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SLADES FERRY BANCORP

Form 10-K

March 14, 2002

Slade's Ferry Bancorp is a one-bank holding company which owns and controls 100% of the assets of Slade's Ferry Trust Company and its subsidiaries. The primary business of Bancorp is the ongoing business of the Trust Company, a member of the Federal Deposit Insurance Corporation serving as a retail bank.

The Bank provides multiple deposit products and a wide range of financial services - including consumer installment loans, residential and commercial mortgages, and other forms of commercial lending - and actively competes with a variety of other financial institutions by offering competitive rates.

Adhering to an established philosophy of providing professional, highly personalized service throughout its marketplace, Slade's Ferry serves a broad customer base from southeastern Massachusetts and nearby Rhode Island. The Bank operates strategically located retail facilities and multiple ATMs in the towns and cities of Fairhaven, Fall River, New Bedford, Seekonk, Somerset and Swansea, MA.

Slade's Ferry Trust Company is an
Equal Opportunity/Affirmative Action Employer (M/F/D/V).
Corporate offices are located at 100 Slade's Ferry Avenue, Somerset, MA.

Dear Shareholders,

As the tragic events of September 11th impacted all of us in 2001, so also did the actions of the Federal Open Market Committee impact all financial institutions.

Eleven reductions in the prime rate and other related rates severely reduced our net interest margin, as deposit and loan rates dropped to levels last seen in the nineteen fifties.

The assets of the bank grew by \$6,141,207 to \$394,760,563 or an increase of 1.58%, while net loans decreased from \$250,848,831 to \$248,017,635, a reduction of 1.13%. As a result of the prime rate reductions and the subsequent repricing of our assets, our net income earnings dropped by \$864,186 to \$3,210,253 from \$4,074,439 in 2000, a decrease of 21.2%.

As we begin 2002, our net interest spreads appear to be slowly improving, and the prospects for an economic recovery are improving. We anticipate little improvement in short term rates until the fourth quarter of 2002, and further improvement in 2003.

The bank expanded its products and services in April with the addition of the Investors Marketplace, staffed by Christina King and Jessica DeMarco. Both are licensed to sell investment products such as stocks, bonds, mutual funds, and annuities.

We also initiated our web site in the spring of 2002 and you can visit us at www.sladesferry.com.

As I recently wrote to you, I have elected early retirement and will

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be finalizing my career on the 29th of March. It has been a true privilege and honor to serve as the President of your bank, and I want to express my sincere appreciation for your support and well wishes.

James D. Carey

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001

Commission file number 000-23904

SLADE'S FERRY BANCORP

(Exact name of registrant as specified in its charter)

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)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$0.01 par value

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-K contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K. []

The aggregate market value of the voting stock of Slade's Ferry Bancorp, held by nonaffiliates of the registrant as of February 22, 2002 was approximately \$45,028,961. On that date, there were 3,883,643.200 shares of Slade's Ferry Bancorp Common Stock, \$0.01 par value outstanding.

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DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for Annual Meeting of Stockholders April 08, 2002
incorporated by reference into Part III.

PART I

ITEM 1

BUSINESS

Description of Business

Business of Slade's Ferry Bancorp

Slade's Ferry Bancorp ("the Company") is a business corporation that was organized under the laws of the Commonwealth of Massachusetts on June 13, 1989 as Weetamoe Bancorp. The name Weetamoe Bancorp was changed to Slade's Ferry Bancorp effective January 1, 1997. The office of Slade's Ferry Bancorp is located at the office of the Bank at 100 Slade's Ferry Avenue, Somerset, Massachusetts, 02726, and its telephone number is the same as the Bank's: (508)675-2121.

The Company was organized for the purpose of becoming the holding company of the Bank. The Company's acquisition of the Bank was completed on April 1, 1990. The Bank (Slade's Ferry Trust Company) is a wholly-owned subsidiary of Slade's Ferry Bancorp.

Competition

The primary business of Slade's Ferry Bancorp is the ongoing business of the Bank. The competitive conditions to be faced by Slade's Ferry Bancorp will be the same as those faced by the Bank. It is likely that, as a holding company, it may compete with other holding companies engaged in bank-related activities. Thus, the Company will face competition in undertaking to acquire other banks, financial institutions or companies engaged in bank-related activities, and in operating subsequent to any such acquisitions.

While the Company investigates opportunities to acquire other banks or bank facilities when they occur and may in the future acquire other banks, financial institutions, or bank facilities, it is not currently engaged in any such acquisition.

Employees

At present there are three employees of the Bank and the Company whose compensation is paid by the Company. Although the Company has no current plans to do so, if the Company should acquire other financial institutions or pursue other lines of business, it may at such time hire additional employees.

Business of Slade's Ferry Trust Company

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On September 30, 1959, the Slade's Ferry Trust Company opened for business as a state chartered trust company incorporated under the laws of the Commonwealth of Massachusetts and as a member of the Federal Deposit Insurance Corporation (FDIC). The founders were a group of individuals from Somerset, Swansea, Fall River and Seekonk, Massachusetts who recognized the need for a local bank committed to personalized services.

During the past three years, assets of the Bank increased by \$36.6 Million. The Bank currently has twelve banking facilities extending east from Seekonk, Massachusetts to Fairhaven, Massachusetts.

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The Bank also provides limited banking services at the Somerset High School. In addition, the Bank in 1999 received regulatory approval to establish a loan production office in Rhode Island. The office is named the Slade's Ferry Loan Company and is a subsidiary of Slade's Ferry Trust Company. The purpose for the loan production office is to solicit commercial and consumer borrowers in the Rhode Island area. The office is prohibited from accepting deposits and payments.

In June 1999, the Bank implemented certain state tax planning strategies by establishing a Real Estate Investment Trust (REIT) as a subsidiary of Slade's Ferry Trust Company. The REIT, named the Slade's Ferry Preferred Capital Corporation, provides the means for the Bank to invest into the REIT certain designated, bank-owned real estate mortgage loans. The income derived on these loans is taxed at a reduced state tax rate.

The Bank currently services numerous communities in Southeastern Massachusetts and contiguous areas of Rhode Island through its twelve facilities in Fall River, Somerset, Swansea, Seekonk, New Bedford and Fairhaven, and its loan production office in Warwick, Rhode Island.

The Bank's major customer base consists of almost 31,500 personal savings, checking and money market accounts, and 10,300 personal certificates of deposit and individual retirement accounts. Its commercial base consists of over 3,000 checking, money market, corporate, and certificate of deposit accounts.

The Bank does not have any major target accounts, nor does it derive a material portion of its deposits from any single depositor. It is a retail bank that services the needs of the local communities, and its loans are not concentrated within any single industry or group of related industries that would have any possible adverse effect on the business of the Bank. The Bank's business is not seasonal and its loan demand is well diversified. As of December 31, 2001, commitments under standby letters of credit aggregate approximately \$638,371.

Services

The Bank engages actively in a broad range of banking activities, including demand, savings, time deposits, related personal and commercial checking account services, real estate mortgages, commercial and installment lending, payroll services, money orders, travelers checks, Visa, MasterCard, safe deposit rentals, automatic teller machines and cash management services. The Bank offers a full range of commercial, installment, student, and real estate loans. The service area of the Bank is approximately 300 square miles, including the southern geographic area of Bristol County, Massachusetts and extends over to the towns of Tiverton, Warren, Bristol and

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Barrington in the state of Rhode Island.

Competition

The banking business in the market area served by the Bank is highly competitive. The Bank actively competes with other banks, financial institutions, and credit unions, including major banks and bank holding companies which have numerous offices and affiliates operating over wide geographic areas. The Bank competes for deposits, loans, and other business with these institutions.

Many of the major commercial banks, or other affiliates in the service areas of the Bank, offer services such as international banking, internet banking, and trust services which are not offered directly by the Bank.

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Supervision and Regulation

Holding Company Regulation

Under the Federal Bank Holding Company Act ("BHCA"), the prior approval of the Federal Reserve Board ("FRB") is required before a corporation may acquire control of a bank. FRB approval must also be obtained before a bank holding company acquires all or substantially all of the assets of a bank, or merges or consolidates with another bank holding company. In considering any applications for approval of an acquisition or merger, the FRB is required to consider the financial and managerial resources of the companies and banks concerned, and the convenience and needs of the communities to be served.

As a registered bank holding company, the Company is required to file with the FRB annual and periodic reports and such other additional information as the Board may require. The Company and its subsidiaries are also subject to continuing regulation, supervision and examinations by the FRB.

A bank holding company, with certain exceptions, may not acquire more than 5% of the voting shares of any company that is not a bank and may not engage, directly or through subsidiaries, in any activity other than banking, managing or controlling banks, or furnishing services to or performing services for its subsidiaries, without prior approval of the FRB. The FRB is authorized to approve the ownership by a bank holding company of voting shares of any company whose activities the FRB determines to be so closely related to banking or managing or controlling banks as to be a proper incident thereof. Under the FRB's current regulations, and subject to certain restrictions and limitations specified therein, bank holding companies and their subsidiaries may be permitted by the FRB to engage in such non-banking activities as: (1) making, acquiring, or servicing loans or other extensions of credit such as would be made by a mortgage, finance, credit card, or factoring company; (2) operating an industrial bank or industrial loan company; (3) performing the functions of a trust company; (4) acting as an investment or financial advisor; (5) leasing real or personal property or acting as an agent or broker in leasing such property or acting as an agent or broker in leasing property in certain situations; (6) making investments to promote community welfare; (7) providing certain data processing and transmission services; (8) acting as principal, agent, or broker with respect to insurance directly related to extensions of credit

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by the bank holding company or its subsidiaries, and engaging in certain other insurance activities subject to specified conditions and limitations; (9) providing courier services for checks and certain other instrument exchanges among banks, and for audit and accounting media of a banking or financial nature; (10) providing management consulting advice under specified conditions to banks not affiliated with the bank holding company; (11) issuing and selling retail money orders having a face value of not more than \$1,000 and travelers checks and selling U.S. Savings Bonds; (12) performing appraisals of real and personal property; (13) arranging commercial real estate equity financing under certain circumstances; (14) providing securities brokerage services as agent for the accounts of customers; (15) underwriting and dealing in certain government obligations and money market instruments; (16) providing foreign exchange advisory and transactional services; (17) acting as a futures commission merchant in specified capacities or providing investment advice as a futures commission merchant or commodity trading advisor with respect to certain financial futures contracts and options; (18) providing consumer financial counseling services; (19) providing tax planning and preparation services; (20) providing check guaranty services to subscribing merchants; (21) operating a collection agency; and (22) operating a credit bureau. In addition, a bank holding company may file an application for FRB approval to engage, directly or through subsidiaries, in other nonbank activities that the holding company reasonably believes are so closely related to banking as to be a proper incident thereto.

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In addition, pursuant to the Bank Export Services Act of 1982, a bank holding company may invest up to 5% of its consolidated capital and surplus in shares of an export trading company unless such investment is disapproved by the FRB after notice as provided in that Act.

As a bank holding company, the Company will be required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of Bancorp's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would violate any law, regulation, FRB order, directive, or any condition imposed by, or written agreement with, the FRB.

The status of the Company as a registered bank holding company under the BHCA does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

Under Massachusetts law, Board of Bank Incorporation approval is required before any company may become a bank holding company by directly or indirectly owning, controlling or holding the power to vote 25% or more of the voting stock of two or more banks. Further, such approval is required prior to a bank holding company's (i) acquiring voting stock of another bank institution if, as a result of the acquisition, such acquirer would, directly or indirectly, own or control more than 5% of the voting stock of such institution, or (ii) engaging in certain other transactions. The Company is not considered a bank holding company under Massachusetts's law since it does not control two or more banks. The activities of the Company, however, will be limited under Massachusetts's law to activities described above which would be permissible for a bank holding company registered under the BHCA. In addition, the acquisition by the Company of

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25% or more of the voting stock or the power to elect a majority of the directors of another commercial bank, savings bank, cooperative bank, or savings and loan association would subject the Company to regulation as a bank holding company under applicable Massachusetts law and would require the approval of the Massachusetts Board of Bank Incorporation.

Bank Regulation

As a Massachusetts-chartered, FDIC-insured trust company, the Bank is subject to regulation and supervision by the Commissioner of Banks, the FDIC and the FRB.

The Massachusetts statutes and regulations govern, among other things, investment powers, deposit activities, borrowings, maintenance of surplus and reserve accounts, distribution of earnings, and payment of dividends. The Bank is also subject to state regulatory provisions covering such matters as issuance of capital stock, branching, and mergers and acquisitions.

Deposit accounts at the Bank are insured by the FDIC, generally up to a maximum of \$100,000 per insured depositor. As an insurer of deposits of certain thrift institutions and commercial banks, the FDIC issues regulations, conducts examinations, requires the filing of reports, and generally supervises the operations of institutions to which it provides deposit insurance. The approval of the FDIC is required prior to any merger or consolidation with another financial institution, or the establishment or relocation of an office facility. This supervision is intended primarily for the protection of depositors.

As an FDIC-insured bank, the Bank is subject to certain FDIC requirements designed to maintain the safety and soundness of individual banks and the banking system. The FDIC periodically conducts

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examinations of insured institutions and, based upon appraisals, may revalue assets of an insured institution and require establishment of specific reserves in amounts equal to the difference between such revaluation and the book value of the assets. In addition, the FDIC has a regulation which defines and sets minimum requirements for capital adequacy.

Bank regulators have implemented risk based capital guidelines that require a bank to maintain certain minimum capital as a percent of such bank's assets and certain off-balance sheet items adjusted for predefined credit risk factors (risk adjusted assets). Under the requirements a minimum level of capital will vary among banks on safety and soundness of operation. At December 31, 2001 the minimum regulatory capital level of Risk Based Capital was 4% for Tier 1 Capital, 8% for Total Capital and Leverage Capital was 4%.

The Company, the Bank, the Slade's Ferry Realty Trust, the Slade's Ferry Securities Corporation, the Slade's Ferry Preferred Capital Corporation, and the Slade's Ferry Loan Company are "affiliates" within the meaning of the Federal Reserve Act. Certain provisions of the Federal Reserve Act, made applicable to the Bank by Section 18(j) of the Federal Deposit Insurance Act and administered with respect to the Bank by the FDIC, limit the amounts of and establish collateral requirements with respect to the Bank's loans or extensions of credit to and investments in affiliates. In addition, related provisions of the Federal Reserve Act and FRB

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regulations also administered with respect to the Bank by the FDIC limit the amounts of and establish required procedures and credit standards with respect to loans and other extensions of credit to officers, directors and principal stockholders of the Bank, of the Company, and of any subsidiaries of the Company, and to related interests of such persons.

Recent Regulatory Examinations

During 2001, the Bank continued to operate under an informal agreement (Memorandum of Understanding) with the Federal Deposit Insurance Corporation and Massachusetts Commissioner of Banks. This agreement was originally entered into in December 2000. Following completion of the most recent joint examination in 2001, a revised Memorandum of Understanding was entered into to be implemented during the first and second quarters of 2002.

Under the revised agreement, the Bank agreed to address and implement certain plans, procedures, and policies. These include performing an independent, thorough analysis and assessment of the Bank's management and staffing needs, and formalizing a written management plan. In addition, the Bank agrees to revise and implement loan and credit administration policies, including a written classified and criticized asset reduction plan, a loan risk and collection plan, and a revised loan policy providing for standards applicable to construction lending and concentrations. Other policies and procedures which are to be addressed and implemented relate to wire transfers, Code of Ethics and Conflicts of Interest, and strategic planning.

During the life of the agreement, the Bank must maintain a seven (7) percent Tier 1 Leverage Capital ratio.

Bank management and the Board of Directors have taken and are continuing to take action to comply with the provisions required by the informal agreement, and are committed to correcting and resolving all issues.

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Statistical Information

The following supplementary information required under Guide 3 (Statistical Disclosure by Bank Holding Companies) should be read in conjunction with the related financial statements and notes thereto, which are a part of this report.

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DISTRIBUTION OF ASSETS, LIABILITIES, AND STOCKHOLDERS' EQUITY; INTEREST RATES AND INTEREST DIFFERENTIAL

The following table sets forth the Company's average assets, liabilities, and stockholders' equity, interest income earned and interest paid, average rates earned and paid, and the net interest margin for the periods ending December 31, 2001, December 31, 2000, and December 31, 1999. Averages are daily averages.

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	2001			2000		
(Dollars in Thousands)	Average Balance	Interest (1) Inc/Exp	Avg. Int. Rate	Average Balance	Interest (1) Inc/Exp	Avg. Int. Rate
ASSETS:						
Earning Assets (2)						
Commercial Loans	\$ 47,036	\$ 4,757	10.11%	\$ 48,445	\$ 4,504	9.30%
Commercial Real Estate	153,395	12,989	8.47%	152,580	14,194	9.30%
Residential Real Estate	38,819	2,868	7.39%	36,558	2,877	7.87%
Consumer Loans	12,093	940	7.77%	11,216	911	8.12%
Total Loans	251,343	21,554	8.57%	248,799	22,486	9.04%
Federal Funds Sold & FHLB						
Overnight Deposits	23,136	819	3.54%	9,558	583	6.10%
U.S. Treas/Govt Agencies	72,778	4,258	5.85%	68,606	4,421	6.44%
States & Political						
Subdivisions	12,498	777	6.22%	11,889	787	6.62%
Mutual Funds	45	2	4.44%	55	3	5.45%
Marketable Equity						
Securities	4,116	91	2.21%	4,241	89	2.10%
Other Investments	1,037	67	6.46%	1,066	79	7.41%
Total Earning Assets	364,953	27,568	7.55%	344,214	28,448	8.26%
Allowance for Loan Losses	(5,109)			(4,202)		
Unearned Income	(443)			(552)		
Cash and Due From Banks	13,351			12,883		
Other Assets	21,837			20,938		
Total Assets	\$394,589			\$373,281		
LIABILITIES & STOCKHOLDERS' EQUITY:						
Savings	\$ 53,613	\$ 878	1.64%	\$ 50,210	\$ 1,006	2.00%
NOW's	37,834	700	1.85%	37,785	1,183	3.13%
Money Market Accounts	9,415	120	1.27%	10,607	174	1.64%
CD's > \$100M	34,483	1,796	5.21%	31,689	1,537	4.85%
Other Time Deposits	141,698	7,839	5.53%	138,637	8,019	5.78%
FHLB Advances & Other						
Borrowings	15,734	993	6.31%	12,402	780	6.29%
Total Interest-bearing Liabilities	292,777	12,326	4.21%	281,330	12,699	4.51%
Demand Deposits	64,549			58,588		
Other Liabilities	1,738			1,836		
Total Liabilities	359,064			341,754		
Common Stock	38			37		
Paid-in Capital	26,264			25,109		
Retained Earnings	9,516			7,648		
Accumulated Other Comprehensive Income (Loss)	(293)			(1,267)		
Total Stockholders' Equity	35,525			31,527		
Total Liabilities & Stockholders' Equity	\$394,589			\$373,281		

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Net Interest Income	\$15,242	\$15,749
Net Interest Spread	3.34%	3.75%
Net Yield on Earning Assets	4.18%	4.58%