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SLADES FERRY BANCORP
Form 10-Q
November 14, 2007

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 quarterly period ended September 30, 2007

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	02726
Somerset, Massachusetts	-----
-----	(Zip code)
(Address of principal executive offices)	

(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 ☒ 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 ☒

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

Yes ☐ No ☒

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) 4,009,353 outstanding
shares as of October 31, 2007.

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ITEM 1

FINANCIAL STATEMENTS

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

	September 30, 2007	December 31, 2006
Assets	-----	-----
	(In thousands)	

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Cash and due from banks	\$ 11,390	\$
Interest-bearing deposits with other banks	550	
Federal funds sold	9,535	

Cash and cash equivalents	21,475	
Interest-bearing certificates of deposit with other banks	100	
Securities available for sale	86,422	
Securities held to maturity (fair value approximates \$20,251 as of September 30, 2007 and \$24,219 as of December 31, 2006)	20,673	
Federal Home Loan Bank stock, at cost	7,644	
Loans, net of allowance for loan losses of \$4,467 at September 30, 2007 and \$4,385 at December 31, 2006	445,099	
Premises and equipment, net	7,522	
Goodwill	2,173	
Accrued interest receivable	2,466	
Bank-owned life insurance	12,548	
Deferred tax asset, net	1,949	
Other assets	1,141	

	\$609,212	\$
	=====	=

Liabilities and Stockholders' Equity

Deposits:

Noninterest-bearing	\$ 75,231	\$
Interest-bearing	324,555	

Total deposits	399,786	
Short-term borrowings	5,000	
Long-term borrowings	139,279	
Subordinated debentures	10,310	
Accrued expenses and other liabilities	3,394	

Total liabilities	557,769	
-------------------	---------	--

Stockholders' equity:

Common stock, par value \$0.01 per share; authorized 5,000,000 shares; issued and outstanding 4,009,353 shares at September 30, 2007 and 4,102,242 shares at December 31, 2006	40	
Additional paid-in capital	30,016	
Retained earnings	22,489	
Accumulated other comprehensive loss	(158)	
Unearned compensation	(944)	

Total stockholders' equity	51,443	

	\$609,212	\$
	=====	=

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

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(Unaudited)

Three Months Ended September 30,
2007 2006

(In thousands, except per share data)

Interest and dividend income:		
Interest and fees on loans	\$ 7,246	\$ 7,077
Interest and dividends on securities:		
Taxable	1,523	1,501
Tax-exempt	45	61
Interest on federal funds sold	161	44
Other interest	19	10
	-----	-----
Total interest and dividend income	8,994	8,693
	-----	-----
Interest expense:		
Interest on deposits	2,639	2,616
Interest on Federal Home Loan Bank advances	1,693	1,196
Interest on subordinated debentures	217	217
	-----	-----
Total interest expense	4,549	4,029
	-----	-----
Net interest and dividend income	4,445	4,664
Provision for loan losses	170	-
	-----	-----
Net interest income, after provision for loan losses	4,275	4,664
	-----	-----
Noninterest income:		
Service charges on deposit accounts	349	373
Gain on sales and calls of available-for-sale securities, net	377	19
Increase in cash surrender value of life insurance policies	126	107
Other income	245	233
	-----	-----
Total noninterest income	1,097	732
	-----	-----
Noninterest expense:		
Salaries and employee benefits	2,411	2,044
Occupancy and equipment expense	499	478
Professional fees	311	378
Marketing expense	106	86
Data processing	245	221
Other expense	551	531
	-----	-----
Total noninterest expense	4,123	3,738
	-----	-----
Income before income taxes	1,249	1,658
Provision for income taxes	417	615
	-----	-----
Net income	\$ 832	\$ 1,043
	=====	=====
Earnings per share:		
Basic	\$ 0.21	\$ 0.25
	=====	=====
Diluted	\$ 0.21	\$ 0.25
	=====	=====

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Average common shares outstanding:

Basic	4,011,313	4,162,753
	=====	=====
Diluted	4,024,550	4,174,460
	=====	=====

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

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

Nine Months Ended September 30,
2007 2006

(In thousands, except per share data)

Interest and dividend income:		
Interest and fees on loans	\$ 21,320	\$ 20,197
Interest and dividends on securities:		
Taxable	4,653	4,051
Tax-exempt	140	196
Interest on federal funds sold	376	109
Other interest	44	27
	-----	-----
Total interest and dividend income	26,533	24,580
	-----	-----
Interest expense:		
Interest on deposits	8,030	6,783
Interest on Federal Home Loan Bank advances	4,862	3,561
Interest on subordinated debentures	642	612
	-----	-----
Total interest expense	13,534	10,956
	-----	-----
Net interest and dividend income	12,999	13,624
Provision for loan losses	170	39
	-----	-----
Net interest income, after provision for loan losses	12,829	13,585
	-----	-----
Noninterest income:		
Service charges on deposit accounts	1,030	1,032
Gain (loss) on sales and calls of available-for-sale securities, net	516	(150)
Increase in cash surrender value of life insurance policies	346	320
Other income	747	779
	-----	-----
Total noninterest income	2,639	1,981
	-----	-----
Noninterest expense:		
Salaries and employee benefits	6,424	6,442
Occupancy and equipment expense	1,497	1,461
Professional fees	903	1,178
Marketing expense	434	273
Data processing	818	420

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Other expense	1,593	1,666
	-----	-----
Total noninterest expense	11,669	11,440
	-----	-----
Income before income taxes	3,799	4,126
Provision for income taxes	1,302	1,550
	-----	-----
Net income	\$ 2,497	\$ 2,576
	=====	=====
Earnings per share:		
Basic	\$ 0.62	\$ 0.62
	=====	=====
Diluted	\$ 0.62	\$ 0.62
	=====	=====
Average common shares outstanding:		
Basic	4,045,921	4,079,396
	=====	=====
Diluted	4,058,893	4,094,752
	=====	=====

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

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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	Accumul Othe Comprehe Loss
	-----	-----	-----	-----	-----
	(In thousands, except per share)				
Balance at December 31, 2006	4,102,242	\$41	\$31,444	\$21,111	\$ (464)
Comprehensive income:					
Net income	-	-	-	2,497	
Other comprehensive loss	-	-	-	-	306
Comprehensive income					
Issuance of common stock	15,665	-	275	-	-
Stock options exercised	18,000	-	254	-	-
Excess tax benefit from stock based comeensation	-	-	19	-	-
Stock-based compensation	-	-	115	-	-
Purchase of treasury stock	(121,831)	(1)	(2,069)	-	-
Purchase of stock for award plan	(12,723)	-	-	-	-

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Restricted shares awarded (8,000 shares vested)	8,000	-	(22)	-	-
Dividends declared (\$.27 per share)	-	-	-	(1,119)	-
Balance at September 30, 2007	4,009,353	\$40	\$30,016	\$22,489	\$ (158)

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

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

	Nine Months Ended September 30,	
	2007	2006
	----	----
	(In thousands)	
Cash flows from operating activities:		
Net income	\$ 2,497	\$ 2,576
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization, net of accretion of securities	(5)	74
(Gain) loss on sales and calls of available-for-sale securities, net	(516)	150
Amortization of net deferred loan fees	(40)	(45)
Provision for loan losses	170	39
Deferred tax benefit	(38)	(152)
Depreciation and amortization	636	653
(Gain) loss on sale of assets	(3)	5
Increase in cash surrender value of life insurance	(346)	(320)
Stock-based compensation	261	185
Excess tax benefits from stock-based compensation	(19)	(82)
Net change in:		
Other assets	285	233
Accrued interest receivable	(155)	(161)
Other liabilities	186	54
Net cash provided by operating activities	2,913	3,209
Cash flows from investing activities:		
Activity in available-for-sale securities:		
Purchases	(8,453)	(35,714)
Sales	11,309	15,382
Maturities, calls and pay-downs	17,361	7,790
Activity in held-to-maturity securities:		
Maturities, calls and pay-downs	3,888	3,515
Purchases of Federal Home Loan Bank stock	(788)	(552)
Loan originations, net of principal payments	(22,771)	(16,812)
Recoveries of loans previously charged off, net	(21)	(2)

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Capital expenditures	(2,591)	(475)
Proceeds from sale of property and equipment	23	24
Proceeds from redemption of Bank Owned Life Insurance	115	-
	-----	-----
Net cash used in investing activities	(1,928)	(26,844)
	-----	-----

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

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

Nine Months Ended September 30,

2007 2006

(In thousands)

Cash flows from financing activities:

Net decrease in noninterest-bearing deposits	\$ (3,870)	\$ (4,067)
Net (decrease) increase in interest-bearing deposits	(20,350)	10,892
Short-term advances from Federal Home Loan Bank	285,315	33,000
Long-term advances from Federal Home Loan Bank	45,000	40,000
Payments on Federal Home Loan Bank short-term advances	(280,315)	(40,000)
Payments on Federal Home Loan Bank long-term advances	(24,779)	(19,927)
Proceeds from issuance of common stock	275	448
Stock options exercised	254	305
Excess tax benefits from stock-based compensation	19	82
Purchase of treasury stock	(2,070)	(570)
Unearned compensation	(225)	(475)
Dividends paid on common stock	(1,119)	(1,128)
	-----	-----
Net cash provided by financing activities	(1,865)	18,560
	-----	-----

Net decrease in cash and cash equivalents	(880)	(5,075)
Cash and cash equivalents at beginning of period	22,355	20,018
	-----	-----
Cash and cash equivalents at end of period	\$ 21,475	\$ 14,943
	=====	=====

Supplemental disclosures:

Interest paid	\$ 13,531	\$ 11,039
Income taxes paid	\$ 1,564	\$ 737

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

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

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September 30, 2007

Note A - Recent Developments

On October 11, 2007, Independent Bank Corp., parent of Rockland Trust Company, and the Company jointly announced the signing of a definitive merger agreement by which Independent Bank Corp. will acquire the Company and the Bank will merge into Rockland Trust. The acquisition is expected to close during the first quarter of 2008, pending regulatory and shareholder approval.

Note B - 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, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007.

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, 2006.

Note C - 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, 2006, except for the adoption of Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN48), effective January 1, 2007. See Note D.

The consolidated financial statements include the accounts of the Company, 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 other wholly owned subsidiary, Slade's Ferry Statutory Trust I, using the equity method.

Note D - Recent Accounting Pronouncements

The Company adopted FIN 48 effective January 1, 2007, which clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a 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. The adoption of FIN 48 had no impact on the Company's consolidated financial statements.

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Note E - Pension Plan

The components of net periodic pension expense cost are as follows:

	Three Months Ended September 30,		Nine Months Ended September	
	2007	2006	2007	2006
	----	----	----	----
	(In thousands)			
Interest cost	\$ 11	\$ 15	\$ 34	\$ 48
Service cost and expenses	7	-	20	-
Expected return on plan assets	(19)	(26)	(58)	(84)
Settlements	-	108	38	241
Recognized net actuarial loss	5	6	13	21
	----	----	-----	----
	\$ 4	\$103	\$ 47	\$226
	=====	=====	=====	=====

The Company previously disclosed in its consolidated financial statements for the year ended December 31, 2006 that it expects to make no contributions to the plan in 2007.

Note F - 2004 Equity Incentive Plan

Stock options granted under the Slade's Ferry Bancorp. 2004 Equity Incentive Plan (the "2004 Plan") may be either incentive stock options or non-qualified stock options. The exercise price for incentive stock options granted to employees shall not be less than 100 percent of the fair market value at grant date. No stock option shall be exercisable more than 10 years after the date the stock option is granted. The 2004 Plan also provides for the granting of Unrestricted Stock Awards, Restricted Stock Awards, and Deferred Stock Awards.

On July 17, 2007, the Compensation Committee of the Company's Board of Directors (the "Committee") approved the granting of (1) 24,000 Incentive Stock Options to purchase shares of Company common stock, of which 8,000 vested immediately, 8,000 vest on May 31, 2008 and 8,000 vest on May 31, 2009, and (2) 32,000 Restricted Stock Awards, of which 6,500 vested on September 1, 2007, 6,500 vest on May 31, 2008, 12,500 vest on May 31, 2009 and 6,500 vest on May 31, 2010. On August 9, 2007, the Committee granted 29,000 Restricted Stock Awards, of which 7,250 vest each August 31, 2008, 2009, 2010 and 2011. Compensation expense related to these awards for the three months ended September 30, 2007 was \$170,000. An additional 1,500 shares vested on September 4, 2007 due to the passing of one director. Total compensation expense for share awards for the nine months ending September 30, 2007 was \$261,000.

A summary of options under the 2004 Plan as of September 30, 2007, and changes during the nine months then ended, (shares in thousands) is presented below:

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	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
	-----	-----	-----	-----
Outstanding at January 1, 2007	231	\$18.18		
Granted	34	16.34		
Exercised	(18)	14.15		
Forfeited	-	-		
Expired	(19)	18.27		
	---	-----	---	-----
Outstanding at September 30, 2007	228	18.21	4.4	\$ -
	===	=====	===	=====
Exercisable at September 30, 2007	189	\$18.37	3.9	\$ -
	---	-----	---	-----

A summary of restricted shares under the 2004 Plan as of September 30, 2007, and changes during the nine months then ended, (shares in thousands) is presented below:

	Shares	Weighted Average Grant Date Fair Value
	-----	-----
Nonvested at January 1, 2007	-	-
Granted	61	15.77
Vested	(8)	16.02
Forfeited	-	-
	--	-----
Nonvested at September 30, 2007	53	15.74
	==	=====

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Note G - Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive loss and related tax effects are as follows:

Three Months Ended September 30,	

2007	2006
----	----

(In thou

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Unrealized gains (losses) on securities available for sale	\$1,125	\$1,244
Reclassification adjustment for losses (gains) realized in income	(377)	(19)
	-----	-----
Net unrealized gains	748	1,225
Tax effect	(292)	(460)
	-----	-----
Net unrealized gains after tax effect	456	765
Change in unrecognized net actuarial loss - defined benefit plan	26	-
Tax Effect	(10)	-
	-----	-----
Net change in unrecognized actuarial loss - defined benefit plan	16	-
	-----	-----
Net-of-tax amount	\$ 472	\$ 765
	=====	=====

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows:

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	September 30, 2007	December 31, 2006
	-----	-----
	(In thousands)	
Net unrealized gains (losses) on securities available for sale	\$ 73	\$ (380)
Tax effect	(24)	139
	-----	-----
Net-of-tax amount	49	(241)
	-----	-----
Unrecognized net actuarial loss pertaining to defined benefit plan	(351)	(377)
Tax effect	144	154
	-----	-----
Net-of-tax amount	(207)	(223)
	-----	-----
	\$ (158)	\$ (464)
	=====	=====

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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 \$609.2 million, consolidated net loans and leases of \$445.1 million, consolidated deposits of \$399.8 million and consolidated shareholders' equity of \$51.4 million as of September 30, 2007. We conduct our business principally through our wholly-owned subsidiary, Slade's Ferry Trust Company (referred to herein as

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the "Bank"), a Massachusetts-chartered trust company. Our common stock is listed in 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 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;
- (5) changes in assumptions used in making such forward-looking statements; and
- (6) the impact of the proposed acquisition of Slade's Ferry Bancorp by Independent Bank Corp.

Should one or more of these risks materialize or should underlying beliefs or assumptions prove incorrect, actual results could differ materially from those discussed.

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. Slade's Ferry Bancorp. 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 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

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December 31, 2006. 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, 2007 and December 31, 2006

General

Total assets increased from \$607.8 million at December 31, 2006 to \$609.2 million at September 30, 2007. Total net loans increased by \$22.7 million, from \$422.4 million to \$445.1 million. Deposits decreased from \$424.0 million at December 31, 2006 to \$399.8 million at September 30, 2007.

Cash and Cash Equivalents

Cash and cash equivalents decreased by \$880,000, from \$22.4 million at December 31, 2006 to \$21.5 million at September 30, 2007. A decrease in cash deposits of \$8.1 million was partially offset by an increase in the balance of federal funds sold of \$7.6 million. Management is investing cash not used for loan growth in overnight investments to maximize investment returns.

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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 total investment portfolio decreased from \$137.1 million at December 31, 2006 to \$114.7 million at September 30, 2007, a decrease of \$22.3 million, or 16.3%. The decrease is the result of the maturity, calls, paydowns and sales of certain

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obligations of government-sponsored enterprises, state and municipal obligations and mortgage-backed securities. Those funds were used to provide liquidity for current loan growth. The current investment strategy is to reduce the investment portfolio through normal paydowns and maturities and selected investment sales and reinvest these funds into higher yielding loans. Our investment policy also permits investments in mortgage-backed securities, usually having a longer weighted average life. Our investment policy, however, limits the duration of the aggregate investment portfolio to 5 years. At September 30, 2007, the portfolio duration was 3.2 years. We do not purchase investments with imbedded derivative characteristics, or free-standing derivative instruments such as swaps, options, or futures.

Securities Held to Maturity

The held-to-maturity portfolio consists of mortgage-backed securities and securities issued by states and municipalities. Held-to-maturity securities decreased from \$24.6 million at December 31, 2006 to \$20.7 million at September 30, 2007. Management has designated the mortgage-backed securities to secure advances from the FHLB. 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, 2007 and December 31, 2006.

	September 30, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)			
State and municipal obligations	\$ 3,983	\$ 4,040	\$ 5,001	\$ 5,069
Mortgage-backed securities	16,690	16,211	19,622	19,150
	-----	-----	-----	-----
Total securities held to maturity	\$20,673	\$20,251	\$24,623	\$24,219
	=====	=====	=====	=====

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 us the flexibility to alter our investment strategies 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 and mortgage-backed securities of government-sponsored enterprises, corporate debt and equity securities. Management sold selected securities from the available for sale portfolio to fund loan growth and purchase new marketable equities during 2007.

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The following table shows the amortized cost basis and fair value of securities available for sale at September 30, 2007 and December 31, 2006.

	September 30, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value

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(In thousands)

Debt Securities:

Government-sponsored enterprises	\$24,480	\$24,398	\$ 34,462	\$ 33,957
Corporate	9,151	8,996	9,221	9,080
Mortgage-backed	48,178	48,270	57,946	57,980
	-----	-----	-----	-----
Total debt securities	81,809	81,664	101,629	101,017
Marketable equity securities	3,322	3,568	3,139	3,389
Mutual funds	1,215	1,190	1,215	1,197
	-----	-----	-----	-----
Total securities available for sale	\$86,346	\$86,422	\$105,983	\$105,603
	=====	=====	=====	=====

Loans

Our loan portfolio consists primarily of residential, multi-family and commercial real estate, construction and land development, commercial, and consumer loans and home equity lines of credit 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 73.1% of total assets at September 30, 2007, as compared to 69.5% of total assets at December 31, 2006.

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 \$217.7 million and comprised 48.4% of total gross loans at September 30, 2007. At December 31, 2006, the multi-family and commercial real estate loan portfolio totaled \$209.2 million, or 49.0% of total gross loans.

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 which adjust every one or three years from the outset of the loan.

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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 salable, we have chosen not to sell these loans, but to maintain them in portfolio, consistent with our income and interest rate risk management targets.

Residential real estate loans totaled \$134.1 million and comprised of 29.8% of

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total gross loans at September 30, 2007. At December 31, 2006, residential real estate loans totaled \$132.4 million, or 31.0% of total gross loans.

Commercial Loans

The commercial loan portfolio consists 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 invoice date.

Commercial loans totaled \$49.8 million and comprised 11.1% of total gross loans at September 30, 2007. At December 31, 2006, the commercial loan portfolio totaled \$47.7 million, or 11.2% of total gross loans.

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. Construction loan proceeds are disbursed periodically in increments as construction progresses and as inspections by an independent construction specialist warrant. In addition, the Company has commercial construction loans that consist primarily of owner occupied commercial real estate, new and rehabilitation multi-family residential, assisted living and nursing home facilities.

Construction loans totaled \$31.9 million and comprised 7.1% of total gross loans at September 30, 2007. At December 31, 2006, the construction loan portfolio totaled \$21.0 million or 4.9% of total gross loans. As of December 31, 2006, residential construction loans were \$3.9 million, while commercial construction loans were \$17.1 million. As of September 30, 2007, residential construction loans were \$3.4 million, while commercial construction loans were \$28.5 million.

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. Our home equity lines of credit generally have interest rates, indexed to the Wall Street Journal Prime Rate, that adjust on a monthly basis.

Home equity lines of credit totaled \$13.7 million and comprised 4.3% of total gross loans at September 30, 2007. At December 31, 2006, the home equity line of credit portfolio totaled \$13.9 million, or 3.3% of total gross loans.

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Consumer Lending

Consumer loans secured by rapidly depreciable assets such as recreational vehicles and automobiles 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 \$2.5 million at September 30, 2007 and \$2.8 million at December 31, 2006 or 0.6% of total gross loans at both dates.

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The following table summarizes our loan portfolio by category at September 30, 2007 and December 31, 2006.

	September 30, 2007	December 31, 2006	Percentage Increase/ (Decrease)
	-----	-----	-----
	(Dollars in thousands)		
Real estate mortgage loans:			
Multi-Family and Commercial	\$217,724	\$209,172	4.09%
Residential	134,098	132,381	1.30%
Construction	31,907	20,988	52.02%
Home equity lines of credit	13,674	13,917	-1.75%
Commercial	49,809	47,736	4.34%
Consumer	2,519	2,766	-8.93%
	-----	-----	-----
Total loans	449,731	426,960	5.33%
Less: Allowance for loan losses	(4,467)	(4,385)	1.87%
Net deferred loan fees	(165)	(205)	-19.51%
	-----	-----	-----
Loans, net	\$445,099	\$422,370	5.38%
	=====	=====	=====

The increases in the loan portfolio are the result of increased demand across a number of loan categories, primarily construction loans.

The following table presents information with respect to non-performing loans as of the dates indicated.

	September 30, 2007	December 31, 2006
	-----	-----
	(Dollars in thousands)	
Non-accrual loans	\$1,887	\$600
Loans 90 days or more past due and still accruing	152	-
	-----	-----
Total non-performing loans	\$2,039	\$600
	=====	=====
Percentage of non-accrual loans to total gross loans	0.42%	0.14%
Percentage of allowance for loan losses to non-accrual loans	236.7%	730.8%

The \$1.9 million in non-accrual loans as of September 30, 2007 consists of \$1.6 million of commercial real estate loans, \$357,000 of residential real estate loans, and \$67,000 of consumer loans. The increase in non-accrual loans is due primarily to one commercial loan with an outstanding balance of \$1.0 million, which management reviewed and determined not to be impaired as of September 30, 2007.

It is our policy to manage our loan portfolio in order to recognize problem

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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 the 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 is determined to be uncollectible, it is charged to the allowance for loan losses or, if applicable, any real estate that is securing the loan is acquired through foreclosure, and recorded as other real estate owned at the lower of cost or net realizable value.

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.

All watch list loans are individually evaluated for impairment. At September 30, 2007, there were \$169,000 of loans which we have determined to be impaired, with a related allowance for loan losses for the full balance outstanding. These loans are 90 days past due, and are, therefore, not accruing at September 30, 2007.

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Analysis of Allowance for Loan Losses

The table below illustrates the changes in the allowance for loan losses for the periods indicated.

	Nine Months Ended September 30,	
	2007	2006
	-----	-----
	(Dollars in thousands)	
Balance at beginning of period	\$4,385	\$4,333
Charge-offs:		
Real estate mortgage loans:		
Multi-family and commercial	-	-
Residential	(25)	-
Home equity lines of credit	-	-
Commercial	-	-
Consumer	-	(6)
	-----	-----
	(25)	(6)
	-----	-----
Recoveries:		
Real estate mortgage loans:		
Multi-family and commercial	3	-
Residential	1	-
Home equity lines of credit	-	-
Commercial	-	-
Consumer	-	-
	-----	-----
	4	-
	-----	-----
Net loan charge-offs	(21)	(6)
Provision for loan losses	170	39
Transfer of off-balance sheet credit exposures to other liabilities	(67)	-

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Balance at end of period	----- \$4,467 =====	----- \$4,366 =====
Allowance for loan losses as a percent of loans	0.99% =====	1.02% =====
Ratio of net loan charge-offs to average loans outstanding	(0.01)%	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.

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The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans, 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. 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 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.

The Company maintains a reserve for potential credit risk related to off balance sheet lines of credit. The Company monitors changes to outstanding lines and adjusts the reserve when appropriate. Prior to December 31, 2006, the reserve was included as a component of the allowance. Effective January 1, 2007, the amount is included as "Other Liabilities" in accordance with generally accepted accounting principles and Financial Institution Letter (FIL) 105-2006, which was issued in December 2006.

As the composition of the loan portfolio changes and diversifies, a different allowance level may be required. After thorough review and analysis of the adequacy of the loan loss allowance, management recorded a provision for loan losses of \$170,000 for the three months ended September 30, 2007, compared to no provision for loan losses for the three months ended September 30, 2006. The provision for the nine months ended September 30, 2007 was also \$170,000, compared to \$39,000 for the nine months ended September 30, 2006. In 2007, a review of the allowance for loan losses resulted in a reallocation of the allowance based on qualitative factor analysis, the introduction of commercial loan risk ratings in the analysis, and the transfer of the off-balance-sheet component of the allowance to other liabilities. This allowance reallocation contributed to a decrease in the allowance for loan losses as a percentage of total loans outstanding which declined from 1.03% at December 31, 2006 to .99% at September 30, 2007.

The table below shows an allocation of the allowance for loan losses at the dates indicated.

September 30, 2007	December 31, 2006
-----	-----
Percent of Loans in Each Category to	Percent of Loans in Each Category to

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	Amount	Total Loans	Amount	Total Loans
	-----	-----	-----	-----
	(Dollars in thousands)			
Commercial	\$ 886	11.1%	\$ 718	11.2%
Real estate construction	329	7.1%	260	4.9%
Real estate mortgage	3,088	81.2%	3,181	83.3%
Consumer	164	0.6%	226	0.6%
	-----	-----	-----	-----
	\$4,467	100.0%	\$4,385	100.0%
	=====	=====	=====	=====

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Deposits

We solicit deposits from our primary market area using rates and services designed to appeal to customers across a broad spectrum of ages and income levels. We compete for deposit customers with community banks and credit unions, as well as local branches of regional and national banks. Our total deposits decreased from \$424.0 million at December 31, 2006 to \$399.8 million at September 30, 2007, a decrease of \$24.2 million. Customers have shown a preference for higher rate money market products compared to lower rate savings and certificates of deposits. As a result, we had obtained brokered certificates of deposit during prior quarters to offset a decline in our lower cost deposit products. All brokered certificates of deposit totaling \$23.3 million matured during the quarter ending September 30, 2007.

The following table presents deposits by category at September 30, 2007 and December 31, 2006.

	September 30, 2007	December 31, 2006	Percent Increase/(Decrease)
	-----	-----	-----
	(Dollars in thousands)		
Demand deposits	\$ 75,231	\$ 79,101	-4.9%
NOW	58,825	55,071	6.7%
Regular and other savings	62,787	77,189	-18.1%
Money market deposits	43,479	24,021	81.0%
	-----	-----	-----
Total non-certificate accounts	240,322	235,382	2.1%
	-----	-----	-----
Term certificates of \$100,000 or greater	63,429	66,894	-5.3%
Term certificates less than \$100,000	96,035	121,730	-21.1%
	-----	-----	-----
Total certificate accounts	159,464	188,624	-15.5%
	-----	-----	-----
Total deposits	\$399,786	\$424,006	-5.7%
	=====	=====	=====

Long-Term Borrowings

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Long-term borrowings consist of advances from the Federal Home Loan Bank which totaled \$139.2 million at September 30, 2007, as compared to \$119.1 million at December 31, 2006, an increase of \$20.2 million or 17%. Management is utilizing advances from the Federal Home Loan Bank in conjunction with investment portfolio paydowns, maturities and sales to fund loan growth and deposit runoff.

Short-Term Borrowings

Short term borrowings consist of overnight advances from the Federal Home Loan Bank of Boston. The balance of these advances was \$5.0 million as of September 30, 2007.

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Comparison of Results of Operations for the Three Months Ended September 30, 2007 and 2006

General

Net income decreased from \$1 million or \$0.25 per share on a diluted basis, for the three months ended September 30, 2006 to \$832,000, or \$0.21 per share on a diluted basis, for the three months ended September 30, 2007, a decrease of 20.6%. Net interest and dividend income decreased by \$219,000, or 4.7%, to \$4.4 million when comparing the three months ended September 30, 2006 and 2007. A provision for loan losses of \$170,000 was recorded for the three months ended September 30, 2007, while no provision for loan loss was recorded for the three months ending September 30, 2006. Non-interest income increased by \$360,000 or 48.8% from \$737,000 to \$1.1 million for the three months ended September 30, 2006 and 2007, respectively. Non-interest expense increased by \$385,000, or 10.3%, to \$4.1 million for the three months ended September 30, 2007.

Interest Income

Our operating performance is dependent on net interest and dividend income, the difference between interest and dividend income we earn on loans and investments and interest expense we pay 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 \$301,000 or 3.5%, from \$8.7 million for the three months ended September 30, 2006 to \$9.0 million for the three months ended September 30, 2007. This increase is partially attributed to growth in the loan portfolio, as the average balance of loans increased by \$5.8 million or 1.3%, as well as a higher yield on the loan portfolio which increased from 6.50% for the three months ended September 30, 2006 to 6.57% for the three months ended September 30, 2007. Also, the increase in Federal Funds sold reflected an increase in the average balance of the outstanding federal funds sold for the three months ended September 30, 2007 compared to the same period in 2006, as a result of maintaining higher balances in liquid assets to fund loans in the pipeline.

Interest Expense

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Total interest expense increased by \$520,000 or 12.9%, from \$4.0 million for the three months ended September 30, 2006 to \$4.5 million for the three months ended September 30, 2007. The increase is primarily due to the migration of deposits to higher cost money market accounts when comparing average balances at September 30, 2006 and 2007, combined with management's strategy to utilize FHLB advances to supplement deposit runoff experienced in 2007. Market interest rates and our own deposit rates have also increased. Interest on deposits increased slightly, by \$23,000, to \$2.6 million when comparing the three months ended September 30, 2007 and 2006. As a result of the deposit rate increases, the weighted average cost of deposits increased from 2.98% for the three months ended September 30, 2006 to 3.14% for the three months ended September 30, 2007.

Net Interest Margin

As a result of the current interest rate environment and our rate increases on deposit accounts, the net interest margin has compressed 24 basis points from 3.32% for the three months ended September 30, 2006 to 3.08 % for the three months ended September 30, 2007. The compression in net interest margin was mostly due to balance sheet growth in an environment with a difficult yield curve and the corresponding compressed margins on loans and investments, combined with intense competition for deposits and increased wholesale funding costs.

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The following table sets forth our average assets, liabilities, and stockholders' equity, interest earned and interest paid, average rates earned and paid, net interest spread and the net interest margin for the three months ended September 30, 2007, and 2006. Average balances reported are daily averages.

	Three Months Ended September			
	2007			
	Average Balance	Interest Income/Expense	Average Rate	Average Balance
Assets:	(Dollars in thousands)			
Interest earning assets (1)				
Loans:				
Commercial	\$ 48,657	\$ 951	7.75%	\$ 50,928
Commercial real estate	235,958	4,089	6.88%	229,519
Residential real estate	150,521	2,168	5.71%	148,845
Consumer	2,578	38	5.85%	2,660
Total loans	437,714	7,246	6.57%	431,952
Federal funds sold	12,241	161	5.22%	2,947
Taxable debt securities	109,478	1,373	4.98%	108,547
Tax-exempt debt securities (2)	4,159	69	6.60%	5,654
Marketable equity securities	4,808	32	2.64%	4,331
FHLB stock	7,418	118	6.31%	6,415
Other investments	650	19	11.60%	650
Total interest earning assets	576,468	9,018	6.21%	560,496

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Allowance for loan losses	(4,302)	(4,368)
Deferred loan fees	(171)	(326)
Cash and due from banks	14,735	12,970
Other assets	26,733	38,009
	-----	-----
	\$613,463	\$606,781
	=====	=====

Liabilities and Stockholders' Equity:

Interest bearing liabilities				
Savings accounts	\$ 65,432	\$ 168	1.02%	\$ 80,255
NOW accounts	58,059	294	2.01%	53,506
Money market accounts	39,324	334	3.37%	26,966
Time deposits	170,434	1,843	4.29%	187,837
FHLB advances	139,365	1,693	4.82%	106,472
Subordinated debt	10,310	217	8.35%	10,310
	-----	-----		-----
Total interest bearing liabilities	482,924	4,549	3.74%	465,346

Demand deposits	76,810			75,343
Other liabilities	2,636			16,269
	-----			-----
Total liabilities	562,370			556,958
Total stockholders' equity	51,093			49,823
	-----			-----
	\$613,463			\$606,781
	=====			=====

Net interest income	\$4,469	
	=====	
Net interest spread		2.47%
		=====
Net interest margin		3.08%
		=====

- (1) Average balance includes non-accruing loans. The effect of including such loans, although not reflected in the average rate earned on the Company's loans.
- (2) On a fully taxable basis based on tax rate of 35.0% for 2007 and 2006. Interest income on interest-bearing liabilities includes a fully taxable equivalent adjustment of \$24,000 in 2007 and \$33,000 in 2006.

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The following table presents the changes in components of net interest income for the three months ended September 30, 2007 and 2006, which are the result of changes in interest rates and the changes that the result of changes in 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, 2007 vs. 2006 Increase (Decrease)		
	Total Change	Due to Volume	Due to Rate
	-----	-----	-----
	(In thousands)		
Commercial loans	\$ (33)	\$ (44)	\$ 11
Commercial real estate	225	108	117
Residential real estate	26	24	2

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Consumer loans	(49)	(3)	(46)
Federal funds sold	117	139	(22)
Taxable debt securities	85	11	74
Tax-exempt debt securities	(25)	(25)	-
Marketable equity securities	(8)	4	(12)
FHLB Stock	(55)	27	(82)
Other investments	9	-	9
<hr/>			
Total interest income	292	241	51
<hr/>			
Savings accounts	(134)	(56)	(78)
NOW accounts	124	14	110
Money market accounts	152	83	69
Time deposits	(119)	(182)	63
FHLB advances	497	370	127
Subordinated debt	-	-	-
<hr/>			
Total interest expense	520	229	291
<hr/>			
Net interest income	\$ (228)	\$ 12	\$ (240)
<hr/>			

Provision for Loan Losses

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. In 2007, a review of the allowance for loan losses resulted in a reallocation of the allowance based on qualitative factor analysis, the introduction of commercial loan risk ratings in the analysis, and the transfer of the off-balance-sheet component of the allowance to other liabilities. Management recorded a provision for loan losses of \$170,000 for the three months ended September 30, 2007. Included in the determination of the provision amount are two loans with outstanding balances of \$157,000 and \$12,000 that management determined to be impaired as of September 30, 2007. A loan loss reserve for the full outstanding balance has been allocated to the two impaired loans. No provision for loan losses was recorded for the three months ended September 30, 2006.

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Non-Interest Income

Non-interest income increased from \$737,000 for the three months ended September 30, 2006 to \$1.1 million for the three months ended September 30, 2007, an increase of \$360,000 or 48.8%. The gain on the sale of available-for-sale securities was \$377,000 for the three months ended September 30, 2007, compared to a gain of \$19,000 for the three months ended September 30, 2006, an increase of \$358,000. In 2007, after reviewing the investment market and the investment portfolio, management determined that the sale of certain securities to realize market appreciation and provide liquidity was appropriate. Service charges on deposit accounts decreased \$24,000, or 6.4%, to \$349,000 due to a change in fees on dormant accounts. Other income increased from \$238,000 for the three months ended September 30, 2006 to \$245,000 for the

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three months ended September 30, 2007, an increase of 2.9%, due to growth in ATM and debit card income.

Non-Interest Expense

Non-interest expense increased by \$385,000 to \$4.1 million for the three months ended September 30, 2007 compared to the three months ended September 30, 2006, an increase of 10.3%. Salaries and employee benefits increased by \$367,000 or 18%, from \$2.0 million for the three months ended September 30, 2006 to \$2.4 million for the three months ended September 30, 2007. The increase in salaries and benefits was primarily attributable to increased salary and benefit accruals related to the implementation of certain supplemental retirement plans and stock awards, offset by a decline of \$100,000 in pension expense due to fewer settlements in 2007 compared to 2006.

Professional fees decreased \$67,000 as a result of the non-recurrence of various accounting and regulatory matters that occurred during the three months ended September 30, 2006. Marketing expense increased \$20,000 to \$106,000 for the three months ended September 30, 2007 from \$86,000 for the three months ended September 30, 2006. This increase is attributable to continued support of our rebranding initiative and a new deposit product. Data processing expenses increased \$24,000 from \$221,000 for the three months ended September 30, 2006 to \$245,000 for the three months ended September 30, 2007. The increase was primarily due to pricing and volume increases. Other expenses increased \$20,000 or 3.8% from \$531,000 for the three months ended September 30, 2006 to \$551,000 for the three months ended September 30, 2007, due to general cost increases for these items.

Provision for Income Taxes

Income before income taxes was \$1.2 million for the three months ended September 30, 2006 as compared to \$1.7 million for the three months ended September 30, 2007. The provision for income taxes totaled \$417,000 and \$615,000 for the quarters ended September 30, 2007 and 2006, respectively, representing effective tax rates of 33.4% and 37.0%, respectively. The lower effective tax rate is due primarily to an increase in investment income at the Company's securities corporations, which receive favorable state tax treatment.

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Comparison of Results of Operations for the Nine months ended September 30,

2007 and 2006

General

Net income decreased from \$2.6 million, or \$0.62 per share on a diluted basis, for the nine months ended September 30, 2006 to \$2.5 million, or \$0.62 per share on a diluted basis, for the nine months ended September 30, 2007, a decrease of 3.1%. Net interest and dividend income decreased by \$625,000, or 4.6%, to \$13.0 million, when comparing the nine months ended September 30, 2006 and 2007. A provision for loan losses of \$170,000 was recorded for the nine months ended September 30, 2007 while \$39,000 was recorded for the same nine month period in 2006. Non-interest income increased by \$658,000 or 33.2% from \$2.0 million to \$2.6 million for the nine months ended September 30, 2006 and 2007, respectively. Non-interest expense increased by \$229,000, or 2.0%, to \$11.7 million for the nine months ended September 30, 2007, from \$11.4 million

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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 we earn on loans and investments and interest expense we pay 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 \$2.0 million or 8.0%, from \$24.6 million for the nine months ended September 30, 2006 to \$26.5 million for the nine months ended September 30, 2007. This increase is partially attributed to both growth in the loan portfolio, as the average balance of loans increased by \$10.9 million or 2.6%, as well as a higher yield on the loan portfolio which increased from 6.37% for the nine months ended September 30, 2006 to 6.55% for the nine months ended September 30, 2007. These increases were related principally to commercial and total real estate loans. Also, interest and dividends on investments and Federal Funds sold increased by \$813,000 for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The increase in interest and dividends on investments reflected a higher yield on the components of the investment portfolio combined with an increase in the average balance of the portfolio for the nine months ended September 30, 2007 compared to the same period in 2006. In addition, dividends received from the FHLB increased by \$93,000 for the nine months ended September 30, 2007 compared to the same period in 2006, due to an increase in the average balance of FHLB stock, from \$6.3 million in 2006 to \$7.2 million in 2007, as well as an increase in the rate earned.

Interest Expense

Total interest expense increased by \$2.6 million or 23.5%, from \$11.0 million for the nine months ended September 30, 2006 to \$13.5 million for the nine months ended September 30, 2007. The increase is due to both increased deposit and borrowing levels and higher interest rates. Management's strategy is to utilize increased FHLB borrowings as a funding source for loan growth, in addition to investment cash flows. Average outstanding borrowings from the FHLB increased from \$109.5 million to \$135.2 million when comparing the nine months ended September 30, 2006 and September 30, 2007. Market interest rates and our own deposit rates have increased. Interest on deposits increased by \$1.2 million or 18.4% when comparing the nine months ended September 30, 2007 and 2006. As a result of the rate increases, the weighted average cost of deposits increased from 2.66% for the nine months ended September 30, 2006 to 3.17% for the nine months ended September 30, 2007.

Net Interest Margin

As a result of the current interest rate environment, an increase in average outstanding borrowings, rate increases on borrowings and on deposit accounts, the net interest margin has compressed 29

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basis points from 3.32% for the nine months ended September 30, 2006 to 3.03% at September 30, 2007. The compression in net interest margin was mostly due to balance sheet growth in an environment with a difficult yield curve and the corresponding compressed margins on loans and investments, combined with

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intense competition for deposits and increased wholesale funding costs.

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The following table sets forth our average assets, liabilities, and stockholders' equity, interest earned and interest paid, average rates earned and paid, net interest spread and the net interest margin for the nine months ended September 30, 2007, and 2006. Average balances reported are daily averages.

Nine Months Ended September				
2007				
Average Balance	Interest Income/Expense	Average Rate	Average Balance	
(Dollars in thousands)				
Assets:				

Interest earning assets (1)				
Loans:				
Commercial	\$ 51,090	\$ 3,087	8.08%	\$ 46,611
Commercial real estate	231,021	11,659	6.75%	229,006
Residential real estate	150,145	6,454	5.75%	145,864
Consumer	2,684	120	5.98%	2,592
Total loans	434,940	21,320	6.55%	424,073
Federal funds sold	9,473	376	5.31%	2,811
Taxable debt securities	114,498	4,202	4.91%	109,321
Tax-exempt debt securities (2)	4,319	215	6.67%	6,057
Marketable equity securities	5,536	102	2.46%	4,347
FHLB stock	7,190	349	6.49%	6,341
Other investments	650	44	9.05%	650
Total interest earning assets	576,606	26,608	6.17%	553,600
Allowance for loan losses	(4,330)			(4,361)
Deferred loan fees	(191)			(329)
Cash and due from banks	14,759			12,958
Other assets	26,647			26,234
	\$613,491			\$588,102
	=====			=====
Liabilities and Stockholders' Equity:				

Interest bearing liabilities				
Savings accounts	\$ 70,278	\$ 665	1.27%	\$ 82,533
NOW accounts	55,235	653	1.58%	55,633
Money market accounts	31,745	707	2.98%	26,921
Time deposits	181,709	6,005	4.42%	175,866
FHLB advances	135,239	4,862	4.81%	109,447
Subordinated debt	10,310	642	8.33%	10,310
Total interest bearing liabilities	484,516	13,534	3.73%	460,710
Demand deposits	74,587			74,334
Other liabilities	2,580			12,641

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Total liabilities	561,683	547,685
Total stockholders' equity	51,808	40,417
	\$613,491	\$588,102
	=====	=====
Net interest income	\$13,074	
	=====	
Net interest spread		2.45%
		=====
Net interest margin		3.03%
		=====

- (1) Average balance includes non-accruing loans. The effect of including such loans, although not, is not reflected in the average rate earned on the Company's loans.
- (2) On a fully taxable basis based on tax rate of 35.0% for 2007 and 2006. Interest income on interest income includes a fully taxable equivalent adjustment of \$75,000 in 2007 and \$106,000 in 2006.

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The following table presents the changes in components of net interest income for the nine months ended September 30, 2007 and 2006, which are the result of changes in interest rates and the changes that the result of changes in 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, 2007 vs. 2006 Increase (Decrease)		
	Total Change	Due to Volume	Due to Rate

	(In thousands)		
Commercial loans	\$ 444	\$ 262	\$ 182
Commercial real estate	476	101	375
Residential real estate	246	183	63
Consumer loans	(43)	5	(48)
Federal funds sold	267	260	7
Taxable debt securities	519	185	334
Tax-exempt debt securities	(87)	(87)	-
Marketable equity securities	(10)	26	(36)
FHLB Stock	93	38	55
Other investments	17	-	17

Total interest income	1,922	973	949

Savings accounts	(165)	(121)	(44)
NOW accounts	122	(3)	125
Money market accounts	267	94	173
Time deposits	1,023	181	842
FHLB advances	1,301	883	418
Subordinated debt	30	-	30

Total interest expense	2,578	1,034	1,544

Net interest income	\$ (656)	\$ (61)	\$ (595)
	=====		

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Provision for Loan Losses

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. In 2007, a review of the allowance for loan losses resulted in a reallocation of the allowance based on qualitative factor analysis, the introduction of commercial loan risk ratings in the analysis, and the transfer of the off-balance-sheet component of the allowance to other liabilities. Due to the growth and change in the composition of the loan portfolio and a slight deterioration of credit quality, management deemed it prudent to provide \$170,000 for possible loan losses for the nine months ended September 30, 2007 as compared to a provision of \$39,000 for the nine months ended September 30, 2006. Included in the determination of the provision amount are two loans with outstanding balances of \$157,000 and \$12,000 that management determined to be impaired as of September 30, 2007. A loan loss reserve for the full outstanding balance has been allocated to the two impaired loans.

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Non Interest Income

Non-interest income increased from \$2.0 million for the nine months ended September 30, 2006 to \$2.6 million for the nine months ended September 30, 2007, an increase of \$658,000 or 33.2%. The increase was mainly due to the gain on the sale of available-for-sale securities which changed from a loss of \$150,000 for the nine months ended September 30, 2006 to a gain of \$516,000 for the nine months ended September 30, 2007, an increase of \$666,000. In 2007, after reviewing the investment market and the investment portfolio, management determined that the sale of certain securities to realize market appreciation and provide additional liquidity was appropriate. In 2006, the Company restructured the investment portfolio by selling \$14.5 million of low-yielding obligations of government sponsored enterprises, resulting in realized losses of \$176,000 during the quarter ending June 30, 2006.

Service charges on deposit accounts were \$1.0 million for the nine months ended September 30, 2006 September 30, 2007. Other income decreased \$32,000, or 4.1%, from \$779,000 for the nine months ended September 30, 2006 to \$747,000 for the nine months ended September 30, 2007. This was the result of decreased volumes of sales of non-deposit investment products combined with a changed sales environment. The Company formerly recorded gross income on sales, whereas in 2007 the function has been outsourced, and the Company now records income net of commissions and other expenses.

Non-Interest Expense

Non-interest expense increased from \$11.4 million for the nine months ended September 30, 2006 to \$11.7 million for the nine months ended September 30, 2007, an increase of \$229,000 or 2.0%. Salaries and employee benefits was \$6.4 million for the nine months ended September 30, 2006 and September 30, 2007. Staff reductions and a reduction in pension expense on a comparable nine month basis were offset by increased salary and benefit accruals related to the implementation of certain supplemental retirement plans and stock awards. Staff reductions resulted primarily from outsourcing the Company's core item

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processing, back office proof operations and internal audit in 2006. Pension expense decreased due to \$241,000 of expense for settlement accounting recognized on the Bank's defined benefit pension plan in 2006, compared to \$38,000 in 2007.

Professional fees decreased \$275,000 as a result of the non-recurrence of various accounting and regulatory matters that occurred during the nine months ended September 30, 2006. Marketing expense increased \$161,000 to \$434,000 for the nine months ended September 30, 2007 from \$273,000 for the nine months ended September 30, 2006, reflecting continued support of our rebranding initiative and the launch of a new deposit product in 2007. Data processing expenses increased \$398,000 from \$420,000 for the nine months ended September 30, 2006 to \$818,000 for the nine months ended September 30, 2007. The increase was primarily due to expenses associated with outsourced core processing, item processing and statement rendering functions that were done in-house until May of 2006. Other expenses decreased \$73,000 or 4.4% from \$ 1.7 million for the nine months ended September 30, 2006 to \$1.6 million for the nine months ended September 30, 2007, due primarily to reduced Board committee meeting expenses.

Provision for Income Taxes

Income before income taxes was \$3.8 million for the nine months ended September 30, 2007 as compared to \$4.1 million for the nine months ended September 30, 2006. The provision for income taxes totaled \$1.3 million and \$1.6 million for the nine months ended September 30, 2007 and 2006, respectively, representing effective tax rates of 34.3% and 37.6%, respectively. The lower effective tax rate is primarily due to an increase in interest income at the Company's securities corporations, which receive favorable state tax treatment.

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Capital

At September 30, 2007, our total stockholders' equity was \$51.4 million, an increase of \$198,000 from \$51.2 million at December 31, 2006. Additions consisted primarily of net income of \$2.5 million for the nine months ended September 30, 2007. Common stock issued and outstanding is 4,009,353 shares at September 30, 2007, and 4,102,242 shares at December 31, 2006, a decrease of 92,889 shares. The decrease in outstanding shares is due to several transactions, including the repurchase of 121,831 shares of common stock under our stock repurchase program and the purchase of 12,723 shares for our stock award plan, offset by the issuance of 15,665 shares under the Company's dividend reinvestment plan, the exercise of 18,000 stock options and the vesting of 8,000 restricted shares.

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 meet the criteria of the well-capitalized category established by the federal banking agencies as of September 30, 2007 and at December 31, 2006. The Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio for the Company are 9.74% and 12.91%, respectively, at September 30, 2007. The Company's Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio at December 31, 2006 were 9.90% and 14.18%, respectively. The Tier I Capital leverage ratio and Tier I Capital to risk

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weighted assets ratio for the Bank are 8.26% and 10.87%, respectively, at September 30, 2007. The Bank's Tier I Capital leverage ratio and Tier I Capital to risk weighted assets ratio at December 31, 2006 were 8.78% and 12.60%, respectively.

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.

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 FHLB and as such, may take advantage of the FHLB's borrowing programs to enhance liquidity and leverage its favorable capital position. The Bank also may draw on lines of credit at the FHLB 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 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 deposit base.

Our investment securities portfolio provides 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, 2007, cash flow from maturities, calls and pay-downs of securities was \$17.4 million, proceeds from sales of securities totaled \$11.3 million, compared to maturities, calls and pay-downs of securities of \$7.8 million, and proceeds from sales of securities of \$15.4 million for the nine months ended September 30, 2006. Purchases of securities totaled \$8.5 million and \$35.7 million for the nine months ended September 30, 2007 and September 30, 2006, respectively.

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Amortization and pay-offs of the loan portfolio also provide us with liquidity. Traditionally, amortization and pay-offs are reinvested into loans. Excess liquidity is invested in federal funds sold and overnight investments at the FHLB.

We also use borrowed funds as a source of liquidity. At September 30, 2007, the Bank's outstanding borrowings from the FHLB were \$144.3 million. The Bank has the capacity to borrow an additional \$9.2 million from the FHLB as of September 30, 2007. The Bank has the ability to increase this capacity with additional asset pledges. The Bank had obtained brokered certificates of deposits of \$23.3 as an additional funding source during the quarter ending June 30, 2007, all of which have matured and were not renewed. Management has no short term plans to obtain additional brokered certificates of deposit. We expect that FHLB borrowings will remain the primary source of additional liquidity. Overnight FHLB borrowings of \$5.0 million were outstanding as of September 30, 2007.

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Loan originations for the nine months ended September 30, 2007 totaled \$92.2 million. Commitments to originate loans at September 30, 2007 were \$21.1 million, excluding unadvanced construction funds totaling \$13.4 million, unadvanced commercial lines of credit totaling \$26.4 million, unadvanced home equity lines totaling \$16.4 million and \$614,000 due on uncompleted commercial real estate. Management believes that adequate liquidity is available to fund loan commitments utilizing deposits, loan amortization, maturities of securities, or borrowings.

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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 the 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 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 would 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 an 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 in interest rates and a 200 basis point decrease in rates. The interest rate movements used assume an instant and parallel change in interest rates and no implementation of any strategic plans are made 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 established by the Board provides an internal tolerance level to control interest rate risk. We were slightly outside our policy-mandated risk limit for net interest income at risk due to a management decision, with the Board of Directors concurrence, not to extend long-term funding in light of what we believe to be temporarily overpriced short and long term funding costs.

The following table reflects our estimated exposure as a percentage of net

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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	-11.49%	(22)
-200	6.15%	12
	35	

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	13.07%	N/A
+200	11.94%	-1.13%
-200	13.68%	0.61%
	36	

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, 2007 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 has been no change in the Company's internal controls over financial

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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 affect, the Company's internal control over financial reporting.

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PART II

OTHER INFORMATION

ITEM 1

LEGAL PROCEEDINGS

We are not involved in any pending legal proceedings that would have a material impact on our consolidated financial condition and results of operations.

ITEM 1A

RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2006, except for the following risks associated with our pending merger with Independent Bank Corp:

- * The merger is subject to a number of contingencies, including approval by our shareholders, the receipt of required regulatory approvals and other customary closing conditions, each of which must either be satisfied or waived prior to the closing.
- * Our stock price may fluctuate prior to the completion of the merger due to (1) market assessments regarding the expected timing of the merger and risks related to completion of the merger, and (2) the trading price of Independent Bank Corp. common stock, as the value of the merger consideration to be received by our shareholders at the closing is based, in part, on the value of Independent Bank Corp. common stock.
- * If the merger is not completed, our stock price will be subject to decline to the extent that the current trading price reflects a market assumption that the merger will be completed.
- * We could lose important personnel as a result of the departure of employees who decide to pursue other opportunities in light of the proposed merger.
- * We have and will continue to incur significant expenses related to the merger prior to its closing, which must be paid even if the merger is not completed.
- * Depending upon the circumstances, we may be obligated to pay Independent Bank Corp. a termination fee of \$3.5 million under the terms of the merger agreement.
- * The merger agreement with Independent Bank Corp. also imposes restrictions on our ability to conduct our business prior to the completion of the merger, which could potentially leave us unable to respond effectively to competitive pressures, industry developments and future opportunities or may otherwise harm its financial condition or results of operations.

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ITEM 2

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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 quarter ended September 30, 2007.

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)
July 1, 2007 through July 31, 2007	26,875	\$16.10	26,875
August 1, 2007 through August 31, 2007	-	\$ -	-
September 1, 2007 through September 30, 2007	-	\$ -	-
Total	26,875	\$16.10	26,875

(1) On July 18, 2006, the Company announced that its Board of Directors approved a repurchase program under which the Company may repurchase up to 208,036 shares of its common stock.

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ITEM 3

DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4

SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5

OTHER INFORMATION

None

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ITEM 6

EXHIBITS

Exhibits: See exhibit index.

SIGNATURES

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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, 2007

(Date)

/s/ Mary Lynn D. Lenz

Mary Lynn D. Lenz
President
Chief Executive Officer
(Principal Executive Officer)

November 14, 2007

(Date)

/s/ Deborah A. McLaughlin

Deborah A. McLaughlin
Executive Vice President
Chief Financial Officer &
Chief Operations Officer
(Principal Financial and Accounting
Officer)

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EXHIBIT INDEX

Exhibit No.	Description
-----	-----
2.1	Agreement Plan of Merger dated as of October 11, 2007 by and among Independent Bank Corp., Rockland Trust Company, Slade's Ferry Bancorp and Slades Ferry Trust Company
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 Bancorp
10.1	Slade's Ferry Bancorp. 1996 Stock Option Plan, as amended
10.2	Amended and Restated Supplemental Executive Retirement Agreement between Slade's Ferry Bancorp. and Manuel J. Tavares
10.3	Amended and Restated Supplemental Executive Retirement Agreement between Slade's Ferry Bancorp. and Mary Lynn D. Lenz
10.4	Employment Agreement between Slade's Ferry Bancorp. and Mary Lynn D. Lenz
10.5	Employment Agreement between Slade's Ferry Bancorp. and Deborah A. McLaughlin
10.6	Employment Agreement between Slade's Ferry Bancorp. and Manuel J. Tavares

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10.7	Form Change of Control Agreement
10.8	Severance Pay Plan
10.9	Slade's Ferry Bancorp. 2004 Equity Incentive Plan
10.10	Form of Amendment to Directors' Supplemental Retirement Program for Non-Employee Directors
11.1	Statement Regarding Computation of Per Share Earnings
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

- (1) Incorporated by reference to the Registrant's Form 8-K filed on October 12, 2007.
- (2) Incorporated by reference to the Registrant's Registration Statement on Form SB-2 filed with the Commission on April 14, 1997.
- (3) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on June 26, 2004.
- (4) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on December 14, 2004.
- (5) Incorporated by reference to the Registrant's Form 10-Q/A for the quarter ended June 30, 2004.
- (6) Incorporated by reference to the Registrant's Form 8K filed with the Commission on July 18, 2004.
- (7) Incorporated by reference to Exhibit 10.5 to the Registrant's Form 8-K filed on August 24, 2004.
- (8) Incorporated by reference to Exhibit 10.11 to the Registrant's Form 10-Q/A for the quarter ended June 30, 2004.
- (9) Incorporated by reference to Exhibit 10.7 to the Registrant's Form 10-Q/A for the quarter ended September 30, 2004.
- (10) Incorporated by reference to Exhibit 10.8 to the Registrant's Form 10-Q/A for the quarter ended September 30, 2004.
- (11) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on January 14, 2005.
- (12) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on January 14, 2005.
- (13) Incorporated by reference to Appendix C to the Registrant's Proxy Statement filed on April 14, 2006.
- (14) Incorporated by reference to the Registrant's Form 8-K filed with the Commission on December 14, 2006.