the overall 3% compensation adjustments to other employees of the Company generally. At that time, base salaries of Ms. Simmons, Mr. DeRentis and Mr. Angus were set at the same level (\$231,250), reflecting our expectation of uniform high performance from these executives and to encourage a team approach. However, in October 2007, the Compensation Committee increased Ms. Simmons base salary to \$270,000, effective as of October 1, 2007, in connection with her assumption of significant additional responsibilities following the departure of Mr. Angus. In November 2007, Mr. Meiklejohn's base salary was increased from \$168,000 to \$180,000 in connection with his promotion from Director of Corporate Banking to Chief Lending Officer. These increases were consistent with the benchmarks provided to the Compensation Committee in the 2007 compensation study.

Cash Incentive Awards. In keeping with our philosophy to pay for performance, annual cash incentives tied to performance measures represent a substantial portion of an executive's total compensation opportunity. Under the Senior Executive Cash Incentive Plan, Bancorp Executives are eligible to receive cash incentive awards of up to 50% (60% in the case of the CEO) of their base salaries. The Compensation Committee generally seeks to provide awards for superior performance that bring total cash compensation to the 75th percentile of the survey group. The 2007 executive compensation study commissioned by the Compensation Committee indicated that the Company's target incentives (as a percentage of base salary) are slightly above the market median (reflecting our philosophy of

targeting incentives to achieve a targeted total cash compensation level at the 75th percentile) and total cash compensation for the Company's senior executives (assuming achievement of maximum incentive awards) falls within that targeted level.

Cash incentive awards for Bancorp Executives are determined at the discretion of the Compensation Committee, which establishes specific short-term financial goals for the senior executive management team in February each year. Stock price performance has not been a factor in determining annual incentive compensation because the price of our common stock is subject to a variety of factors outside our control. Historically, the Compensation Committee has established a single financial goal for the executive officers tied to budgeted net income. The Compensation Committee believes that net income is the most important short-term financial measurement for the organization and ultimately drives Shareholder value over time. The Compensation Committee also believes that the Company's budget, which reflects general economic and specific Company, industry and competitive conditions as well as strategic initiatives, provides the best measure of management's performance. We set a single goal for incentive awards to align our executives and promote teamwork. For similar reasons, the award opportunities for Bancorp Executives (other than the CEO) are set at the same level. In 2007, the cash incentive awards were payable at the specified percentage of the executive officer's base salary upon achieving the following level of budgeted net income:

Officer	Threshold 90% of Net Income	Target 100% of Net Income	Maximum 104% of Net Income
CEO	30%	54%	60%
Other Bancorp Executives	25%	45%	50%

The Company achieved net income for 2007 of \$9.0 million, which was slightly above the budgeted net income target of \$8.9 million. Accordingly, the Compensation Committee awarded the Ms. Sherman, Mr. DeRentis and Ms. Simmons the incentive awards set forth under "Non-Equity Incentive Plan Compensation" in the Summary Compensation Table, which represented approximately 103% of their target award and 93% of their maximum incentive award opportunity.

Mr. Meiklejohn did not participate in the Senior Executive Cash Incentive Plan during 2007 since his promotion to Chief Lending Officer occurred in mid-November. Upon his initial employment with the Bank, Mr. Meiklejohn's 2006 bonus was set at \$60,000. His bonus for 2007, which was awarded under a bonus plan for the Bank's commercial lending group, was based on his performance during that year and is set forth under "Bonus" in the Summary Compensation Table. Mr. Meiklejohn will participate in the 2008 Senior Executive Cash Incentive Plan.

Mr. DeWitt is not an officer of Bancorp and is not eligible to participate in the Senior Executive Cash Incentive Plan. In 2007, based upon Mr. DeWitt's position, he was eligible to receive a bonus of 25% of his base salary. Upon the recommendation of the Chief Business Officer, he received 100% of his bonus opportunity equal to \$40,000. An additional \$10,000 was awarded to Mr. DeWitt based upon his increased efforts and responsibilities related to investor relations. The total amount of Mr. DeWitt's bonus for 2007 is set forth under "Bonus" in the Summary Compensation Table.

In February 2008, the Compensation Committee modified the 2008 Senior Incentive Compensation Plan for 2008 to provide for an increased maximum award of up to 70% of base salary for the CEO and 55% of base salary for other Bancorp Executives upon achieving 110% of budgeted income. This change was approved following a recommendation by the Compensation Committee's independent consultant to increase the upside award potential for superior performance. The Compensation Committee also continues to evaluate the merits of establishing individual goals for executives based upon their area of accountability balanced against the costs of administering a more complex plan and the desire to encourage teamwork among our senior executives.

Long-Term Incentive Compensation. Total compensation at the senior executive level also includes long-term incentive awards granted under the 2002 Equity Incentive Plan. The objectives of the equity incentive program are to align executive and Shareholder long-term interests by creating a strong and direct link between executive pay and total Shareholder return, and to enable executives to develop and maintain a significant, long-term stock ownership position in our common stock. Prior to 2007, except for a restricted stock award made to Ms. Sherman in

2001, all equity awards were in the form of stock options. In 2007, consistent with the recommendation of the independent compensation consultant, one-third of the long-term equity awards to Mses. Sherman and Simmons and Messrs. Angus and DeRentis were made in the form of restricted stock. The Compensation Committee continues to grant only options to other officers due to the potentially adverse tax consequences to the individuals associated with the vesting of restricted stock awards. As of December 31, 2007, the number of shares authorized for issuance under the Company's stock plans was 617,663, representing 13.5% of our issued and outstanding common stock.

Equity Awards. Annual equity awards reflect the executive's position with the Company and his or her contribution to the Company. Prior to 2007, option awards were made at a level such that the aggregate exercise price of the options equaled 85% to 115% of the executive's annual base salary. In 2007, based upon recommendations from its independent compensation consultant, the Compensation Committee adopted a new methodology which utilizes the value of an award (whether restricted stock, stock option or other equity based performance award) as determined for financial reporting purposes under Financial Accounting Standards Board Statement No. 123R, *Share Based Payment* (SFAS 123R). These awards, which are valued at between 25% and 35% of the executive's base salary (depending upon the executive's level of responsibility) are listed in the "Grants of Plan Based Awards" Table. The 2007 compensation study commissioned by the Compensation Committee indicated that our equity awards to executives are consistent with market practice.

The Compensation Committee generally grants equity awards in April of each year, but may also grant awards (usually options) in connection with an individual's initial employment with the Company or a subsequent promotion. All options are granted at the market closing price on the grant date. The Compensation Committee does not time the grant of options or other equity awards in anticipation of the release of material non-public information, but typically makes its annual grants in early April, in advance of the release of our first quarter earnings (which coincides with base salary adjustments).

Options generally have three to five year vesting schedules to encourage key employees to continue in the employ of the Company. Options granted to the executive officers in 2007, which are listed in the "Grants of Plan Based Awards" Table, vest in equal installments over five years commencing on the first anniversary of the grant date. Restricted stock awards granted to our executives in 2007, which are also listed in the "Grants of Plan Based Awards" Table, vest in equal installments over three years commencing on the first anniversary of the grant date. The vesting of both options and restricted stock will accelerate upon a change in control (as defined in the relevant agreements).

Share Retention Guidelines. The Compensation Committee believes that senior management should have a meaningful equity interest in the Company. In order to promote equity ownership and further align the interests of management with our Shareholders, the Board of Directors has adopted share retention and ownership guidelines for our executive officers. These guidelines are based upon the market value of our common stock as a multiple of such officer's base pay. The multiple is three times base salary for the CEO and one times base salary for the other executive officers. Ms. Sherman was a founder of the Bank and her stock ownership currently substantially exceeds the guideline. Under these guidelines, a new CEO must achieve the ownership level within five years of appointment to the chief executive position. The other executive officers are expected to retain at least 50% of the shares acquired upon exercise of any stock option until they achieve the specified ownership level and thereafter maintain such ownership level. In establishing these guidelines, the Board of Directors determined that a stock retention requirement, rather than a mandated ownership requirement, would appropriately align the interests of the executives (other than the CEO) and the Shareholders. In making this determination, the Board considered the compensation levels of our executive officers and the impact a mandated ownership requirement might have on our recruiting and retention of executives.

Retirement and Other Benefits

In order to attract and retain key executives, we offer retirement benefits through a tax-qualified 401(k) Plan to all employees and a nonqualified deferred compensation plan and supplemental executive retirement plans for certain highly compensated employees, including our executives.

401(k) Retirement Plan. Company employees who are at least 21 years of age are eligible to participate in the 401(k) Plan. Under the 401(k) Plan, we will make matching contributions of up to 4% of an employee's

compensation, subject to qualified plan limitations. These contributions vest monthly. The retirement benefits under the 401(k) Plan for our executive officers are the same as those available for other eligible employees. Similarly situated employees, including our executive officers, may have materially different account balances because of a combination of factors: the number of years that the person has participated in the plan, the amount of money contributed at the election of the participant from year to year, and the investments chosen by the participant. In 2007, we made matching contributions for our executives in the amounts reflected in the footnotes to the "All Other Compensation" column of the Summary Compensation Table.

Nonqualified Deferred Compensation Plan. The executives (as well as certain other highly compensated employees) are eligible to participate in a nonqualified deferred compensation plan, which permits participants to contribute amounts they are precluded from contributing to the 401(k) Plan because of the qualified plan limitations as well as additional compensation deferrals which may be advantageous for personal income tax or other planning reasons. Under the deferred compensation plan, participants receive an amount of employer matching contributions that they have lost under our 401(k) Plan as a result of the nondiscrimination rules applicable to qualified plans. The nonqualified deferred compensation plan is discussed in further detail under the heading "Nonqualified Deferred Compensation Plans" on 28.

Supplemental Executive Retirement Plan. In order to provide a competitive compensation package, we have adopted two Supplemental Executive Retirement Plans (each, a "SERP"): the 2000 SERP and the 2002 SERP. Currently, Bancorp Executives (as well as two former executives) are participants in the 2000 SERP and other key employees are participants under the 2002 SERP. Under the 2000 SERP, Ms. Sherman, Mr. DeRentis and Ms. Simmons are entitled to an annual supplemental retirement benefit equal to 70% of the average base salary paid during the three consecutive years in which such compensation was the greatest, reduced by the portion of their 401(k) Plan account attributable to employer contributions and any social security offset. Mr. Meiklejohn is entitled to an annual retirement benefit of \$25,000. Mr. DeWitt is not a participant in either SERP. The SERP benefits vest over a five to ten year period, keyed to the executive's initial participation in the SERP. The specific terms of the SERPs (including vesting schedules) are discussed in further detail under the heading "Pension Benefits" on 27.

Because the SERP benefit is either fixed or is based upon an executive's base salary, increases in incentive compensation and gains from prior option or stock awards have no impact on the retirement benefit. In addition, in the event of a change in control (as defined under the section entitled "Potential Payments Upon Termination or Change-in-Control" below), all SERP participants become fully vested in their fixed benefit and, Mses. Sherman and Simmons and Mr. DeRentis become fully vested in an increased benefit, which is generally intended to approximate the 70% formula amount assuming continued employment of the executive until age 65. The SERP vesting provisions encourage key employees to continue in the employ of the Company. In establishing the SERPs, the Compensation Committee took into account that, unlike many of our competitors, we do not maintain a typical qualified defined benefit or cash balance plan.

Perquisites. Other than the plans described above and the severance benefits described below, our executives are entitled to few benefits that are not otherwise available to all of our employees. In 2007, we provided Ms. Sherman with the personal benefits described in footnote (g) to the Summary Compensation Table. Personal benefits for other executives had an aggregate value to each of less than \$10,000.

Severance Benefits

We believe that companies should provide reasonable severance benefits to employees. With respect to executive management, these severance benefits should reflect the fact that it may be difficult for the employee to find comparable employment within a short period of time. Therefore, the employment agreements with Ms. Sherman, Mr. DeRentis and Ms. Simmons provide for severance benefits in the event of the executive's involuntary termination of employment without cause or termination of employment by the executive for "Good Reason" (as defined under the section entitled "Potential Payments Upon Termination or Change-in-Control" below) and provide increased benefits in the case of termination in connection with a Change in Control (as defined in the agreements). In the event of a qualified termination, we also continue health and other insurance benefits for between one and three years, corresponding to termination benefits and, in the event of a Change in Control, immediately vest all benefits under the SERP and all equity compensation of the executive. In addition, terminated

executives would be entitled to receive any benefits that they otherwise would have been entitled to receive under our 401(k) Plan.

The Company has also entered into Change in Control Severance Agreements with Messrs. Meiklejohn and Dewitt and certain other key employees. We have found such change in control benefits are necessary to recruit and retain talented management, due in large part to the continuing consolidation of the banking industry. Further, it is our belief that the interests of the Shareholders will be best served if the interests of our senior management are aligned with them, and providing change in control benefits should encourage senior management to consider the prospect of a change in control in an objective manner and reduce their possible reluctance to pursue potential change in control transactions that may be in the best interests of the Shareholders.

Because of the so-called "parachute" tax imposed by Internal Revenue Code Section 280G, we have agreed to reimburse Ms. Sherman, Mr. DeRentis and Ms. Simmons for any taxes imposed as a result of change in control benefits. For other officers entitled to a change in control benefit, we cap their change in control benefits so that no taxes will be imposed. Based upon the advice of the Compensation Committee's independent compensation consultant, we believe that providing such "tax gross-up" payments is consistent with benefits offered by our peer group.

All of the change in control benefits are "double trigger" and require termination of employment in connection with the Change in Control. Accordingly, no change in control benefits are paid to an executive unless his or her employment is terminated without cause or the executive resigns for "Good Reason" (or any reason in the case of Ms. Sherman) within one year of the Change in Control. Ms. Sherman's agreement allows her to trigger the change in control severance benefit by terminating her employment at any time within one year following the Change in Control. The Compensation Committee believes that providing Ms. Sherman this benefit will facilitate a smooth transition in the event of the sale of the Company.

Relative to the overall value of the Company, these potential change in control benefits (including the 280G tax "gross-up") are relatively minor. The Compensation Committee regularly reviews the aggregate amount of all our change in control obligations and, based upon advice provided by both its independent compensation consultant and the Company's investment banker, has determined that the potential change in control benefits under our existing plans and agreements fall within an appropriate range of deal value.

Tax Deductibility of Compensation.

Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation over \$1 million paid to a company's chief executive officer and the four other most highly compensated executive officers at year end. There is an exception to the \$1 million limitation for performance-based compensation meeting certain requirements. The Compensation Committee's policy is to preserve corporate tax deductions by qualifying compensation paid over \$1 million to the executive officers as performance-based compensation. Nevertheless, maintaining tax deductibility is but one consideration among many (and is not the most important consideration) in the design of the compensation program for senior executives. The Compensation Committee may, from time to time, conclude that compensation arrangements are in the best interest of the Company and the Shareholders despite the fact that such arrangements might not, in whole or in part, qualify for tax deductibility. For example, restricted stock awards granted in 2007 will not qualify as performance-based compensation since such awards vest with the passage of time. However, based upon our executives' compensation levels, the Compensation Committee determined that it was likely that the compensation expense arising with respect to such awards would be fully deductible.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis included above. Based on these reviews and discussions, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis set forth above be included in the Company's Proxy Statement for the fiscal year ended December 31, 2007 for filing with the SEC.

Compensation Committee

JOHN R. BERGER—*Chairman*

ANTHONY F.
ANDRADE

MALCOLM G.
CHACE

MICHAEL E.
MCMAHON

PABLO RODRIGUEZ,
M.D.

EXECUTIVE COMPENSATION

The following table provides information regarding the total compensation paid or accrued by the Company to each of its Chief Executive Officer, Chief Financial Officer and the Company's other executive officers other than the CEO and CFO (collectively, the "Named Executive Officers"). The table below also provides compensation information paid or accrued by the Company to Jeffrey W. Angus who served as Chief Operating Officer of the Company through September 2007.

Because the Company's Senior Executive Cash Incentive Plan is based on achieving specified performance goals, awards to Mses. Sherman and Simmons and Mr. DeRentis under the plan are not considered "Bonuses" for purposes of SEC rules and are listed below as "Non-Equity Incentive Plan Compensation." Messrs. Meiklejohn and DeWitt were not eligible to participate in the 2007 Senior Executive Cash Incentive Plan and received discretionary bonuses under other Bank incentive programs. Amounts listed under "Bonus" and "Non-Equity Incentive Plan Compensation" for 2007 were determined by the Compensation Committee at its February 2008 meeting, and, to the extent not deferred by the executive, were paid out shortly thereafter.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(a)	Option Awards (\$)(b)	Non-Equity Incentive Plan Compensation (\$)(c)	Change in Pension Value and Non-Qualified Deferred Compensation Earnings (\$)(d)	All Other Compensation (\$)	Total (\$)
Merrill W. Sherman <i>President and CEO</i>	2007	448,452	—	13,035	43,743	\$ 252,400	296,215(e)	21,392(f)	1,075,237
	2006	437,700	—	—	22,310	103,983	261,419	99,500(g)	924,912
Linda H. Simmons <i>Treasurer and CFO</i>	2007	239,211	—	5,594	17,709	122,600	74,450	8,800(h)	468,364
	2006	224,037	—	—	8,463	44,347	90,390	8,800(h)	376,037
James V. DeRentis <i>Vice President & Chief Business Officer</i>	2007	229,510	—	5,594	16,926	107,600	61,113	7,757(h)	428,500
	2006	224,037	—	—	8,463	44,347	61,879	7,556(h)	346,282
Mark J. Meiklejohn <i>Chief Lending Officer</i>	2007	168,561	60,000	—	30,066	—	5,382	6,235(h)	270,244
	2006	152,308	149,774(i)	—	24,416	—	866	—	327,364
William C. DeWitt <i>Director of Marketing & Corporate Communications</i>	2007	161,969	50,000	—	8,437	—	—	1,758(h)	222,164
	2006	46,154	75,000(j)	—	1,651	—	—	—	122,805
Jeffrey W. Angus <i>Vice President & Chief Operating Officer(k)</i>	2007	158,714	—	—	2,821	—	—	84,980(l)	246,515
	2006	224,037	—	—	8,463	44,347	15,317	—	292,164

(a) The amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2007, in accordance with SFAS 123R for stock awards granted pursuant to the 2002 Equity Incentive Plan. Assumptions used in the calculation of these amounts are included in footnote 15 to the Company's audited financial statements for the fiscal year ended December 31, 2007, included in the Company's Annual Report on Form 10-K filed with the SEC on or around March 10, 2008.

(b) The amounts reflect the dollar amount recognized for financial statement reporting purposes for the fiscal year ended December 31, 2006 and 2007, in accordance with SFAS 123R for stock options granted pursuant to the 2002 Equity Incentive Plan. Since the Company accelerated the vesting of all options outstanding on December 31, 2005 upon our adoption of SFAS 123R, the amounts reflected are attributable solely to options granted in 2006 and 2007. Assumptions used in the calculation of these amounts are included in footnote 15 to the Company's audited financial statements for the fiscal year ended December 31, 2007, included in the Company's Annual Report on Form 10-K filed with the SEC on or around March 10, 2008.

(c) Reflects cash awards to the named individuals under the Senior Executive Cash Incentive Plan which is discussed in further detail on page 18 under the heading "Compensation Discussion and Analysis."

(d) Reflects actuarial increase in the present value of benefits under the Company's supplemental executive retirement plans determined using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements and includes amounts which the Named Executive Officer may not currently be entitled to receive because such amounts are not vested.

(e) Includes earnings of \$2,696 on deferred compensation account above 5.74% (120% of the applicable federal long-term rate at December 31, 2006).

(f) Includes employer 401(k) match of \$8,800 and \$12,592 in perquisites related to vehicle allowance, insurance premiums paid on individual disability policy and reimbursement of legal expenses in connection with the amendment and restatement of Ms. Sherman's employment agreement in 2007.

(g) Includes tax gross-up of \$90,700 in connection with vesting of 3,850 shares of restricted stock on January 1, 2006 granted under a Restricted Stock Agreement entered into in 2001 and an employer 401(k) match in the amount of \$8,800.

(h) Reflects employer 401(k) match.

(i) Includes \$88,000 signing bonus paid in connection with Mr. Meiklejohn's initial employment, \$1,774 paid as a referral bonus and \$60,000 performance bonus.

(j) Includes \$35,000 signing bonus paid in connection with Mr. DeWitt's initial employment and \$40,000 performance bonus.

(k) Mr. Angus' employment with the Company terminated on September 28, 2007. Per the terms of a Severance Agreement entered into with Mr. Angus, the Company agreed to pay Mr. Angus his current base salary through December 31, 2007.

(l) Includes employer 401(k) match of \$5,623 plus \$79,357 paid to Mr. Angus following his termination of employment through December 31, 2007 in accordance with the terms of a Severance Agreement between the Bank and Mr. Angus.

Grants of Plan Based Awards

The following table provides information on all plan based awards by the Company in 2007 to each Named Executive Officer and Mr. Angus.

Name	Grant Date	All Other Stock Awards: Number of Shares of Stock or Units(#)	All Other Option Awards: Number of Securities Underlying Options(#)	Exercise or Base Price of Option Awards (\$/Sh)	Grant Date Fair Value of Stock and Option Awards \$(a)
Merrill W. Sherman	04/24/07	1,200	—	—	43.45
	04/24/07	—	9,550	43.45	9.77
Linda H. Simmons	04/24/07	515	—	—	43.45
	04/24/07	—	3,850	43.45	9.77
	12/18/07	—	7,500	34.32	6.27
James V. DeRentis	04/24/07	515	—	—	43.45
	04/24/07	—	3,850	43.45	9.77
Mark J. Meiklejohn	04/24/07	—	1,500	43.45	9.77
	12/18/07	—	7,500	34.32	6.27
William C. DeWitt	04/24/07	—	1,250	43.45	9.77
Jeffrey W. Angus(b)	04/24/07	515	—	—	43.45
	04/24/07	—	3,850	43.45	9.77

(a) Assumptions used in the calculation of these amounts are included in footnote 15 to the Company's audited financial statements for the fiscal year ended December 31, 2007, included in the Company's Annual Report on Form 10-K filed with the SEC on or around March 10, 2008.

(b) Mr. Angus' employment with the Company terminated on September 28, 2007 and as a result, all option and restricted stock grants indicated in the above table were forfeited.

Outstanding Equity Awards at Fiscal Year-End

The following table provides information on all outstanding equity awards held by each of the Named Executive Officers and Mr. Angus as of December 31, 2007.

Name	OPTION AWARDS				STOCK AWARDS	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date (a)	Number of Shares or Units of Stock That Have Not Vested (#)(b)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(c)
Merrill W. Sherman	20,000	—	12.50	02/17/2008		
	23,700	—	10.75	01/21/2009		
	22,000	—	10.00	02/15/2010		
	25,200	—	14.75	02/20/2011		
	7,500	—	19.80	02/11/2012		
	15,250	—	23.15	05/30/2012		
	18,900	—	23.05	04/15/2013		
	5,000	—	32.43	01/26/2014		
	14,250	—	32.91	04/26/2014		
	13,200	—	37.98	04/08/2015		
2,900	11,600	34.89	04/06/2016			
	9,550	43.45	04/24/2014			
				1,200	40,968	
Linda H. Simmons	9,900	—	35.50	09/16/2014		
	4,800	—	37.98	04/08/2015		
	8,000	—	36.54	07/19/2015		
	1,100	4,400	34.89	04/06/2016		
		3,850	43.45	04/24/2014		
	7,500	34.32	12/18/2014			
				515	17,582	
James V. DeRentis	3,000	—	10.75	01/21/2009		
	5,200	—	10.00	02/15/2010		
	6,350	—	14.75	02/20/2011		
	1,850	—	19.80	02/11/2012		
	4,000	—	23.15	05/30/2012		
	5,400	—	23.05	04/15/2013		
	3,000	—	32.43	01/26/2014		
	4,000	—	32.91	04/26/2014		
	4,200	—	37.98	04/08/2015		
	1,100	4,400	34.89	04/06/2016		
	3,850	43.45	04/24/2014			
				515	17,582	
Mark J. Meiklejohn	2,834	5,666	34.37	02/21/2016		
	240	960	34.89	04/06/2016		
		1,500	43.45	04/24/2014		
		7,500	34.32	12/18/2014		
William C. DeWitt		2,500	44.93	10/11/2016		
		1,250	43.45	04/24/2014		
Jeffrey W. Angus		0				

(a) Except for the options held by Mr. Meiklejohn expiring on February 21, 2016 which vest in three annual installments commencing on the grant date, all options which are not fully exercisable vest in five equal annual installments commencing on the first anniversary of the grant date.

(b) Restricted stock vests in three annual installments commencing on the initial grant date.

(c) Value represents closing market price of the Company's common stock at December 31, 2007 (\$34.14) multiplied by the number of shares of unvested restricted stock held by the executive.

Option Exercises and Stock Vested

The following table provides information on all exercises of options by the Named Executive Officers and Mr. Angus during the Company's 2007 fiscal year.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)(a)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)
Merrill W. Sherman	24,750	817,613	—	—
Linda H. Simmons	100	896	—	—
James V. DeRentis	1,200	40,452	—	—
Mark J. Meiklejohn	—	—	—	—
William C. DeWitt	—	—	—	—
Jeffrey W. Angus	11,100	26,354	—	—

(a) The amounts shown are calculated based on the difference between the closing market price of the Company's common stock on the date of exercise and the exercise price of the options, multiplied by the number of shares for which the options were exercised.

Pension Benefits

We do not maintain a tax-qualified defined benefit plan. In December 2007, the Company amended and restated the 2000 SERP and 2002 SERP to provide benefits to Named Executive Officers under the 2000 SERP and other certain other key employees under the 2002 SERP. These amendments did not change the benefit to which any of the participants is entitled. Previous to this, Ms. Sherman and Mr. DeRentis were entitled to benefits under both SERPs and Ms. Simmons and Mr. Meiklejohn were entitled to benefits only under the 2002 SERP. Mr. DeWitt is not a participant in either SERP. Mr. Angus' SERP benefit had not vested at the time of the termination of his employment with the Company; accordingly, he is not entitled to any benefit under either SERP.

The following table provides information on the estimated present value of future payments for each of the Named Executive Officers, other than Mr. DeWitt, under the Company's 2000 SERP as of December 31, 2007.

Name of Executive Officer	Plan Name	Number of Years Credited Service (#)(a)	Present Value of Accumulated Benefit (\$)(b)	Payments During Last Fiscal Year (\$)
Merrill W. Sherman	2000 Supplemental Executive Retirement Plan	N/A	\$ 1,554,062	—
Linda H. Simmons	2000 Supplemental Executive Retirement Plan	N/A	249,980	—
James V. DeRentis	2000 Supplemental Executive Retirement Plan	N/A	262,952	—
Mark J. Meiklejohn	2000 Supplemental Executive Retirement Plan	N/A	6,248	—

(a) The SERP benefit is not based upon years of credited service. The benefit is based on a fixed amount or a formula tied to final average base salary and vests in accordance with a vesting schedule as described below.

(b) Reflects actuarial present value of the officer's benefits under the Company's supplemental executive retirement plan determined using interest rate and mortality rate assumptions consistent with those used in the Company's financial statements and includes amounts which the officer may not currently be entitled to receive because such amounts are not vested.

Under the 2000 SERP, as amended and restated, Ms. Sherman, Mr. DeRentis and Ms. Simmons are entitled to an annual retirement benefit equal to 70% of the highest base salary paid in the previous three fiscal years, reduced by the portion of their 401(k) Plan account attributable to employer contributions and any social security offset. Mr. Meiklejohn is entitled to an annual retirement benefit of \$25,000. All benefits are payable upon the later of the executive attaining age 65 or the executive's retirement, provided that no amounts may be paid until at least six months after the executive's termination of employment except in the event of termination by reason of the executive's death.

With respect to Ms. Sherman, \$250,000 of her annual benefit is fully vested and the balance (if any) began vesting on November 1, 2005. With respect to Mr. DeRentis, \$35,000 of his annual benefit is fully vested and the balance begins to vest on November 1, 2008. With respect to Ms. Simmons, \$50,000 of her annual benefit begins to vest on November 1, 2009 and the balance on August 1, 2010. Mr. Meiklejohn's benefit begins to vest on November 1, 2011. Benefits vest in 20% increments such that the accrual balance would be fully vested on the fourth anniversary of the first vesting date. Thus, if an executive left at end of the vesting period, he or she would be 100% vested in their SERP accrual balance (*i.e.*, the amount the Company has accrued to reflect the liability), but not the full benefit, resulting in a reduced retirement benefit in the event of early retirement. The executive is required to remain employed at the Company until age 65 to get the full SERP benefit. The full benefit will vest immediately upon death. In addition, in the event of a Change in Control, the SERP participants become fully vested in the greater of (i) the retirement benefit calculated in accordance with the formula described above or (ii) a specific annual Change in Control Benefit Amount, which is intended to approximate the formula amount under the 2000 SERP assuming continued employment of the executive until age 65. The current Change in Control Benefit Amount (excluding any tax gross-up) is \$381,034 for Ms. Sherman, \$225,850 for Mr. DeRentis and \$212,441 for Ms. Simmons and \$25,000 for Mr. Meiklejohn.

Under the 2000 SERP, we will also provide a death benefit for SERP participants equal to the accrual balance at the date of the participant's death, provided that the minimum pre-retirement death benefit for Ms. Sherman and Mr. DeRentis is equal to the projected age 65 accrual balance required to fund their respective annual base benefit (\$250,000 and \$35,000 per year, respectively). The pre-retirement and post-retirement death benefits are funded through life insurance policies on the lives of the SERP participants purchased and owned by the Bank, some of which contain a split dollar endorsement in favor of the SERP participant.

The SERPs are unfunded but provide that upon a Change in Control, the Company must deposit funds in a trust equal to the present value of all accrued benefits provided under both SERPs and thereafter make annual additional deposits to reflect any increases in the accrued benefits. All benefits are forfeited in the event that the participant's employment is terminated on account of a criminal act of fraud, misappropriation, embezzlement or a felony that involves property of the Company.

Nonqualified Deferred Compensation Plans

The Named Executive Officers (as well as certain other highly compensated employees) are eligible to participate in our nonqualified deferred compensation plan. The plan permits a participant to defer all or a portion of his or her annual incentive bonus and up to 50% of the participant's base salary. Deferral elections are made in December of each year for amounts to be earned in the following year. Participants receive an amount of employer matching contributions that they have lost under our 401(k) Plan as a result of the nondiscrimination rules applicable to qualified plans. All amounts contributed by the participant and by the Company under the plan are immediately vested.

Any excess contributions which cannot be contributed under the 401(k) Plan because of the nondiscrimination rules applicable to qualified plans and which would otherwise be returned to the participant at the end of the year, plus the amount of any supplemental deferrals the participant may choose to make, and any matching contributions provided for under the plan are credited to a deferred compensation account (a bookkeeping account). Each participant's deferred compensation account is credited with interest at a rate equal to the greater of the Baa1 30-year corporate bond index, or the Company's projected rate of return on average earning assets as reflected in its budget for such year. In addition, the plan allows a participant whose account exceeds \$100,000 to specify an alternative investment index for all or any portion of the participant's account. If a participant specifies an alternative investment index, the Company may make any required distribution under the plan in kind. Ms. Sherman has elected to have \$103,726 of her account valued in accordance with the performance of an investment in one or more private equity funds identified by Ms. Sherman. We have invested \$103,726 in the specified alternative investments in order to match our liability to Ms. Sherman under the plan. As a result, Ms. Sherman bears the entire risk of loss (and will benefit from any gains) associated with her election.

Participants in the Company's nonqualified deferred compensation plan are entitled to receive a distribution of their account upon retirement, death, disability or termination of employment except that any amounts attributable to employer contributions are subject to forfeiture if the participant is terminated for fraud, dishonesty or willful violation of any law that is committed in connection with the participant's employment. A participant is eligible to withdraw amounts credited to the deferred compensation account in the event of unforeseeable financial hardship.

The amount deferred under the plan is not includible in the income of the participant until paid to the participant and, correspondingly, the Company is not entitled to a deduction for any liabilities established under the plan until the amount credited to the participant's deferred compensation account is paid to him or her.

The amount credited to the deferred compensation account is not funded or otherwise set aside or secure from our creditors. As a result, the participant is subject to the risk that deferred compensation may not be paid in the event of the Company's insolvency or the Company is otherwise unable to satisfy the obligation. The plan permits (but does not require) the Company to establish a grantor trust for the purpose of funding the plan. If such a trust were created, the corpus of the trust would, under current federal income tax regulations, have to be available to our creditors in the event of insolvency or bankruptcy in order to prevent adverse income tax consequences to the participant.

The following table provides information on contributions, earnings, withdrawals and distributions with respect to the nonqualified deferred compensation plan for each of the Named Executive Officers and Mr. Angus.

Name	Executive contributions in last FY (\$)	Company contributions in last FY (\$)	Aggregate earnings in last FY (\$)	Aggregate withdrawals/distributions (\$)	Aggregate balance at last FYE (\$)
Merrill W. Sherman	—	—	\$28,068(a)	—	\$550,783(b)
Linda H. Simmons	—	—	—	—	—
James V. DeRentis	—	—	—	—	—
Mark J. Meiklejohn	—	—	—	—	—
William C. DeWitt	—	—	—	—	—
Jeffrey W. Angus	—	—	—	—	—

(a) Includes \$2,696 which is reported as compensation in the Summary Compensation Table.

(b) Includes \$338,790 of compensation which has been reported in the Company's Summary Compensation Table in previous years.

Potential Payments Upon Termination or Change-in-Control

The tables below reflect the amount of compensation to each of the Named Executive Officers in the event of termination of such executive's employment upon voluntary termination, involuntary not for cause termination, for cause termination, termination following a Change in Control and in the event of disability or death of the executive. The amounts shown assume that such termination was effective as of December 31, 2007, calculated in accordance with employment agreements with Mses. Sherman and Simmons and Mr. DeRentis and the Change In Control Severance Agreements with Messrs. Meiklejohn and DeWitt. The amounts shown include amounts earned through such time and are estimates of the amounts which would be paid out to the executives upon their termination, which in some cases are duplicative of amounts reflected in the Summary Compensation Table. The actual amounts to be paid out can only be determined at the time of such executive's separation from the Company. Payment of any severance to Ms. Sherman will be delayed by six-months to the extent necessary to comply with Section 409A of the Internal Revenue Code, and Ms. Sherman is entitled to interest on the delayed payment at the Bank's six-month certificate of deposit rate until payment. Furthermore, while SERP benefits are fully vested on a Change in Control, they are not paid out until the executive is 65.

Severance Benefits absent a Change in Control

In the event the Company terminates Ms. Sherman's employment without cause or Ms. Sherman terminates her employment for "Good Reason," she is entitled to the following:

- a lump sum severance payment equal to 2.99 times the sum of her annual base salary as in effect at the time of termination and an amount equal to the average cash incentive bonus earned by her in the prior two fiscal years;
- continued medical, dental and life insurance coverage for 36 months;
- continued use of the automobile provided to her under her agreement (with an option to purchase); and
- any options which are exercisable on the date of termination shall not terminate until the earlier of the scheduled expiration date for such options or three years after the date of termination of her employment.

"Good Reason" is defined in Ms. Sherman's agreement as:

- a significant reduction in the nature or scope of her duties, responsibilities, authority and powers;
- any requirement that she perform her duties at a location more than 50 miles from where she currently performs her duties; or
- failure of the Company either to renew the agreement or enter into a new agreement on terms not less favorable than those existing immediately prior to such nonrenewal (other than a reduction of fringe benefits required by law or applicable to all employees generally).

If the Company terminates the employment of Mr. DeRentis or Ms. Simmons without cause or if Mr. DeRentis or Ms. Simmons terminates his or her employment for "Good Reason," they would be entitled to continuance of their base salary and all medical, dental and life insurance coverage for the severance period, which is 18 months for Mr. DeRentis and 12 months for Ms. Simmons. Mr. DeRentis and Ms. Simmons are also entitled to outplacement services for 6 months. "Good Reason" is defined in the agreements of Mr. DeRentis and Ms. Simmons as the Company's failure to renew the agreement on any anniversary date or enter into a new employment agreement on substantially similar terms.

Messrs. Meiklejohn and DeWitt are not entitled to any severance benefits other than those awardable to employees generally upon termination of employment under the Bank's severance policy absent a "Change in Control."

Severance Benefits in connection with a Change in Control

In the event of a "Terminating Event" within one year of a "Change in Control," Ms. Sherman is entitled to:

- an amount equal to any base salary and incentive bonus earned on account of services performed prior to the Terminating Event which have not been previously paid;
- her pro-rated incentive bonus to the date of the Terminating Event under the Cash Incentive Plan, or any successor plan, based on the "Target Bonus" for the year in which the Termination Event occurs;
- a severance benefit equal to 2.99 times the sum of her base salary and her targeted incentive cash bonus for the year of the Change in Control, payable in a lump sum;
- continued medical, dental and life insurance coverage for 36 months;
- continued use of the automobile provided to her under her agreement (with an option to purchase) for three years; and
- all options held by her vest and remain exercisable until the earlier of the scheduled expiration date for such options or three years after termination of her employment.

In the case of Ms. Sherman, a "Terminating Event" means either termination of her employment for any reason other than for cause or resignation, death or disability following a Takeover Transaction or a Change in Control resulting from a change in a majority of the Board of Directors, in either case, prior to the first anniversary of the Takeover Transaction or Change in Control.

The agreements with Ms. Simmons and Mr. DeRentis provide that in the event of a "Terminating Event" within one year of a Change in Control, the executive is entitled to receive:

- an amount equal to any base salary and incentive bonus earned on account of services performed prior to the Terminating Event which have not been previously paid;
- the executive's pro-rated incentive bonus to the date of the Terminating Event under the Cash Incentive Plan, or any successor plan, based on the "Target Bonus" for the year in which the Terminating Event occurs;
- a severance benefit equal to two times the sum of the executive's base salary and targeted incentive cash bonus for the year of the Change in Control, payable in a lump sum;
- medical, dental and life insurance coverage for the 24 months commencing on the date of the Terminating Event; and
- outplacement assistance for a period of twelve months.

The agreement with Mr. Meiklejohn provides that in the event of a "Terminating Event" within one year of a Change in Control, he is entitled to receive an amount equal to his current annual base salary then in effect plus his most recent annual bonus payment. The agreement with Mr. DeWitt provides that in the event of a "Terminating Event" within one year of a Change in Control, he is entitled to receive an amount equal to his then current annual base salary.

In the case of Ms. Simmons and Messrs. DeRentis, Meiklejohn and DeWitt, a "Terminating Event" means either:

- termination of employment for any reason other than death, disability or for cause; or
- resignation following:
 - a significant reduction in the nature or scope of the executive's duties, responsibilities, authority and powers from those exercised prior to the Change in Control;
 - a greater than 10% reduction in the executive's annual base salary or fringe benefits (other than across-the-board salary reductions or changes in fringe benefit plans);
 - a requirement that the executive perform duties at a location more than 50 miles from the location where such duties were performed prior to the Change in Control; or
 - failure of any successor of the Company to continue the executive's employment on substantially similar employment terms.

For purposes of all of the agreements, a "Change in Control" would be deemed to have occurred if:

- the Company effectuates a Takeover Transaction; or
- the Company commences substantive negotiations with a third party with respect to a Takeover Transaction, and within 12 months thereafter the Company enters into a definitive agreement with respect to a Takeover Transaction with such party; or
- any election of directors of the Company occurs (whether by the directors then in office or by the Shareholders at a meeting or by written consent) where a majority of the directors in office following such election are individuals who were not nominated by a vote of two-thirds of the members of the Board of Directors immediately preceding such election; or

- the Company effectuates a complete liquidation of Bancorp or the Bank.

A "Takeover Transaction" for this purpose generally means:

- a reorganization, merger, acquisition or consolidation of Bancorp or the Bank with, or an acquisition of Bancorp or the Bank, or all or substantially all of Bancorp's or the Bank's assets by another corporation where the Company's existing Shareholders do not have a majority of the voting power of the resulting corporation;
- the issuance of additional shares if our existing Shareholders do not, following such issuance, beneficially own more than 50% of the voting power of Bancorp or the Bank; or
- any person or entity or group of persons or entities (other than an affiliate of the Company) becomes the beneficial owner of securities of the Company representing more than 30% of the voting power of all outstanding shares of voting securities of Bancorp.

The following table shows the potential payments upon termination of Merrill W. Sherman's employment as of December 31, 2007 under various circumstances.

Payments Upon Separation	Voluntary Termination or Retirement (\$)	Involuntary Not For Cause Termination (\$)	For Cause Termination (\$)	Involuntary for Good Reason Termination (Change-in-Control) (\$)	Disability (\$)	Death (\$)
Compensation:	0					
Severance	0	1,883,855	0	2,080,635	0	0
Equity Award Acceleration (a)	0	0	0	40,968	0	0
Incentive Bonus	0	0	0	244,004(g)	0	
Benefits & Perquisites:						
SERP (b)	2,429,573	2,429,573	0	3,198,068	2,429,573	436,871
NonQualified Deferred Compensation Program (c)	550,783	550,783	550,783	550,783	550,783	550,783
Health and Welfare Benefits (d)	0	36,000	0	36,000	0	0
Disability Income (e)	0	0	0	0	984,597	0
Life Insurance Benefits	0	0	0	0	0	2,854,365(h)
Office and Executive Assistant	0	0	0	68,700	0	0
Auto Allowance	0	0	0	18,000	0	0
Tax Gross-up (f)	0	0	0	1,168,404	0	0

(a) Represents the value that would be realized upon the vesting of restricted stock and exercise of options that would vest on a Change in Control based on the difference between the option exercise price and the market value of the common stock on December 31, 2007 (\$34.14).

(b) Reflects the estimated lump-sum present value of future benefits or the death benefit payable under the SERP. Ms. Sherman would not be entitled to receive any payments under the SERP until age 65 or death.

- (c) Represents compensation deferred by Ms. Sherman under the Company's nonqualified deferred compensation plan (which amounts have previously been reported as salary, bonus or other incentive compensation in the Summary Compensation Table) plus earnings on such deferred amounts.
- (d) Reflects the estimated lump-sum present value of all future premiums which will be paid on behalf of Ms. Sherman under the Company's health and welfare plans.
- (e) Includes \$586,774 which represents the estimated lump-sum present value of future benefits assuming a 6% interest rate payable to Ms. Sherman to age 65 under a separate disability income policy plus \$397,823 which represents the estimated lump-sum present value of future benefits assuming a 6% interest rate payable to age 65 under a disability insurance policy available to all employees.
- (f) Represents amounts that would be payable to reimburse Ms. Sherman for taxes arising as a result of the so-called "parachute" tax imposed by Section 280G of the Internal Revenue Code as a result of change-in-control benefits. Ms. Sherman would not retain any portion of such tax gross-up payment.
- (g) Represents payment of full amount of target cash incentive award which would have been paid in lieu of the amount reflected under the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table.
- (h) Includes \$677,790 which represents payment of 1 1/2 times salary upon death under life insurance available to all employees, and \$2,176,575 payable under Split Dollar Agreement between Ms. Sherman and the Bank.

The following table shows the potential payments upon termination of Linda H. Simmons' employment as of December 31, 2007 under various circumstances.

Payments Upon Separation	Voluntary Termination or Retirement (\$)	Involuntary Not For Cause Termination (\$)	For Cause Termination (\$)	Involuntary for Good Reason Termination (Change-in-Control) (\$)	Disability (\$)	Death (\$)
Compensation:						
Severance	0	226,720	0	783,000	0	0
Equity Award Acceleration(a)	0	0	0	17,582	0	0
Incentive Bonus	0	0	0	121,500(f)	0	0
Benefits & Perquisites:						
SERP(b)	0	0	0	1,110,415	0	0
Health and Welfare Benefits(c)	0	15,300	0	30,600	0	0
Disability Income(d)	0	0	0	0	974,425	
Life Insurance Benefits	0	0	0	0	0	654,980(g)
Outplacement Services	0	10,000	0	14,000	0	0
Tax Gross-up(e)	0	0	0	581,998	0	0

- (a) Represents the value that would be realized upon the vesting of restricted stock and exercise of options that would vest on a Change in Control based on the difference between the option exercise price and the market value of the common stock on December 31, 2007 (\$34.14).
- (b) Reflects the estimated lump-sum present value of future benefits payable under the SERP. Ms. Simmons would not be entitled to receive any payments under the SERP until age 65.
- (c) Reflects the estimated lump-sum present value of all future premiums which will be paid on behalf of Ms. Simmons under the Company's health and welfare plans.
- (d) Includes \$58,219 which represents the estimated lump-sum present value of future benefits assuming a 6% interest rate payable to Ms. Simmons to age 65 under a separate disability income policy plus \$916,206 which represents the estimated lump-sum present value of future benefits assuming a 6% interest rate payable to age 65 under a disability insurance policy available to all employees.
- (e) Represents amounts that would be payable to reimburse Ms. Simmons for taxes arising as a result of the so-called "parachute" tax imposed by Section 280G of the Internal Revenue Code as a result of change-in-control benefits. Ms. Simmons would not retain any portion of such tax gross-up payment.
- (f) Represents payment of full amount of target cash incentive award which would have been paid in lieu of the amount reflected under the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table.
- (g) Includes \$405,000 which represents payment of 1 1/2 times salary upon death under life insurance available to all employees, and \$249,980 payable under Split Dollar Agreement between Ms. Simmons and the Bank.

The following table shows the potential payments upon termination of James V. DeRentis' employment as of December 31, 2007 under various circumstances.

Payments Upon Separation	Voluntary Termination or Retirement (\$)	Involuntary Not For Cause Termination (\$)	For Cause Termination (\$)	Involuntary for Good Reason Termination (Change-in-Control) (\$)	Disability (\$)	Death (\$)
Compensation:						
Severance	0	340,080	0	670,637	0	0
Equity Award Acceleration(a)	0	0	0	17,582	0	0
Incentive Bonus	0	0	0	104,064(f)	0	0
Benefits & Perquisites:						
SERP(b)	121,863	121,863	0	913,045	121,863	0
Health and Welfare Benefits(c)	0	21,278	0	28,370	0	0
Disability Income(d)	0	0	0	0	1,031,657	0
Life Insurance Benefits	0	0	0	0	0	829,555(g)
Outplacement Services	0	10,000	0	14,000	0	0
Tax Gross-up(e)	0	0	0	502,483	0	0

(a) Represents the value that would be realized upon the vesting of restricted stock and exercise of options that would vest on a Change in Control based on the difference between the option exercise price and the market value of the common stock on December 31, 2007 (\$34.14).

(b) Reflects the estimated lump-sum present value of future benefits payable under the SERP. Mr. DeRentis would not be entitled to receive any payments under the SERP until age 65.

(c) Reflects the estimated lump-sum present value of all future premiums which will be paid on behalf of Mr. DeRentis under the Company's health and welfare plans.

(d) Includes \$61,796 which represents the estimated lump-sum present value of future benefits assuming at 6% interest rate payable to Mr. DeRentis to age 65 under a separate disability income policy plus \$969,861 which represents the estimated lump-sum present value of future benefits assuming a 6% interest rate payable to age 65 under a disability insurance policy available to all employees.

(e) Represents amounts that would be payable to reimburse Mr. DeRentis for taxes arising as a result of the so-called "parachute" tax imposed by Section 280G of the Internal Revenue Code as a result of change-in-control benefits. Mr. DeRentis would not retain any portion of such tax gross-up payment.

(f) Represents payment of full amount of target cash incentive award which would have been paid in lieu of the amount reflected under the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table.

(g) Includes \$346,881 which represents payment of 1 1/2 times salary upon death under life insurance available to all employees, and \$482,674 payable under Split Dollar Agreement between Mr. DeRentis and the Bank.

The following table shows the potential payments upon termination of Mark J. Meiklejohn's employment as of December 31, 2007 under various circumstances.

Payments Upon Separation	Voluntary Termination or Retirement (\$)	Involuntary Not For Cause Termination (\$)	For Cause Termination (\$)	Involuntary for Good Reason Termination (Change-in-Control) (\$)	Disability (\$)	Death (\$)
Compensation:						
Severance	0	15,000(a)	0	261,000	0	0
Benefits & Perquisites:						
SERP(b)	0	0	0	70,615	0	
Disability Income(c)	0	0	0	0	1,020,358	0
Life Insurance Benefits	0	0	0	0	0	276,248(d)

(a) Reflects amount payable under the Bank's severance policy applicable to all employees.

(b) Reflects the estimated lump-sum present value of future benefits payable under the SERPs. Mr. Meiklejohn would not be entitled to receive any payments under the SERPs until age 65.

(c) Represents the estimated lump-sum present value of future benefits assuming a 6% interest rate payable to age 65 under a disability insurance policy available to all employees.

(d) Includes \$270,000 which represents payment of 1 1/2 times salary upon death under life insurance available to all employees, and \$6,248 payable under Split Dollar Agreement between Mr. Meiklejohn and the Bank.

The following table shows the potential payments upon termination of William C. DeWitt's employment as of December 31, 2007 under various circumstances.

Payments Upon Separation	Voluntary Termination or Retirement (\$)	Involuntary Not For Cause Termination (\$)	For Cause Termination (\$)	Involuntary for Good Reason Termination (Change-in-Control) (\$)	Disability (\$)	Death (\$)
Compensation:						
Severance	0	13,600(a)	0	163,200	0	0
Benefits & Perquisites:						
Disability Income(b)	0	0	0	0	1,047,694	0
Life Insurance Benefits	0	0	0	0	0	244,800(c)

(a) Reflects amount payable under the Bank's severance policy applicable to all employees.

(b) Represents the estimated lump-sum present value of future benefits assuming a 6% interest rate payable to age 65 under a disability insurance policy available to all employees.

(c) Represents payment of 1 1/2 times salary upon death under life insurance available to all employees.

In addition to the amounts indicated above, upon termination for any reason, each executive officer would be entitled to receive the vested balance in their respective 401(k) Plan accounts on the same basis as all other employees of the Company.

In July 2007, the Company entered into a Severance Agreement with Mr. Angus in connection with the termination of his employment with the Company. Under the terms of the agreement, Mr. Angus received his current base salary through December 31, 2007, which from September 28, 2007 through December 31, 2007

equaled \$79,357 which is included in the "All Other Compensation" column for Mr. Angus in the Summary Compensation Table. In addition, Mr. Angus is entitled to receive medical, dental and life insurance benefits coverage generally available to full-time employees through the earlier to occur of the date on which Mr. Angus obtains full-time employment or March 31, 2008. Following March 31, 2008, Mr. Angus may (at his expense) continue medical and dental benefits pursuant to COBRA or other applicable laws.

Risky Business: Assessing and Addressing Executive Compensation Risk

A Community Bank Perspective

By Susan O'Donnell, Managing Director & Laura Hanf, Vice President

As financial institutions close on Treasury purchases through the TARP Capital Purchase Program (CPP), management and compensation committees now turn to the task of implementing the related executive compensation restrictions. While so far the restrictions apply only to TARP participants, these provisions, or variations thereof, are likely to cascade to non-participating banks and across industries within a relatively short time frame.

The four major TARP/CPP requirements related to executive pay are:

1. Prohibition of incentives tied to "unnecessary and excessive risk."
2. "Clawbacks" to recover bonuses and incentive compensation in which payment was based on materially inaccurate financial statements or other performance criteria.
3. Prohibition of "golden parachute" payments for virtually all termination events except for certain qualified retirement payments.
4. A \$500,000 limit on the deductibility of compensation.

Perhaps the more nuanced – and therefore difficult – requirement facing compensation committees is creating and overseeing a process that ensures incentive plans do not encourage "unnecessary and excessive risk-taking." From a practical standpoint, assessing risk and participating in regulatory reviews is something banks do as a matter of normal business. However, the standards are heightened for banks that receive TARP funds.

The Treasury has not provided specific guidance in this area and due to the short window for compliance, there is no precedent to follow. For some smaller institutions, even determining who will serve in the role of SRO for the purposes of compliance is a challenge.

This issue paper suggests an effective framework for identifying and analyzing compensation-related risk. While the process steps are specific to TARP participants, the assessment process should be considered best practice for all companies.

A Step-by-Step Process - TARP/PPP Compliance

Within 90 days of Purchase:

- The compensation committee should identify the SRO (or persons who serve in that capacity) and other constituencies who should be involved in the risk assessment process (e.g. CEO, Human Resources, legal counsel, outside advisors).
- The SRO should be briefed by the compensation committee, CEO, Human Resources, and/or the committee's independent advisor(s) on the company's executive compensation philosophy, total compensation program, incentive plan approach (including any performance measures used) and the committee's process for assessing performance and making awards under the plans. The committee should work with the SRO to define a process for conducting the risk assessment.
- The SRO should identify any compensation programs or practices that could promote excessive risk taking, such as performance measures with significant focus/weight in the total compensation program or policies that encourage (or fail to mitigate) significant risk-taking (short or long-term).
- The compensation committee and SRO should meet to review the assessment and determine if program changes are needed. In addition to overall plan metrics and payouts, the committee should consider policies to reduce the potential for excessive risk taking (e.g. incentive holdbacks and/or equity holding requirements). The committee should consult with internal and external advisors as appropriate to determine any changes needed in light of the assessment review and best/emerging practice.
- The compensation committee should report its findings and recommendations to the CEO and, ultimately, the full Board.
- For public companies, the compensation committee should work with management and/or outside advisors as appropriate on the required disclosure of risk assessment in the proxy's Compensation Discussion and Analysis (CD&A).
- The compensation committee must certify in the Compensation Committee Report (CCR) or to appropriate regulators (if not public) that it has conducted this process. (Note; this step may not take place within the 90 days depending on timing of proxy.)

Within 120 days of Purchase:

- The CEO must certify to the Treasury's TARP Chief Compliance Officer that the review has taken place.

Annually:

- Within 135 days of the completion of each fiscal year of TARP participation, the CEO must certify to the Treasury's TARP Chief Compliance Officer that the compensation committee has met at least once during the prior fiscal year with the SRO to discuss the relationship between risk management policies and executive incentive compensation arrangements.

Ongoing:

- The bank must maintain records of these certifications for six years

A Risk Assessment Check List

All companies, whether TARP participants or not, are advised to consider the following questions as part of a risk assessment of incentive compensation practices:

- ✓ ***What risks could threaten the institution's value?*** This is the starting point for every assessment. The compensation committee should review and understand the business strategy, risk profile, potential business risks and how they are being addressed by management. The SRO should be able to explain how key risk areas might directly and indirectly affect performance and payouts under the institution's executive compensation programs.
- ✓ ***Do incentive plan metrics reflect the institution's business strategy?*** Performance and awards under the compensation program should be aligned with the institution's overall business strategy and support the desired risk profile. The existence of a potentially "risky" performance measure in the incentive plan, in itself, would not automatically drive executives to "unnecessary and excessive risk taking." For example, the inherent riskiness of loan growth can be mitigated by internal credit and quality controls, as well by limiting the amount of incentive paid out under this particular performance measure.
- ✓ ***Is the leverage and ratio of incentive compensation appropriate?*** The compensation committee should understand both the amount of the incentive opportunity and the proportion of total compensation that is based on performance. Unlike the large investment banks, where incentives may amount to more than 50x base salary, community banks do not have highly leveraged compensation programs. Additionally, a program that focuses 90% of an executive's total compensation on incenting specific performance goals is more likely to drive potentially risky behaviors than a program that is 50% incentive-focused. While not necessarily a concern for most community banks, the committee should understand its total compensation mix and incentive leverage to ensure it drives appropriate and desired results.
- ✓ ***Do we understand the full range of total upside/downside payouts under our incentive plans?*** Compensation committees need to understand potential payouts under multiple performance scenarios, including threshold, target and maximum performance. Where equity/long term incentives are granted, awards should be estimated under best, realistic and worst case stock price/payout scenarios, although this can be challenging in the current economy. For institutions with multiple performance-based programs, a more sophisticated "dynamic pay modeling" analysis can be conducted to determine the range of possible performance and payouts. At minimum, committees should understand and be comfortable that the maximum payout opportunity under the best performance scenario is both reasonable and not likely to motivate excessive risk taking.
- ✓ ***Do plans have protection/controls to avoid excessive risk taking?*** Do incentive plans allow for unlimited upside opportunity, or are maximum awards defined? Does a single performance measure drive a majority or even all the incentive rewards, or is there a balanced "portfolio" of performance measures? Best practice is for plans to be based on multiple performance perspectives. The committee should examine any performance measures that are significant drivers of total compensation, particularly if the same measures are used in both short- and long-term plans and might over-emphasize those aspects of performance.

- ✓ ***Do plans focus executives on long-term performance that aligns with shareholder interests?*** Retaining a long-term view of performance is a powerful way to reduce the likelihood that executives will take risks and protect the bank and its shareholders. Among the kinds of policies companies today are considering to promote a long-term focus:
 - Stock ownership and retention requirements such as "hold to retirement" and "hold past retirement."
 - Limited or zero severance for poor performance, which may require changing employment agreements already in place and eliminating equity acceleration for certain types of terminations.
 - Holding back a portion of annual incentive awards pending sustained performance results.
 - Paying incentive awards above a certain level (e.g. target) in restricted stock or unvested deferred compensation.
- ✓ ***How does performance compare to industry/peers?*** In addition to reviewing performance against the bank's business plan, performance should be considered on a relative basis. Particular attention should be paid to performance dramatically above or below industry/peer group levels – both of which are potential red flags of inappropriate risk-taking that warrant a closer look.
- ✓ ***Do the plans allow the committee to exercise discretion when appropriate?*** No compensation program can predict all possible situations and sometimes, common sense needs to prevail over formula-driven award payouts.

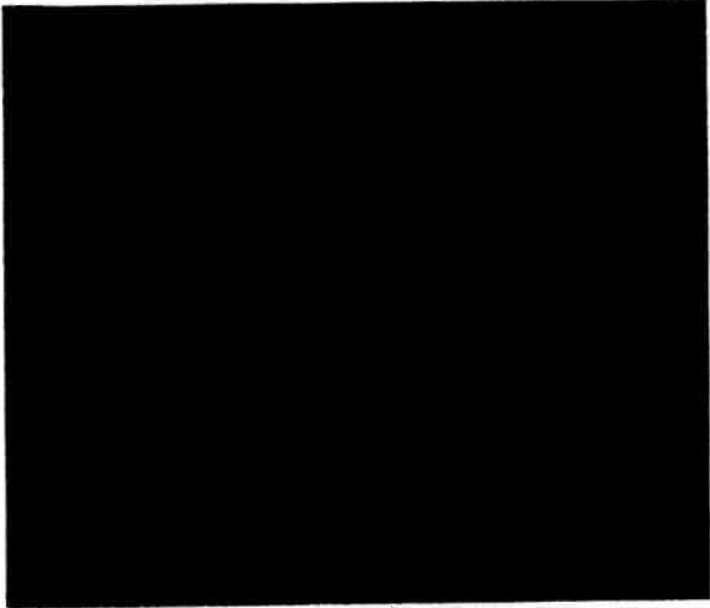
The Broader Picture

It is important that institutions not lose sight of the fact that executives should be encouraged to take the kinds of reasonable risks that make possible real innovation, business improvements or outstanding shareholder returns. Compensation-related risk is a double-edged sword that ideally balances the need to motivate appropriate risk taking, without encouraging or rewarding excessive risk.

After completing their analysis, most community bank compensation committees are likely to conclude that their own executive compensation programs do not rise to the definition of promoting "unnecessary and excessive risk." But no institution can afford to be cavalier about the risk assessment process. It is critical in the current economic and governance environment that compensation committees understand the level of risk inherent in their business, develop appropriate balance in executive incentive plans and regularly monitor and assess their plans' effectiveness. Practices such as short-term incentive hold backs, equity holding policies and a greater focus on long-term performance will become more common in executive compensation programs going forward.

In conclusion, committees today will be called upon to do more due diligence of their executive compensation programs. Regardless of TARP/PPP requirements, understanding risk and the relationship between pay and performance are best practices that will be critical to the long-term success of all institutions.

For more information, please contact Susan O'Donnell in our Southborough office or Laura Hanf in our Charlotte office.



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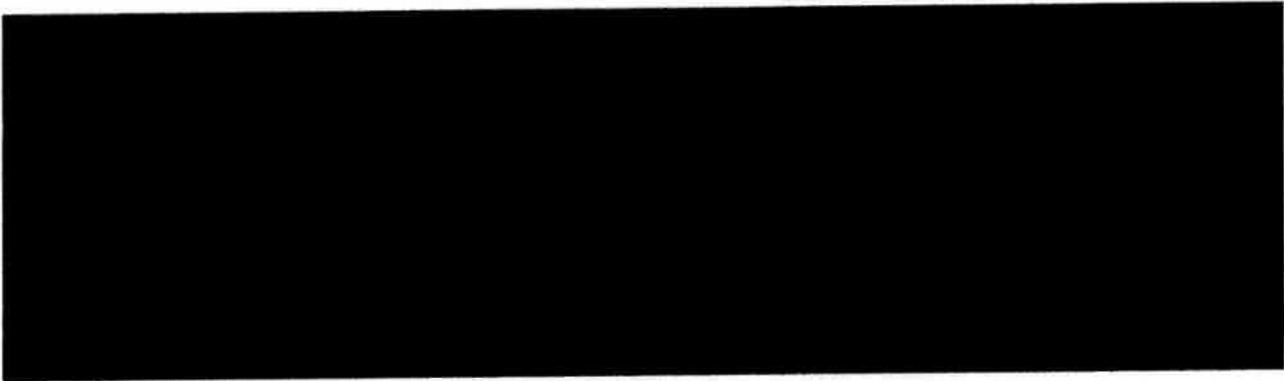
BANCORP RHODE ISLAND, INC.

COMPENSATION COMMITTEE

Exhibit 11

February 17, 2009

A meeting of the Compensation Committee of the Board of Directors of Bancorp Rhode Island, Inc. (the "Company") was held on Tuesday, February 17, 2009, beginning at 12:15 p.m., at the offices of Bank Rhode Island (the "Bank"), One Turks Head Place, Providence, Rhode Island, pursuant to notice of the meeting duly given to all of the directors on the Committee.



b(4) b(6)

December 15, 2008



b(4) b(6)

Bancorp Rhode Island, Inc. (the "*Company*") anticipates entering into a Securities Purchase Agreement (the "*Participation Agreement*") on December 19, 2008 (the "*Closing Date*"), with the United States Department of Treasury ("*Treasury*") that provides for the Company's participation in the Treasury's TARP Capital Purchase Program (the "*CPP*"). If the Company does not participate or ceases at any time to participate in the CPP, this letter shall be of no further force and effect.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Participation Agreement, the Company is required to establish specified standards for incentive compensation to its senior executive officers and to make changes to its compensation arrangements. To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company's participation in the CPP, you agree as follows:

- (1) *No Golden Parachute Payments.* The Company is prohibiting any golden parachute payment to you during any "CPP Covered Period." A "*CPP Covered Period*" is any period during which (A) you are a senior executive officer and (B) Treasury holds an equity or debt position acquired from the Company in the CPP.
- (2) *Recovery of Bonus and Incentive Compensation.* Any bonus and incentive compensation paid to you during a CPP Covered Period is subject to recovery or "clawback" by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.
- (3) *Compensation Program Amendments.* Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements) (collectively, "*Benefit Plans*") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2).

In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with

December 15, 2008

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b(4) (b)6

respect to you, you and the Company agree to negotiate such changes promptly and in good faith.

(4) *Definitions and Interpretation.* This letter shall be interpreted as follows:

- “Senior executive officer” means the Company’s “senior executive officers” as defined in subsection 111(b)(3) of EESA.
- “Golden parachute payment” is used with same meaning as in Section 111(b)(2)(C) of EESA.
- “EESA” means the Emergency Economic Stabilization Act of 2008 as implemented by guidance or regulation issued by the Department of the Treasury and as published in the Federal Register on October 20, 2008.
- The term “Company” includes Bank Rhode Island and any entities treated as a single employer with the Company under 31 C.F.R. § 30.1(b) (as in effect on the Closing Date). You are also delivering a waiver pursuant to the Participation Agreement, and, as between the Company and you, the term “employer” in that waiver will be deemed to mean the Company as used in this letter.
- The term “CPP Covered Period” shall be limited by, and interpreted in a manner consistent with, 31 C.F.R. § 30.11 (as in effect on the Closing Date).
- Provisions (1) and (2) of this letter are intended to, and will be interpreted, administered and construed to, comply with Section 111 of EESA (and, to the maximum extent consistent with the preceding, to permit operation of the Benefit Plans in accordance with their terms before giving effect to this letter).

(5) *Miscellaneous.* To the extent not subject to federal law, this letter will be governed by and construed in accordance with the laws of the State of Rhode Island. This letter may be executed in two or more counterparts, each of which will be deemed to be an original. A signature transmitted by facsimile will be deemed an original signature.

██████████
December 15, 2008
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b(4) b(6)

The Board appreciates the concessions you are making and looks forward to your continued leadership during these financially turbulent times.

Sincerely,

BANCORP RHODE ISLAND INC.

By: *John R. Berger*
Name: John R. Berger
Title: Chairman, Compensation Committee

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below.

██████████ b(4) b(6)

Date: _____

cc: ██████████ via Hand Delivery b(6)