

CENTURY BANCORP INC

Form 10-Q

November 09, 2006

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

(Mark One)

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

**For the quarterly period ended September 30, 2006.**

**or**

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

**For the transition period from \_\_\_\_\_.**

**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.

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

As of October 31, 2006, the Registrant had outstanding:

**Class A Common Stock, \$1.00 par value**  
**Class B Common Stock, \$1.00 par value**

**3,498,738 Shares**  
**2,042,450 Shares**

Century Bancorp, Inc.

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Ex-32.1 Section 906 Certification of Barry R. Sloane

Ex-32.2 Section 906 Certification of Jonathan G. Sloane

Ex-32.3 Section 906 Certification of Paul V. Cusick, Jr.

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## PART I Item 1

## Century Bancorp, Inc. Consolidated Balance Sheets (unaudited)

(000 s, except share data)	September 30, 2006	December 31, 2005
Assets		
Cash and due from banks	\$ 54,151	\$ 47,626
Federal funds sold and interest-bearing deposits in other banks	42,209	105,053
Total cash and cash equivalents	96,360	152,679
Securities available-for-sale, amortized cost \$470,471 and \$546,524, respectively	460,264	532,982
Securities held-to-maturity, market value \$262,397 and \$277,769, respectively	270,306	286,578
Loans, net:		
Commercial & industrial	107,094	94,139
Construction & land development	58,973	58,846
Commercial real estate	308,412	302,279
Residential real estate	163,500	146,355
Consumer & other	14,188	11,316
Home equity	69,397	76,710
Total loans, net	721,564	689,645
Less: allowance for loan losses	9,784	9,340
Net loans	711,780	680,305
Bank premises and equipment	23,370	25,228
Accrued interest receivable	7,268	7,127
Goodwill	2,714	2,714
Core deposit intangible	2,156	2,447
Other assets	42,312	38,709
Total assets	\$ 1,616,530	\$ 1,728,769
Liabilities		
Deposits:		
Demand deposits	\$ 274,967	\$ 296,696
Savings and NOW deposits	277,218	239,326
Money market accounts	343,154	279,245
Time deposits	380,588	401,773
Total deposits	1,275,927	1,217,040

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Securities sold under agreements to repurchase	63,930	50,010
Federal Home Loan Bank (FHLB) borrowings and other borrowed funds	114,280	304,722
Other liabilities	19,003	17,713
Subordinated debentures	36,083	36,083
<b>Total liabilities</b>	<b>1,509,223</b>	<b>1,625,568</b>
<b>Stockholders' equity</b>		
Class A common stock, \$1.00 par value per share; authorized 10,000,000 shares; issued 3,498,638 shares and 3,453,202 shares, respectively	3,499	3,453
Class B common stock, \$1.00 par value per share; authorized 5,000,000 shares; issued 2,042,450 shares and 2,082,240 shares, respectively	2,042	2,082
Additional paid-in capital	11,504	11,416
Retained earnings	99,313	97,338
	116,358	114,289
Unrealized losses on securities available-for-sale, net of taxes	(6,233)	(8,270)
Additional minimum pension liability, net of taxes	(2,818)	(2,818)
<b>Total accumulated other comprehensive loss, net of taxes</b>	<b>(9,051)</b>	<b>(11,088)</b>
<b>Total stockholders' equity</b>	<b>107,307</b>	<b>103,201</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,616,530</b>	<b>\$ 1,728,769</b>

See accompanying Notes to unaudited Consolidated Financial Statements.

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## Century Bancorp, Inc. Consolidated Statements of Income (unaudited)

(000 s except share data)	Three months ended September		Nine months ended September	
	2006	2005	2006	2005
Interest income				
Loans	\$ 13,290	\$ 10,616	\$ 38,137	\$ 29,900
Securities held-to-maturity	2,497	2,773	7,665	8,957
Securities available-for-sale	4,390	4,895	13,214	14,829
Federal funds sold and interest-bearing deposits in other banks	364	5	445	337
Total interest income	20,541	18,289	59,461	54,023
Interest expense				
Savings and NOW deposits	1,344	1,015	3,426	2,663
Money market accounts	2,711	1,886	6,850	5,366
Time deposits	4,157	2,174	11,069	6,169
Securities sold under agreements to repurchase	795	225	1,995	455
Other borrowed funds and subordinated debentures	2,163	3,215	8,346	8,692
Total interest expense	11,170	8,515	31,686	23,345
Net interest income	9,371	9,774	27,775	30,678
Provision for loan losses	225	150	600	450
Net interest income after provision for loan losses	9,146	9,624	27,175	30,228
Other operating income				
Service charges on deposit accounts	1,747	1,481	4,965	4,446
Lockbox fees	658	644	2,095	2,139
Brokerage commissions	42	106	120	398
Other income	282	471	1,449	1,303
Total other operating income	2,729	2,702	8,629	8,286
Operating expenses				
Salaries and employee benefits	5,843	6,064	18,092	18,118
Occupancy	1,020	874	2,986	2,803
Equipment	785	733	2,305	2,229
Other	2,408	2,396	6,963	7,067

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Total operating expenses	10,056	10,067	30,346	30,217
Income before income taxes	1,819	2,259	5,458	8,297
Provision for income taxes	622	727	1,858	2,688
Net income	\$ 1,197	\$ 1,532	\$ 3,600	\$ 5,609

Share data:

Weighted average number of shares outstanding, basic	5,541,088	5,535,388	5,540,902	5,535,121
Weighted average number of shares outstanding, diluted	5,548,842	5,553,751	5,550,697	5,552,974
Net income per share, basic	\$ 0.22	\$ 0.28	\$ 0.65	\$ 1.01
Net income per share, diluted	\$ 0.22	\$ 0.28	\$ 0.65	\$ 1.01
Cash dividends paid:				
Class A common stock	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Class B common stock	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12

See accompanying Notes to unaudited Consolidated Financial Statements.

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## Century Bancorp, Inc. Consolidated Statements of Changes in Stockholders Equity (unaudited)

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings (000 s)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
2005						
Balance at December 31, 2004	\$ 3,434	\$ 2,099	\$ 11,395	\$ 92,611	(\$4,766)	\$ 104,773
Net income				5,609		5,609
Other comprehensive income, net of tax: Unrealized holding losses arising during period net of \$3,120 in taxes					(4,339)	(4,339)
Minimum pension liability adjustment					163	163
Comprehensive income						1,433
Stock Options Exercised, 1,354 shares	2		21			23
Cash dividends paid, Class A common stock, \$.36 per share				(1,236)		(1,236)
Cash dividends paid, Class B common stock, \$.18 per share				(379)		(379)
Balance at September 30, 2005	\$ 3,436	\$ 2,099	\$ 11,416	\$ 96,605	(\$8,942)	\$ 104,614
2006						
Balance at December 31, 2005	\$ 3,453	\$ 2,082	\$ 11,416	\$ 97,338	(\$11,088)	\$ 103,201
Net income				3,600		3,600

Other comprehensive income, net of tax: Unrealized holding gains arising during period net of \$1,465 in taxes					2,037	2,037
Comprehensive income						5,637
Conversion of Class B Common Stock to Class A Common Stock	40	(40)				0
Stock Options Exercised, 5,646 shares	6		88			94
Cash dividends paid, Class A common stock, \$.36 per share					(1,256)	(1,256)
Cash dividends paid, Class B common stock, \$.18 per share					(369)	(369)
Balance at September 30, 2006	\$ 3,499	\$ 2,042	\$ 11,504	\$ 99,313	(\$9,051)	\$ 107,307

See accompanying Notes to unaudited Consolidated Financial Statements.

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## Century Bancorp, Inc. Consolidated Statements of Cash Flows (unaudited)

	Nine months ended September 30,	
	2006	2005
	(000 \$)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 3,600	\$ 5,609
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	450
Deferred income taxes	(676)	79
Net depreciation and amortization	2,752	2,434
Increase in accrued interest receivable	(141)	(316)
Increase in other assets	(4,271)	(4,937)
Increase in other liabilities	1,328	456
Net cash provided by operating activities	3,192	3,775
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities of securities available-for-sale	76,260	156,230
Purchase of securities available-for-sale	(448)	(112,235)
Proceeds from maturities of securities held-to-maturity	16,348	53,147
Purchase of securities held-to-maturity		(2,022)
Net increase in loans	(32,075)	(80,812)
Capital expenditures	(430)	(1,879)
Net cash provided by investing activities	59,655	12,429
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in time deposits	(21,185)	(117,515)
Net increase (decrease) in demand, savings, money market and NOW deposits	80,072	(204,979)
Net proceeds from the exercise of stock options	94	23
Cash dividends	(1,625)	(1,615)
Net increase in securities sold under agreements to repurchase	13,920	1,870
Net (decrease) increase in FHLB borrowings and other borrowed funds	(190,442)	142,745
Decrease in subordinated debentures		(29,639)
Net cash used in financing activities	(119,166)	(209,110)
Net decrease in cash and cash equivalents	(56,319)	(192,906)
Cash and cash equivalents at beginning of period	152,679	238,235
Cash and cash equivalents at end of period	\$ 96,360	\$ 45,329
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during the period for:		
Interest	\$ 31,511	\$ 24,477

Income taxes		2,516	2,776
Change in unrealized losses on securities available-for-sale, net of taxes	\$	2,037	(\$4,339)
See accompanying Notes to unaudited Consolidated Financial Statements.			

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Century Bancorp, Inc.

Notes to Consolidated Financial Statements (unaudited)

**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 ), 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.

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 year amounts were reclassified to conform with the current year presentation.

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Notes to Consolidated Financial Statements (unaudited)

**Summary of Critical Accounting Policies**

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact income, are considered critical accounting policies. The Company considers the following to be its critical accounting policies: allowance for loan losses and impairment of investment securities. There have been no significant changes since December 31, 2005 in these methods or assumptions used in the accounting policies that require material estimates and assumptions.

**Allowance for Loan Losses**

Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. Management maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on assessments of the probable estimated losses inherent in the loan portfolio. Management's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances for identified problem loans and the unallocated allowance. The formula allowance evaluates groups of loans to determine the allocation appropriate within each portfolio segment. Individual loans within the commercial and industrial, commercial real estate and real estate construction loan portfolio segments are assigned internal risk ratings to group them with other loans possessing similar risk characteristics. Changes in risk grades affect the amount of the formula allowance. Risk grades are determined by reviewing current collateral value, financial information, cash flow, payment history and other relevant facts surrounding the particular credit. Allowance for losses on the commercial and commercial real estate loans are based on pools of similar loans using a combination of historical loss experience and qualitative adjustments. For the residential real estate and consumer loan portfolios, the reserves are calculated by applying historical charge-off and recovery experience and qualitative adjustments to the current outstanding balance in each loan category.

Specific allowances for loan losses entails the assignment of allowance amounts to individual loans on the basis of loan impairment. Certain loans are evaluated individually and are judged to be impaired when management believes it is probable that the Company will not collect all the contractual interest and principal payments as scheduled in the loan agreement. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of a probable loss is able to be estimated on the basis of: (a.) fair value of collateral, (b.) present value of anticipated future cash flows or (c.) the loan's observable fair market price.

The unallocated allowance recognizes the model and estimation risk associated with the formula allowance and specific allowances, as well as management's evaluation of various conditions, including business and economic conditions, delinquency trends, charge-off experience and other quality factors, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits.

Management has identified certain risk factors, which could impact the degree of loss sustained within the portfolio. These include: (a.) market risk factors, such as the effects of economic variability on the entire portfolio, and (b.) unique portfolio risk factors that are inherent characteristics of the Company's loan portfolio. Market risk factors may consist of changes to general economic and business conditions that may impact the Company's loan



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Notes to Consolidated Financial Statements (unaudited)

portfolio customer base in terms of ability to repay and that may result in changes in value of underlying collateral. Unique portfolio risk factors may include industry concentrations and geographic concentrations or trends that may exacerbate losses resulting from economic events which the Company may not be able to fully diversify out of its portfolio. Management believes that the allowance for loan losses is adequate. In addition, various regulatory agencies, as part of the examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

**Impaired Investment Securities**

If a decline in fair value below the amortized cost basis of an investment security is judged to be other-than-temporary, the cost basis of the investment is written down to fair value. The amount of the write down is included as a charge to earnings. An other-than-temporary impairment exists for securities if it is probable that the Company will be unable to collect all amounts due according to contractual terms of the security. Some factors considered for other than temporary impairment related to a debt security include an analysis of yield, whether an unrealized loss is issuer specific, whether the issuer has defaulted on scheduled interest and principal payments, whether the issuer's current financial condition hinders its ability to make future scheduled interest and principal payments on a timely basis or whether there was downgrade in ratings by rating agencies. The Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity.

**Stock Option Accounting**

During 2000 and 2004, common stockholders of the Company approved stock option plans (the Option Plans) that provide for granting of options to purchase up to 150,000 shares of Class A common stock per plan. Under the Option Plans, all officers and key employees of the Company are eligible to receive non-qualified or incentive stock options to purchase shares of Class A common stock. The Option Plans are administered by the Compensation Committee of the Board of Directors, whose members are ineligible to participate in the Option Plans. Based on management's recommendations, the Committee submits its recommendations to the Board of Directors as to persons to whom options are to be granted, the number of shares granted to each, the option price (which may not be less than 85% of the fair market value for non-qualified stock options, or the fair market value for incentive stock options, of the shares on the date of grant) and the time period over which the options are exercisable (not more than ten years from the date of grant). There were options to purchase an aggregate of 123,237 shares of Class A common stock exercisable at September 30, 2006.

On December 30, 2005 the Board of Directors approved the acceleration and immediate vesting of all unvested options with an exercise price of \$31.60 or greater per share. As a consequence, options to purchase 23,950 shares of Class A common stock became exercisable immediately. The average of the high and low price at which the Class A common stock traded on December 30, 2005, the date of the acceleration and vesting, was \$29.28 per share. The Company estimates that, as a result of this accelerated vesting, approximately \$190,000 of 2006 non-cash compensation expense was

eliminated that would otherwise have been recognized in the Company's earnings.

In December 2004, the FASB issued a revised Statement No. 123, (revised 2004) (SFAS 123R), *Share-Based Payment*. This Statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supercedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123R requires a public entity to measure the cost of

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## Notes to Consolidated Financial Statements (unaudited)

employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award period which is usually the vesting period. SFAS 123R is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company accelerated the vesting of certain unvested out-of-the-money stock options awarded to Bank employees pursuant to the Option Plans so that they immediately vested as of December 30, 2005. In connection with this acceleration the Board of Directors approved a technical amendment to each of the Option Plans to eliminate the possibility that the terms of any outstanding or future stock option would require a cash settlement on the occurrence of any circumstance outside the control of the Company. These amendments avoid classification of the Company's stock options as liabilities under SFAS 123R. Effective as of January 1, 2006 the Company adopted SFAS 123R for all share based payments.

The Company decided to accelerate the vesting of certain stock options primarily to reduce the non-cash compensation expense that would otherwise be expected to be recorded in conjunction with the Company's required adoption of SFAS 123R in 2006. There was no earnings impact for the first nine months of 2006 due to the Company's adoption of SFAS 123R.

Had compensation cost for the Company's stock option plans been determined based on the fair value at the grant date, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
	(Dollars in Thousands)	
Net income		
As reported	\$ 1,532	\$ 5,609
Less: Pro forma stock based Compensation (net of tax)	40	121
Pro forma net income	1,492	5,488
Basic income per share		
As reported	0.28	1.01
Pro forma	0.27	0.99
Diluted income per share		
As reported	0.28	1.01
Pro forma	0.27	0.99

In determining the pro forma amounts, the fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Dividend yield	1.59%
Expected life	9 years
Expected volatility	28%
Risk-free interest rate	3.95%

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Notes to Consolidated Financial Statements (unaudited)

Stock option activity under the plan is as follows:

	<b>September 30, 2006</b>	
	<b>Amount</b>	<b>Weighted Average Exercise Price</b>
Shares under option:		
Outstanding at beginning of year	130,133	\$ 26.74
Granted		
Cancelled	(1,250)	28.20
Exercised	(5,646)	16.57
Outstanding at end of period	123,237	\$ 27.19
Exercisable at end of period	123,237	\$ 27.19
Available to be granted at end of period	151,025	

September 30, 2006, the outstanding options to purchase 123,237 shares of Class A common stock have exercise prices between \$15.063 and \$35.010, with a weighted average exercise price at \$27.19 and a weighted average remaining contractual life of 6 years. The weighted average intrinsic value of options exercised for the nine-month period ended September 30, 2006 was \$9.01 per share with an aggregate value of \$50,859. The average intrinsic value of options exercisable at September 30, 2006 had an aggregate value of \$198,330.

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 nine months of 2006.

**Employee Benefits**

The Company has a qualified Defined Benefit Pension Plan (the "Pension Plan") which is offered to all employees reaching minimum age and service requirements. The Company also has a Supplemental Insurance/Retirement Plan, which is limited to certain officers and employees of the Company. In the second quarter of 2006, the Company amended the Pension Plan by closing participation in the plan to new employees.

**Components of Net Periodic Benefit Cost for the Three Month Period Ending September 30,**

Pension Benefits		Supplemental Insurance/ Retirement Plan	
2006	2005	2006	2005
(Dollars in Thousands)			

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Service Cost	\$ 221	\$ 190	\$ 27	\$ 32
Interest	249	229	191	186
Expected Return on Plan Assets	(254)	(214)	0	0
Recognized Prior Service (Cost) Benefit	(29)	(5)	16	16
Recognized Net Actuarial Losses	93	64	28	13
Net Periodic Benefit Cost	\$ 280	\$ 264	\$ 262	\$ 247

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## Notes to Consolidated Financial Statements (unaudited)

**Components of Net Periodic Benefit Cost for the Nine Month Period Ending September 30,**

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2006	2005	2006	2005
	(Dollars in Thousands)			
Service Cost	\$ 663	\$ 570	\$ 81	\$ 96
Interest	747	687	573	558
Expected Return on Plan Assets	(762)	(642)	0	0
Recognized Prior Service (Cost) Benefit	(87)	(15)	48	48
Recognized Net Actuarial Losses	279	192	83	39
Net Periodic Benefit Cost	\$ 840	\$ 792	\$ 785	\$ 741

**Contributions**

The Company previously disclosed in its financial statements for the year ended December 31, 2005 that it expected to contribute \$1,480,000 to the Pension Plan in 2006. As of September 30, 2006, \$1,110,000 of the contribution had been made. The Company expects to contribute \$1,480,000 by the end of the year.

**Recent Accounting Developments**

In July, 2006 the Financial Accounting Standards Board ( FASB ) issued Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently analyzing the effects of FIN 48 on its business and financial condition.

In September 2006, the Financial Accounting Standards Board ( FASB ) issued Statement No. 158 (SFAS 158), Employers Accounting for defined Benefit Pension and Other Postretirement Plans. SFAS 158 requires the net amount by which the defined-benefit-postretirement obligation is over or under funded to be reported on the balance sheet. The Company is currently analyzing the effects of SFAS 158 on its business and financial condition.

On September 13, 2006, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin (SAB) No. 108 expressing the SEC staff's views regarding the process of quantifying financial statement misstatements. This SAB is addressing diversity in practice in quantifying financial statement misstatements and the build up of amounts on the balance sheet. The cumulative amounts, while not considered material in the individual years in which the build up occurred may be considered material in a subsequent year if a Company were to correct those amounts through current period earnings. Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending after November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year, and the offsetting adjustment, net of tax, should be made to the opening balance of equity for that year. The Company is currently evaluating the impact this will have on its financial statements and will adopt SAB No. 108 in its annual report on Form 10-K for year ending December 31, 2006.

**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



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Management's Discussion and Analysis of Financial Condition and Results of Operation (cont.)

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 \$1.6 billion as of September 30, 2006. The Company presently operates 22 banking offices in 16 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 the quarter ended June 30, 2006, the Company closed its branch on Atlantic Avenue in Boston and transferred its customers to the nearby State Street branch.

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 level of income/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

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Management's Discussion and Analysis of Financial Condition and Results of Operation (cont.)

Company provides full service securities brokerage services through its division, Investment Services at Century Bank, in conjunction with Independent Financial Marketing Group, 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 30% of the 351 cities and towns in Massachusetts.

During the fourth quarter of 2004, the Company announced that it entered into an Investment Management Agreement with BlackRock Financial Management, Inc. for the Company's Available-For-Sale securities portfolio. During 2005 the Company began experiencing strong loan growth, and believes that reinvesting the investment cash flows in loans will help to achieve improvements in its yield. The expense related to this contract ended on June 30, 2005 and the contract terminated January 31, 2006.

Earnings for the third quarter ended September 30, 2006 were \$1,197,000, or \$0.22 per share diluted, compared to net income of \$1,532,000, or \$0.28 per share diluted, for the third quarter of 2005. The earnings were adversely impacted by rising short term interest rates, a flat yield curve and increased deposit competition. Included in the income for the current quarter is approximately \$354,000 of Federal Home Loan Bank (FHLB) stock dividend income. This dividend is for both the second and third quarter of 2006 because the FHLB did not declare the dividend in the second quarter. For the first nine months of 2006, net income totaled \$3,600,000, or \$0.65 per share diluted, compared to net income of \$5,609,000, or \$1.01 per share diluted, for the same period a year ago. Included in income for 2006 is the previously announced pre-tax gain of \$600 thousand from the sale of the Company's rights to future royalty payments for a portion of its Merchant Credit Card customer base.

**Financial Condition**

**Loans**

On September 30, 2006, total loans outstanding, net of unearned discount, were \$721.6 million, an increase of 4.6% from the total on December 31, 2005. At September 30, 2006, commercial real estate loans accounted for 42.7% and residential real estate loans, including home equity credit lines, accounted for 32.4% of total loans. Commercial and industrial loans increased to \$107.1 million from \$94.1 million on December 31, 2005. Construction loans increased to \$59.0 million at September 30, 2006 from \$58.8 million on December 31, 2005.

The primary reason for the increase in loans was due in large part to an increase in residential and small business lending.

**Allowance for Loan Losses**

The allowance for loan losses was 1.36% of total loans on September 30, 2006 compared with 1.35% on December 31, 2005. The ratio has remained relatively stable. Net charge-offs for the nine-month period ended September 30, 2006 were \$156

thousand compared with net recoveries of \$41 thousand for the same period in 2005. Provisions to the allowance have been made due primarily to growth in the loan portfolio. At the current time, management believes that the allowance for loan losses is adequate.

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## Management's Discussion and Analysis of Financial Condition and Results of Operation (con t.)

**Nonperforming Assets**

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

	September 30, 2006	December 31, 2005
	(Dollars in Thousands)	
Nonaccruing loans	\$296	\$ 949
Nonperforming assets	\$296	\$ 949
Loans past due 90 days or more and still accruing	\$ 79	\$ 3,512
Nonaccruing loans as a percentage of total loans	.04%	.14%

**Cash and Cash Equivalents**

Cash and cash equivalents decreased mainly as a result of decreases in borrowed funds. Borrowed funds decreased mainly because of increases in deposit levels.

**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.

	September 30, 2006	December 31, 2005
	(Dollars in Thousands)	
<b>Securities Available-for-Sale (at Fair Market Value)</b>		
U.S. Government and U.S. Government Sponsored Enterprises	\$ 256,898	\$ 294,132
Other Bonds and Equity Securities	13,345	20,298
Mortgage-backed Securities	190,021	218,552
<b>Total Securities Available-for-Sale</b>	<b>\$ 460,264</b>	<b>\$ 532,982</b>
<b>Securities Held-to-Maturity (at Amortized Cost)</b>		
U.S. Government Sponsored Enterprises	\$ 159,965	\$ 159,952
Mortgage-backed Securities	110,341	126,626

Total Securities Held-to-Maturity	\$ 270,306	\$	286,578
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Securities Available-for-Sale

The securities available-for-sale portfolio totaled \$460.3 million at September 30, 2006, a decrease of 13.6% from December 31, 2005. The portfolio decreased mainly because of a reduction in the size of the balance sheet. The reduction is explained within the Deposits and Borrowed Funds section of Management's Discussion and Analysis of Financial Condition and Results of Operation. The portfolio is concentrated in United States Government Sponsored Enterprise securities and has an

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Management's Discussion and Analysis of Financial Condition and Results of Operation (cont.)

estimated weighted average remaining life of 2.1 years. Included in U.S. Government and U.S. Government Sponsored Enterprises is one U.S. Government security totaling \$2 million.

**Securities Held-to-Maturity**

The securities held-to-maturity portfolio totaled \$270.3 million on September 30, 2006, a decrease of 5.7% from the total on December 31, 2005. The portfolio decreased mainly because of a reduction in the size of the balance sheet. The reduction is explained within the Deposits and Borrowed Funds section of Management's Discussion and Analysis of Financial Condition and Results of Operation. The portfolio is concentrated in United States Government Sponsored Enterprises and has an estimated weighted average remaining life of 2.5 years.

**Other Assets**

Other Assets increased by \$3.6 million or 9.3%. Other Assets increased mainly because of an increase in the cash surrender value of life insurance policies.

**Deposits and Borrowed Funds**

On September 30, 2006, deposits totaled \$1.3 billion, representing a 4.8% increase in total deposits from December 31, 2005. Total deposits increased primarily as a result of increases in savings, NOW and money market deposits, offset somewhat by decreases in time deposits. Savings, NOW and money market deposits increased mainly because of increases in municipal deposits and personal savings balances. The Company competed more aggressively for these types of deposits. Time deposits decreased mainly because the Company competed less aggressively for these types of deposits during the first nine months of the year. Borrowed funds totaled \$178.2 million compared to \$354.7 million at December 31, 2005. Borrowed funds decreased because the Company competed more aggressively for deposit balances. The Company continues to maintain deposits in spite of rising short term rates and increased competition.

**Results of Operations**

**Net Interest Income**

For the three-month period ended September 30, 2006, net interest income totaled \$9.4 million, a decrease of 4.1% from the comparable period in 2005. The decrease in net interest income for the three-month period is mainly due to a 7 basis point decrease in the net interest margin as well as a \$14.5 million or 0.9% decrease in average earning assets. Also, included in income for the current quarter is approximately \$354,000 Federal Home Loan Bank (FHLB) stock dividend income. This dividend is for both the second and third quarter of 2006 because the FHLB did not declare the dividend in the second quarter. For the nine-month period ended September 30, 2006, net interest

income totaled \$27.8 million, a decrease of 9.5% from the comparable period in 2005. The decrease in net interest income for the nine-month period is mainly due to a 20 basis point decrease in the net interest margin as well as a \$30.1 million or 1.9% decrease in average earning assets.

The net yield on average earning assets on a fully taxable equivalent basis decreased to 2.43% for the first nine months of 2006 from 2.63% during the same period in 2005. The Company believes that the net interest margin will continue to be challenged in this inverted yield curve environment. This is mainly the result of deposit and borrowing pricing that has the potential to increase at a faster rate than corresponding asset categories.



**Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operation  
(continued)

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					
	September 30, 2006			September 30, 2005		
	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid
(dollars in thousands)						
<b>Assets</b>						
Interest-earning assets:						
Loans (2)	\$ 733,100	\$ 13,291	7.22%	\$ 653,660	\$ 10,616	6.45%
Securities available-for-sale						
Taxable	483,496	4,388	3.63%	578,220	4,895	3.39%
Tax-exempt (1)	284	2	2.82%	0	0	0.00%
Securities held-to-maturity						
Taxable	273,233	2,497	3.66%	299,645	2,773	3.70%
Temporary funds	27,185	360	5.30%	555	5	3.60%
Interest bearing deposits in other banks	308	3	3.56%	48	0	4.31%
Total interest earning assets	\$ 1,517,606	\$ 20,541	5.40%	\$ 1,532,128	\$ 18,289	4.76%
Non interest-earning assets						
Allowance for loan losses	125,594			118,854		
	(9,672)			(9,511)		
Total assets	\$ 1,633,528			\$ 1,641,471		
<b>Liabilities and Stockholders' Equity</b>						
Interest bearing deposits:						
NOW account	\$ 209,416	\$ 1,036	1.96%	\$ 241,970	\$ 942	1.58%
Savings accounts	88,474	308	1.38%	76,210	73	0.38%
Money market accounts	334,657	2,710	3.21%	359,106	1,886	2.13%
Time deposits	358,812	4,157	4.60%	254,285	2,174	3.47%
Total interest-bearing deposits	991,359	8,211	3.29%	931,571	5,075	2.21%
	79,283	796	3.98%	37,300	225	2.39%

Securities sold under Agreements to repurchase Other borrowed funds and Subordinated debentures	151,618	2,163	5.66%	271,590	3,215	4.70%
Total interest-bearing liabilities	1,222,260	11,170	3.63%	1,240,461	8,515	2.72%
Non interest-bearing Liabilities						
Demand deposits	285,761			278,552		
Other liabilities	20,168			16,494		
Total liabilities	1,528,189			1,535,507		
Stockholders' equity	105,339			105,964		
Total liabilities & stockholders' equity	1,633,528			\$ 1,641,471		
Net interest income		\$ 9,371			\$ 9,774	
Net interest spread (3)			1.78%			2.04%
Net interest margin (4)			2.48%			2.55%

(1) On a fully taxable equivalent basis calculated using a 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 costs of interest-bearing liabilities.

- (4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

**Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operation  
(continued)

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 nine-month periods indicated.

	September 30, 2006		Nine Months Ended		September 30, 2005	
	Average Balance	Interest Income/Expense(1)	Rate Earned/Paid	Average Balance	Interest Income/Expense(1)	Rate Earned/Paid
(dollars in thousands)						
Assets						
Interest-earning assets:						
Loans (2)	\$ 722,978	\$ 38,137	7.05%	\$ 627,857	\$ 29,900	6.36%
Securities available-for-sale						
Taxable	511,436	13,202	3.44%	588,077	14,829	3.36%
Tax-exempt (1)	473	12	3.38%	0	0	0.00%
Securities held-to-maturity						
Taxable	278,497	7,665	3.67%	318,871	8,957	3.75%
Temporary funds	11,484	440	5.11%	20,319	337	2.21%
Interest bearing deposits in other banks	178	5	3.75%	45	0	0.82%
Total interest earning assets	\$ 1,525,046	\$ 59,461	5.21%	\$ 1,555,170	\$ 54,023	4.64%
Non interest-earning assets						
Allowance for loan losses	122,442			118,309		
	(9,527)			(9,289)		
Total assets	\$ 1,637,961			\$ 1,664,190		
Liabilities and Stockholders' Equity						
Interest bearing deposits:						
NOW account	\$ 209,775	\$ 2,905	1.85%	\$ 249,481	\$ 2,445	1.31%
Savings accounts	79,195	521	0.88%	77,139	218	0.38%
Money market accounts	323,155	6,849	2.83%	385,003	5,367	1.86%
Time deposits	342,384	11,069	4.32%	261,852	6,169	3.15%
Total interest-bearing deposits	954,509	21,344	2.99%	973,476	14,199	1.95%
	70,004	1,995	3.81%	36,441	455	1.67%

Securities sold under Agreements to repurchase Other borrowed funds and Subordinated debentures	206,535	8,347	5.40%	250,339	8,691	4.64%
Total interest-bearing liabilities	1,231,048	31,686	3.44%	1,260,256	23,345	2.48%
Non interest-bearing Liabilities						
Demand deposits	283,089			282,653		
Other liabilities	19,373			16,409		
Total liabilities	1,533,510			1,559,318		
Stockholders' equity	104,451			104,872		
Total liabilities & stockholders' equity	\$ 1,637,961			\$ 1,664,190		
Net interest income		\$ 27,775			\$ 30,678	
Net interest spread (3)			1.77%			2.16%
Net interest margin (4)			2.43%			2.63%

(1) On a fully taxable equivalent basis calculated using a 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 costs of interest-bearing

liabilities.

- (4) Net interest margin represents net interest income as a percentage of average interest-earning assets.

**Table of Contents**Management's Discussion and Analysis of Financial Condition and Results of Operation  
(continued)

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 September 30, 2006 Compared with Three Months Ended September 30, 2005 Increase/(Decrease) Due to Change in			Nine Months Ended September 30, 2006 Compared with Nine Months Ended September 30, 2005 Increase/(Decrease) Due to Change in		
	Volume	Rate	Income Increase (Decrease)	Volume	Rate	Income Increase (Decrease)
	(dollars in thousands)					
Interest Income:						
Loans	\$ 1,350	\$ 1,325	2,675	\$ 4,815	\$ 3,422	8,237
Securities available-for-sale						
Taxable	(842)	335	(507)	(1,971)	344	(1,627)
Tax-Exempt	2	0	2	12	0	12
Securities held-to-maturity						
Taxable	(242)	(34)	(276)	(1,114)	(178)	(1,292)
Tax-Exempt	0	0	0	0	0	0
Temporary funds	352	3	355	(194)	297	103
Interest Bearing Deposits In other banks	2	0	2	2	3	5
Total interest income	622	1,629	2,251	1,550	3,888	5,438
Interest expense:						
Deposits:						
NOW accounts	(138)	232	94	(434)	894	460
Savings accounts	14	221	235	6	297	303
Money market accounts	(136)	960	824	(968)	2,450	1,482
Time deposits	1,064	919	1,983	2,217	2,683	4,900
Total interest-bearing deposits	804	2,332	3,136	821	6,324	7,145
Securities sold under agreements to repurchase	359	212	571	644	896	1,540

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Other borrowed funds and Long term debt	(1,619)	567	(1,052)	(1,650)	1,306	(344)
Total interest expense	(456)	3,111	2,655	(185)	8,526	8,341
Change in net interest inc	1,078	(1,482)	(404)	1,735	(4,638)	(2,903)

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Management's Discussion and Analysis of Financial Condition and Results of Operation  
(continued)

Provision for Loan  
Losses

For the three-month period ended September 30, 2006, the loan loss provision was \$225 thousand compared to a provision of \$150 thousand for the same period last year. For the nine-month period ended September 30, 2006 the loan loss provision was \$600 thousand compared to a provision of \$450 thousand for the same period last year. The Company's loan loss allowance as a percentage of total loans outstanding has remained relatively stable at 1.35% at December 31, 2005 versus 1.36% at September 30, 2006. The coverage ratio remained stable mainly as a result of relative stability in the loan portfolio.

Non-Interest Income and Expense

Other operating income for the quarter ended September 30, 2006 and 2005 was \$2.7 million. The changes within the category, even while the line item did not change materially, were mainly attributable to a decrease in the growth of cash surrender values by \$203 thousand and decreases in brokerage commissions by \$64 thousand. This was somewhat offset by service charges on deposit accounts increased by \$266 thousand. Service charges on deposit accounts increased mainly because of an increase in overdraft fees. The decrease in growth of cash surrender values was mainly attributable to lower returns on life insurance policies. The decrease in brokerage commissions was primarily the result of decreased transaction volume. The decrease in lockbox fees was mainly attributable to competitive pricing pressures.

Other operating income for the nine month period ended September 30, 2006 was \$8.6 million compared to \$8.3 million for the same period last year. The increase was mainly attributable to a pre-tax gain of \$600 thousand from the sale of rights to future royalty payments for a portion of the Company's Merchant Credit Card customer base. Also, growth in cash surrender values decreased by \$518 thousand, service charges on deposit accounts increased by \$519 thousand, brokerage commissions decreased by \$278 thousand and lockbox fees decreased by \$44 thousand. Service charges on deposit accounts increased mainly because of an increase in overdraft fees.

During the quarter ended September 30, 2006, operating expenses decreased by \$11 thousand or 0.11% to \$10.1 million, from the same period last year. Operating expenses for the nine month period ended September 30, 2006 increased by \$129 thousand or 0.4% to \$30.3 from the same period last year. Operating expenses for the quarter and year-to-date remained relatively stable compared to the same period last year. The changes in operating expenses for the nine month period was mainly attributable to a decrease of \$26 thousand in salaries and employee benefits, \$183 thousand increase in occupancy expense, a \$76 thousand increase in equipment expense and \$104 thousand decrease in other expenses. Salaries and employee benefits decreased mainly as a result a decrease in staffing offset somewhat by an increase in salaries, pension expense and health insurance costs. Occupancy expense increased mainly because of increased utility costs somewhat offset by decreases in building maintenance costs. Equipment expense increased mainly as a result of increased depreciation costs. Other expenses decreased

mainly as a result of decreases in consulting costs, offset somewhat by increases in contributions and audit and exam fees.

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Management's Discussion and Analysis of Financial Condition and Results of Operation  
(continued)

**Income Taxes**

For the third quarter of 2006, the Company's income tax expense totaled \$0.6 million on pretax income of \$1.8 million for an effective tax rate of 34.2%. For last year's corresponding quarter, the Company's income tax expense totaled \$0.7 million on pretax income of \$2.3 million for an effective tax rate of 32.2%. The income tax rate increased for the current quarter mainly as a result of a decrease in non-taxable income (insurance related income) compared to last year. For the first nine months of 2006, the Company's income tax expense totaled \$1.9 million on pretax income of \$5.5 million for an effective tax rate of 34.0%. For last year's corresponding period, the Company's income tax expense totaled \$2.7 million on pretax income of \$8.3 million for an effective tax rate of 32.4%. The income tax rate increased for the nine month period mainly as a result of a decrease in non-taxable income (insurance related income) compared to 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 have 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, 2005, 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, have 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 third quarter of 2006 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.

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**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, 2005. 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 None
- Item 3** Defaults Upon Senior Securities None
- Item 4** Submission of Matters to a Vote of Security Holders None
- Item 5** Other Information None
- Item 6** Exhibits
- 31.1 Certification of Co-President and Co-Chief Executive Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.
- 31.2 Certification of Co-President and Co-Chief Executive Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.
- 31.3 Certification of Chief Financial Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.
- 32.1 Certification of Co-President and Co-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 Co-President and Co-Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.3 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.

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**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: November 8, 2006**

**Century Bancorp, Inc**

**/s/ Barry R. Sloane**

**/s/ Jonathan G. Sloane**

**Barry R. Sloane  
Co-President & Co-Chief Executive  
Officer**

**Jonathan G. Sloane  
Co-President & Co-Chief Executive  
Officer**

**/s/ Paul V. Cusick, Jr.**

**Paul V. Cusick, Jr.  
Vice President and Treasurer  
(Principal Accounting Officer)**

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