SLADES FERRY BANCORP
Form 10-Q
November 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2006

Commission file number 000-23904

SLADE'S FERRY BANCORP.
(Exact name of registrant as specified in its character)

Massachusetts	04-3061936
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
100 Slade's Ferry Avenue Somerset, Massachusetts	02726
(Address of principal executive offices)	(Zip code)

(508) 675-2121
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer [ ] Accelerated Filer [ ] Non Accelerated Filer [X]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date:

Common stock ($0.01 par value) 4,156,583 outstanding shares as of October 31, 2006.

TABLE OF CONTENTS

Part I

ITEM 1 - Financial Statements (Unaudited) 3

Consolidated Balance Sheets - September 30, 2006 and December 31, 2005
* Consolidated Statements of Income - Three Months Ended September 30, 2006 and 2005
* Consolidated Statements of Income - Nine Months Ended September 30, 2006 and 2005
* Consolidated Statement of Changes in Stockholder's Equity - Nine Months Ended September 30, 2006
* Consolidated Statements of Cash Flows - Nine Months Ended September 30, 2006 and 2005
* Notes to Consolidated Financial Statements

ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations 14

ITEM 3 - Quantitative and Qualitative Disclosures about Market Risk 37

ITEM 4 - Controls and Procedures 39

Part II

ITEM 1 - Legal Proceedings 40

ITEM 1A - Risk Factors 40

ITEM 2 - Unregistered Sales of Equity Securities and Use of Proceeds 40

ITEM 3 - Defaults Upon Senior Securities 41

ITEM 4 - Submission of Matters to a Vote of Security Holders 41

ITEM 5 - Other Information 41

ITEM 6 - Exhibits 41

ITEM 1

FINANCIAL STATEMENTS

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2006
Assets	(In th
Cash and due from banks	$ 11,841
Interest-bearing demand deposits with other banks	1,102

Federal funds sold	2,000
Cash and cash equivalents	14,943
Interest-bearing certificates of deposit with other banks	100
Securities available for sale	107,409
Securities held to maturity (fair value approximates of $25,120 as of September 30, 2006 and $28,858 as of December 31, 2005)	25,752
Federal Home Loan Bank stock, at cost	6,856
Loans, net of allowance for loan losses of $4,374 at September 30, 2006 and $4,333 at December 31, 2005	426,430
Premises and equipment, net	5,710
Goodwill	2,173
Accrued interest receivable	2,459
Bank-owned life insurance	12,204
Deferred tax assets, net	2,048
Other assets	1,684
	$607,768
Liabilities and Stockholders' Equity	
Deposits:	
Noninterest-bearing	$ 76,638
Interest-bearing	346,033
Total deposits	422,671
Short-term borrowings	-
Long-term borrowings	120,938
Subordinated debentures	10,310
Accrued expenses and other liabilities	3,092
Total liabilities	557,011
Stockholders' equity:	
Common stock, par value $0.01 per share; authorized 10,000,000 shares; issued and outstanding 4,154,355 shares at September 30, 2006 and 4,132,200 shares at December 31, 2005	42
Additional paid-in capital	31,463
Retained earnings	20,446
Accumulated other comprehensive loss	(719)
Unearned compensation	(475)
Total stockholders' equity	50,757
	$607,768

The accompanying notes are an integral part of these consolidated financial statements.

3

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended September	
	2006	2005
	(In thousands, except per sha	

Interest and dividend income:		
Interest and fees on loans	$ 7,077	$ 5,
Interest and dividends on securities:		
Taxable	1,501	1,
Tax-exempt	61	
Interest on federal funds sold	44	
Other interest	10	
Total interest and dividend income	8,693	7,
Interest expense:		
Interest on deposits	2,616	1,
Interest on Federal Home Loan Bank advances	1,196	1,
Interest on subordinated debentures	217	
Total interest expense	4,029	2,
Net interest and dividend income	4,664	4,
Provision for loan losses	-	
Net interest income, after provision for loan losses	4,664	4,
Noninterest income:		
Service charges on deposit accounts	373	
Loss on sales of assets	(5)	
Gain on sales of loans	-	
Gain on sales and calls of available-for-sale securities, net	19	
Increase in cash surrender value of life insurance policies	107	
Other income	238	
Total noninterest income	732	
Noninterest expense:		
Salaries and employee benefits	2,044	2,
Occupancy and equipment expense	478	
Professional fees	378	
Marketing expense	86	
Other expense	752	
Total noninterest expense	3,738	3,
Income before income taxes	1,658	1,
Provision for income taxes	615	
Net income	$ 1,043	$
Earnings per share:		
Basic	$ 0.25	$ 0
Diluted	$ 0.25	$ 0
Average common shares outstanding:		
Basic	4,162,753	4,122,
Diluted	4,174,460	4,145,

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Nine Months Ended Septembe	
	2006	2005
	(In thousands, except per sha	
Interest and dividend income:		
Interest and fees on loans	$ 20,197	$ 16,
Interest and dividends on securities:		
Taxable	4,051	3,
Tax-exempt	196	
Interest on federal funds sold	109	
Other interest	27	
Total interest and dividend income	24,580	21,
Interest expense:		
Interest on deposits	6,783	4,
Interest on Federal Home Loan Bank advances	3,561	3,
Interest on subordinated debentures	612	
Total interest expense	10,956	7,
Net interest and dividend income	13,624	13,
Provision for loan losses	39	
Net interest income, after provision for loan losses	13,585	13,
Noninterest income:		
Service charges on deposit accounts	1,032	
Gain (loss) on sales of assets	(5)	
Gain (loss) on sales and calls of available-for-sale securities, net	(150)	
Gain on sales of loans	-	
Increase in cash surrender value of life insurance policies	320	
Other income	784	
Total noninterest income	1,981	1,
Noninterest expense:		
Salaries and employee benefits	6,442	6,
Occupancy and equipment expense	1,461	1,
Professional fees	1,178	
Marketing expense	273	
Other expense	2,086	1,
Total noninterest expense	11,440	10,
Income before income taxes	4,126	4,
Provision for income taxes	1,550	1,
Net income	$ 2,576	$ 2,
Earnings per share:		
Basic	$ 0.62	$ 0
Diluted	$ 0.62	$ 0
Average common shares outstanding:		
Basic	4,079,396	4,104,

Diluted	4,094,752	4,132,

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumu Oth Compreh Los
	(In thousands, except per shar				
Balance at December 31, 2005	4,132,200	$41	$31,014	$18,998	$(1,1
Comprehensive income:					
Net income	-	-	-	2,576	
Other comprehensive income	-	-	-	-	4
Comprehensive income					
Issuance of common stock	25,260	-	448	-	
Stock options exercised	28,000	1	304	-	
Tax benefit of stock options exercised	-	-	82	-	
Stock-based compensation	-	-	185	-	
Purchase of treasury stock	(31,105)	-	(570)	-	
Unearned compensation	-	-	-	-	
Dividends declared ($.27 per share)	-	-	-	(1,128)	
Balance at September 30, 2006	4,154,355	$42	$31,463	$20,446	$ (7

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

Nine Months Ended Sept

	2006	
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 2,576	$
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization, net of accretion of securities	74	
Loss (gain) on sales and calls of available-for-sale securities, net	150	
Change in net deferred loan fees	(45)	
Provision for loan losses	39	
Deferred tax provision (benefit)	(152)	
Depreciation and amortization	653	
Loss (gain) on sale of assets	5	
Gain on sale of loans	-	
Increase in cash surrender value of life insurance	(320)	
Stock-based compensation	185	
Net change in:		
Other assets	233	
Accrued interest receivable	(161)	
Other liabilities	54	
Net cash provided by operating activities	3,291	
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Purchases	(35,714)	(
Sales	15,382	
Maturities, calls and paydowns	7,790	
Activity in held-to-maturity securities:		
Maturities, calls and paydowns	3,515	
Purchases of Federal Home Loan Bank stock	(552)	
Loan principal originations, net	(16,812)	(
Recoveries of loans previously charged off, net	(2)	
Capital expenditures	(475)	
Proceed from sale of property and equipment	24	
Proceeds from sale of investment real estate	-	
Proceeds from sales of loans	-	
Redemption of life insurance policy	-	
Net cash used in investing activities	(26,844)	(

The accompanying notes are an integral part of these consolidated financial statements.

7

SLADE'S FERRY BANCORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Unaudited)

Nine Months Ended Sept
2006

	(In thousands)	
Cash flows from financing activities:		
Net decrease in noninterest-bearing deposits	$ (4,067)	$
Net increase in interest-bearing deposits	10,892	
Short-term advances from Federal Home Loan Bank	33,000	
Long-term advances from Federal Home Loan Bank	40,000	
Payments on Federal Home Loan Bank short-term advances	(40,000)	
Payments on Federal Home Loan Bank long-term advances	(19,927)	(
Proceeds from issuance of common stock	448	
Stock options exercised	305	
Purchase of treasury stock	(570)	
Unearned compensation	(475)	
Dividends paid	(1,128)	
Net cash provided by financing activities	18,478	
Net decrease in cash and cash equivalents	(5,075)	(
Cash and cash equivalents at beginning of period	20,018	
Cash and cash equivalents at end of period	$ 14,943	$
Supplemental disclosures:		
Interest paid	$ 11,039	$
Income taxes paid	$ 737	$

The accompanying notes are an integral part of these consolidated financial statements.

SLADE'S FERRY BANCORP. AND SUBSIDIARY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2006

Note A - Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and the instructions to Form 10-Q and, accordingly, do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of the management of Slade's Ferry Bancorp. (the "Company"), all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

The year-end consolidated financial data was derived from audited financial statements, but does not include all disclosures required by GAAP. This Form 10-Q should be read in conjunction with the Company's Annual Report filed on Form 10-K for the year ended December 31, 2005.

Note B - Accounting Policies

The accounting principles followed by Slade's Ferry Bancorp. and subsidiary and

the methods of applying these principles which materially affect the determination of financial position, results of operations, or changes in financial position are consistent with those used for the year ended December 31, 2005, except for the adoption of Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, ("SFAS 123 (R)" or the "Statement") effective January 1, 2006 applicable to the Company's stock-based employee compensation plans. See Note C.

The consolidated financial statements include the accounts of Slade's Ferry Bancorp., its wholly-owned subsidiary, Slade's Ferry Trust Company (the "Bank") and the Bank's wholly-owned subsidiaries. All significant inter-company balances and transactions have been eliminated in consolidation. The Company accounts for its wholly-owned subsidiary, Slade's Ferry Statutory Trust I, using the equity method.

Slade's Ferry Statutory Trust I, a subsidiary of the Company, was formed on March 17, 2004 to sell capital securities to the public through a third party trust pool. In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46R, "Consolidation of Variable Interest Entities" ("FIN 46R"), the subsidiary has not been included in the consolidated financial statements.

Note C - Stock Based Compensation

The Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment, ("SFAS 123(R)" or the "Statement") effective January 1, 2006 applicable to the Company's stock-based employee compensation plans. The Company's stock-based compensation plans are described in Note 15 to the Company's consolidated financial statements included in its Form 10-K for the year ended December 31, 2005. No changes have been made to the plans during the nine months ended September 30, 2006. In accordance with SFAS No. 123(R), for the nine months ended September 30, 2006, the Company is expensing, on a straight line basis, the previously unrecognized compensation costs related to the non-vested portion of awards granted and outstanding as of January 1, 2006 based on the grant-date fair value of those awards as calculated under the original provisions of Statement No. 123. Fair value has been determined using the Black-Scholes option-pricing model. Compensation costs are now being recognized over the period the

9

employee is required to provide services to obtain the award. The impact of adopting SFAS No. 123(R) was a reduction of income before income taxes of $185,000 and a reduction of net income by $122,000 for the nine months ended September 30, 2006. Basic and diluted earnings per share were reduced by $0.03 per share, respectively. The impact of adopting SFAS No. 123(R) was a reduction of income before income taxes of $49,000 and a reduction of net income of $32,000 for the three months ended September 30, 2006. Basic and diluted earnings per share were reduced by $0.01 per share.

Prior to the adoption of SFAS No. 123(R), the Company accounted for the plans under the recognition and measurement principles of Accounting Principle Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, no stock-based employee compensation cost was reflected in net income, as all options granted under the plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

A summary of the status of the Company's stock option plans (shares in thousands) are presented below:

Options	Shares Available for Grant	Stock Options Outstanding Shares	Weighted-Average Exercise Price
Balance at December 31, 2005	164	255	$15.92
Granted	(8)	8	18.40
Stock options exercised	-	(28)	10.89
Shares vested	-	-	-
Forfeited or expired	-	(4)	14.18
Balance at September 30, 2006	156	231	

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2006 was $4.56. The total intrinsic value of options exercised during the nine months ended September 30, 2006 was $200,000.

A summary of options outstanding (shares in thousands) at September 30, 2006 is as follows:

	Stock Options	
	Outstanding	Exercisable
Total number of shares	231	203
Weighted average exercise price	$18.18	$18.03
Aggregate intrinsic value (in thousands)	$ -	$ 26
Weighted average remaining contractual term (in months)	8	8

10

The fair value of each option award is estimated on the date of grant based on a number of factors including volatilities, dividends, and expected terms. Listed below is a summary of the factors we employed:

	September 30, 2006
Expected volatility	24% - 33%
Weighted-average volatility	29%
Expected dividends	1.90%
Expected term (in years)	5 - 10
Risk-free rate	3.98% - 5.22%

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") Statement No. 123(R), "Accounting for Stock-Based Compensation," to stock-based employee compensation for the three and nine months ended September 30, 2005.

		Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
		(In thousands, except per share data)	
Net income, as reported		$ 900	$2,848
Deduct: stock-based employee compensation expense determined under fair value method, net of related tax effects		41	123
Net income, pro forma		$ 859	$2,725
Earnings per share - basic	As reported	$0.22	$ 0.69
	Pro forma	$0.21	$ 0.66
Earnings per share - assuming dilution	As reported	$0.22	$ 0.69
	Pro forma	$0.21	$ 0.66

11

Note D - Pension Plan

The components of net periodic pension expense are as follows:

	Three Months Ended September 30,		Nine Months Ended Septemb	
	2006	2005	2006	2005
	(In thousands)			
Interest cost	$ 15	$ 21	$ 48	$ 64
Expected return on plan assets	(26)	(37)	(84)	(111
Settlements	108	167	241	167
Recognized net actuarial loss	6	9	21	26
Net periodic benefit expense	$103	$160	$226	$ 146

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2005 that it expects to make no contributions to the plan in 2006.

Recent Accounting Pronouncements

Defined Benefit Pension and Other Postretirement Plans

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, "Shared-Based Payment (Revised 2004)" (SFAS 123R). See Note C for further information on the Company's share-based compensation plans.

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, "Accounting for Servicing of Financial Assets" (SFAS 156). This statement amends SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," with respect to the accounting for separately recognized servicing assets and servicing liabilities. Consistent with SFAS No. 140, SFAS 156 requires companies to recognize a servicing asset or servicing liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract. However, the statement permits a company to choose either the amortized cost method or fair value measurement method for each class of separately recognized servicing assets. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements. The Company plans to adopt SFAS 156 at the beginning of 2007 and the adoption of this statement will have no material impact on its consolidated financial statements.

In September 2006, the FASB Issued Statement of Financial Account Standards No. 157, "Fair Value Measurements" (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for the Company on January 1, 2008 and is not expected to have a significant impact on the Company's consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans". This Statement will require employers, such as the Bank, to fully recognize the obligations associated with single-employer defined benefit pension, retiree healthcare and other postretirement plans in their financial statements. Specifically, the new standard requires an employer to (a) recognize on its balance sheet an asset for a plan's over-funded status or a liability for a plan's under-funded status, (b) measure a plan's assets and its obligations that determine its

funded status as of the end of the employer's fiscal year, and (c) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur.

The requirement to recognize the funded status of a benefit plan and the disclosure requirements are effective for the Bank at the end of its fiscal year ending December 31, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end balance sheet is effective for the Bank's fiscal year ending December 31, 2008. Management is in the process of evaluating the impact of this Statement on the Bank's consolidated financial statements.

In July 2006, the FASB issued Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprises' financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting

in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently analyzing the effects of FIN 48.

On September 13, 2006, the Securities and Exchange Commission "SEC" issued a Staff Accounting Bulleting N. 108 (SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, companies might evaluate the materiality of financial-statement misstatements using either the income statement or balance approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach could be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. It is anticipated that SAB 108 will not have a significant impact on the reported results of operations or financial condition.

On September 20, 2006, the FASB ratified EITF 06-4, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangement." ("EITF 06-4). This issue addresses accounting for split-dollar life insurance arrangements after the employer purchases a life insurance policy on the covered employee. This EITF states that an obligation arises as a result of a substantive agreement with an employee to provide future postretirement benefits. Under EITF 06-4, the obligation is not settled upon entering into an insurance agreement. Since the obligation is not settled, a liability should be recognized in accordance with applicable authoritative guidance. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The Company is in the process of analyzing the implications of EITF 06-4.

Also on September 20, 2006, the FASB ratified EITF 06-5, "Accounting for Purchases of Life Insurance-Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4, Accounting for Purchases of Life Insurance." This issue addresses how an entity should determine the amount that could be realized under the insurance contract at the balance sheet date in applying FTB 85-4 and if the determination could be on an individual or group policy basis. EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The company is in the process of analyzing the implication of EITF 06-5.

13

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Slade's Ferry Bancorp., a Massachusetts corporation, is a bank holding company headquartered in Somerset, Massachusetts with consolidated assets of $607.8 million, consolidated net loans and leases of $426.4 million, consolidated deposits of $422.7 million and consolidated shareholders' equity of $50.8 million as of September 30, 2006. We conduct our business principally through our wholly-owned subsidiary, Slade's Ferry Trust Company (referred to herein as the "Bank"), a Massachusetts-chartered trust company. Our common stock is quoted on the Nasdaq Capital Market under the symbol "SFBC."

Forward-looking Statements

This Form 10-Q contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding the strength of the company's capital and asset quality. Such statements may be identified by words such as "believes," "will," "expects," "project," "may," "could," "developments," "strategic," "launching," "opportunities," "anticipates," "estimates," "intends," "plans," "targets" and similar expressions. These statements are based upon the current beliefs and expectations of management and are subject to significant risks and uncertainties. Actual results may differ materially from those set forth in the forward-looking statements as a result of numerous factors.

The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in our forward-looking statements:

(1) enactment of adverse government regulation;
(2) competitive pressures among depository and other financial institutions may increase significantly and have an effect on pricing, spending, third-party relationships and revenues;
(3) the strength of the United States economy in general and specifically the strength of the New England economies may be different than expected, resulting in, among other things, a deterioration in overall credit quality and borrowers' ability to service and repay loans, or a reduced demand for credit, including the resultant effect on the our loan portfolio, levels of charge-offs and non-performing loans and allowance for loan losses;
(4) changes in the interest rate environment may reduce interest margins and adversely impact net interest income; and
(5) changes in assumptions used in making such forward-looking statements.

Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, our All subsequent written and oral forward-looking statements attributable to Slade's Ferry Bancorp. or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements set forth above. We do does not intend or undertake any obligation to update any forward-looking statement to reflect circumstances or events that occur after the date the forward-looking statements are made.

As used throughout this report, the terms "we," "our," "us," or the "Company" refer to Slade's Ferry Bancorp. and its consolidated subsidiary, unless the context otherwise requires.

Critical Accounting Policies

Our significant accounting policies are incorporated by reference to Note 1 to our Consolidated Financial Statements filed within Form 10-K for the year ended December 31, 2005. In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and other-than-temporary impairment losses.

Allowance for loan losses. The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Other than temporary impairment. In estimating other-than-temporary-impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Comparison of Financial Condition at September 30, 2006 and December 31, 2005

General

Total assets increased by $21.9 million, or 3.7%, from $585.9 million at December 31, 2005 to $607.8 million at September 30, 2006. Our total investment portfolio increased from $130.0 million at December 31, 2005 to $140.1 million at September 30, 2006, an increase of 7.8%. Total net loans increased by $16.8 million, or 4.1%, from $409.6 million to $426.4 million. Deposits increased by $6.8 million, or 1.6%, from $415.8 million to $422.7 million. Total short and long-term borrowings also increased $13.1 million, or 12.1%, from $107.9 million at December 31, 2005 to $120.9 million at September 30, 2006.

Cash and Cash Equivalents

Cash and cash equivalents decreased by $5.1 million, from $20.0 million at December 31, 2005 to $14.9 million at September 30, 2006. This decrease, together with the increases in deposits and borrowings, was used to fund the securities and loan growth.

Investment Portfolio

The main objectives of our investment portfolio are to achieve a competitive rate of return over a reasonable time period and to provide liquidity.

Our normal investment strategy is to allow the investment portfolio to decrease through normal paydowns and maturities and reinvest these funds into higher yielding loans or investments. At September 30, 2006, the portfolio duration was approximately 4.1 years which was within our investment policy limit of 5 years. We do not purchase investments with imbedded derivative characteristics, or free-standing derivative instruments such as swaps, options, or futures.

Securities Available for Sale

Securities not designated as held-to-maturity are designated as available for sale. Although we do not anticipate the sale of these securities, the

designation as available for sale allows the flexibility to alter the investment strategy and sell these securities when conditions warrant. Additionally, marketable equity securities that have no maturity date must be designated as available-for-sale. These securities are carried at fair value. The available-for-sale securities portfolio includes obligations of government-sponsored enterprises and mortgage-backed securities of government-sponsored enterprises, corporate debt and equity securities. Available-for-sale securities increased from $94.3 million at December 31, 2005 to $107.4 million primarily as a result of the above-mentioned $20.0 million purchase of securities in the three months ending September 30, 2006.

In the three month period ending June 20, 2006, the Board of Directors approved a strategy to restructure the available-for-sale investment portfolio through the sale of approximately $14.5 million of low-yielding obligations of government-sponsored enterprises. Realized losses amounted to $176,000 or 1.2% of the underlying cost basis of these securities.

The following table shows the amortized cost basis and fair value of securities available for sale at September 30, 2006 and December 31, 2005.

	September 30, 2006		December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
Debt Securities:				
Government-sponsored enterprises	$ 34,456	$ 33,801	$50,443	$49,581
Corporate	9,244	8,993	9,564	9,014
Mortgage-backed	60,317	60,065	31,574	31,232
Total debt securities	104,017	102,859	91,581	89,827
Marketable equity securities	3,337	3,356	3,426	3,271
Mutual funds	1,215	1,194	1,205	1,200
Total securities available for sale	$108,569	$107,409	$96,212	$94,298

Securities Held to Maturity

The held-to-maturity portfolio consists of mortgage-backed securities and securities issued by states and municipalities. These securities are carried at amortized cost. Held-to-maturity securities decreased from $29.3 million at December 31, 2005 to $25.8 million at September 30, 2006. Management has designated these mortgage-backed securities to secure advances from the Federal Home Loan Bank of Boston. We have the positive intent and ability to hold these securities to maturity.

The following table shows the amortized cost basis and fair value of securities held to maturity at September 30, 2006 and December 31, 2005.

	September 30, 2006		December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
State and municipal obligations	$ 5,002	$ 5,071	$ 6,766	$ 6,892
Mortgage-backed securities	20,750	20,049	22,540	21,966
Total securities held to maturity	$25,752	$25,120	$29,306	$28,858

Loans

Our loan portfolio consists of residential and commercial real estate loans, construction and land development loans, commercial loans, home equity lines of credit and consumer loans originated primarily in our market area. There are no foreign loans outstanding. Interest rates charged on loans are affected principally by the demand for such loans, the supply of money available for lending purposes and the rates offered by our competitors. Total net loans were 70.2% of total assets at September 30, 2006, compared to 69.9% of total assets at December 31, 2005.

Multi-Family and Commercial Real Estate Lending

We originate multi-family and commercial real estate loans that are generally secured by five or more unit apartment buildings and properties used for business purposes, such as small office buildings, restaurants or retail facilities. These loans generally involve larger principal amounts and a greater degree of risk than one-to-four family residential mortgage loans. Because payments on loans secured by multi-family and commercial real estate properties are often dependent on successful operation or management of the properties, repayment of such loans may be subject to adverse conditions in the real estate market or the economy. We seek to minimize these risks through our underwriting standards.

Multi-family and commercial real estate loans totaled $214.2 million and comprised 49.7% of the total gross loan portfolio at September 30, 2006. At December 31, 2005, the multi-family and commercial real estate loan portfolio totaled $213.8 million, or 51.6% of total gross loans.

17

Residential Lending

We currently offer fixed-rate, one-to-four family mortgage loans with terms from 10 to 30 years and a number of adjustable-rate mortgage loans with terms of up to 30 years and interest rates that adjust every one or three years from the outset of the loan.

We generally underwrite our residential real estate loans to comply with secondary market standards established by the Federal National Mortgage Association. Although loans are underwritten to standards that make them readily saleable, we have not chosen to sell these loans. Rather, we maintain them in our portfolio, consistent with our income and interest rate risk management targets.

Residential real estate loans totaled $128.5 million and comprised 29.8% of the total gross loan portfolio at September 30, 2006. At December 31, 2005, the residential real estate loan portfolio totaled $120.3 million, or 29.0% of total gross loans. Due to competitive pricing, our residential loan portfolio continues to increase, and grew 6.8% as a function of total gross loan portfolio dollars when comparing September 30, 2006 to December 31, 2005.

Commercial Loans

Commercial business loans consist of loans and lines predominantly collateralized by inventory, furniture and fixtures, and accounts receivable. In assessing the collateral for this type of loan, we apply a 50% liquidation value to inventories; 25% to furniture, fixtures and equipment; and 70% to accounts receivable less than 90 days of the invoice date.

Commercial loans totaled $47.1 million and comprised 10.9% of the total gross loan portfolio at September 30, 2006. At December 31, 2005, the commercial loan portfolio totaled $38.1 million, or 9.2% of total gross loans. With the implementation of our loan portfolio management team, our commercial loan officers are able to concentrate their efforts on this aspect of business development.

Construction Lending

Fixed-rate construction loans are originated for the development of one-to-four family residential properties. Although we do not generally make loans secured by raw land, our policies permit the origination of such loans. We do not, however, engage in speculative housing development. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspections by an independent construction specialist warrant.

Construction and land development loans totaled $21.3 million and comprised 4.9% of total gross loan portfolio at September 30, 2006. At December 31, 2005, construction and land development loans totaled $21.5 million or 5.2% of total gross loans. With the implementation of our loan portfolio management team, our commercial loan officers are able to manage their efforts on business development.

Home Equity Lines of Credit

Home equity lines of credit are secured by second mortgages on owner-occupied, one-to-four family residences located in our primary market area. Interest rates on our home equity lines of credit are generally indexed to the Wall Street Journal Prime Rate and adjust on a monthly basis.

Home equity lines of credit totaled $17.1 million and comprised 4.0% of the total gross loan portfolio at September 30, 2006. At December 31, 2005, home equity lines of credit totaled $17.9 million, or 4.3% of total gross loans.

Consumer Lending

Consumer loans are either secured or unsecured by rapidly depreciable assets such as recreational vehicles and automobiles and entail greater risks than one-to-four family residential mortgage loans. Consumer loans are typically made based on the borrower's ability to repay the loan through continued financial stability. We endeavor to minimize risk by reviewing the borrower's repayment history on past debts and assessing the borrower's ability to meet existing obligations on the proposed loan. Consumer loans are both secured and unsecured borrowings. Consumer loans totaled $2.9 million and comprised 0.7% of

the total gross loan portfolio at September 30, 2006. At December 31, 2005, the consumer loans totaled $2.6 million, or 0.6% of total gross loans.

The following table summarizes our loan portfolio by category at September 30, 2006 and December 31, 2005.

	September 30, 2006	December 31, 2005	Inc
	(Dollars in thousands)		
Real estate mortgage loans:			
Commercial	$214,227	$213,815	
Residential	128,534	120,345	
Construction and land development	21,268	21,490	
Home equity lines of credit	17,064	17,915	
Commercial, financial and agricultural loans	47,111	38,111	
Consumer loans	2,911	2,623	
Total loans	431,115	414,299	
Less: Allowance for loan losses	(4,374)	(4,333)	
Net deferred loan fees	(311)	(356)	
Loans, net	$426,430	$409,610	

The increases in the loan portfolio are the result of the continued demand by small businesses for commercial and industrial loans and the normal origination process for residential loans. These increases were partially offset by a weaker overall general market environment relating to commercial real estate and home equity lines of credit.

The following table presents information with respect to non-performing loans at September 30, 2006 and December 31, 2005.

	September 30, 2006	December
	(Dollars in thousands)	
Non-accrual loans	$ 497	$
Loans 90 days or more past due and still accruing	-	
Total non-performing loans	$ 497	$
Percentage of non-accrual loans to total gross loans	0.12%	0.
Percentage of allowance for loan losses to non-accrual loans	880.08%	478.

19

The $497,000 of non-accrual loans as of September 30, 2006 consists of $464,000 of commercial real estate loans, $28,000 of residential real estate loans and $5,000 of consumer loans. There were no restructured loans included in

non-accrual loans for the nine months ended September 30, 2006.

It is our policy to manage our loan portfolio in order to recognize problem loans at an early stage and thereby minimize loan losses. Loans are considered delinquent when any payment of principal or interest is one month or more past due. We generally commence collection procedures when accounts are 15 days past due. Generally, when a loan becomes past due 90 days or more, management discontinues the accrual of interest and reverses previously accrued interest, unless the credit is well-secured and in process of collection. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. When a loan, or any portion of a loan, is determined to be uncollectible, it is charged off to the Allowance for Loan Losses. If applicable, any real estate securing the loan is acquired through foreclosure, and recorded as Other Real Estate Owned at the then fair market value, and thereby reducing the amount required to be charged against the Allowance for Loan Losses.

Management defines non-performing loans to include non-accrual loans, loans past due 90 days or more and still accruing, and restructured loans not performing in accordance with amended terms.

Statement of Financial Accounting Standards No. 114 "Accounting by Creditors for Impairment of a Loan" ("SFAS No. 114") applies to all loans except large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. We do not separately identify consumer loans for impairment disclosures. A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect the scheduled payments of principle or interest when due according to the contractual terms of the loan agreement.

The following is a summary of information pertaining to impaired and non-accrual loans:

	September 30, 2006	Dece
	(Dollars in thousa	
Impaired loans without a valuation allowance	$ 497	
Impaired loans with a valuation allowance	-	
Total impaired loans	$ 497	
Valuation allowance related to impaired loans	$ -	
Total non-accrual loans	$ 497	
Total loans past-due ninety days or more and still accruing	$ 15	

Analysis of Allowance for Loan Losses

The table below illustrates the changes in the Allowance for Loan Losses for the periods indicate

	Nine Months Ended Sep
	2006
	(Dollars in thous
Balance at beginning of period	$4,333
Charge-offs:	
Real estate mortgage loans:	
Commercial	-
Residential	-
Home equity lines of credit	-
Commercial, financial and agricultural loans	-
Consumer	12
	12
Recoveries:	
Real estate mortgage loans:	
Commercial	-
Residential	5
Home equity lines of credit	-
Commercial, financial and agricultural loans	9
Consumer	-
	14
Net loan recoveries (charge-offs)	2
Provision for loan losses	39
Balance at end of period	$4,374
Allowance for loan losses as a percent of loans	1.01%
Ratio of net loan recoveries (charge-offs) to average loans outstanding	0.00%

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. For loans that are classified as impaired, a specific allowance is established when the discounted cash flow (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The amount of the unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used

in the methodologies for estimating specific and general losses in the portfolio.

As the composition of the loan portfolio changes and diversifies over time, management must revaluate the adequacy of allowance for loan losses. After thorough review and analysis of the adequacy of the loan loss allowance, management determined a provision for losses of $39,000 was required for the nine months ended

September 30, 2006 as compared to a provision of $109,000 for the nine months ended September 30, 2005. The allowance for loan losses as a percentage of total loans outstanding declined from 1.05% at December 31, 2005 to 1.01% at September 30, 2006. The decline in the provision for loan losses in 2006, as compared to the same period in 2005, was primarily attributable to refinements made in calculating the risk components inherent in our loan portfolio, and the continued positive credit quality trends inherent in our loan portfolio. These refinements in the allocated risk factors attributable to all loan pools were finalized in the second quarter of 2006.

This table below shows an allocation of the allowance for loan losses at the dates indicated. The unallocated portion of the allowance for loan losses is reflected in the allocation for real estate mortgage loans.

	September 30, 2006		December 31, 2005	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Commercial	$ 750	10.9%	$ 905	9.2%
Real estate construction	202	4.9%	248	5.2%
Real estate mortgage	3,216	83.5%	3,056	85.0%
Consumer	206	0.7%	124	0.6%
	$4,374	100.0%	$4,333	100.0%

Deposits

We continue our efforts to competitively price deposit products and develop and maintain banking relationships with our customers. The flow of deposits is influenced significantly by general economic conditions, changes in money market rates, prevailing interest rates and competition from local branches of nationwide and regional banks as well as local banks and credit unions. Our total deposits increased from $415.8 million at December 31, 2005 to $422.7 million at September 30, 2006, an increase of $6.8 million or 1.6%. The increase in total deposits was whollly attributable to increases in term deposits. A $10.0 million certificate of deposit from the Commonwealth of Massachusetts that is to be used to assist in promoting job growth through loans to qualifying small businesses, and other reinvestments from lower-yielding deposit products made up the majority of this increase offset by

run off in other non-certificate deposit products.

The following table presents deposits by category at September 30, 2006 and December 31, 2005.

	September 30, 2006	December 31, 2005	Percen Increase/(
	(Dollars in thousands)		
Demand deposits	$ 76,638	$ 80,705	-5.
NOW	49,388	55,493	-11.
Regular and other savings	79,413	87,146	-8.
Money market deposits	26,795	29,835	-10.
Total non-certificate accounts	232,234	253,179	-8.
Term certificates less than $100,000	122,290	116,861	4.
Term certificates of $100,000 or more	68,147	45,806	48.
Total certificate accounts	190,437	162,667	17.
Total deposits	$422,671	$415,846	1.

Borrowings

There was no change in the balance of our subordinated debentures from December 31, 2005 to September 30, 2006. Short- and long-term advances from the Federal Home Loan Bank of Boston totaled $120.9 million at September 30, 2006, as compared to $107.9 million at December 31, 2005, an increase of $13.1 million, or 12.1%. This increase primarily represents the difference between the growth in our loans and investment securities compared to the growth in our deposits and the reductions in our cash equivalents. Our strategy is to obtain an appropriate overall cost of funds utilizing deposit growth combined with advances from the Federal Home Loan Bank to support our loan growth, and investment securities increases, if any.

Comparison of Results of Operations for the Three Months Ended September 30, 2006 and 2005

General

Net income increased from $900,000 or $0.22 per share on a diluted basis, for the three months ended September 30, 2005 to $1.0 million or $0.25 per share on a diluted basis, for the three months ended September 30, 2006, a 15.9% increase. Net interest and dividend income remained relatively stable, with large offsetting increases in interest income and interest expense, when comparing the three months ended September 30, 2005 and 2006. The provision for loan losses decreased by $44,000 for the three months ended September 30, 2006.

Non-interest income increased by $130,000 or 21.6% from $602,000 to $732,000 for the three months ended September 30, 2005 and 2006. Non-interest expense increased by $56,000 or 1.5%, to $3.7 million for the three months ended September 30, 2006 when compared to September 30, 2005.

Interest Income

Our operating performance is dependent on net interest and dividend income, the difference between interest and dividend income earned on loans and investments and interest expense paid on deposits and borrowed funds. The level of net interest income and dividend income is significantly impacted by factors such as economic conditions, interest rates, asset/liability management, and strategic planning.

Interest and dividend income increased by $1.2 million or 16.5%, from $7.5 million for the three months ended September 30, 2005 to $8.7 million for the three months ended September 30, 2006. The majority of this increase can be attributed to growth in the loan portfolio and an increase in yields on loans. The average balance of loans increased by $33.9 million or 8.5% and the yield on the loan portfolio increased from 5.9% for the three months ended September 30, 2005 to 6.5% for the three months ended September 30, 2006. The increases resulted from a greater volume and higher rates earned on commercial and real estate loans reflecting current market conditions. Interest and dividends on investments increased by $97,000 for the three months ended September 30, 2006 compared to the three months ended September 30, 2005. The increase was primarily the result of the equivalent of two Federal Home Loan Bank of Boston dividend payments in the third quarter of 2006, after not declaring a second quarter dividend, compared to only one dividend payment in the comparable period in the prior year.

Interest Expense

Total interest expense increased by $1.0 million or 35.2%, from $3.0 million for the three months ended September 30, 2005 to $4.0 million for the three months ended September 30, 2006. In response to competitive pressures and the rising rate environment, we raised rates on certain deposit products with the most significant increases in certificate of deposit and certain money-market based products. As a result of the rate increases and a large movement of balances from lower yielding deposit products to higher yielding term products, the weighted average cost of deposits increased from 2.04% for the three months ended September 30, 2005 to 2.97% for the three months ended September 30, 2006. The interest expense on Federal Home Loan Bank borrowings increased $54,000 during this same time period due primarily to associated rate and volume increases. Interest expense associated with subordinated debentures increased by $51,000, the result of increased market interest rates. The debentures carry an adjustable rate of interest tied to the three-month LIBOR rate.

24

Net Interest Margin

As a result of the current interest rate environment and our corresponding rate increases on deposit accounts, the net interest margin has compressed 1 basis point from 3.32% for the three months ended September 30, 2005 to 3.31% at September 30, 2006. The compression in net interest margin was mostly due to the growth in an environment with an inverted yield curve and low yielding loans and investments, combined with intense competition for deposits.

Provision for Loan Losses

After thorough review and analysis of the adequacy of the loan loss reserve, management deemed it prudent not to provide a provision for possible loan losses for the three months ended September 30, 2006 compared to $44,000 for possible loan losses for the three months ended September 30, 2005. The decline in the provision for loan losses in 2006 was attributable to continued improvements in the overall loan quality, combined with the refinements made in the allocated risk factors attributable to all components of our loan portfolio, during the first six months of 2006.

25

The following table sets forth our average assets, liabilities, and stockholders' equity, interes paid, average rates earned and paid, net interest spread and the net interest margin for the thre 2006 and 2005. Average balances reported are daily averages.

	Three Months Ended September			
	2006			
	Average Balance	Interest Income/Expense	Average Rate	Average Balance
Assets:	(Dollars in thousands)			
Interest earning assets (2)				
Loans:				
Commercial	$ 50,928	$ 984	7.67%	$ 33,618
Commercial real estate	229,519	3,864	6.68%	223,813
Residential real estate	148,845	2,142	5.71%	138,309
Consumer	2,660	87	12.98%	2,306
Total loans	431,952	7,077	6.50%	398,046
Federal funds sold	2,947	44	5.92%	4,916
Taxable debt securities	108,547	1,288	4.71%	120,487
Tax-exempt debt securities (1)	5,654	94	6.59%	7,703
Marketable equity securities	4,331	40	3.66%	4,021
FHLB stock	6,415	173	10.70%	6,188
Other investments	650	10	6.11%	1,184
Total interest earning assets	560,496	8,726	6.18%	542,545
Allowance for loan losses	(4,368)	-------		(4,228)
Deferred loan fees	(326)			(383)
Cash and due from banks	12,970			14,734
Other assets	38,009			26,650
	$606,781			$579,318
Liabilities and Stockholders' Equity:				
Interest bearing liabilities				
Savings accounts	$ 80,255	$ 302	1.49%	$ 95,498
NOW accounts	53,506	170	1.26%	48,786
Money market accounts	26,966	182	2.68%	30,028
Time deposits	187,837	1,962	4.14%	150,647
FHLB advances	106,472	1,196	4.46%	114,025
Subordinated debt	10,310	217	8.35%	10,310

Total interest bearing liabilities	465,346	4,029	3.44%	449,294
Demand deposits	75,343	-------		79,441
Other liabilities	16,269			2,119
Total liabilities	556,958			530,854
Total stockholders' equity	49,823			48,464
	$606,781			$579,318
Net interest income		$ 4,697		
Net interest spread			2.74%	
Net interest margin			3.32%	

(1) On a fully taxable basis based on tax rate of 35.0% for 2006 and 2005. Interest income on i income includes a fully taxable equivalent adjustment of $33,000 in 2006 and $45,000 in 200

(2) Average balance includes non-accruing loans. The effect of including such loans, although n average rate earned on the Company's loans.

26

The following table presents the changes in components of net interest income for the three months ended September 30, 2006 and 2005, which are the result of changes in interest rates and changes that in the volume of the underlying asset or liability. Changes that are attributable to the changes in both rate and volume have been allocated equally to rate and volume.

	Three Months Ended September 30, 2006 vs. 2005 Increase (Decrease)		
	Total Change	Due to Volume	Due to Rate
	(In thousands)		
Commercial loans	$ 387	$ 330	$ 57
Commercial real estate	414	90	324
Residential real estate	284	147	137
Consumer loans	49	7	42
Federal funds sold	3	(23)	26
Taxable debt securities	4	(134)	138
Tax-exempt debt securities	(34)	(34)	-
Marketable equity securities	2	3	(1)
FHLB Stock	107	3	104
Other investments	3	(6)	9
Total interest income	1,219	383	836
Savings accounts	(2)	(53)	51
NOW accounts	24	15	9
Money market accounts	81	(15)	96
Time deposits	841	319	522
FHLB advances	54	(80)	134
Subordinated debt	51	-	51

Total interest expense	1,049	186	863
Net interest income	$ 170	$ 197	$(27)

Non-Interest Income

Non-interest income increased from $602,000 for the three months ended September 30, 2005 to $732,000 for the three months ended September 30, 2006, an increase of $130,000 or 21.6%. The growth was primarily attributable to increases in service charges on deposit accounts attributable to the introduction of an overdraft protection program and increases in the volumes of official check fees and debit card income offset by the non recurrence of a gain on the sale of loans in the three months ended September 30, 2005.

Non-Interest Expense

Non-interest expense increased by $56,000 to $3.7 million for the three months ended September 30, 2006 as compared to the same three month period in 2005. The change is primarily related to increased expenses associated with the outsourcing of substantial portions of back office operations to minimize risk, increase efficiency and utilize advanced technologies which were partially offset by savings in salary expenses.

27

Provision for Income Taxes

Income before income taxes was $1.4 million for the three months ended September 30, 2005 compared to $1.7 million for the three months ended September 30, 2006. Provision for income taxes totaled $458,000 and $615,000 million for the three months ended September 30, 2005 and 2006, respectively, representing effective tax rates of 33.7% and 37.1%, respectively. The increase in the overall tax rate was due to a decline in income for the Bank's subsidiaries which are taxed at a lower state tax rate and a decline in federally exempt municipal income.

28

Comparison of Results of Operations for the Nine Months Ended September 30, 2006 and 2005

General

Net income decreased from $2.8 million or $0.69 per share on a diluted basis, for the nine months ended September 30, 2005 to $2.6 million or $0.62 per share on a diluted basis, for the nine months ended September 30, 2006, a decrease of 9.6%. Net interest and dividend income increased by $268,000 or 2.0%, from $13.4 million to $13.6 million when comparing the nine months ended September 30, 2005 and 2006. Over the same period, the provision for loan losses decreased from $109,000 to $39,000. Non-interest income increased by $270,000 or 15.8% from $1.7 million to $2.0 million for the nine months ended September 30, 2005 and 2006. Non-interest expenses increased by $821,000 or 7.7%, from $10.6 million for the nine months ended September 30, 2005 to $11.4 million for the nine months ended September 30, 2006.

Interest Income

Our operating performance is dependent on net interest and dividend income, the difference between interest and dividend income earned on loans and investments and interest expense paid on deposits and borrowed funds. The level of net interest income and dividend income is significantly impacted by factors such as economic conditions, interest rates, asset/liability management, and strategic planning.

Interest and dividend income increased by $3.4 million or 15.8%, to $24.6 million for the nine months ended September 30, 2006 from $21.2 million for the nine months ended September 30, 2005. This increase is primarily attributable to the growth in the loan portfolio and higher yields on loans. The average balance of loans increased by $35.8 million or 9.2% and the yield on the loan portfolio increased from 5.8% for the nine months ended September 30, 2005 to 6.4% for the nine months ended September 30, 2006. The increases were principally the result of a greater volume and higher rates earned on commercial and real estate loans reflecting current market conditions. Interest and dividends on investments increased by $92,000, for the nine months ended September 30, 2006 compared to the nine months ended September 30, 2005. The increase was due to higher rates reduced by lower average balances.

Interest Expense

Total interest expense increased by $3.1 million or 39.2%, from $7.9 million for the nine months ended September 30, 2005 to $11.0 million for the nine months ended September 30, 2006. Market interest rates together with our own deposit rates have increased. Interest on deposits increased by $2.5 million or 58.2% when comparing the nine months ended September 30, 2006 and 2005. In response to competitive pressures and the rising rate environment, we raised rates on certain deposit products with the most significant increases in certificate of deposit and certain money-market based products. As a result of the rate increases, the weighted average cost of deposits increased from 1.79% for the nine months ended September 30, 2005 to 2.66% for the nine months ended September 30, 2006. Interest expense associated with the Federal Home Loan Borrowings increased by $434,000 due to a combination of rate and volume increases related to the need to fund loan growth. Interest expense associated with subordinated debentures increased by $155,000, the result of increased market interest rates. The debentures carry an adjustable rate of interest tied to the three-month LIBOR rate.

Net Interest Margin

As a result of the current interest rate environment and our corresponding rate increases on deposit accounts, the net interest margin has compressed 9 basis points from 3.41% for the nine months ended September 30, 2005 to 3.32% at September 30, 2006. The compression in net interest margin was mostly due to the growth in

an environment with an inverted yield curve and low yielding loans and investments, combined with intense competition for deposits.

Provision for Loan Losses

After thorough review and analysis of the adequacy of the loan loss reserve, management deemed it prudent to provide $39,000 for possible loan losses for the nine months ended September 30, 2006 compared to $109,000 for possible loan losses for the nine months ended September 30, 2005. The decline in the provision for loan losses in 2006 was attributable to continued improvements in the overall loan quality, combined with the refinements made in the allocated

risk factors attributable to all components of our loan portfolio, during the nine months ended September 30, 2006, as compared to the same period in 2005.

30

The following table sets forth our average assets, liabilities, and stockholders' equity, interes paid, average rates earned and paid, net interest spread and the net interest margin for the nine 2006 and 2005. Average balances reported are daily averages.

	Nine Months Ended September			
	2006			
	Average Balance	Interest Income/Expense	Average Rate	Average Balance
	(Dollars in thousands)			
Assets:				
Interest earning assets (2)				
Loans:				
Commercial	$ 46,611	$ 2,643	7.58%	$ 31,397
Commercial real estate	229,006	11,183	6.53%	220,750
Residential real estate	145,864	6,208	5.69%	133,893
Consumer	2,592	163	8.41%	2,279
Total loans	424,073	20,197	6.37%	388,319
Federal funds sold	2,811	109	5.14%	10,021
Taxable debt securities	109,321	3,683	4.51%	111,464
Tax-exempt debt securities (1)	6,057	302	6.66%	7,985
Marketable equity securities	4,347	112	3.44%	4,681
FHLB stock	6,341	256	5.40%	5,721
Other investments	650	27	5.55%	775
Total interest earning assets	553,600	24,686	5.96%	528,966
Allowance for loan losses	(4,361)	-------		(4,185)
Deferred loan fees	(329)			(394)
Cash and due from banks	12,958			16,539
Other assets	26,234			26,281
	$588,102			$567,207
Liabilities and Stockholders' Equity:				
Interest bearing liabilities				
Savings accounts	$ 82,533	$ 830	1.34%	$ 92,926
NOW accounts	55,633	531	1.28%	48,422
Money market accounts	26,921	440	2.19%	34,858
Time deposits	175,866	4,982	3.79%	144,474
FHLB advances	109,447	3,561	4.35%	107,697
Subordinated debt	10,310	612	7.94%	10,310
Total interest bearing liabilities	460,710	10,956	3.18%	438,687
Demand deposits	74,334	-------		78,579
Other liabilities	12,641			2,229
Total liabilities	547,685			519,495
Total stockholders' equity	40,417			47,712

	$588,102			$567,207
Net interest income		$13,730		
Net interest spread			2.78%	
Net interest margin			3.32%	

(1) On a fully taxable basis based on tax rate of 35.0% for 2006 and 2005. Interest income on i
income includes a fully taxable equivalent adjustment of $106,000 in 2006 and $139,000 in 2
(2) Average balance includes non-accruing loans. The effect of including such loans, although n
average rate earned on the Company's loans.

31

The following table presents the changes in components of net interest income for the nine months ended September 30, 2006 and 2005, which are the result of changes in interest rates and changes in the volume of the underlying asset or liability. Changes that are attributable to the changes in both rate and volume have been allocated equally to rate and volume.

	Nine Months Ended September 30, 2006 vs. 2005 Increase (Decrease)		
	Total Change	Due to Volume	Due to Rate
	(In thousands)		
Commercial loans	$1,139	$ 826	$ 313
Commercial real estate	1,145	385	760
Residential real estate	920	492	428
Consumer loans	56	16	40
Federal funds sold	(89)	(211)	122
Taxable debt securities	166	(70)	236
Tax-exempt debt securities	(95)	(96)	1
Marketable equity securities	(9)	(9)	-
FHLB Stock	77	21	56
Other investments	9	(4)	13
Total interest income	3,319	1,350	1,969
Savings accounts	58	(95)	153
NOW accounts	154	61	93
Money market accounts	120	(101)	221
Time deposits	2,163	702	1,461
FHLB advances	434	52	382
Subordinated debt	155	-	155
Total interest expense	3,084	619	2,465
Net interest income	$ 235	$ 731	$ (496)

Non-Interest Income

Non-interest income increased from $1.7 million for the nine months ended September 30, 2005 to $2.0 million for the nine months ended September 30, 2006, an increase of $270,000 or 15.8%. Service charges on deposit accounts increased by $409,000 or 65.7% from $623,000 for the nine months ended September 30, 2005 to $1.0 million for the nine months ended September 30, 2006. This was the result of an increase in overdraft fees with the implementation of an overdraft protection program partially offset by a decrease in service charges on checking accounts. For the nine months ended September 30, 2006, losses recognized on the sale of assets and securities amounted to $155,000 when compared to gains of $128,000 for the nine months ended September 30, 2005. The losses were primarily attributable to the sale of low-yielding securities in the second quarter of 2006 which was part of a restructuring strategy to obtain higher-yielding investments. Cash surrender value increases pertaining to bank-owned life insurance policies decreased $43,000 to $320,000 for the nine months ended September 30, 2006 from $363,000 for the nine months ended September 30, 2005. Additionally, other income increased from $597,000 for the nine months ended September 30, 2005 to $784,000 for the nine months ended September 30, 2006, an increase of $187,000 or 31.3%, primarily as a result of increased commissions earned on the sale of non-deposit investment products, combined with increased volumes in official check fees and debit card income.

Non-Interest Expense

Non-interest expense increased from $10.6 million for the nine months ended September 30, 2005 to $11.4 million for the nine months ended September 30, 2006, an increase of $821,000 or 7.3%. Salaries and employee benefits increased by $199,000 or 3.2%, from $6.2 million for the nine months ended September 30, 2005 to $6.4 million for the nine months ended September 30, 2006. The increase in salaries and benefits includes the adoption of SFAS 123(R) effective January 1, 2006 applicable to the Company's stock-based employee compensation plan which resulted in the recognition of $185,000 in expense, an increase in the Bank's defined benefit plan expense of $80,000 which includes the recognition of settlement accounting. The increases were partially offset by salary reductions attributable to the outsourcing of substantial portions of our back room operations. Occupancy and equipment expense for the nine months ended September 30, 2006 increased $208,000 to $1.5 million as compared to $1.3 million for the nine months ended September 30, 2005. The increase was the result of additional depreciation expense incurred from both our Assonet branch that was opened April 2005 and the upgrade in software associated with the modernization of teller and platform systems. Professional fees increased $192,000 due primarily to the outsourcing of our internal audit function commencing January 1, 2006 and consultations regarding accounting and regulatory matters. Marketing expense decreased $217,000 to $273,000 for the nine months ended September 30, 2006 from $490,000 for the nine months ended September 30, 2005 which is attributable to the timing of certain advertising and community sponsorship initiatives in 2006. Other expense increased $439,000 or 26.7% from $1.6 million for the nine months ended September 30, 2005 to $2.1 million for the nine months ended September 30, 2006. This increase was due to the increased volume of internet banking and cash management fees, increased postage cost, the outsourcing of our courier service, and the increase of meetings and committee fees for two additional Board members.

Provision for Income Taxes

Income before income taxes was $4.3 million for the nine months ended September 30, 2005 as compared to $4.1 million for the nine months ended September 30, 2006. Provision for income taxes totaled $1.5 million and $1.6 million for the

nine months ended September 30, 2005 and 2006, respectively, representing effective tax rates of 34.4% and 37.6%, respectively. The increase in the overall tax rate was primarily due to a decline in income for the Bank's subsidiaries which are taxed at a lower state tax rate and a decline in federally exempt municipal income for the nine months ended September 30, 2006 compared to 2005.

33

Liquidity

Our principal sources of funds are customer deposits, amortization and payoff of existing loan principal, and sales, amortization or maturities of various investment securities. The Bank is a voluntary member of the Federal Home Loan Bank of Boston and as such, may take advantage of the Federal Home Loan Bank of Boston's borrowing programs to enhance liquidity and leverage its favorable capital position. The Bank also may draw on lines of credit at the Federal Home Loan Bank of Boston or the Federal Reserve Board, and enter into repurchase or reverse repurchase agreements with authorized brokers. These various sources of liquidity are used to fund withdrawals, new loans, and investments.

Management seeks to promote deposit growth while controlling the cost of funds. Sales-oriented programs to attract new depositors and the cross-selling of various products to its existing customer base are currently in place. Management reviews, on an ongoing basis, possible new products, with particular attention to products and services, which will aid in retaining our base of lower-costing deposits.

Maturities and sales of investment securities provide us with liquidity. Our policy of purchasing shorter-term debt securities reduces market risk in the bond portfolio while providing significant cash flow. For the nine months ended September 30, 2006, cash flow from maturities of securities was $11.3 million and the proceeds from sales of securities totaled $15.4 million. In comparison, maturities of securities aggregated $14.2 million, and the proceeds from sales of securities aggregated $2.3 million for the nine months ended September 30, 2005. Purchases of securities for the nine months ended September 30, 2006 totaled $35.7 million compared to $27.7 million at September 30, 2005.

Amortization and pay-offs of the loan portfolio also provide us with significant liquidity. Traditionally, amortization and pay-offs are reinvested into loans.

We have also used borrowed funds as a source of liquidity. At September 30, 2006, the Bank's outstanding borrowings from the Federal Home Loan Bank of Boston were $120.9 million. The Bank has the capacity to borrow in excess of additional $25.7 million at the Federal Home Loan Bank.

Loan originations for the nine months ended September 30, 2006 totaled $84.4 million. Commitments to originate loans at September 30, 2006 were $5.5 million, excluding unadvanced construction funds totaling $13.3 million, unadvanced commercial lines of credit totaling $18.6 million and unadvanced home equity lines totaling $16.1 million. Management believes that adequate liquidity is available to fund loan commitments utilizing deposits, loan amortization, maturities of securities, or borrowings.

Capital

At September 30, 2006, our total shareholders' equity was $50.8 million, an

increase of $1.9 million from $48.9 million at December 31, 2005. Additions to shareholders' equity consisted primarily of net income of $2.6 million and accumulated other comprehensive income of $479,000 for the nine months ended September 30, 2006. In addition, there were 25,260 shares of common stock issued at a value of $448,000, pursuant to our Dividend Reinvestment Program, in lieu of cash dividends or for optional cash contributions. Furthermore, stock option exercises resulted in the issuance of 28,000 shares common stock at a value of $305,000, plus a related tax benefit of $82,000 and stock-based compensation of $185,000. These additions were offset by dividends declared of $1.1 million, the repurchase of 31,105 shares of treasury stock for $570,000, and the contribution of $475,000 to a trust for the purchase of our common stock to be used for restricted stock awards. In May 2006, the Board authorized the purchase of 50,000 shares of common stock to be held in trust for future restricted stock awards under the 2004 Equity Incentive Plan. The $475,000, which is reflected on our balance sheet as unearned compensation under

34

stockholder's equity has been contributed to the trust to fund the purchase of some of these shares. No shares have yet been awarded.

Under the requirements for Risk Based and Leverage Capital of the federal banking agencies, a minimum level of capital will vary among banks based on safety and soundness of operations. Risk Based Capital ratios are calculated with reference to risk-weighted assets, which include both on and off balance sheet exposure.

In addition to meeting the required levels, the Company's and the Bank's capital ratios met the criteria of the well-capitalized category established by the federal banking agencies at September 30, 2006 and at December 31, 2005. The Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio for Slade's Ferry Bancorp are 9.86% and 14.04%, respectively, at September 30, 2006. Slade's Ferry Bancorp's Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio at December 31, 2005 were 10.07% and 14.66%, respectively. The Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio for the Bank are 8.80% and 12.22%, respectively, at September 30, 2006. The Bank's Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio at December 31, 2005 were 8.56% and 12.51%, respectively.

35

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

36

ITEM 3

QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We consider interest rate risk to be a significant market risk as it could potentially have an effect on our financial condition and results of operation. The definition of interest rate risk is the exposure of our earnings to adverse

movements in interest rates, arising from the differences in the timing of repricing of assets and liabilities; the differences in the various pricing indices inherent in our assets and liabilities; and the effects of overt and embedded options in our assets and liabilities. Our Asset/Liability Committee, comprised of the executive management, is responsible for managing and monitoring interest rate risk, and reviewing with the Board of Directors, at least quarterly, the interest rate risk positions, the impact changes in interest rates could have on net interest income, and the maintenance of interest rate risk exposure within approved guidelines.

The potentially volatile nature of market interest rates requires us to manage interest rate risk on an active and dynamic basis. Our objective is to reduce and control the volatility of net interest income to within tolerance levels established by the Board of Directors, by managing the relationship of interest-earning assets and interest-bearing liabilities. In order to manage this relationship, the Asset/Liability Committee utilizes an income simulation model to measure the net interest income at risk under differing interest rate scenarios. Additionally, the Committee uses Economic Value of Equity ("EVE") analysis to measure the effects of changing interest rates on the market values of rate-sensitive assets and liabilities, taken as a whole. The Board of Directors and management believe that static measures of timing differences, such as "gap analysis", do not accurately assess the levels of interest rate risk inherent in our balance sheet. Gap analysis does not reflect the effects of overt and embedded options on net interest income, given a shift in interest rates, nor does it take into account basis risk, the risk arising from using various different indices on which to base pricing decisions.

The income simulation model currently utilizes a 200 basis point increase and decrease in interest rate shocks. The interest rate movements used assume an instant and parallel change in interest rates with no ability to implement any strategic plans in response to the change in rates. Prepayment speeds for loans are based on median dealer forecasts for each interest rate scenario.

The Board of Directors has established a risk limit of a 5.00% change in net interest income for each 100 basis point shift in market interest rates. The limit provides an internal tolerance level to control interest rate risk. We are within our policy-mandated risk limit for net interest income at risk.

The following table reflects our estimated exposure as a percentage of net interest income and the change in basis points for the next twelve months, assuming an immediate change in interest rates set forth below:

Rate Change (Basis Points)	Estimated Exposure as a Percentage of Net Interest Income	Change (Basis Points)
+200	12.36%	(22)
-200	5.95%	11

37

Additionally we use the model to estimate the effects of changes in interest rates on our EVE. EVE represents our theoretical market value, given the rate shocks applied in the model. The Board of Directors has established a risk limit for EVE which provides that the EVE will not fall below 6.00%, the FDIC's minimum capital level to be classified as "well capitalized". We are within our risk limit for EVE.

The following table presents the changes in EVE given rate shocks.

Rate Change (Basis Points)	Economic Value of Equity	Change from Flat Rates
Flat	13.02%	N/A
+200	11.39%	-1.63%
-200	12.99%	-0.03%

38

ITEM 4

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2006 to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure. In connection with the rules regarding disclosure and control procedures, we intend to continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in Internal Controls over Financial Reporting

There were no changes in the Company's internal controls over financial reporting identified in connection with the Company's evaluation of its disclosure controls and procedures that occurred during the Company's last fiscal quarter that have materially affected, or are reasonably likely to materially affects the Company's internal control over financial reporting.

39

PART II

OTHER INFORMATION

ITEM 1

LEGAL PROCEEDINGS

None.

ITEM 1A

RISK FACTORS

There have been no material changes to the risk factors that are included in our Annual Report on Form 10-K for the year ended December 31, 2005 that could affect our business, results of operations or financial condition.

ITEM 2

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

This table provides certain information with respect to our purchase of our common stock during the three months ended September 30, 2006.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Ap Pu
July 1, 2006 through July 31, 2006	-	N/A	-	
Aug. 1, 2006 through Aug. 31, 2006	4,560	$18.08	4,560	
Sept. 1, 2006 through Sept. 30, 2006	13,545	$19.04	13,545	
Total	18,105	$18.80	18,105	

(1) On July 18, 2006 the Company announced a stock repurchase plan pursuant to which the Compan 208,036 shares of its outstanding common stock. The shares shown in this table in column (c months indicated, and the shares reflected in column (d) could still be repurchased as of t under the plan.

40

ITEM 3

DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5

OTHER INFORMATION

None.

ITEM 6

EXHIBITS

Exhibits: See exhibit index.

SIGNATURES

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

SLADE'S FERRY BANCORP.
(Registrant)

November 14, 2006 (Date)	/s/ Mary Lynn D. Lenz Mary Lynn D. Lenz President and Chief Executive Officer
November 14, 2006 (Date)	/s/ Deborah A. McLaughlin Deborah A. McLaughlin Executive Vice President Chief Financial Officer and Chief Operations Officer

EXHIBIT INDEX

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Slade's Ferry Bancorp.
3.2	Amended and Restated Bylaws of Slade's Ferry Bancorp.
3.3	Articles of Amendment to the Amended and Restated Articles of Incorporation of Slade's Ferry Bank
10.1	Slade's Ferry Bancorp. 1996 Stock Option Plan, as amended
10.2	Supplemental Executive Retirement Agreement between Slade's Ferry Bancorp. and Manuel J. Tavares

10.3	Form of Director Supplemental Retirement Program Director Agreement, Exhibit 1 thereto (Slade's Ferry Trust Company Director Supplemental Retirement Program Plan) and Endorsement Method Split Dollar Plan Agreement thereunder.
10.4	Form of Directors' Paid-up Insurance Policy (part of the Director Supplemental Retirement Program).
10.5	Supplemental Executive Retirement Agreement between Slade's Ferry Bancorp. and Mary Lynn D. Lenz
10.6	Employment Agreement between Slade's Ferry Bancorp. and Mary Lynn D. Lenz
10.7	Employment Agreement between Slade's Ferry Bancorp. and Deborah A. McLaughlin
10.8	Employment Agreement between Slade's Ferry Bancorp. and Manuel J. Tavares
10.9	Form Change of Control Agreement
10.10	Severance Pay Plan
10.11	Slade's Ferry Bancorp. 2004 Equity Incentive Plan
11.1	Statement Regarding Computation of Per Share Earnings
14.1	Code of Ethics
31.1	Rule 13a-14(a)/15d-14(a) Certification of the CEO
31.2	Rule 13a-14(a)/15d-14(a) Certification of the CFO
32.1	Section 1350 Certification of the CEO
32.2	Section 1350 Certification of the CFO

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(1) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 filed wit Commission on April 14, 1997.
(2) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on June 22
(3) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on Decembe 2004.
(4) Incorporated by reference to the Registrant's Form 10-Q/A for the quarter ended June 30, 19
(5) Incorporated by reference to the Registrant's Form 10-K/ASB for the fiscal year ended Decem 1996. (6)
(6) Incorporated by reference to Exhibit 10 to the Registrant's Form 10-Q/A for the quarter end March 31, 1999.
(7) Incorporated by reference to Exhibit 10 to the Registrant's Form 10-Q/ASB for the quarter e June 30, 1998.

(8) Incorporated by reference to Exhibit 10.10 to the Registrant's Form 10-Q/A for the quarter March 31, 2003.
(9) Incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-Q/A for the quarter June 30, 2004.
(10) Incorporated by reference to Exhibit 10.7 to the Registrant's Form 10-Q/A for the quarter e September 30, 2004.
(11) Incorporated by reference to Exhibit 10.8 to the Registrant's Form 10-Q/A for the quarter e September 30, 2004.
(12) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on January 2005.

(13) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on January 2005.

(14) Incorporated by reference to Appendix C to the Registrant's Proxy Statement filed on April

(15) Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 2003.