CENTURY BANCORP INC
Form 10-Q
August 06, 2010

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2010.

or

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

Commission file number: 0-15752
CENTURY BANCORP, INC.

(Exact name of registrant as specified in its charter)

COMMONWEALTH OF MASSACHUSETTS	**04-2498617**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 MYSTIC AVENUE, MEDFORD, MA	**02155**
(Address of principal executive offices)	(Zip Code)

(781) 391-4000

(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 and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o 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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

As of July 31, 2010, the Registrant had outstanding:

Class A Common Stock, $1.00 par value	**3,524,917 Shares**
Class B Common Stock, $1.00 par value	**2,011,380 Shares**

Century Bancorp, Inc.

Index

		Page Number
Part I	Financial Information	
Item 1.	Financial Statements (unaudited)	
	Consolidated Balance Sheets: June 30, 2010 and December 31, 2009	3
	Consolidated Statements of Income: Three months and Six months ended June 30, 2010 and 2009	4
	Consolidated Statements of Changes in Stockholders Equity: Six months ended June 30, 2010 and 2009	5
	Consolidated Statements of Cash Flows: Six months ended June 30, 2010 and 2009	6
	Notes to Consolidated Financial Statements	7-20
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	21-32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	32
Item 4.	Controls and Procedures	32
Part II.	Other Information	
Item 1.	Legal Proceedings	33
Item 1A.	Risk Factors	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	33
Item 3.	Defaults Upon Senior Securities	33
Item 5.	Other Information	33
Item 6.	Exhibits	33
Signatures		35
Exhibits		
EX-31.1		
EX-31.2		
EX-32.1		
EX-32.2		

Table of Contents

PART I Item 1

Century Bancorp, Inc.
Consolidated Balance Sheets (unaudited)
(In thousands, except share data)

	June 30, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 49,410	$ 42,627
Federal funds sold and interest-bearing deposits in other banks	306,859	356,015
Total cash and cash equivalents	356,269	398,642
Short-term investments	140,999	18,518
Securities available-for-sale, amortized cost $763,991 and $641,010, respectively	778,660	647,796
Securities held-to-maturity, fair value $185,104 and $221,413, respectively	178,731	217,643
Federal Home Loan Bank of Boston stock, at cost	15,531	15,531
Loans, net:		
Commercial and industrial	112,017	141,061
Construction and land development	55,992	60,349
Commercial real estate	381,671	361,823
Residential real estate	193,635	188,096
Home equity	117,486	118,076
Consumer and other	7,546	7,720
Total loans, net	868,347	877,125
Less: allowance for loan losses	14,350	12,373
Net loans	853,997	864,752
Bank premises and equipment	21,482	21,015
Accrued interest receivable	5,776	5,806
Goodwill	2,714	2,714
Core deposit intangible	702	896
Other assets	64,347	60,722
Total assets	$ 2,419,208	$ 2,254,035

Liabilities

Deposits:

Demand deposits	$ 308,398	$ 279,874
Savings and NOW deposits	627,421	575,592
Money market accounts	536,067	553,883
Time deposits	356,550	292,638
Total deposits	1,828,436	1,701,987
Securities sold under agreements to repurchase	124,080	118,745
Other borrowed funds	229,994	234,024
Subordinated debentures	36,083	36,083
Due to broker	27,859	
Other liabilities	29,722	30,466
Total liabilities	2,276,174	2,121,305
Stockholders Equity		
Preferred stock $1.00 par value; 100,000 shares authorized; no shares issued and outstanding		
Class A common stock, $1.00 par value per share; authorized 10,000,000 shares; issued 3,518,917 shares and 3,515,767 shares, respectively	3,519	3,516
Class B common stock, $1.00 par value per share; authorized 5,000,000 shares; issued 2,011,380 and 2,014,530 shares, respectively	2,011	2,014
Additional paid-in capital	11,376	11,376
Retained earnings	125,423	120,125
	142,329	137,031
Unrealized gains on securities available-for-sale, net of taxes	8,891	4,129
Pension liability, net of taxes	(8,186)	(8,430)
Total accumulated other comprehensive income (loss), net of taxes	705	(4,301)
Total stockholders equity	143,034	132,730
Total liabilities and stockholders equity	$ 2,419,208	$ 2,254,035

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.

Consolidated Statements of Income (unaudited)
(In thousands, except share data)

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Interest income				
Loans	$ 12,068	$ 12,026	$ 24,180	$ 23,815
Securities held-to-maturity	1,875	2,180	3,860	4,403
Securities available-for-sale	4,979	5,225	10,012	10,254
Federal funds sold and interest-bearing deposits in other banks	403	763	781	1,305
Total interest income	19,325	20,194	38,833	39,777
Interest expense				
Savings and NOW deposits	1,093	1,337	2,314	2,733
Money market accounts	1,089	1,718	2,313	3,653
Time deposits	1,876	2,561	3,584	5,168
Securities sold under agreements to repurchase	131	117	350	325
Other borrowed funds and subordinated debentures	1,994	2,499	4,405	5,144
Total interest expense	6,183	8,232	12,966	17,023
Net interest income	13,142	11,962	25,867	22,754
Provision for loan losses	1,450	1,050	3,025	2,900
Net interest income after provision for loan losses	11,692	10,912	22,842	19,854
Other operating income				
Service charges on deposit accounts	1,952	2,006	3,875	4,028
Lockbox fees	748	753	1,448	1,494
Net gain on sales of investments	649		1,027	978
Other income	756	781	2,014	1,710
Total other operating income	4,105	3,540	8,364	8,210
Operating expenses				
Salaries and employee benefits	7,850	6,541	14,775	13,429
Occupancy	998	995	2,066	2,140

Equipment	533	654	1,083	1,282
FDIC assessments	740	1,623	1,390	2,116
Other	2,477	2,470	4,850	4,766
Total operating expenses	12,598	12,283	24,164	23,733
Income before income taxes	3,199	2,169	7,042	4,331
Provision for income taxes	238	162	659	438
Net income	$ 2,961	$ 2,007	$ 6,383	$ 3,893
Share data:				
Weighted average number of shares outstanding, basic	5,530,297	5,530,724	5,530,297	5,534,233
Weighted average number of shares outstanding, diluted	5,532,980	5,531,329	5,533,025	5,534,345
Net income per share, basic	$ 0.54	$ 0.36	$ 1.15	$ 0.70
Net income per share, diluted	$ 0.54	$ 0.36	$ 1.15	$ 0.70
Cash dividends paid:				
Class A common stock	$ 0.12	$ 0.12	$ 0.12	$ 0.12
Class B common stock	$ 0.06	$ 0.06	$ 0.06	$ 0.06

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.

Consolidated Statements of Changes in Stockholders Equity (unaudited)
For the Three Months Ended June 30, 2010 and 2009

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
			(In thousands)			
Balance at December 31, 2008	$ 3,511	$ 2,027	$ 11,475	$ 112,135	$ (8,645)	$ 120,503
Net income				3,893		3,893
Other comprehensive income, net of tax: Unrealized holding losses arising during period, net of $1,256 in taxes and $978 in realized net gains					1,772	1,772
Pension liability adjustment, net of $163 in taxes					246	246
Comprehensive income						5,911
Stock repurchased, 8,110 shares	(8)		(99)			(107)
Cash dividends paid, Class A common stock, $.24 per share				(842)		(842)
Cash dividends paid, Class B common stock, $.12 per share				(243)		(243)
Balance at June 30, 2009	$ 3,503	$ 2,027	$ 11,376	$ 114,943	$ (6,627)	$ 125,222
Balance at December 31, 2009	$ 3,516	$ 2,014	$ 11,376	$ 120,125	$ (4,301)	$ 132,730
Net income				6,383		6,383
Other comprehensive income, net of tax:					4,762	4,762

Unrealized holding gains arising during period, net of $3,122 in taxes and $1,027 in realized net gains						
Pension liability adjustment, net of $162 in taxes					244	244
Comprehensive income						11,389
Conversion of class B common stock to class A common stock, 3,150 shares	3	(3)				
Cash dividends paid, Class A common stock, $.24 per share				(844)		(844)
Cash dividends paid, Class B common stock, $.12 per share				(241)		(241)
Balance at June 30, 2010	$ 3,519	$ 2,011	$ 11,376	$ 125,423	$ 705	$ 143,034

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.

Consolidated Statements of Cash Flows (unaudited)
(In thousands)

	Six months ended June 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 6,383	$ 3,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Mortgage loans originated for sale		(374)
Proceeds from mortgage loans sold		379
Gain on sales of loans		(5)
Net gain on sales of investments	(1,027)	(978)
Provision for loan losses	3,025	2,900
Deferred income taxes	(1,050)	(1,137)
Net depreciation and amortization	2,487	2,826
Decrease (increase) in accrued interest receivable	30	(48)
Increase in other assets	(5,889)	(2,756)
(Decrease) increase in other liabilities	(314)	1,814
Net cash provided by operating activities	3,645	6,514
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	43,518	79,816
Purchase of short-term investments	(165,999)	(176,887)
Proceeds from maturities of securities available-for-sale	322,556	178,780
Proceeds from sales of securities available-for-sale	34,625	32,158
Purchase of securities available-for-sale	(452,239)	(359,662)
Proceeds from maturities of securities held-to-maturity	101,982	56,314
Purchase of securities held-to-maturity	(63,342)	(67,818)
Net decrease in loans	7,753	11
Capital expenditures	(1,541)	(539)
Net cash used in investing activities	(172,687)	(257,827)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in time deposits	63,912	(2,612)
Net increase in demand, savings, money market and NOW deposits	62,537	261,268
Net payments for the repurchase of stock		(107)
Cash dividends	(1,085)	(1,085)
Net increase (decrease) in securities sold under agreements to repurchase	5,335	(45,858)
Net (decrease) increase in other borrowed funds	(4,030)	7,430
Net cash provided by financing activities	126,669	219,036

Net decrease in cash and cash equivalents	(42,373)	(32,277)
Cash and cash equivalents at beginning of period	398,642	156,168
Cash and cash equivalents at end of period	$ 356,269	$ 123,891
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 13,126	$ 17,448
Income taxes	2,532	1,677
Change in unrealized gains on securities available-for-sale, net of taxes	4,762	1,772
Pension liability adjustment, net of taxes	244	246
Due to broker	27,859	10,050

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.
Notes to Unaudited Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2010 and 2009

Note 1. Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of Century Bancorp, Inc. (the Company) and its wholly-owned subsidiary, Century Bank and Trust Company (the Bank). The consolidated financial statements also include the accounts of the Bank s wholly-owned subsidiaries: Century Subsidiary Investments, Inc. (CSII); Century Subsidiary Investments, Inc. II (CSII II); and Century Subsidiary Investments, Inc. III (CSII III). CSII, CSII II, CSII III are engaged in buying, selling and holding investment securities. The Company also owns 100% of Century Bancorp Capital Trust II (CBCT II). The entity is an unconsolidated subsidiary of the Company.

All significant intercompany accounts and transactions have been eliminated in consolidation. The Company provides a full range of banking services to individual, business and municipal customers in Massachusetts. As a bank holding company, the Company is subject to the regulation and supervision of the Federal Reserve Board. The Bank, a state chartered financial institution, is subject to supervision and regulation by applicable state and federal banking agencies, including the Federal Reserve Board, the Federal Deposit Insurance Corporation (the FDIC) and the Commonwealth of Massachusetts Commissioner of Banks. The Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy. All aspects of the Company s business are highly competitive. The Company faces aggressive competition from other lending institutions and from numerous other providers of financial services. The Company has one reportable operating segment.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and to general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The Company s Quarterly report on Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as filed with the Securities and Exchange Commission.

Material estimates that are susceptible to change in the near-term relate to the allowance for loan losses. Management believes that the allowance for loan losses is adequate based on independent appraisals and review of other factors associated with the loans. While management uses available information to recognize loan losses, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, regulatory agencies periodically review the Company s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination.

Whenever necessary prior period amounts were reclassified to conform with the current period presentation.

Table of Contents

Note 2. Recent Market Developments

The financial services industry is facing unprecedented challenges in the face of the current national and global economic crisis. The global and U. S. economies are experiencing significantly reduced business activity. Dramatic declines in the housing market during the past two years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital; to merge with larger and stronger institutions; and, in some cases, to fail. The Company is fortunate that the markets it serves have been impacted to a lesser extent than many areas around the country.

In response to the financial crises affecting the banking system and financial markets, there have been several announcements of federal programs designed to purchase assets from, provide equity capital to, and guarantee the liquidity of the industry.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. The EESA authorizes the U.S. Treasury to, among other things, purchase up to $750 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The Company does not expect to participate in the sale of any of our assets into these programs.

On July 21, 2010, President Barack Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act into law, which, in part, permanently raises the current standard maximum FDIC deposit insurance amount to $250,000.

On October 14, 2008, the U.S. Treasury announced that it would purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Assets Relief Program Capital Purchase Program (the TARP Capital Purchase Program), the U.S. Treasury made $250 billion of capital available (from the $750 billion authorized by the EESA) to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the U.S. Treasury received warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions were required to adopt the U. S. Treasury s standards for executive compensation, dividend restrictions and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase Program. The U.S. Treasury also announced that nine large financial institutions had already agreed to participate in the TARP Capital Purchase Program. Subsequently, a number of smaller institutions had participated in the TARP Capital Purchase Program. On December 18, 2008, the Company announced in a press release, it had received preliminary approval from the U.S. Treasury to participate in the TARP Capital Purchase Program, in an amount up to $30 million in the form of Century Bancorp, Inc. preferred stock and warrants to purchase Class A common stock. In light of uncertainty surrounding additional restrictions that may be imposed on participants under pending legislation, the Company, on January 14, 2009, informed the U.S. Treasury that it would not be closing on the transaction on January 16, 2009, as originally scheduled. The Company subsequently withdrew its application.

On October 14, 2008, the U. S. Treasury and the FDIC jointly announced a new program, known as the Temporary Liquidity Guarantee Program (TLGP), to strengthen confidence and encourage liquidity in the nation s banking system. The TLGP consists of two programs: the Debt Guarantee Program (DGP) and the Transaction Account Guarantee Program (TAGP). Under the DGP, as amended, the FDIC will guarantee certain newly issued senior unsecured debt of participating banks, thrifts and certain holding companies issued from October 14, 2008 through October 31, 2009,

Table of Contents

which debt matures on or prior to December 31, 2012, up to a fixed maximum amount per participant. In addition, under the TAGP, the FDIC will fully guarantee deposits in noninterest bearing transaction accounts without dollar limitation through December 31, 2009. Institutions opting to participate in the DGP will be charged a 50-, 75- or 100-basis point fee (depending on maturity) for the guarantee of eligible debt, and a 10-basis point assessment will be applicable to deposits in noninterest bearing transaction accounts at institutions participating in the TAGP that exceed the existing deposit insurance limit of $250,000. The Company opted to participate in both the DGP and the TAGP. The annual assessment rate that will apply during the extension period will be either 15, 20 or 25 basis points, depending on the risk category assigned to the institution under the FDIC s risk-based premium system. On April 13, 2010 the FDIC approved an interim rule to extend the TAGP to December 31, 2010. The Company will continue to participate in the TAGP through December 31, 2010. The interim rule gives the FDIC discretion to extend the program to the end of 2011, without additional rulemaking, if it determines that economic conditions warrant such an extension.

On May 22, 2009, the FDIC announced a special assessment on insured institutions as part of its efforts to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The special assessment is five basis points of each FDIC-insured depository institution s assets minus Tier 1 capital, as of June 30, 2009. The Company recorded a pre-tax charge of approximately $1.0 million in the second quarter of 2009 in connection with the special assessment.

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking (NPR) that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period from seven to eight years. This rule was finalized on November 2, 2009. As a result, the Company is carrying a prepaid asset of $7.5 million as of June 30, 2010. The Company s quarterly risk-based deposit insurance assessments will be paid from this amount until the amount is exhausted or until December 30, 2014, when any amount remaining would be returned to the Company.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act became law. The Act was intended to address many issues arising in the recent financial crisis and is exceedingly broad in scope affecting many aspects of bank and financial market regulation. The Act requires, or permits by implementing regulation, enhanced prudential standards for banks and bank holding companies inclusive of capital, leverage, liquidity, concentration and exposure measures. In addition, traditional bank regulatory principles such as restrictions on transactions with affiliates and insiders were enhanced. The Act also contains reforms of consumer mortgage lending practices and creates a Bureau of Consumer Financial Protection which is granted broad authority over consumer financial practices of banks and others. It is expected as the specific new or incremental requirements applicable to the company become effective that the costs and difficulties of remaining compliant with all such requirements will increase.

Table of Contents

Note 3. Stock Option Accounting

Stock option activity under the Company s stock option plan is as follows:

	June 30, 2010		
	Amount		Weighted Average Exercise Price
Shares under option:			
Outstanding at beginning of year	68,637	$	26.09
Cancelled	(975)		25.70
Outstanding at end of period	67,662	$	26.09
Exercisable at end of period	67,662	$	26.09
Available to be granted at end of period	203,884		

On June 30, 2010, the outstanding options to purchase 67,662 shares of Class A common stock have exercise prices between $15.06 and $35.01, with a weighted average exercise price of $26.09 and a weighted average remaining contractual life of 2.7 years. The intrinsic value of options exercisable at June 30, 2010 had an aggregate value of $73,290.

The Company uses the fair value method to account for stock options. All of the Company s stock options are vested and there were no options granted during the first six months of 2010.

Note 4. Securities Available-for-Sale

	June 30, 2010				December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
U.S. Treasury	**$ 1,999**	**$ 10**	**$**	**$ 2,009**	$ 1,998	$ 5	$	$ 2,003
U.S. Government Sponsored Enterprises	**245,057**	**907**	**4**	**245,960**	192,942	374	952	192,364
Small Business Administration	**10,280**		**61**	**10,219**				
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**460,288**	**13,638**	**120**	**473,806**	410,181	8,855	524	418,512
Privately Issued Residential Mortgage Backed Securities	**4,753**	**14**	**201**	**4,566**	5,383		473	4,910
	361	**5**		**366**	537	7		544

Privately Issued Commercial Mortgage Backed Securities								
Obligations Issued by States and Political Subdivisions	**37,929**	**128**	**282**	**37,775**	26,627	130	468	26,289
Other Debt Securities	**2,300**		**20**	**2,280**	2,300		41	2,259
Equity Securities	**1,024**	**655**		**1,679**	1,042	71	198	915
Total	**$ 763,991**	**$ 15,357**	**$ 688**	**$ 778,660**	$ 641,010	$ 9,442	$ 2,656	$ 647,796

Included in U.S. Government Sponsored Enterprise Securities and U. S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities are securities at fair value pledged to secure public deposits and repurchase agreements amounting to $312,178,000 and $322,064,000 at June 30, 2010 and December 31, 2009, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank amounting to $158,287,000 and $172,497,000 at June 30, 2010 and December 31, 2009 respectively. The Company realized gross gains of $1,027,000 from the proceeds of $34,625,000 from the sales of available-for-sale securities for the six

Table of Contents

months ended June 30, 2010. The Company realized gross gains of $978,000 from the proceeds of $32,158,000 from the sales of available-for-sale securities for the six months ended June 30, 2009.

The following table shows the maturity distribution of the Company s securities available-for-sale at June 30, 2010.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	**$ 66,637**	**$ 67,798**
After one but within five years	**582,406**	**593,771**
After five but within ten years	**89,381**	**90,943**
More than 10 years	**23,043**	**22,987**
Non-maturing	**2,524**	**3,161**
Total	**$ 763,991**	**$ 778,660**

The weighted average remaining life of investment securities available-for-sale at June 30, 2010 was 3.0 years. Included in the weighted average remaining life calculation at June 30, 2010 was $240,060,000 of U.S. Government Sponsored Enterprise obligations that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life. The contractual maturities, which were used in the table above, of mortgage-backed securities will differ from the actual maturities, due to the ability of the issuers to prepay underlying obligations.

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at June 30, 2010. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 14 and 6 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 333 holdings at June 30, 2010.

As of June 30, 2010, management has concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell any of its debt securities with unrealized losses and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade. The change in the unrealized losses on the state and municipal securities and the nonagency mortgage-backed securities were primarily caused by changes in credit spreads and liquidity issues in the marketplace. In evaluating the underlying credit quality of a security, management considers several factors such as the credit rating of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary. In the case of privately issued mortgage-backed securities, the performance of the underlying loans is analyzed as deemed necessary to determine the estimated future cash flows of the securities. Factors considered include the level of subordination, current and estimated future default rates, current and estimated prepayment rates, estimated loss severity rates, geographic concentrations and origination dates of underlying loans. In the case of marketable equity securities, the severity of the unrealized loss, the length of time the unrealized loss has existed, and the issuer s financial performance are considered.

Table of Contents

	June 30, 2010					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments*			(In thousands)			
U.S. Government Sponsored Enterprises	$ 9,996	$ 4	$	$	$ 9,996	$ 4
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	15,620	119	3,183	1	18,803	120
Privately Issued Residential Mortgage Backed Securities			2,832	200	2,832	200
Obligations Issued by States and Political Subdivisions	150	1	4,393	282	4,543	283
SBA Backed Securities	10,219	61			10,219	61
Other Debt Securities	98	2	1,482	18	1,580	20
Total temporarily impaired securities	$ 36,083	$ 187	$ 11,890	$ 501	$ 47,973	$ 688

* At June 30, 2010, the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. The unrealized losses on Obligations Issued by States and Political Subdivisions were considered by management to be temporary in nature. Full collection of those debt securities is expected because the financial condition of the obligors is considered to be sound, there has been no default in scheduled payment and the debt

securities are rated investment grade. The unrealized loss on U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprises Mortgage Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2010.

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 31, 2009. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 41 and 17 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 287 holdings at December 31, 2009. The Company believes that the investments are temporarily impaired.

	December 31, 2009					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments*	(In thousands)					
U.S. Government Sponsored Enterprises	$ 127,259	$ 952	$	$	$ 127,259	$ 952
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	51,903	428	11,752	96	63,655	524
Privately Issued Residential Mortgage Backed Securities			4,910	473	4,910	473
Obligations Issued by States and Political Subdivisions	3,427	187	4,393	281	7,820	468
Other Debt Securities			1,459	41	1,459	41
Equity Securities			495	198	495	198
Total temporarily impaired securities	$ 182,589	$ 1,567	$ 23,009	$ 1,089	$ 205,598	$ 2,656

* At December 31, 2009, the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. The unrealized losses on Obligations Issued by States and Political Subdivisions were considered by management to be temporary in nature. Full collection of those debt securities is expected because the financial condition of the obligors is considered to be sound, there has been no default in scheduled payment and the debt securities are rated investment grade. The unrealized loss on U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprises Mortgage Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2009.

Table of Contents

Note 5. Investment Securities Held-to-Maturity

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
	June 30, 2010				December 31, 2009			
U.S. Government Sponsored Enterprises	**$ 40,846**	**$ 66**	**$**	**$ 40,912**	$ 69,555	$ 36	$ 707	$ 68,884
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**128,931**	**6,350**	**43**	**135,238**	148,088	4,490	49	152,529
Obligations Issued By States and Political Subdivisions	**8,954**			**8,954**				
Total	**$ 178,731**	**$ 6,416**	**$ 43**	**$ 185,104**	$ 217,643	$ 4,526	$ 756	$ 221,413

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to $5,020,000 and $9,036,000 at June 30, 2010 and December 31, 2009, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank at fair value amounting to $98,975,000 and $83,693,000 at June 30, 2010 and December 31, 2009, respectively.
At June 30, 2010 and December 31, 2009, all mortgage-backed securities are obligations of U.S. Government Agencies and Government Sponsored Enterprises. Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.
The following table shows the maturity distribution of the Company s securities held-to-maturity at June 30, 2010.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	**$ 9,000**	**$ 9,124**
After one but within five years	**140,161**	**146,389**
After five but within ten years	**20,319**	**20,328**
More than ten years	**9,251**	**9,263**
Total	**$ 178,731**	**$ 185,104**

The weighted average remaining life of investment securities held-to-maturity at June 30, 2010 was 3.0 years. Included in the weighted average remaining life calculation at June 30, 2010 were $40,846,000 of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. The actual maturities, which were used in the table above, of mortgage-backed securities, will differ from the contractual maturities, due to the ability of the issuers to prepay underlying obligations.
The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at June 30, 2010. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position

for 12 months or less and a continuous loss position for 12 months and longer. There are 3 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 95 holdings at June 30, 2010.

As of June 30, 2010, management has concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the

---

Table of Contents

underlying credit quality of the issuers, and the Company does not intend to sell this debt security and it is not likely that it will be required to sell this debt security before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on this security are from an issuer that is investment grade.

In evaluating the underlying credit quality of a security, management considers several factors such as the credit notary of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary.

	June 30, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments*	(In thousands)					
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	$ 2,762	$ 43	$	$	$ 2,762	$ 43
Total temporarily impaired securities	$ 2,762	$ 43	$	$	$ 2,762	$ 43

* The unrealized loss on U.S. Government Agency and Sponsored Enterprises related primarily to interest rates and not credit quality and because the Company does not intend to sell any of these securities and it is not likely that it will be required to sell these securities before the anticipated recovery of the remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2010.

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 31, 2009. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 12 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of

a total of 94 holdings at December 31, 2009.

	December 31, 2009					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments*			(In thousands)			
U.S. Government Sponsored Enterprises	$ 49,848	$ 707	$	$	$ 49,848	$ 707
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	11,152	49			11,152	49
Total temporarily impaired securities	$ 61,000	$ 756	$	$	$ 61,000	$ 756

* The unrealized loss on U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2009.

Note 6. Employee Benefits

The Company provides pension benefits to its employees under a noncontributory, defined benefit plan which is funded on a current basis in compliance with the requirements at the Employee Retirement Income Security Act of 1974 (ERISA) and recognizes costs over the estimated employee service period.

Table of Contents

The Company also has a Supplemental Executive Insurance/Retirement Plan (the Supplemental Plan) which is limited to certain officers and employees of the Company. The Supplemental Plan is accrued on a current basis and recognizes costs over the estimated employee service period.

Executive officers of the Company or its subsidiaries who have at least one year of service may participate in the Supplemental Plan. The Supplemental Plan is voluntary and participants are required to contribute to its cost. Individual life insurance policies, which are owned by the Company, are purchased covering the lives of each participant.

Components of Net Periodic Benefit Cost for the Three Months Ended June 30,

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2010	**2009**	**2010**	**2009**
	(In thousands)			
Service cost	**$ 213**	$ 196	**$ 147**	$ 113
Interest	**333**	308	**233**	233
Expected return on plan assets	**(342)**	(281)		
Recognized prior service cost (benefit)	**(26)**	(29)	**27**	27
Recognized net actuarial losses	**159**	171	**43**	35
Net periodic benefit cost	**$ 337**	$ 365	**$ 450**	$ 408

Components of Net Periodic Benefit Cost for the Six Months Ended June 30,

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2010	**2009**	**2010**	**2009**
	(In thousands)			
Service cost	**$ 426**	$ 392	**$ 294**	$ 226
Interest	**667**	616	**466**	466
Expected return on plan assets	**(684)**	(562)		
Recognized prior service cost (benefit)	**(52)**	(58)	**55**	54
Recognized net actuarial losses	**317**	342	**86**	70
Net periodic benefit cost	**$ 674**	$ 730	**$ 901**	$ 816

Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2009 that it expected to contribute $1,275,000 to the Pension Plan in 2010. As of June 30, 2010, $637,500 of the contribution had been made. The Company expects to contribute an additional $637,500 by the end of the year.

Note 7. Fair Value Measurements

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, (formerly SFAS 157, Fair Value Measurements,) which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. ASC 820-10 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels of the hierarchy are as follows:

Table of Contents

Level I Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The type of financial instruments included in Level I are highly liquid cash instruments with quoted prices such as G-7 government, agency securities, listed equities and money market securities, as well as listed derivative instruments.
Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments include cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Instruments which are generally included in this category are corporate bonds and loans, mortgage whole loans, municipal bonds and OTC derivatives.
Level III Instruments that have little to no pricing observability as of the reported date. These financial instruments do not have two-way markets and are measured using management s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Instruments that are included in this category generally include certain commercial mortgage loans, certain private equity investments, distressed debt, non-investment grade residual interests in securitizations, as well as certain highly structured OTC derivative contracts.
The results of the fair value hierarchy as of June 30, 2010 are as follows:
Financial Instruments Measured at Fair Value on a Recurring Basis:

		Securities AFS Fair Value Measurements Using		
	Carrying Value	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
		(In thousands)		
U.S. Treasury	**$ 2,009**	**$**	**$ 2,009**	**$**
U.S. Government Sponsored Enterprises	**245,960**		**245,960**	
SBA Backed Securities	**10,219**		**10,219**	
U.S. Government Agency and Sponsored Mortgage Backed Securities	**473,806**		**473,806**	
Privately Issued Residential Mortgage Backed Securities	**4,566**		**4,566**	
Privately Issued Commercial Mortgage Backed Securities	**366**		**366**	
Obligations Issued by States and Political Subdivisions	**37,775**		**16,812**	**20,963**
Other Debt Securities	**2,280**		**2,280**	
Equity Securities	**1,679**	**1,464**		**215**
Total	**$ 778,660**	**$ 1,464**	**$ 756,018**	**$ 21,178**
Financial Instruments Measured at Fair Value on a Non-recurring Basis:				
Impaired Loans		9,127		9,127

Impaired loan balances in the table above represent those collateral dependent loans where management has estimated the credit loss by comparing the loan s carrying

Table of Contents

value against the expected realizable fair value of the collateral. Specific provisions relates to impaired loans recognized for the three and six-month periods ended June 30, 2010 for the estimated credit loss amounted to $1.4 million and $1.7 million, respectively. The Company uses appraisals, discounted as appropriate, based on management s observations of the local real estate market for loans in this category. There were no transfers of financial instruments to or from Level 1 and Level 2 classifications.

The changes in Level 3 securities for the six-month period ended June 30, 2010 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total
		(In thousands)		
Balance at December 31, 2009	**$ 7,820**	**$ 5,623**	**$ 234**	**$ 13,677**
Purchases		**16,857**		**16,857**
Maturities and calls	**(3,427)**	**(5,910)**	**(19)**	**(9,356)**
Balance at June 30, 2010	**$ 4,393**	**$ 16,570**	**$ 215**	**$ 21,178**

The amortized cost of Level 3 securities was $21.2 million with an unrealized loss of $280,000. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

The changes in Level 3 securities for the six-month period ended June 30, 2009 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total
		(In thousands)		
Balance at December 31, 2008	$	$ 3,300	$ 170	$ 3,470
Purchases		5,177		5,177
Maturities		(922)		(922)
Reclassification	21,061			21,061
Changes in fair value	(911)			(911)
Balance at June 30, 2009	$ 20,150	$ 7,555	$ 170	$ 27,875

There was a $21.1 million reclassification of failed auction rate securities to Level 3 during the first quarter of 2009 due to the lack of an active market at June 30, 2010. The amortized cost of Level 3 securities was $31.0 million with an unrealized loss of $3.1 million. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

Note 8. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values of its financial instruments.

Excluded from this disclosure are all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash and cash equivalents approximate the fair values of these assets because of the short-term nature of these financial instruments.

Short-term Investments

The fair value of short-term investments is estimated using the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for short-term investments of similar remaining maturities.

Securities Held-to-Maturity and Securities Available-for-Sale

The majority of the Company s securities AFS are classified as Level 2. The fair values of these securities are obtained from a pricing service, which provides the Company with a description of the inputs generally utilized for each type of security. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Market indicators and industry and economic events are also monitored.

Securities available-for-sale totaling $21.2 million, or 0.88% of assets are classified as Level 3. These securities are generally failed auction rate securities, equity investments or obligations of states and political subdivisions with no readily determinable fair value. Failed auction rate securities were reclassified from Level 2 to Level 3 at the end of the first quarter of 2009 due to the lack of an active market. Fair values for Level 3 securities are generally arrived at based upon a review of market trades, if any, as well as an analysis of the security based upon market liquidity and prevailing market interest rates.

Loans

For variable-rate loans, that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair value of other loans is estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Incremental credit risk for nonperforming loans has been considered.

Accrued Interest Receivable and Payable

The carrying amounts for accrued interest receivable and payable approximate fair values because of the short-term nature of these financial instruments.

Deposits

The fair value of deposits, with no stated maturity, is equal to the carrying amount. The fair value of time deposits is based on the discounted value of contractual cash flows, applying interest rates currently being offered on the deposit products of similar maturities. The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of alternative forms of funding (deposit base intangibles).

Repurchase Agreements and Other Borrowed Funds
The fair value of repurchase agreements and other borrowed funds is based on the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for other borrowed funds of similar remaining maturities.
Subordinated Debentures
The fair value of subordinated debentures is based on the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for other subordinated debentures of similar remaining maturities.
Off-Balance Sheets Instruments
The fair values of the Company s unused lines of credit and unadvanced portions of construction loans, commitments to originate and sell loans and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing.
The carrying amounts and fair values of the Company s financial instruments are as follows:

	June 30,2010		December 31, 2009	
	Carrying Amounts	**Fair Value**	**Carrying Amounts**	**Fair Value**
	(In thousands)			
Financial assets:				
Cash and cash equivalents	**$ 356,269**	**$ 356,269**	$ 398,642	$ 398,642
Short-term investments	**140,999**	**140,887**	18,518	18,665
Securities available-for-sale	**778,660**	**778,660**	647,796	647,796
Securities held-to-maturity	**178,731**	**185,104**	217,643	221,413
Net loans	**868,347**	**890,236**	877,125	876,197
Accrued interest receivable	**5,776**	**5,776**	5,806	5,806
Financial liabilities:				
Deposits	**1,828,436**	**1,834,632**	1,701,987	1,706,271
Repurchase agreement and other borrowed funds	**354,074**	**365,380**	352,769	359,989
Subordinated debentures	**36,083**	**39,710**	36,083	36,136
Accrued interest payable	**956**	**956**	1,116	1,116
Standby letters of credit		**35**		93

Limitations
Fair value estimates are made at a specific point in time, based on relevant market information and information about the type of financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank s entire holdings of a particular financial instrument. Because no active market exists for some of the Bank s financial instruments, fair value estimates are based on judgments regarding future expected loss experience, cash flows, current economic conditions, risk characteristics and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Changes in assumptions and changes in the loan, debt and interest rate markets could significantly affect the estimates. Further, the income tax ramifications related to the realization of

Table of Contents

the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered.

Note 9. Recent Accounting Developments

FASB ASC 860, *Transfers and Servicing* (formerly Statement of Financial Accounting Standards No.166, Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140). In June, 2009, the FASB issued FASB ASC 860. FASB ASC 860 was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor s continuing involvement, if any, in transferred financial assets. Specifically to address: (1) practices that have developed since the issuance of FASB Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on or after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. FASB ASC 860 must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. The adoption of this Statement did not have a material effect on the Company s financial statements at the date of adoption, January 1, 2010.

FASB ASC 810, *Consolidation* (formerly Statement of Financial Accounting Standards No. 167, Amendments to FASB Interpretation No. 46(R)). In June 2009, the FASB issued FASB ASC 810. FASB ASC 810 was issued to improve financial reporting by enterprises involved with variable interest entities, specifically to address: (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities, as a result of the elimination of the qualifying special-purpose entity concept in FASB ASC 860 and (2) constituent concerns about the application of certain key provisions of FASB ASC 860, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise s involvement in a variable interest entity. FASB ASC 810 must be applied as of the beginning of each reporting entity s first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. The adoption of this Statement did not have a material effect on the Company s financial statements at the date of adoption, January 1, 2010.

In January 2010, the FASB issued an amendment to the Fair Value Measurements and Disclosures topic of the ASC. This amendment requires disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. This amendment is effective for periods beginning after December 15, 2009, except for the requirement to provide the Level 3 activity of purchases, sales, issuances, and settlements, which will be effective for fiscal years beginning after December 15, 2010. The adoption of this Statement did not have a material effect on the Company s financial statements at the date of adoption, January 1, 2010.

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

Except for the historical information contained herein, this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended and Section 21E of the Securities Exchange Act of 1934 as amended. Investors are cautioned that forward-looking statements are inherently uncertain. Actual performance and results of operations may differ materially from those projected or suggested in the forward-looking statements due to certain risks and uncertainties, including, without limitation, (i) the fact that the Company s success is dependent to a significant extent upon general economic conditions in New England, (ii) the fact that the Company s earnings depend to a great extent upon the level of net interest income (the difference between interest income earned on loans and investments and the interest expense paid on deposits and other borrowings) generated by the Bank and thus the Bank s results of operations may be adversely affected by increases or decreases in interest rates, (iii) the fact that the banking business is highly competitive and the profitability of the Company depends upon the Bank s ability to attract loans and deposits within its market area, where the Bank competes with a variety of traditional banking and other institutions such as credit unions and finance companies, and (iv) the fact that a significant portion of the Company s loan portfolio is comprised of commercial loans, exposing the Company to the risks inherent in loans based upon analyses of credit risk, the value of underlying collateral, including real estate, and other more intangible factors, which are considered in making commercial loans. Accordingly, the Company s profitability may be negatively impacted by errors in risk analyses, and by loan defaults, and the ability of certain borrowers to repay such loans may be adversely affected by any downturn in general economic conditions. These factors, as well as general economic and market conditions, may materially and adversely affect the market price of shares of the Company s common stock. Because of these and other factors, past financial performance should not be considered an indicator of future performance. The forward-looking statements contained herein represent the Company s judgment as of the date of this Form 10-Q, and the Company cautions readers not to place undue reliance on such statements.

Executive Overview

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company formed in 1969. The Company had total assets of approximately $2.4 billion as of June 30, 2010. The Company presently operates 23 banking offices in 17 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank s customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

During October 2008, the Company received regulatory approval to close a branch on Albany Street in Boston, Massachusetts. This branch closed in January 2009.

During August 2009, the Company entered into a lease agreement to open a branch located at Coolidge Corner in Brookline, Massachusetts. The branch opened on April 27, 2010.

The Company s results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the

Table of Contents

level of income and fees from loans, deposits, as well as operating expenses, the provision for loan losses, the impact of federal and state income taxes and the relative levels of interest rates and economic activity.

The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium-sized businesses and retail customers in its market area. The Company makes commercial loans, real estate and construction loans and consumer loans, and accepts savings, time, and demand deposits. In addition, the Company offers to its corporate and institutional customers automated lock box collection services, cash management services and account reconciliation services, and actively promotes the marketing of these services to the municipal market. Also, the Company provides full service securities brokerage services through a program called Investment Services at Century Bank, which is supported by LPL Financial, a full-service securities brokerage business.

The Company is also a provider of financial services, including cash management, transaction processing and short term financing to municipalities in Massachusetts and Rhode Island. The Company has deposit relationships with approximately 50% of the 351 cities and towns in Massachusetts.

Earnings for the second quarter ended June 30, 2010 were $2,961,000, or $0.54 per share diluted, compared to net income of $2,007,000, or $0.36 per share diluted, for the second quarter ended June 30, 2009. For the first six months of 2010, net income totaled $6,383,000, or $1.15 per share diluted, compared to net income of $3,893,000, or $0.70 per share diluted, for the same period a year ago.

Net interest income totaled $25.9 million for the first six months of 2010 compared to $22.8 million for 2009. The 13.7% increase in net interest income for the period is mainly due to a 20.6% increase in the average balances of earning assets, combined with a similar increase in deposits. The increased volume was partially offset by a decrease of five basis points in the net interest margin. The net interest margin decreased from 2.62% on a fully taxable equivalent basis in 2009 to 2.57% on the same basis for 2010.

Throughout 2008, the Company had seen improvement in its net interest margin; however, the first quarter of 2009 reflects a decrease in the net interest margin with a modest increase during the second quarter and third quarter of 2009 followed by a decrease during the fourth quarter of 2009 and the first quarter of 2010 followed by a modest improvement during the second quarter of 2010 as illustrated in the graph below:

The primary factors accounting for the increase in the net interest margin for 2008 are:

Table of Contents

a continuing decline in the cost of funds as a result of increased pricing discipline related to deposits,

an increase in average loans outstanding during 2008,

the maturity of lower-yielding investment securities,

an increase in the slope of the yield curve,

an increase in investment yields due, in part, to taking advantage of elevated yields in the municipal auction rate securities market, particularly in the third quarter of 2008.

The primary factor accounting for the general decrease in the net interest margin during 2009 and 2010 was a large influx of deposits, primarily from municipalities, and a corresponding increase in short-term investments.

While management will continue its efforts to improve the net interest margin, there can be no assurance that certain factors beyond its control, such as the prepayment of loans and changes in market interest rates, will continue to positively impact the net interest margin.

For the three months ended June 30, 2010, the loan loss provision was $1.5 million compared to a provision of $1.1 million for the same period last year for an increase of $400,000. The increase in the provision was due to additional allocations related to impaired loans. For the six months ended June 30, 2010, the loan loss provision was $3.0 million compared to a provision of $2.9 million for the same period last year for an increase of $125,000. The increase in the provision was primarily due to increases in loans and additional allocations related to impaired loans. Nonperforming loans decreased to $10.7 million at June 30, 2010 from $17.1 million on June 30, 2009. This was primarily the result of charge-offs of loans that occurred during the fourth quarter of 2009.

The Company capitalized on favorable market conditions for the second quarter and six months ended June 30, 2010 and realized net gains on sales of investments of $649,000 and $1.0 million, respectively, as compared to $0 and $978,000 million for the same periods in 2009. Included in operating expenses for the second quarter and first six months of 2010 are FDIC assessments of $740,000 and $1.4 million, respectively, as compared to $1.6 million and $2.1 million for the same periods in 2009. FDIC assessments decreased primarily as a result of the special assessment charge of approximately $1.0 million during the second quarter of 2009. This was offset, somewhat, by an increase in assessment rate as well as an increase in the deposit base during 2010.

For the second quarter of 2010, the Company s effective income tax was 7.4% compared to 7.5% for last year s corresponding quarter. For the first six months of 2010, the Company s effective income tax was 9.4% compared to 10.1% for last year s corresponding quarter. The effective income tax rate decreased primarily as a result of increased levels of tax-exempt income.

Financial Condition

Loans

On June 30, 2010, total loans outstanding, net, were $868.3 million, a decrease of 1.0% from the total on December 31, 2009. At June 30, 2010, commercial real estate loans accounted for 44.0% and residential real estate loans, including home equity loans, accounted for 35.8% of total loans.

Commercial and industrial loans decreased to $112.0 million at June 30, 2010 from $141.1 million on December 31, 2009. Construction loans decreased to $56.0 million at June 30, 2010 from $60.3 million on December 31, 2009.

Table of Contents

Allowance for Loan Losses

The allowance for loan loss at June 30, 2010 was $14.4 million as compared to $12.4 million at December 31, 2009. This increase was due to the provision for loan losses exceeding net loan charge offs for the six months ended June 30, 2010 as shown in the table below. The provision for loan losses increased by $125,000 from $2.9 million to $3.0 million; this increase in the provision was due to increases in loans and additional allocations related to impaired loans. Also, the level of the allowance for loan losses to total loans increased from 1.49% at December 31, 2009 to 1.65% at June 30, 2010. This increase was due to the provision for loan losses exceeding net loan charge offs for the six months ended June 30, 2010. In evaluating the allowance for loan losses the Company considered the following categories to be higher risk:

Construction loans: The outstanding loan balance of construction loans at June 30, 2010 is $56.0 million. A major factor in nonaccrual loans is two large construction loans. Based on this fact, and the general local conditions facing construction, the management closely monitors all construction loans and considers this type of loans to be higher risk.

Higher balance loans: Loans greater than $1.0 million are considered high balance loans . The balance of these loans is $403.2 million at June 30, 2010. These loans are considered higher risk due to the concentration in individual loans. Additional allowance allocations are made based upon the level of high balance loans. Included in high balance loans are loans greater than $10.0 million. The balance of these loans is $96.5 million at June 30, 2010. Additional allowance allocations are made based upon the level of this type of high balance loans that is separate and greater than the $1.0 million allocation.

Small business loans: The outstanding loan balances of small business loans is $48.5 million at June 30, 2010. These are considered higher risk loans because small businesses have been negatively impacted by the current economic conditions. In a liquidation scenario, the collateral, if any, is often not sufficient to fully recover the outstanding balance of the loan. As a result, the Company often seeks additional collateral prior to renewing maturing small business loans. In addition, the payment status of the loans is monitored closely in order to initiate collection efforts in a timely fashion.

The following table summarizes the changes in the Company s allowance for loan losses for the periods indicated:

	Three months ended June 30,		**Six months ended June 30,**	
	2010	**2009**	**2010**	**2009**
	(In thousands)			
Allowance for loan losses, beginning of period	**$ 13,229**	$ 12,522	**$ 12,373**	$ 11,119
Loans charged off	**(451)**	(375)	**(1,283)**	(1,015)
Recoveries on loans previously charged-off	**122**	167	**235**	360
Net charge-offs	**(329)**	(208)	**(1,048)**	(655)
Provision charged to expense	**1,450**	1,050	**3,025**	2,900
Allowance for loan losses, end of period	**$ 14,350**	$ 13,364	**$ 14,350**	$ 13,364

Due to current economic conditions, the Company may experience increased levels of nonaccrual loans if borrowers are negatively impacted by future negative economic conditions. Management continually monitors trends in the loan portfolio to determine the appropriate level of allowance for loan losses. At the current time, management believes that the allowance for loan losses is adequate.

Table of Contents

Nonperforming Assets

The following table sets forth information regarding nonperforming assets held by the Bank at the dates indicated:

	June 30, 2010	December 31, 2009
	(Dollars in thousands)	
Nonaccruing loans	**$ 10,679**	$ 12,311
Loans past due 90 days or more and still accruing	**$ 7**	$
Other real estate owned	**$ 79**	$
Nonaccruing loans as a percentage of total loans	**1.22%**	1.40%
Accruing troubled debt restructures	**$ 1,220**	$ 521

Cash and Cash Equivalents

Cash and cash equivalents remained relatively stable during the second quarter of 2010.

Short-term Investments

Short-term investments increased mainly as a result of increases in interest bearing deposits. Interest bearing deposits increased mainly because of increases in savings and NOW deposits and time deposits. The increase was primarily from deposits from municipalities.

Investments

Management continually evaluates its investment alternatives in order to properly manage the overall balance sheet mix. The timing of purchases, sales and reinvestments, if any, will be based on various factors including expectation of movements in market interest rates, deposit flows and loan demand. Notwithstanding these events, it is the intent of management to grow the earning asset base mainly through loan originations while funding this growth through a mix of retail deposits, FHLB advances, and retail repurchase agreements.

Securities Available-for-Sale (at Fair Value)

	June 30, 2010	December 31, 2009
	(In thousands)	
U.S Treasury	**$ 2,009**	$ 2,003
U.S. Government Sponsored Enterprises	**245,960**	192,364
Small Business Administration	**10,219**	
U.S. Government Agency and Sponsored Enterprise Mortgage-backed Securities	**473,806**	418,512
Privately Issued Residential Mortgage-backed Securities	**4,566**	4,910
Privately Issued Commercial Mortgage-backed Securities	**366**	544
Obligations issued by States and Political Subdivisions	**37,775**	26,289
Other Debt Securities	**2,280**	2,259
Equity Securities	**1,679**	915
Total Securities Available-for-Sale	**$ 778,660**	$ 647,796

Table of Contents

During the first six months of 2010 the Company capitalized on favorable market conditions and realized $1,027,000 of gains on sales of investments. The sales of investments represented seven U.S. Government Sponsored Enterprise bonds totaling $34.6 million.

Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac. Control of these enterprises was directly taken over by the U.S. Government in the 3rd quarter of 2008.

Securities Held-to-Maturity (at Amortized Cost)

	June 30, 2010	December 31, 2009
	(In thousands)	
U.S. Government Sponsored Enterprises	**$ 40,846**	$ 69,555
U.S. Government Agency and Sponsored Enterprise Mortgage-backed Securities	**128,931**	148,088
Obligations Issued by States and Political Subdivisions	**8,954**	
Total Securities Held-to-Maturity	**$ 178,731**	$ 217,643

At June 30, 2010 and December 31, 2009, all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises.

Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.

Securities Available-for-Sale

The securities available-for-sale portfolio totaled $778.7 million at June 30, 2010, an increase of 20.2% from December 31, 2009. Purchases of securities available-for-sale totaled $452.2 million for the six months ended June 30, 2010. The portfolio is concentrated in United States Government Sponsored Enterprises, Mortgage-backed Securities and Obligations issued by States and Political Subdivisions and had an estimated weighted average remaining life of 3.0 years.

The majority of the Company s securities AFS are classified as Level 2. The fair values of these securities are obtained from a pricing service, which provides the Company with a description of the inputs generally utilized for each type of security. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Market indicators and industry and economic events are also monitored.

Securities available-for-sale totaling $21.2 million, or 0.88% of assets are classified as Level 3. These securities are generally failed auction rate securities, equity investments or obligations of states and political subdivisions with no readily determinable fair value. Failed auction rate securities were reclassified to level 3 during the first quarter of 2009 due to the lack of an active market. Fair values for Level 3 securities are generally arrived at based upon a review of market trades, if any, as well as an analysis of the security based upon market liquidity and prevailing market interest rates.

Securities Held-to-Maturity

The securities held-to-maturity portfolio totaled $178.7 million on June 30, 2010, a decrease of 17.9% from the total on December 31, 2009. The portfolio is

Table of Contents

concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 3.0 years.

Federal Home Loan Bank of Boston Stock

The Company owns Federal Home Loan Bank of Boston (FHLBB) stock which is considered a restricted equity security. As a voluntary member of the FHLBB, the Company is required to invest in stock of the FHLBB in an amount equal to 4.5% of its outstanding advances from the FHLBB. Stock is purchased at par value. As and when such stock is redeemed, the Company would receive from the FHLBB an amount equal to the par value of the stock. At its discretion, the FHLBB may declare dividends on the stock. On April 10, 2009, the FHLBB reiterated to its members that, while it currently meets all its regulatory capital requirements, it is focusing on preserving capital in response to ongoing market volatility, and accordingly, has suspended its quarterly dividend and has extended the moratorium on excess stock repurchases. It also announced that it had taken a write-down of $381.7 million in other-than-temporary impairment charges on its private-label mortgage-backed securities for the year ended December 31, 2008. This resulted in a net loss of $115.8 million. For the year ended December 31, 2009, the FHLBB reported a net loss of $186.8 million resulting from the recognition of $444.1 million of impairment losses which were recognized through income. For the first six months of 2010, the FHLBB reported net income of $41.6 million. In the future, if additional unrealized losses are deemed to be other-than-temporary, the associated impairment charges could exceed the FHLBB s current level of retained earnings and possibly put into question whether the fair value of the FHLBB stock owned by the Company is less than par value. The FHLBB has stated that it expects and intends to hold its private-label mortgage-backed securities to maturity. Despite these negative trends, the FHLBB exceeded the regulatory capital requirements promulgated by the Federal Home Loan Banks Act and the Federal Housing Financing Agency. The FHLBB has the capacity to issue additional debt if necessary to raise cash. If needed, the FHLBB also has the ability to secure funding available to U.S. Government Sponsored Enterprises through the U.S. Treasury. Based on the capital adequacy and the liquidity position of the FHLBB, management believes there is no other-than-temporary impairment related to the carrying amount of the Company s FHLBB stock as of June 30, 2010. The Company will continue to monitor its investment in FHLBB stock.

Deposits and Borrowed Funds

On June 30, 2010, deposits totaled $1.83 billion, representing a 7.4% increase in total deposits from December 31, 2009. Total deposits increased primarily as a result of increases in savings and NOW and time deposits. Savings and NOW and time deposits increased as the Company continued to offer attractive rates for these types of deposits during the first six months of the year. Borrowed funds totaled $354.1 million compared to $352.8 million at December 31, 2009. Borrowed funds remained relatively stable.

The Company also participates in the Certificate of Deposit Registry Service (CDARS) program. CDARS is a private, patented, for-profit service that breaks up large deposits (from individuals, companies, nonprofits, public funds, etc.) and places them across a network of about 2,700 banks and savings associations around the United States. This allows depositors to deal with a single bank that participates in CDARS but avoid having funds above the FDIC deposit insurance limits in any one bank. The service can place as much as $50 million per customer allowing all of it to qualify for FDIC insurance coverage. As of December 31, 2009 and June 30, 2010, CDARS deposits totaled $216,000.

Table of Contents

Results of Operations

The following table sets forth the distribution of the Company s average assets, liabilities and stockholders equity, and average rates earned or paid on a fully taxable equivalent basis for each of the three-month periods indicated.

	Three Months Ended					
	June 30, 2010			June 30, 2009		
	(In thousands)					
	Average Balance	Interest(1)	Average Yield/ Rate	Average Balance	Interest(1)	Average Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans(2)	**$ 877,398**	**$ 13,204**	**6.03%**	$ 844,482	$ 12,579	5.96%
Securities available-for-sale(5):						
Taxable	**745,150**	**4,794**	**2.57**	551,508	5,024	3.64
Tax-exempt	**32,345**	**283**	**3.50**	52,728	307	2.33
Securities held-to-maturity:						
Taxable	**214,545**	**1,873**	**3.49**	209,028	2,180	4.17
Tax-exempt	**2,066**	**37**	**7.16**			
Interest-bearing deposits in other banks	**365,965**	**403**	**0.44**	243,938	763	1.24
Total interest-earning assets	**2,237,469**	**20,594**	**3.69%**	1,901,684	20,853	4.38%
Non interest-earning assets	**154,644**			140,354		
Allowance for loan losses	**(13,855)**			(12,965)		
Total assets	**$ 2,378,258**			$ 2,029,073		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	**$ 428,139**	**$ 686**	**0.64%**	$ 263,206	$ 551	0.84%
Savings accounts	**264,769**	**407**	**0.62**	248,915	787	1.27
Money market accounts	**562,571**	**1,089**	**0.78**	463,003	1,718	1.49
Time deposits	**349,415**	**1,876**	**2.15**	333,494	2,560	3.08
Total interest-bearing deposits	**1,604,894**	**4,058**	**1.01**	1,308,618	5,616	1.72
Securities sold under agreements to repurchase	**120,627**	**131**	**0.44**	85,824	116	0.54
Other borrowed funds and subordinated debentures	**192,393**	**1,994**	**4.16**	206,306	2,500	4.86
Total interest-bearing liabilities	**1,917,914**	**6,183**	**1.29%**	1,600,748	8,232	2.06%

Non interest-bearing liabilities						
Demand deposits	**288,241**			272,304		
Other liabilities	**31,162**			31,157		
Total liabilities	**2,237,317**			1,904,209		
Stockholders equity	**140,941**			124,864		
Total liabilities & stockholders equity	**$ 2,378,258**			$ 2,029,073		
Net interest income on a fully taxable equivalent basis		**14,411**			12,621	
Less taxable equivalent adjustment		**(1,269)**			(659)	
Net interest income		**$ 13,142**			$ 11,962	
Net interest spread (3)			**2.40%**			2.32%
Net interest margin (4)			**2.58%**			2.64%

(1) On a fully taxable equivalent basis calculated using a federal tax rate of 34%.

(2) Nonaccrual loans are included in average amounts outstanding.

(3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest

income as a percentage of average interest-earning assets.

(5) Average balances of securities available-for-sale calculated utilizing amortized cost.

Table of Contents

The following table sets forth the distribution of the Company s average assets, liabilities and stockholders equity, and average rates earned or paid on a fully taxable equivalent basis for each of the six-month periods indicated.

	Six Months Ended					
	June 30, 2010			June 30, 2009		
	(In thousands)					
	Average Balance	Interest(1)	Average Yield/ Rate	Average Balance	Interest(1)	Average Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans(2)	**$ 876,900**	**$ 26,407**	**6.06%**	$ 839,887	$ 24,933	5.95%
Securities available-for-sale(5):						
Taxable	**711,158**	**9,777**	**2.75**	511,776	9,786	3.82
Tax-exempt	**30,267**	**359**	**2.37**	54,699	711	2.60
Securities held-to-maturity:						
Taxable	**223,281**	**3,858**	**3.46**	209,356	4,403	4.21
Tax-exempt	**1,039**	**37**	**7.12**			
Interest-bearing deposits in other banks	**376,595**	**781**	**0.41**	225,121	1,305	1.15
Total interest-earning assets	**2,219,240**	**41,219**	**3.73%**	1,840,839	41,138	4.48%
Non interest-earning assets	**153,457**			144,672		
Allowance for loan losses	**(13,354)**			(12,369)		
Total assets	**$ 2,359,343**			$ 1,973,142		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	**$ 397,827**	**$ 1,365**	**0.69%**	$ 245,713	$ 1,116	0.92%
Savings accounts	**271,337**	**949**	**0.71**	226,758	1,617	1.44
Money market accounts	**552,640**	**2,313**	**0.84**	437,400	3,653	1.68
Time deposits	**330,530**	**3,584**	**2.19**	329,881	5,168	3.16
Total interest-bearing deposits	**1,552,334**	**8,211**	**1.07**	1,239,752	11,554	1.88
Securities sold under agreements to repurchase	**146,515**	**350**	**0.48**	96,154	325	0.68
Other borrowed funds and subordinated debentures	**207,258**	**4,405**	**4.29**	210,484	5,144	4.93
Total interest-bearing liabilities	**1,906,107**	**12,966**	**1.37%**	1,546,390	17,023	2.22%

Non interest-bearing liabilities						
Demand deposits	**283,737**			272,869		
Other liabilities	**30,605**			30,434		
Total liabilities	**2,220,449**			1,849,693		
Stockholders equity	**138,894**			123,449		
Total liabilities & stockholders equity	**$ 2,359,343**			$ 1,973,142		
Net interest income on a fully taxable equivalent basis		**28,253**			24,115	
Less taxable equivalent adjustment		**(2,386)**			(1,361)	
Net interest income		**$ 25,867**			$ 22,754	
Net interest spread (3)			**2.35%**			2.26%
Net interest margin (4)			**2.57%**			2.62%

(1) On a fully taxable equivalent basis calculated using a federal tax rate of 34%.

(2) Nonaccrual loans are included in average amounts outstanding.

(3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(4) Net interest margin represents net interest

income as a percentage of average interest-earning assets.

(5) Average balances of securities available-for-sale calculated utilizing amortized cost.

Table of Contents

The following table presents certain information on a fully-tax equivalent basis regarding changes in the Company s interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to changes in rate and changes in volume.

	Three Months Ended June 30, 2010 Compared with Three Months Ended June 30, 2009 Increase/(Decrease) Due to Change in			Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009 Increase/(Decrease) Due to Change in		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
	(In thousands)					
Interest income:						
Loans	$ 494	$ 131	$ 625	$ 983	$ 491	$ 1,474
Securities available-for-sale						
Taxable	1,482	(1,712)	(230)	3,190	(3,199)	(9)
Tax-exempt	(145)	121	(24)	(294)	(58)	(352)
Securities held-to-maturity						
Taxable	56	(363)	(307)	279	(824)	(545)
Tax-exempt	37		37	37		37
Interest-bearing deposits in other banks	267	(627)	(360)	579	(1,103)	(524)
Total interest income	2,191	(2,450)	(259)	4,774	(4,693)	81
Interest expense:						
Deposits:						
NOW accounts	286	(151)	135	570	(321)	249
Savings accounts	47	(427)	(380)	273	(941)	(668)
Money market accounts	315	(944)	(629)	797	(2,137)	(1,340)
Time deposits	117	(801)	(684)	10	(1,594)	(1,584)
Total interest-bearing deposits	765	(2,323)	(1,558)	1,650	(4,993)	(3,343)
Securities sold under agreements to repurchase	41	(26)	15	138	(113)	25
Other borrowed funds and subordinated debentures	(161)	(345)	(506)	(78)	(661)	(739)
Total interest expense	645	(2,694)	(2,049)	1,710	(5,767)	(4,057)
Change in net interest income	$ 1,546	$ 244	$ 1,790	$ 3,064	$ 1,074	$ 4,138

Net Interest Income

For the three months ended June 30, 2010, net interest income on a fully taxable equivalent basis totaled $14.4 million compared to $12.6 million for the same period in 2009, an increase of $1.8 million or 14.2%. This increase in net interest income for the period is mainly due to a 17.7% increase in the average balances of

earning assets, combined with a similar increase in deposits. The increased volume was somewhat offset by a decrease of six basis points in the net interest margin. The net interest margin decreased from 2.64% on a fully taxable equivalent basis in 2009 to 2.58% on the same basis for 2010.

For the six months ended June 30, 2010, net interest income on a fully taxable equivalent basis totaled $28.3 million compared to $24.1 million for the same period in 2009, an increase of $4.1 million or 17.2%. This increase in net interest income for the period is mainly due to a 20.6% increase in the average balances of earning assets, combined with a similar increase in deposits. The increased volume was somewhat offset by a decrease of five basis points in the net interest margin. The net interest margin decreased from 2.62% on a fully taxable equivalent basis in 2009 to 2.57% on the same basis for 2010.

Table of Contents

Provision for Loan Losses

For the three months ended June 30, 2010, the loan loss provision was $1.5 million compared to a provision of $1.1 for the same period last year for an increase of $400,000. The provision increased primarily as a result of increased loan loss reserve requirements associated with specific and qualitative factors offset by a decrease in loans on nonaccrual compared to the same period in 2009. For the six months ended June 30, 2010, the loan loss provision was $3.0 million compared to a provision of $2.9 for the same period last year for an increase of $125,000. The provision increased primarily as a result of increases in loans and additional allocations related to impaired loans. The level of the allowance for loan losses to total loans increased from 1.49% at December 31, 2009 to 1.65% at June 30, 2010. This increase was due to the provision for loan losses exceeding net loan charge offs for the six months ended June 30, 2010.

Non-Interest Income and Expense

Other operating income for the quarter ended June 30, 2010 was $4.1 million compared to $3.5 million for the same period last year. The changes in other operating income, which increased by $565,000, was mainly attributable to an increase in net gain on sales of investments of $649,000. There was also a decrease in service charges on deposit accounts of $54,000 which was mainly attributable to a decrease in overdraft fees. Lockbox fees decreased by $5,000 as a result of decreased customer volume. Other income decreased by $25,000 mainly as a result of a decrease in the growth of cash surrender values on life insurance policies.

Other operating income for the six months ended June 30, 2010 was $8.4 million compared to $8.2 million for the same period last year. The changes in other operating income, which increased by $154,000, was mainly attributable to an increase in other income of $304,000, partially offset by a decrease in service charges on deposit accounts. The increase in other income consisted primarily of $280,000 increase in the growth of cash surrender values on life insurance policies. Cash surrender values increased mainly as a result of additional earnings as a result of certain policies reaching their twenty year anniversary during the first quarter of 2010. This was partially offset by life insurance proceeds received during the first quarter of 2009. Lockbox fees decreased by $46,000 as a result of decreased customer volume. Service charges on deposit accounts decreased by $153,000 mainly as a result of a decrease in overdraft fees.

For the quarter ended June 30, 2010, operating expenses increased by $315,000 or 2.6% to $12.6 million, from the same period last year. The increase in operating expenses for the quarter was mainly attributable to an increase of $1.3 million in salaries and employee benefits, this was partially offset by a decrease of $883,000 in FDIC assessments. Salaries and employee benefits increased mainly as a result of $916,000 due Jonathan G. Sloane, former Co-CEO, in accordance with his separation agreement as previously announced. FDIC assessments decreased primarily as a result of the special assessment charge of approximately $1.0 million during the second quarter of 2009. This was offset, somewhat, by an increase in the assessment rate as well as an increase in the deposit base during 2010. Other expenses increased by $7,000. Occupancy expenses increased by $3,000 and equipment expense decreased by $121,000. Equipment expenses decreased mainly as a result of decreases in depreciation expense.

For the six months ended June 30, 2010, operating expenses increased by $431,000 or 1.8% to $24.2 million, from the same period last year. The increase in operating expenses for the six months was mainly attributable to an increase of $1.3 million in salaries and employee benefits, this was partially offset by a decrease of $726,000 in FDIC assessments. Salaries and employee benefits increased mainly as a result of $916,000 due Jonathan G. Sloane, former Co-CEO, in accordance with his separation agreement as previously announced. FDIC assessments decreased primarily as a result

Table of Contents

of the special assessment charge of approximately $1.0 million during the second quarter of 2009. This was offset, somewhat, by an increase in the assessment rate as well as an increase in the deposit base during 2010. Other expenses increased by $84,000. Occupancy expenses decreased by $74,000 and equipment expense decreased by $199,000. Occupancy expenses decreased mainly as a result of decreases in building maintenance expense. Equipment expenses decreased mainly as a result of decreases in depreciation expense. Other expenses increased mainly as a result of increased marketing expenses.

Income Taxes

For the second quarter of 2010, the Company s income tax expense totaled $238,000 on pretax income of $3.2 million for an effective tax rate of 7.4%. For last year s corresponding quarter, the Company s income tax expense totaled $162,000 on pretax income of $2.2 million for an effective tax rate of 7.5%. For the first six months of 2010, the Company s income tax expense totaled $659,000 on pretax income of $7.0 million for an effective tax rate of 9.4%. For last year s corresponding period, the Company s income tax expense totaled $438,000 on pretax income of $4.3 million for an effective tax rate of 10.1%. The effective income tax rate decreased for the current quarter and six month period mainly as a result of an increase in tax exempt income as a percentage of taxable income compared to the same periods last year.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company s market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. To that end, management actively monitors and manages its interest rate risk exposure. The Company s profitability is affected by fluctuations in interest rates. A sudden and substantial increase or decrease in interest rates may adversely impact the Company s earnings to the extent that the interest rates tied to specific assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company monitors the impact of changes in interest rates on its net interest income using several tools. The Company s primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Company s net interest income and capital, while structuring the Company s asset-liability structure to obtain the maximum yield-cost spread on that structure. Management believes that there has been no material changes in the interest rate risk reported in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009, filed with the Securities and Exchange Commission. The information is contained in the Form 10-K within the Market Risk and Asset Liability Management section of Management s Discussion and Analysis of Results of Operations and Financial Condition.

Item 4. Controls and Procedures

The Company s management, with participation of the Company s principal executive and financial officers, has evaluated its disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, the Company s management, with participation of its principal executive and financial officers, have concluded that the Company s disclosure controls and procedures effectively ensure that information required to be disclosed in the Company s filings and submissions with the Securities and Exchange Commission under the Exchange Act is accumulated and reported to Company management (including the principal executive officers and the principal financial officer) as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. In addition, the Company has evaluated its internal control over financial reporting and during the second quarter of 2010 there has been no change in its internal control over financial reporting that has

materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II Other Information

Item 1 Legal proceedings At the present time, the Company is not engaged in any legal proceedings which, if adversely determined to the Company, would have a material adverse impact on the Company s financial condition or results of operations. From time to time, the Company is party to routine legal proceedings within the normal course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the Company s financial condition and results of operation.

Item 1A Risk Factors Please read Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009. There have been no material changes since this 10-K was filed. These risks are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely effect the Company s business, financial condition and operating results.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(a) (b) Not applicable.

(c) The following table sets forth information with respect to any purchase made by or on behalf of Century Bancorp, Inc. or any affiliated purchaser, as defined in 204.10b-18(a)(3) under the Exchange Act, of shares of Century Bancorp, Inc. Class A common stock during the indicated periods:

	Issuer Purchases of Equity Securities			
Period	Total number of shares purchased	Weighted Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (1)
April 30 - April 30, 2010		$		300,000
May 31 May 31, 2010		$		300,000
June 30 June 30, 2010		$		300,000

(1) On July 13, 2010, the Company announced a reauthorization of the Class A common stock repurchase program to repurchase up to 300,000 shares. The Company placed no deadline on the

repurchase program. There were no shares purchased other than through a publicly announced plan or program.

Item 3 Defaults Upon Senior Securities None

Item 5 Other Information None

Item 6 Exhibits

3.1 Certificate of Incorporation of Century Bancorp, Inc., incorporated by reference previously filed with registrant s initial registration statement on Form S-1 dated May 20, 1987 (Registration No. 33-13281).

3.2 Bylaws of Century Bancorp, Inc. amended on October 9, 2007, incorporated by reference previously filed with the September 30, 2007 10-Q.

3.3 Articles of Amendment of Century Bancorp, Inc. Articles of Organization effective January 9, 2009, incorporated by reference previously filed with an 8-K filed on April 29, 2009.

31.1 Certification of President and Chief Executive Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.

31.2 Certification of Chief Financial Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.

+32.1 Certification of President and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

Table of Contents

SIGNATURES

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

Date: August 6, 2010 **Century Bancorp, Inc.**

/s/ Barry R. Sloane
Barry R. Sloane
President and Chief Executive Officer

/s/ William P. Hornby
William P. Hornby, CPA
Chief Financial Officer and Treasurer
(Principal Accounting Officer)