CENTURY BANCORP INC
Form 10-Q
November 07, 2011

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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 September 30, 2011.

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.

Yes þ No o

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).

Yes þ No o

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	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).

Yes o No þ

As of October 31, 2011, the Registrant had outstanding:

Class A Common Stock, $1.00 par value	**3,546,217 Shares**
Class B Common Stock, $1.00 par value	**1,994,380 Shares**

Century Bancorp, Inc.

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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.

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PART I
Item 1

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

	September 30, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 39,904	$ 37,215
Federal funds sold and interest-bearing deposits in other banks	143,318	151,337
Total cash and cash equivalents	183,222	188,552
Short-term investments	19,369	113,918
Securities available-for-sale, amortized cost $1,264,031 and $903,556, respectively	1,281,275	909,391
Securities held-to-maturity, fair value $139,777 and $233,524, respectively	134,189	230,116
Federal Home Loan Bank of Boston stock, at cost	15,531	15,531
Loans, net:		
Commercial and industrial	84,765	90,654
Construction and land development	54,498	53,583
Commercial real estate	458,858	433,337
Residential real estate	235,636	207,787
Home equity	111,131	114,209
Consumer and other	6,419	6,594
Total loans, net	951,307	906,164
Less: allowance for loan losses	16,002	14,053
Net loans	935,305	892,111
Bank premises and equipment	21,971	21,228
Accrued interest receivable	5,993	6,601
Goodwill	2,714	2,714
Core deposit intangible	217	508
Other assets	64,126	61,014
Total assets	$ 2,663,912	$ 2,441,684

Liabilities

Deposits:				
Demand deposits	$	345,180	$	322,002
Savings and NOW deposits		691,103		649,402
Money market accounts		569,410		513,359
Time deposits		499,716		417,260
Total deposits		2,105,409		1,902,023
Securities sold under agreements to repurchase		133,030		108,550
Other borrowed funds		193,143		222,118
Subordinated debentures		36,083		36,083
Other liabilities		33,186		27,885
Total liabilities		2,500,851		2,296,659
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 3,546,217 shares and 3,528,867 shares, respectively		3,547		3,529
Class B common stock, $1.00 par value per share; authorized 5,000,000 shares; issued 1,994,380 and 2,011,380 shares, respectively		1,994		2,011
Additional paid-in capital		11,542		11,537
Retained earnings		142,395		131,526
		159,478		148,603
Unrealized gains on securities available-for-sale, net of taxes		10,469		3,593
Pension liability, net of taxes		(6,886)		(7,171)
Total accumulated other comprehensive income(loss), net of taxes		3,583		(3,578)
Total stockholders equity		163,061		145,025
Total liabilities and stockholders equity	$	2,663,912	$	2,441,684

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.
Consolidated Statements of Income (unaudited)
(In thousands, except share data)

	Three months ended September 30, 2011	Three months ended September 30, 2010	Nine months ended September 30, 2011	Nine months ended September 30, 2010
Interest income				
Loans	$ 12,030	$ 11,900	$ 36,147	$ 36,084
Securities held-to-maturity	1,304	1,645	4,595	5,501
Securities available-for-sale	6,042	4,618	17,104	14,630
Federal funds sold and interest-bearing deposits in other banks	262	465	967	1,246
Total interest income	19,638	18,628	58,813	57,461
Interest expense				
Savings and NOW deposits	592	940	2,023	3,254
Money market accounts	627	876	2,109	3,189
Time deposits	2,512	2,162	7,285	5,746
Securities sold under agreements to repurchase	82	116	290	466
Other borrowed funds and subordinated debentures	1,987	1,946	5,826	6,351
Total interest expense	5,800	6,040	17,533	19,006
Net interest income	13,838	12,588	41,280	38,455
Provision for loan losses	1,200	1,200	3,600	4,225
Net interest income after provision for loan losses	12,638	11,388	37,680	34,230
Other operating income				
Service charges on deposit accounts	2,031	2,003	5,854	5,878
Lockbox fees	658	745	2,129	2,193
Net gain on sales of investments	883		1,245	1,027
Net gain on sales of loans	238		364	
Other income	693	664	2,287	2,678
Total other operating income	4,503	3,412	11,879	11,776
Operating expenses				
Salaries and employee benefits	7,357	6,844	21,948	21,619

Occupancy		1,059		937		3,285		3,003
Equipment		608		454		1,700		1,537
FDIC assessments		413		785		1,612		2,175
Other		2,618		2,293		7,495		7,143
Total operating expenses		12,055		11,313		36,040		35,477
Income before income taxes		5,086		3,487		13,519		10,529
Provision for income taxes		504		220		1,015		879
Net income	$	4,582	$	3,267	$	12,504	$	9,650
Share data:								
Weighted average number of shares outstanding, basic		5,540,597		5,535,548		5,540,592		5,532,067
Weighted average number of shares outstanding, diluted		5,541,646		5,537,120		5,541,711		5,534,457
Net income per share, basic	$	0.83	$	0.59	$	2.26	$	1.74
Net income per share, diluted	$	0.83	$	0.59	$	2.26	$	1.74
Cash dividends paid:								
Class A common stock	$	0.12	$	0.12	$	0.36	$	0.36
Class B common stock	$	0.06	$	0.06	$	0.18	$	0.18

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.
Consolidated Statements of Changes in Stockholders Equity (unaudited)
For the Nine Months Ended September 30, 2011 and 2010

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
			(In thousands)			
Balance at December 31, 2009	$ 3,516	$ 2,014	$ 11,376	$ 120,125	$ (4,301)	$ 132,730
Net income				9,650		9,650
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of $3,026 in taxes and $1,027 in realized net gains					4,703	4,703
Pension liability adjustment, net of $247 in taxes					366	366
Comprehensive income						14,719
Conversion of class B common stock to class A common stock, 3,150 shares	3	(3)				
Stock options exercised, 6,500 shares	7		91			98
Cash dividends paid, Class A common stock, $.36 per share				(1,266)		(1,266)
Cash dividends paid, Class B common stock, $.18 per share				(363)		(363)
Balance at September 30, 2010	$ 3,526	$ 2,011	$ 11,467	$ 128,146	$ 768	$ 145,918
Balance at December 31, 2010	$ 3,529	$ 2,011	$ 11,537	$ 131,526	$ (3,578)	$ 145,025
Net income				12,504		12,504
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $4,533 in taxes and					6,876	6,876

$1,245 in realized net gains						
Pension liability adjustment, net of $189 in taxes					285	285
Comprehensive income						19,665
Conversion of class B common stock to class A common stock, 17,000 shares	17	(17)				
Stock options exercised, 350 shares	1		5			6
Cash dividends paid, Class A common stock, $.36 per share				(1,274)		(1,274)
Cash dividends paid, Class B common stock, $.18 per share				(361)		(361)
Balance at September 30, 2011	$ 3,547	$ 1,994	$ 11,542	$ 142,395	$ 3,583	$ 163,061

See accompanying notes to unaudited consolidated interim financial statements.

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

	Nine months ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,504	$ 9,650
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on sales of investments	(1,245)	(1,027)
Net gain on sale of loans	(364)	
Provision for loan losses	3,600	4,225
Deferred income taxes	(1,024)	(1,364)
Net depreciation and amortization	3,828	3,528
Decrease (increase) in accrued interest receivable	608	(239)
Increase in other assets	(5,587)	(799)
Increase (decrease) in other liabilities	816	(95)
Net cash provided by operating activities	13,136	13,879
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	119,044	117,150
Purchase of short-term investments	(24,495)	(222,522)
Proceeds from maturities of securities available-for-sale	556,599	488,823
Proceeds from sales of securities available-for-sale	43,124	34,625
Purchase of securities available-for-sale	(955,685)	(698,415)
Proceeds from maturities of securities held-to-maturity	95,708	136,407
Purchase of securities held-to-maturity		(147,386)
Proceeds from sales of loans	11,295	
Net (increase) decrease in loans	(58,990)	10,553
Capital expenditures	(2,328)	(1,854)
Net cash used in investing activities	(215,728)	(282,619)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in time deposits	82,456	86,513
Net increase in demand, savings, money market and NOW deposits	120,930	94,347
Net proceeds from exercise of stock options	6	98
Cash dividends	(1,635)	(1,630)
Net increase (decrease) in securities sold under agreements to repurchase	24,480	(10,315)
Net decrease in other borrowed funds	(28,975)	(3,543)
Net cash provided by financing activities	197,262	165,470
Net decrease in cash and cash equivalents	(5,330)	(103,270)

Cash and cash equivalents at beginning of period	188,552	398,642
Cash and cash equivalents at end of period	$ 183,222	$ 295,372
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 17,578	$ 24,551
Income taxes	2,311	3,010
Change in unrealized gains on securities available-for-sale, net of taxes	6,876	4,703
Pension liability adjustment, net of taxes	285	366
Due to broker	5,000	765

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.
Notes to Unaudited Consolidated Interim Financial Statements
Nine Months Ended September 30, 2011 and 2010

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 the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. 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, 2010, 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.

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

Note 2. Recent Market Developments

The financial services industry continues to face unprecedented challenges in the aftermath of the recent national and global economic crisis. Since June 2009, the US economy has been recovering from the most severe recession and financial crisis since the Great Depression. There have been some improvements in private sector employment, industrial production and US exports; nevertheless, the pace of economic recovery has been extremely slow. The housing markets continue to be depressed. Financial markets have improved since the depths of the crisis, but are still unsettled and volatile. Investors have pulled back from risky assets. Lower equity prices and wider spreads on corporate bonds and other debt instruments and greater pressures on financial institutions have resulted. At the same time, heightened demand for safe assets has put downward pressure on yields. There is continued concern about the US economic outlook and the potential effects of the continued crisis in the European financial markets.

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. The Act broadens the base for FDIC assessments to average consolidated assets less tangible equity of financial institutions and also permanently raises the current standard maximum FDIC deposit insurance amount to $250,000. The Act extends unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2013.

On September 30, 2011 the Massachusetts Department of Revenue issued a draft directive prohibiting a corporation from pledging more than 50 percent of security corporation stock it owns to secure a borrowing, effective for tax years beginning on or after October, 2012. Century Bank currently utilizes the stock of two of its security corporations to secure Federal Home Loan Bank of Boston(FHLBB) advances. Should this draft directive become effective, Century Bank would have fewer assets available to secure FHLBB advances, or would have a higher tax rate if it chose to utilize security corporations to a lesser extent.

Note 3. Stock Option Accounting

Stock option activity under the Company s stock option plan for the nine months ended September 30, 2011 is as follows:

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	Amount		Weighted Average Exercise Price
Shares under option:			
Outstanding at beginning of year	38,712	$	28.36
Exercised	(350)		15.06
Cancelled	(200)		15.06
Outstanding at end of period	38,162	$	28.55
Exercisable at end of period	38,162	$	28.55
Available to be granted at end of period	223,084		

On September 30, 2011, the outstanding options to purchase 38,162 shares of Class A common stock have exercise prices between $22.50 and $35.01, with a weighted average exercise price of $28.55 and a weighted average remaining contractual life of 2.0 years. The intrinsic value of options exercisable at September 30, 2011 had an aggregate value of $5,769. The intrinsic value of options exercised at September 30, 2011 had an aggregate value of $4,085.

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 2011.

Note 4. Securities Available-for-Sale

	September 30, 2011				December 31, 2010			
	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**	**$ 14**	**$**	**$ 2,013**	$ 2,000	$ 5	$	$ 2,005
U.S. Government Sponsored Enterprises	**243,376**	**214**	**313**	**243,277**	175,842	386	565	175,663
Small Business Administration	**8,956**	**43**		**8,999**	9,735	1	4	9,732
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**971,923**	**18,820**	**416**	**990,327**	674,481	11,842	5,425	680,898
Privately Issued Residential Mortgage Backed Securities	**3,678**		**258**	**3,420**	4,247		279	3,968
Privately Issued Commercial Mortgage Backed					285	2		287

Securities Obligations Issued by States and Political Subdivisions	**20,375**	**90**	**288**	**20,177**	34,271	98	295	34,074
Other Debt Securities	**13,329**		**753**	**12,576**	2,300		47	2,253
Equity Securities	**395**	**91**		**486**	395	116		511
Total	**$ 1,264,031**	**$ 19,272**	**$ 2,028**	**$ 1,281,275**	$ 903,556	$ 12,450	$ 6,615	$ 909,391

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 $358,672,000 and $363,240,000 at September 30, 2011 and December 31, 2010, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank of Boston amounting to $247,358,000 and $124,189,000 at September 30, 2011 and December 31, 2010, respectively. The Company realized gross gains of $1,245,000 from the proceeds of $43,124,000 from the sales of available-for-sale securities for the nine months ended September 30, 2011. 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 nine months ended September 30, 2010.

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The following table shows the maturity distribution of the Company s securities available-for-sale at September 30, 2011.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	$ 51,310	$ 51,964
After one but within five years	971,079	987,676
After five but within ten years	223,483	223,368
More than 10 years	16,264	16,320
Non-maturing	1,895	1,947
Total	$ 1,264,031	$ 1,281,275

The weighted average remaining life of investment securities available-for-sale at September 30, 2011 was 4.2 years. Included in the weighted average remaining life calculation at September 30, 2011 was $226,876,000 of U.S. Government Sponsored Enterprises 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.

As of September 30, 2011 and December 31, 2010, management 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 these debt securities and it is not likely that it will be required to sell these debt securities 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 these securities are from issuers that are 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. 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.

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at September 30, 2011. 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 38 and 7 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 396 holdings at September 30, 2011.

	September 30, 2011					
	Less than 12 months		12 months or longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government Sponsored Enterprises	**$ 102,135**	**$ 313**	**$**	**$**	**$ 102,135**	**$ 313**
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**122,448**	**214**	**3,987**	**203**	**126,435**	**417**
Privately Issued Residential Mortgage Backed Securities			**3,421**	**258**	**3,421**	**258**
Obligations Issued by States and Political Subdivisions			**4,393**	**287**	**4,393**	**287**
Other Debt Securities	**10,516**	**714**	**1,461**	**39**	**11,977**	**753**
Total temporarily impaired securities	**235,099**	**$ 1,241**	**$ 13,262**	**$ 787**	**$ 248,361**	**$ 2,028**

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 31, 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 59 and 5 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 345 holdings at December 31, 2010.

	December 31, 2010					
	Less than 12 months		12 months or longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government Sponsored Enterprises	$ 74,290	$ 565	$	$	$ 74,290	$ 565
SBA Backed Securities	2,246	4			2,246	4
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	191,155	5,425			191,155	5,425
Privately Issued Residential Mortgage Backed Securities	1,503	52	2,465	227	3,968	279
Obligations Issued by States and Political Subdivisions	9,257	11	4,393	284	13,650	295
Other Debt Securities			1,454	47	1,454	47
Equity Securities						
Total temporarily impaired securities	$ 278,451	$ 6,057	$ 8,312	$ 558	$ 286,763	$ 6,615

Note 5. Investment Securities Held-to-Maturity

	September 30, 2011				December 31, 2010			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(In thousands)				
U.S. Government Sponsored Enterprises	**$ 14,991**	**$ 21**	**$**	**$ 15,012**	$ 84,534	$ 148	$ 488	$ 84,194
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**119,198**	**5,579**	**12**	**124,765**	145,582	5,246	1,498	149,330
Total	**$ 134,189**	**$ 5,600**	**$ 12**	**$ 139,777**	$ 230,116	$ 5,394	$ 1,986	$ 233,524

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to $9,380,000 and $10,000,000 at September 30, 2011 and December 31, 2010, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank of Boston at fair value amounting to $58,432,000 and $79,844,000 at September 30, 2011 and December 31, 2010, respectively.

At September 30, 2011 and December 31, 2010, 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 September 30, 2011.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	$ 7,874	$ 8,049
After one but within five years	100,871	106,030
After five but within ten years	25,157	25,409
More than ten years	287	289
Total	$ 134,189	$ 139,777

The weighted average remaining life of investment securities held-to-maturity at September 30, 2011 was 3.4 years. Included in the weighted average remaining life calculation at September 30, 2011 were $14,991,000 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 September 30, 2011. 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 1 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 87 holdings at September 30, 2011.

	September 30, 2011					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government Sponsored Enterprises	$	$	$	$	$	$
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	5,367	12			5,367	12
Total temporarily impaired securities	$ 5,367	$ 12	$	$	$ 5,367	$ 12

As of September 30, 2011 and December 31, 2010, management 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 these debt securities and it is not likely that it will be required to sell these debt securities 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 these securities are from issuers that are investment grade.

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.

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 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

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amortized cost, the Company does not consider these investments to be other-than-temporarily impaired.
The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 31, 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 11 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 101 holdings at December 31, 2010.

	December 31, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government Sponsored Enterprises	$ 29,491	$ 488	$	$	$ 29,491	$ 488
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	37,628	1,498			37,628	1,498
Total temporarily impaired securities	$ 67,119	$ 1,986	$	$	$ 67,119	$ 1,986

Note 6. Allowance for Loan Losses

The Company maintains an allowance for loan losses in an amount determined by management on the basis of the character of the loans, loan performance, the financial condition of borrowers, the value of collateral securing loans and other relevant factors.
The following table summarizes the changes in the Company s allowance for loan losses for the periods indicated.

	Three months ended September 30,		**Nine months ended September 30,**	
	2011	**2010**	**2011**	**2010**
	(In thousands)			
Allowance for loan losses, beginning of period	**$ 15,915**	$ 14,350	**$ 14,053**	$ 12,373
Loans charged off	**(1,283)**	(1,891)	**(2,252)**	(3,174)
Recoveries on loans previously charged-off	**170**	168	**601**	403
Net charge-offs	**(1,113)**	(1,723)	**(1,651)**	(2,771)
Provision charged to expense	**1,200**	1,200	**3,600**	4,225
Allowance for loan losses, end of period	**$ 16,002**	$ 13,827	**$ 16,002**	$ 13,827

Further information pertaining to the allowance for loan losses for three months ending September 30, 2011 follows:

Construction and land development	**Commercial and industrial**	**Commercial real estate**	**Residential real estate**	**Consumer and other**	**Home Equity**	**Unallocated**	**Total**

(Dollars in thousands)

Allowance for loan losses:								
Balance at June 30, 2011	$ 2,572	$ 3,575	$ 6,321	$ 1,745	$ 291	$ 775	$ 636	$ 15,915
Charge-offs	(900)	(203)			(180)			(1,283)
Recoveries		66		4	100			170
Provision	1,312	(217)	(364)	31	81	8	349	1,200
Balance at September 30, 2011	$ 2,984	$ 3,221	$ 5,957	$ 1,780	$ 292	$ 783	$ 985	$ 16,002

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Further information pertaining to the allowance for loan losses for nine months ending September 30, 2011 follows:

	Construction and land development	Commercial and industrial	Commercial real estate	Residential real estate	Consumer and other	Home Equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at December 31, 2010	$ 1,752	$ 3,163	$ 5,671	$ 1,718	$ 298	$ 725	$ 726	$ 14,053
Charge-offs	(900)	(585)		(281)	(485)	(1)		(2,252)
Recoveries		222		19	360			601
Provision	2,132	421	286	324	119	59	259	3,600
Balance at September 30, 2011	$ 2,984	$ 3,221	$ 5,957	$ 1,780	$ 292	$ 783	$ 985	$ 16,002
Amount of allowance for loan losses for loans deemed to be impaired	$ 350	$ 345	$ 227	$ 3	$	$	$	$ 925
Amount of allowance for loan losses for loans not deemed to be impaired	$ 2,634	$ 2,876	$ 5,730	$ 1,777	$ 292	$ 783	$ 985	$ 15,077
Loans:								
Ending balance	$ 54,498	$ 84,765	$ 458,858	$ 235,636	$ 6,419	$ 111,131	$	$ 951,307
Loans deemed to be impaired	$ 1,800	$ 1,778	$ 4,247	$ 483	$	$	$	$ 8,308
Loans not deemed to be impaired	$ 52,698	$ 82,987	$ 454,611	$ 235,153	$ 6,419	$ 111,131	$	$ 942,999

Further information pertaining to the allowance for loan losses at December 31, 2010 follows:

Construction and land	Commercial and	Residential real	Consumer	Home

	development	industrial	Commercial real estate	estate	and other	equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at December 31, 2009	$ 362	$ 4,972	$ 2,983	$ 1,304	$ 1,753	$ 761	$ 238	$ 12,373
Charge-offs	(900)	(1,559)	(922)	(515)	(495)	(52)		(4,443)
Recoveries		172		8	368			548
Provision	2,290	(422)	3,610	921	(1,328)	16	488	5,575
Balance at December 31, 2010	$ 1,752	$ 3,163	$ 5,671	$ 1,718	$ 298	$ 725	$ 726	$ 14,053
Amount of allowance for loan losses for loans deemed to be impaired	$	$ 292	$ 25	$	$	$	$	$ 317
Amount of allowance for loan losses for loans not deemed to be impaired	$ 1,752	$ 2,871	$ 5,646	$ 1,718	$ 298	$ 725	$ 726	$ 13,736

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	Construction and land development	Commercial and industrial	Commercial real estate	Residential real estate	Consumer and other	Home equity	Unallocated	Total
				(Dollars in thousands)				
Loans:								
Ending balance	$ 53,583	$ 90,654	$ 433,337	$ 207,787	$ 6,594	$ 114,209	$	$ 906,164
Loans deemed to be impaired	$ 4,000	$ 1,471	$ 2,492	$	$	$	$	$ 7,963
Loans not deemed to be impaired	$ 49,583	$ 89,183	$ 430,845	$ 207,787	$ 6,594	$ 114,209	$	$ 898,201

The company utilizes a six grade internal loan rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 1-3:

Loans in this category are considered pass rated loans with low to average risk.

Loans rated monitor 4:

Monitor 4 loans represent classified loans that management is closely monitoring for credit quality. These loans have had or may have minor credit quality deterioration as of September 30, 2011 and December 31, 2010.

Loans rated substandard 5:

Substandard 5 loans represent classified loans that management is closely monitoring for credit quality. These loans have had more significant credit quality deterioration as of September 30, 2011 and December 31, 2010.

Loans rated doubtful 6:

Doubtful 6 loans represent classified loans that management is closely monitoring for credit quality. These loans had more significant credit quality deterioration as of September 30, 2011 and are doubtful for full collection.

Impaired:

Impaired loans represent classified loans that management is closely monitoring for credit quality. A loan is classified as impaired when it is probable that the Company will be unable to collect all amounts due.

The following table presents the Company s loans by risk rating at September 30, 2011.

	Construction and land development	**Commercial and industrial**	**Commercial real estate**
		(Dollars in thousands)	
Grade:			
1-3	**$ 45,711**	**$ 81,877**	**$ 446,780**
Monitor 4	**6,987**	**1,110**	**7,266**
Substandard 5			**565**
Doubtful 6			
Impaired	**1,800**	**1,778**	**4,247**
Total	**$ 54,498**	**$ 84,765**	**$ 458,858**

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The following table presents the Company s loans by risk rating at December 31, 2010.

	Construction and land development	Commercial and industrial (Dollars in thousands)	Commercial real estate
Grade:			
1-3	$ 42,887	$ 88,103	$ 415,528
Monitor 4	6,696	1,080	15,317
Substandard 5			
Doubtful 6			
Impaired	4,000	1,471	2,492
Total	$ 53,583	$ 90,654	$ 433,337

The Company utilized payment performance as credit quality indicators for residential real estate, consumer and overdrafts, and the home equity portfolio. The indicators are depicted in the table aging of past due loans, below. Further information pertaining to the allowance for loan losses at September 30, 2011 follows:

	Accruing 30-89 Days Past Due	**Non Accrual**	**Accrual Greater Than 90 Days**	**Total Past Due**	**Current Loans**	**Total**
		(Dollars in thousands)				
Construction and land development	**$**	**$ 1,800**	**$**	**$ 1,800**	**$ 52,698**	**$ 54,498**
Commercial and industrial	**1,568**	**1,200**	**38**	**2,806**	**81,960**	**84,766**
Commercial real estate	**3,996**	**976**		**4,972**	**453,886**	**458,858**
Residential real estate	**4,079**	**1,966**		**6,045**	**229,591**	**235,636**
Consumer and other	**87**	**1**		**88**	**6,330**	**6,418**
Home equity	**601**	**160**		**761**	**110,370**	**111,131**
Total	**$ 10,331**	**$ 6,103**	**$ 38**	**$ 16,472**	**$ 934,835**	**$ 951,307**

Further information pertaining to the allowance for loan losses at December 31, 2010 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accrual Greater Than 90 Days	Total Past Due	Current Loans	Total

(Dollars in thousands)

Construction and land development	$	$ 4,000	$	$ 4,000	$ 49,583	$ 53,583
Commercial and industrial	912	569	50	1,531	89,123	90,654
Commercial real estate	1,737	784		2,521	430,816	433,337
Residential real estate	4, 172	2,487		6,659	201,128	207,787
Consumer and other	8	4		12	6,582	6,594
Home equity	574	224		798	113,411	114,209
Total	$ 7,403	$ 8,068	$ 50	$ 15,521	$ 890,643	$ 906,164

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, The Company measures impairment

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based on the present value of expected future cash flows discounted at the loan s effective interest rate, except that as a practical expedient, the Company measures impairment based on a loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. The Company s policy for recognizing interest income on impaired loans is contained within Note 1 of the consolidated financial statements.

The following is information pertaining to impaired loans for September 30, 2011:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value For 3 months ending September 30, 2011	Average Carrying Value For 9 months ending September 30, 2011	Interest Income Recognized for 3 months ending September 30, 2011	Interest Income Recognized for 9 months ending September 30, 2011
			(Dollars in thousands)				
With no required reserve recorded:							
Construction and land development	$	$	$	$ 1,350	$ 2,940	$	$
Commercial and industrial	642	1,090		443	429	1	3
Commercial real estate	415	431		246	378		
Residential real estate	450	450					
Consumer and other							
Home equity							
Total	$ 1,507	$ 1,971	$	$ 2,039	$ 3,747	$ 1	$ 3
With required reserve recorded:							
Construction and land development	$ 1,800	$ 3,292	$ 350	$ 2,110	$ 844	$	$
Commercial and industrial	1,136	1,160	345	1,428	1,087	6	10
Commercial real estate	3,832	3,858	227	6,738	5,215	82	112
Residential real estate	33	33	3	146	68	1	2
Consumer and other							
Home equity							

Total	**$ 6,801**	**$ 8,343**	**$ 925**	**$ 10,422**	**$ 7,214**	**$ 89**	**$ 124**
Total							
Construction and land development	**$ 1,800**	**$ 3,292**	**$ 350**	**$ 3,460**	**$ 3,784**	**$**	**$**
Commercial and industrial	**1,778**	**2,250**	**345**	**1,871**	**1,516**	**7**	**13**
Commercial real estate	**4,247**	**4,289**	**227**	**6,984**	**5,593**	**82**	**112**
Residential real estate	**483**	**483**	**3**	**146**	**68**	**1**	**2**
Consumer and other							
Home equity							
Total	**$ 8,308**	**$ 10,314**	**$ 925**	**$ 12,461**	**$ 10,961**	**$ 90**	**$ 127**

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The following is information pertaining to impaired loans at December 31, 2010:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value	Interest Income Recognized
			(Dollars in thousands)		
With no required reserve recorded:					
Construction and land development	$ 4,000	$ 8,504	$	$ 2,262	$
Commercial and industrial	893	1,092		826	83
Commercial real estate	960	969		2,013	122
Residential real estate					
Consumer and other					
Home equity					
Total	$ 5,853	$ 10,565	$	$ 5,101	$ 205
With required reserve recorded:					
Construction and land development	$	$	$	$ 2,500	$
Commercial and industrial	578	588	292	842	31
Commercial real estate	1,532	1,532	25	1,163	20
Residential real estate					
Consumer					
Home equity					
Total	$ 2,110	$ 2,120	$ 317	$ 4,505	$ 51
Total					
Construction and land development	$ 4,000	$ 8,504	$	$ 4,762	$
Commercial and industrial	1,471	1,680	292	1,668	114
Commercial real estate	2,492	2,501	25	3,176	142
Residential real estate					
Consumer					
Home equity					
Total	$ 7,963	$ 12,685	$ 317	$ 9,606	$ 256

Troubled Debt Restructurings occurring during the three and nine month periods ended September 30, 2011:

	Three month period ended September 30, 2011			**Nine month period ended September 30, 2011**		
			(Dollars in thousands)			
	Number of Contracts	**Pre-modification outstanding recorded investment**	**Post-modification outstanding recorded investment**	**Number of Contracts**	**Pre-modification outstanding recorded investment**	**Post-modification outstanding recorded investment**

Construction and land development	**0**	**$**		**$**		**1**	**$**	**39**	**$**	**39**
Commercial and industrial	**1**		**41**		**41**	**10**		**695**		**679**
Commercial real estate	**0**					**4**		**2,641**		**2,640**
Residential real estate	**0**					**0**				
Consumer and other	**0**					**0**				
Home equity	**0**					**0**				
Total	**1**	**$**	**41**	**$**	**41**	**15**	**$**	**3,375**	**$**	**3,358**

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Troubled Debt Restructurings occurring during the three and nine month periods ended September 30, 2011, that subsequently defaulted:

	Number of Contracts	Recorded Investment
	(Dollars in thousands)	
Construction and land development	0	$
Commercial and industrial	1	15
Commercial real estate	0	
Residential real estate	0	
Consumer and other	0	
Home equity	0	
Total	1	$ 15

Troubled Debt Restructurings were identified as a modification where a concession was granted to a customer who is having financial difficulties. This concession may be below market rate, longer amortization/term, and a lower payment amount. The present value calculation of the modification did not result in an increase in the allowance for these loans beyond any previously established allocations. The loans were modified, for both the commercial and industrial and commercial real estate loans, by reducing interest rates as well as extending terms on the loans. The financial impact of the modifications for performing commercial and industrial loans were $14,000 and $22,000 reduction in principal and an additional $2,000 and $2,000 in interest payments for the three and nine month periods ended September 30, 2011, respectively. The financial impact of the modifications for performing commercial real estate were $9,000 and $18,000 reduction in principal and a reduction of $17,000 and $36,000 in interest payments for the three and nine month periods ended September 30, 2011, respectively. The financial impact of the modifications for nonperforming loans was a $7,000 reduction in the carrying value of the loans as a result of payments received under the modified terms of the loans.

Note 7. 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 of the Employee Retirement Income Security Act of 1974 (ERISA) and recognizes costs over the estimated employee service period.

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 and 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. 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 September 30,

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2011	**2010**	**2011**	**2010**
		(In thousands)		
Service cost	**$ 211**	$ 213	**$ 170**	$ 147
Interest	**355**	333	**233**	207
Expected return on plan assets	**(399)**	(342)		
Recognized prior service cost (benefit)	**(26)**	(26)	**28**	28
Recognized net actuarial losses	**123**	159	**32**	17
Net periodic benefit cost	**264**	$ 337	**$ 463**	$ 399

Components of Net Periodic Benefit Cost for the Nine Months Ended September 30,

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2011	**2010**	**2011**	**2010**
		(In thousands)		
Service cost	**$ 633**	$ 638	**$ 510**	$ 441
Interest	**1,065**	1,000	**699**	673
Expected return on plan assets	**(1,197)**	(1,025)		
Recognized prior service cost (benefit)	**(78)**	(78)	**84**	83
Recognized net actuarial losses	**370**	476	**97**	103
Net periodic benefit cost	**$ 793**	$ 1,011	**$1,390**	$1,300

Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2010 that it expected to contribute $1,275,000 to the Pension Plan in 2011. As of September 30, 2011, $956,250 of the contribution had been made. The Company expects to contribute an additional $318,750 by the end of the year.

Note 8. 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:

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. Specifically, the categories include auction rate securities, obligations issued by states and political subdivisions and equity securities.

The results of the fair value hierarchy as of September 30, 2011 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	**$ 2,013**	**$**	**$ 2,013**	**$**
U.S. Government Sponsored Enterprises	**243,277**		**243,277**	
SBA Backed Securities	**8,999**		**8,999**	
U.S. Government Agency and Sponsored Mortgage Backed Securities	**990,327**		**990,327**	
Privately Issued Residential Mortgage Backed Securities	**3,420**		**3,420**	
Privately Issued Commercial Mortgage Backed Securities				
Obligations Issued by States and Political Subdivisions	**20,177**		**2,561**	**17,616**
Other Debt Securities	**12,576**		**12,576**	
Equity Securities	**486**	**207**		**279**
Total	**$ 1,281,275**	**$ 207**	**$ 1,263,173**	**$ 17,895**

Financial Instruments Measured at Fair Value on a Non-recurring Basis:

Impaired Loans	**2,892**			**2,892**

Impaired loan balances represent those collateral dependent loans where management has estimated the credit loss by comparing the loan s carrying value against the expected realizable fair value of the collateral. Specific provisions relate to impaired loans recognized for the three and nine-month periods ended September 30, 2011 amounted to $517,000 and $1.6 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 nine-month period ended September 30, 2011 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total
		(In thousands)		
Balance at December 31, 2010	**$ 4,393**	**$ 15,988**	**$ 279**	**$ 20,660**
Purchases		**18,905**		**18,905**
Maturities and calls		**(21,665)**		**(21,665)**
Amortization		**(5)**		**(5)**
Balance at September 30, 2011	**$ 4,393**	**$ 13,223**	**$ 279**	**$ 17,895**

The amortized cost of Level 3 securities was $18,179,000 at September 30, 2011 with an unrealized loss of $284,000. 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 nine-month period ended September 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		21,037	64	21,101
Maturities	(3,427)	(11,173)	(19)	(14,619)
Balance at September 30, 2010	$ 4,393	$ 15,487	$ 279	$ 20,159

The amortized cost of Level 3 securities was $20,442,000 at September 30, 2010 with an unrealized loss of $283,000. 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.

Note 9. 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.

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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 $17.9 million, or 0.67% 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. Level 3 securities have little or no pricing observability as of the reported date. Fair values for Level 3 securities are generally arrived at based upon a review of market trades of similar instruments, if any, as well as an analysis of the security based upon an evaluation of the underlying issuer, 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. The methods and assumptions used are not based on the exit price concept of fair value.

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.

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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:

	September 30, 2011		December 31, 2010	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	**$ 183,222**	**$ 183,222**	$ 188,552	$ 188,552
Short-term investments	**19,369**	**19,404**	113,918	114,134
Securities available-for-sale	**1,281,275**	**1,281,275**	909,391	909,391
Securities held-to-maturity	**134,189**	**139,777**	230,116	233,524
Net loans	**935,305**	**976,466**	892,111	913,394
Accrued interest receivable	**5,993**	**5,993**	6,601	6,601
Financial liabilities:				
Deposits	**2,105,409**	**2,112,326**	1,902,023	1,908,125
Repurchase agreement and other borrowed funds	**326,173**	**336,579**	330,668	334,872
Subordinated debentures	**36,083**	**42,965**	36,083	36,749
Accrued interest payable	**958**	**958**	1,003	1,003
Standby letters of credit		**30**		68

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

Note 10. Recent Accounting Developments

In April 2011, the FASB issued an amendment to the Troubled Debt Restructuring topic (Topic 310) of the ASC. This amendment clarifies a creditor s determination of whether a restructuring is a troubled debt restructuring. In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: 1. The restructuring constitutes a concession.

2. The debtor is experiencing financial difficulties. This amendment is effective for periods beginning after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Accordingly, the Company adopted this amendment in the second quarter 2011. The Company has provided the disclosures required as of September 30, 2011 in Note 6.

In May 2011, the FASB issued ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirement in U.S. GAAP and IFRSs. This Update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and International Financial Reporting Standards (IFRSs.). The amendments in this Update explain how to measure fair value. They do not require additional fair value measurements and are not intended to result in a change in the application of current fair value measurements requirements. The amendments in this Update are effective during interim and annual periods beginning after December 15, 2011. The adoption of ASU No. 2011-04, in January 2012, is not expected to have a material impact on the Company s financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income. The objective of this Update is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. Under the amendments in this Update, a company has the option to present the total of comprehensive income and details of each of its components (net income and other comprehensive income) either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This Update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. The amendments in this Update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this Update are effective during interim and annual periods beginning after December 15, 2011. As ASU No. 2011-05 only deals with presentation requirements, the adoption of ASU No. 2011-05 in January 2012, is not expected to have any impact on the Company s financial statements. The FASB announced the addition of a FASB agenda project to consider deferring certain aspects of ASU No. 2011-05, Presentation of Comprehensive Income.

In September 2011, the FASB issued ASU No. 2011-08, Intangibles Goodwill and Other (Topic 350) . ASU No. 2011-08 applies to all entities, both public and nonpublic, that have goodwill reported in their financial statements. Under the amendments, an entity has the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the first step of the two-step impairment test by calculating the fair value of the reporting unit and comparing the fair value with the carrying amount of the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. An entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. An entity may resume performing the qualitative assessment in any subsequent period. The amendments are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU No. 2011-08, in January 2012, is not expected to have a material impact on the Company s financial statements.

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

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 $2.7 billion as of September 30, 2011. The Company presently operates 24 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 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.

During July 2010, the Company entered into a lease agreement to open a branch located at Newton Centre in Newton, Massachusetts. The branch opened on June 20, 2011.

During September 2010, the Company entered into a lease agreement to open a branch located in Andover, Massachusetts. The branch is scheduled to open during the first half of 2012.

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 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 51% of the 351 cities and towns in Massachusetts.

Earnings for the third quarter ended September 30, 2011 were $4,582,000, or $0.83 per share diluted, compared to net income of $3,267,000, or $0.59 per share diluted, for the

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third quarter ended September 30, 2010. For the first nine months of 2011, net income totaled $12,504,000, or $2.26 per share diluted, compared to net income of $9,650,000, or $1.74 per share diluted, for the same period a year ago. Net interest income totaled $41.3 million for the first nine months of 2011 compared to $38.5 million for the same period in 2010. The 7.3% increase in net interest income for the period is due to an 10.3% increase in the average balances of earning assets, combined with a similar increase in deposits, offset slightly by a decrease in the net interest margin. The net interest margin decreased from 2.51% on a fully taxable equivalent basis in 2010 to 2.49% on the same basis for 2011.

The net interest margin for 2009 reflected a general increase followed by a general decline through the third quarter of 2010 which was then followed by an increase through in the first quarter then a slight decrease in the second and third quarter of 2011 as illustrated in the graph below:

The primary factor accounting for the general increase in the net interest margin for 2009 was pricing discipline. The primary factor accounting for the general decrease in the net interest margin for 2010 was a large influx of deposits, primarily from municipalities, and a corresponding increase in short-term investments. Pricing discipline continued through the first quarter of 2011. The net interest margin fell somewhat during the second quarter of 2011 mainly as a result of increased deposits and corresponding lower yield short-term investments. During the third quarter, management stabilized the net interest margin by continuing to lower cost of funds, and by deploying excess liquidity through expansion of the investment portfolio.

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 September 30, 2011, the loan loss provision was $1.2 million compared to a provision of $1.2 million for the same period last year. For the nine months ended September 30, 2011, the loan loss provision was $3.6 million compared to a provision of $4.2 million for the same period last year for a decrease of $625,000. The decrease in the provision was primarily due to decreased provisions related to nonaccrual loans. Nonperforming loans decreased to $6.1 million at September 30, 2011 from $9.5 million on September 30, 2010.

The Company capitalized on favorable market conditions for the third quarter and nine months ended September 30, 2011 and realized net gains on sales of investments of $883,000 and $1.2 million, respectively, as compared to $0 and $1.0 million for the same periods in 2010. Other income increased for the third quarter of 2011 compared to the same period last year primarily as a result of a sale of one nonaccrual loan. Included in operating expenses for the third quarter and nine months ended September 30, 2011 are FDIC assessments of $413,000 and $1.6 million, respectively, as compared to $785,000 and $2.2 million, for the same periods in 2010. FDIC assessments decreased primarily as a result of a decrease in the assessment rate. Also included in operating expenses for the nine months ended September 30, 2010 is a charge for payments due a former Co-CEO, in accordance with his separation agreement as previously announced. The Company recorded a pre-tax charge of $916,000 during the second quarter of 2010.

For the third quarter of 2011, the Company s effective income tax was 9.9% compared to 6.3% for last year s corresponding quarter. For the first nine months of 2011, the Company s effective income tax was 7.5% compared to 8.3% 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 September 30, 2011, total loans outstanding were $951.3 million, an increase of 5.0% from the total on December 31, 2010. At September 30, 2011, commercial real estate loans accounted for 48.2% and residential real estate loans, including home equity loans, accounted for 36.5% of total loans.

Commercial and industrial loans decreased to $84.8 million at September 30, 2011 from $90.7 million at December 31, 2010. Construction loans increased to $54.5 million at September 30, 2011 from $53.6 million on December 31, 2010.

Allowance for Loan Losses

The allowance for loan loss at September 30, 2011 was $16.0 million as compared to $14.1 million at December 31, 2010. The increase was due to quantitative and qualitative factors associated with the loan loss reserve requirement. Also, the level of the allowance for loan losses to total loans increased from 1.55% at December 31, 2010 to 1.68% at September 30, 2011. The dollar amount of the allowance for loan losses and the level of the allowance for loan losses to total loans increased, primarily as a result of decreased levels of charge-offs, an increase in the historical loss factor on construction loans, increases in required specific reserves associated with impaired loans as well as an increase in commercial real estate loans. 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 September 30, 2011 is $54.5 million. A major factor in nonaccrual loans is one large construction loan. Based on this fact, and the general local conditions facing construction, 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 $460.3 million at September 30, 2011. 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, which is included in the loans greater than $1.0 million category, is $171.2 million, at September 30, 2011. 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 $44.5 million at September 30, 2011. These are considered higher risk loans

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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 September 30,		Nine months ended September 30,	
	2011	**2010**	**2011**	**2010**
		(In thousands)		
Allowance for loan losses, beginning of period	**$ 15,915**	$ 14,350	**$ 14,053**	$ 12,373
Loans charged off	**(1,283)**	(1,891)	**(2,252)**	(3,174)
Recoveries on loans previously charged-off	**170**	168	**601**	403
Net charge-offs	**(1,113)**	(1,723)	**(1,651)**	(2,771)
Provision charged to expense	**1,200**	1,200	**3,600**	4,225
Allowance for loan losses, end of period	**$ 16,002**	$ 13,827	**$ 16,002**	$ 13,827

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.

Nonperforming Assets

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

	September 30, 2011	December 31, 2010
	(Dollars in thousands)	
Nonaccruing loans	**$ 6,103**	$ 8,068
Loans past due 90 days or more and still accruing	**$ 38**	$ 50
Other real estate owned	**$ 1,300**	$
Nonaccruing loans as a percentage of total loans	**0.64%**	0.89%
Accruing troubled debt restructures	**$ 3,909**	$ 1,248

Loans past due greater than 90 days and accruing represent loans that matured and the borrower has continued to make regular principal and interest payments as if the loan had been renewed when, in fact, renewal had not yet taken place. It is expected that the loans will be renewed or paid in full without any loss.

Cash and Cash Equivalents

Cash and cash equivalents remained relatively stable during the third quarter of 2011.

Short-term Investments

Short-term investments decreased mainly as a result of increases in longer term higher yielding investments.

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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)

	September 30, 2011	December 31, 2010
	(In thousands)	
U.S. Treasury	**$ 2,013**	$ 2,005
U.S. Government Sponsored Enterprises	**243,277**	175,663
Small Business Administration	**8,999**	9,732
U.S Government Agency and Sponsored Enterprise Mortgage-backed Securities	**990,327**	680,898
Privately Issued Residential Mortgage-backed Securities	**3,420**	3,968
Privately Issued Commercial Mortgage-backed Securities		287
Obligations issued by States and Political Subdivisions	**20,177**	34,074
Other Debt Securities	**12,576**	2,253
Equity Securities	**486**	511
Total Securities Available for-Sale	**$ 1,281,275**	$ 909,391

During the first nine months of 2011 the Company capitalized on favorable market conditions and realized $1,245,000 of gains on sales of investments. The sales of investments represented eleven U.S. Government Sponsored Enterprise bonds totaling $43.1 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 third quarter of 2008.

Securities Held-to-Maturity (at Amortized Cost)

	September 30, 2011	December 31, 2010
	(In thousands)	
U.S. Government Sponsored Enterprises	**$ 14,991**	$ 84,534
U.S. Government Agency and Sponsored Enterprise Mortgage-backed Securities	**119,198**	145,582
Total Securities Held-to-Maturity	**$ 134,189**	$ 230,116

At September 30, 2011 and December 31, 2010, 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.

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Securities Available-for-Sale

The securities available-for-sale portfolio totaled $1.3 billion at September 30, 2011, an increase of 40.9% from December 31, 2010. Purchases of securities available-for-sale totaled $955.7 million for the nine months ended September 30, 2011. 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 4.2 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 $17.9 million, or 0.67% 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 of similar instruments, 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 $134.2 million on September 30, 2011, a decrease of 41.7% from the total on December 31, 2010. The portfolio is concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 3.4 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 year ended December 31, 2010, the FHLBB reported net income of $106.6 million. For the nine months ended September 30, 2011, the FHLBB reported net income of $94.9 million. The FHLBB also declared a dividend equal to an annual yield of 0.30%. The FHLBB s board of directors anticipates that it will continue to declare modest cash dividends through 2011. 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 September 30, 2011. The Company will continue to monitor its investment in FHLBB stock.

Deposits and Borrowed Funds

On September 30, 2011, deposits totaled $2.1 billion, representing a 10.7% increase from December 31, 2010. Total deposits increased primarily as a result of increases in time deposits, money market, savings and NOW and demand deposit accounts. Savings and NOW, money market and time deposits increased as the Company continued to offer attractive rates for these types of deposits during the first nine months of the year. Borrowed funds totaled $326.2 million compared to $330.7 million at December 31, 2010. Borrowed funds decreased mainly as a result of matured term borrowings from the FHLB.

Stockholders Equity

At September 30, 2011, total equity was $163.1 million compared to $145.0 million at December 31, 2010. The Company s equity increased primarily as a result of earnings and other comprehensive income, net of taxes, offset somewhat by dividends paid. The Company s leverage ratio stood at 7.02% at September 30, 2011, compared to 7.13% at September 30, 2010. This decline in the leverage ratio is due to an increase in assets, offset by an increase in stockholders equity. The Company s Tier 1 capital-to-risk assets and total capital-to-risk assets stood at 14.82% and 16.07%, respectively, at September 30, 2011. Book value as of September 30, 2011 was $29.43 per share.

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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					
	September 30, 2011			September 30, 2010		
	(In thousands)					
	Average Balance	Interest(1)	Average Yield/ Rate	Average Balance	Interest(1)	Average Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans(2)	**$ 960,341**	**$ 13,770**	**5.69%**	$ 871,471	$ 13,169	6.00%
Securities available-for-sale(5):						
Taxable	**1,114,498**	**5,997**	**2.15**	768,231	4,534	2.36
Tax-exempt	**18,610**	**68**	**1.46**	35,796	126	1.41
Securities held-to-maturity:						
Taxable	**155,857**	**1,304**	**3.35**	210,984	1,645	3.12
Tax-exempt						
Interest-bearing deposits in other banks	**304,852**	**262**	**0.34**	420,903	465	0.43
Total interest-earning assets	**2,554,158**	**21,401**	**3.34%**	2,307,385	19,939	3.44%
Non interest-earning assets	**163,964**			159,210		
Allowance for loan losses	**(16,503)**			(13,920)		
Total assets	**$ 2,701,619**			$ 2,452,675		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	**$ 477,829**	**$ 390**	**0.32%**	$ 464,267	$ 610	0.52%
Savings accounts	**262,818**	**193**	**0.29**	275,797	330	0.47
Money market accounts	**586,284**	**636**	**0.43**	546,031	876	0.64
Time deposits	**521,962**	**2,512**	**1.91**	370,606	2,162	2.32
Total interest-bearing deposits	**1,848,893**	**3,731**	**0.80**	1,656,701	3,978	0.95
Securities sold under agreements to repurchase	**118,145**	**82**	**0.28**	122,028	116	0.38
Other borrowed funds and subordinated debentures	**202,599**	**1,987**	**3.89**	191,584	1,946	4.03
Total interest-bearing liabilities	**2,169,637**	**5,800**	**1.06%**	1,970,313	6,040	1.22%

Non interest-bearing liabilities Demand deposits	**342,624**			305,912		
Other liabilities	**29,866**			31,546		
Total liabilities	**2,542,127**			2,307,771		
Stockholders equity	**159,492**			144,904		
Total liabilities & stockholders equity	**$ 2,701,619**			$ 2,452,675		
Net interest income on a fully taxable equivalent basis		**15,601**			13,899	
Less taxable equivalent adjustment		**(1,763)**			(1,311)	
Net interest income		**$ 13,838**			$ 12,588	
Net interest spread (3)			**2.28%**			2.22%
Net interest margin (4)			**2.42%**			2.39%

(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.

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.

	Nine Months Ended					
	September 30, 2011			September 30, 2010		
	(In thousands)					
	Average Balance	Interest(1)	Average Yield/ Rate	Average Balance	Interest(1)	Average Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans(2)	**$ 946,905**	**$ 41,052**	**5.79%**	$ 875,759	$ 39,614	6.04%
Securities available-for-sale(5):						
Taxable	**1,015,393**	**16,943**	**2.22**	730,392	14,313	2.61
Tax-exempt	**23,062**	**244**	**1.41**	32,130	485	2.01
Securities held-to-maturity:						
Taxable	**189,100**	**4,595**	**3.24**	219,137	5,501	3.35
Tax-exempt						
Interest-bearing deposits in other banks	**305,717**	**967**	**0.42**	391,527	1,246	0.42
Total interest-earning assets	**2,480,177**	**63,801**	**3.43%**	2,248,945	61,159	3.63%
Non interest-earning assets	**157,061**			155,395		
Allowance for loan losses	**(15,517)**			(13,545)		
Total assets	**$ 2,621,721**			$ 2,390,795		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	**$ 474,432**	**$ 1,371**	**0.39%**	$ 420,217	$ 1,975	0.63%
Savings accounts	**253,806**	**652**	**0.34**	272,840	1,279	0.63
Money market accounts	**575,785**	**2,109**	**0.49**	550,412	3,189	0.77
Time deposits	**489,808**	**7,285**	**1.99**	344,036	5,746	2.23
Total interest-bearing deposits	**1,793,831**	**11,417**	**0.85**	1,587,505	12,189	1.03
Securities sold under agreements to repurchase	**121,750**	**290**	**0.32**	138,263	466	0.45
Other borrowed funds and subordinated debentures	**202,720**	**5,826**	**3.84**	201,976	6,351	4.20
Total interest-bearing liabilities	**2,118,300**	**17,533**	**1.11%**	1,927,744	19,006	1.32%

Non interest-bearing liabilities						
Demand deposits	**321,340**			291,210		
Other liabilities	**29,160**			30,922		
Total liabilities	**2,468,801**			2,249,876		
Stockholders equity	**159,920**			140,919		
Total liabilities & stockholders equity	**$ 2,621,721**			$ 2,390,795		
Net interest income on a fully taxable equivalent basis		**46,268**			42,153	
Less taxable equivalent adjustment		**(4,988)**			(3,698)	
Net interest income		**$ 41,280**			$ 38,455	
Net interest spread (3)			**2.32%**			2.31%
Net interest margin (4)			**2.49%**			2.51%

(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.

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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, 2011 Compared with Three Months Ended September 30, 2010 Increase/(Decrease) Due to Change in			Nine Months Ended September 30, 2011 Compared with Nine Months Ended September 30, 2010 Increase/(Decrease) Due to Change in		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
		(in thousands)			(in thousands)	
Interest income:						
Loans	**$ 1,297**	**$ (696)**	**$ 601**	**$ 3,128**	**(1,690)**	**$ 1,438**
Securities available-for-sale						
Taxable	**1,893**	**(430)**	**1,463**	**4,984**	**(2,354)**	**2,630**
Tax-exempt	**(63)**	**5**	**(58)**	**(117)**	**(124)**	**(241)**
Securities held-to-maturity						
Taxable	**(454)**	**113**	**(341)**	**(734)**	**(172)**	**(906)**
Interest-bearing deposits in other banks	**(112)**	**(91)**	**(203)**	**(271)**	**(8)**	**(279)**
Total interest income	**2,561**	**(1,099)**	**1,462**	**6,990**	**(4,348)**	**2,642**
Interest expense:						
Deposits:						
NOW accounts	**17**	**(237)**	**(220)**	**230**	**(834)**	**(604)**
Savings accounts	**(15)**	**(122)**	**(137)**	**(84)**	**(543)**	**(627)**
Money market accounts	**61**	**(301)**	**(240)**	**141**	**(1,221)**	**(1,080)**
Time deposits	**775**	**(425)**	**350**	**2,223**	**(684)**	**1,539**
Total interest-bearing deposits	**838**	**(1,085)**	**(247)**	**2,510**	**(3,282)**	**(772)**
Securities sold under agreements to repurchase	**(4)**	**(30)**	**(34)**	**(51)**	**(125)**	**(176)**
Other borrowed funds and subordinated debentures	**109**	**(68)**	**41**	**23**	**(548)**	**(525)**
Total interest expense	**943**	**(1,183)**	**(240)**	**2,482**	**(3,955)**	**(1,473)**
Change in net interest income	**$ 1,618**	**$ 84**	**$ 1,702**	**$ 4,508**	**$ (393)**	**$ 4,115**

Net Interest Income

For the three months ended September 30, 2011, net interest income on a fully taxable equivalent basis totaled $15.6 million compared to $13.9 million for the same period in 2010, an increase of $1.7 million or 12.2%. This increase in net interest income for the period is due to a 10.7% increase in the average balances of earning assets, combined with a similar increase in deposits, as well as an increase in the net interest margin. The net interest margin increased from 2.39% on a fully taxable equivalent basis in 2010 to 2.42% on the same basis for 2011.

For the nine months ended September 30, 2011, net interest income on a fully taxable equivalent basis totaled $46.3 million compared to $42.2 million for the same period in 2010, an increase of $4.1 million or 9.8%. This increase in net interest income for the period is due to a 10.3% increase in the average balances of earning assets, combined with a similar increase in deposits, offset somewhat by a decrease in the net interest margin. The net interest margin decreased from 2.51% on a fully taxable equivalent basis in 2010 to 2.49% on the same basis for 2011.

Provision for Loan Losses

For the three months ended September 30, 2011, the loan loss provision was $1.2 million compared to a provision of $1.2 million for the same period last year. For the nine months ended September 30, 2011, the loan loss provision was $3.6 million

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compared to a provision of $4.2 million for the same period last year for a decrease of $625,000. The decrease in the provision for the nine months ended period was primarily due to decreased provisions related to nonaccrual loans. The level of the allowance for loan losses to total loans increased from 1.55% at December 31, 2010 to 1.68% at September 30, 2011. The increase was primarily the result of decreased levels of charge-offs, an increase in the historical loss factor on construction loans, and an increase in required specific reserves associated with impaired loans.

Non-Interest Income and Expense

Other operating income for the quarter ended September 30, 2011 increased by $1.1 million to $4.5 million from $3.4 million for the same period last year. There was an increase in the gain on sales of investments of $883,000. There was also an increase in other income of $267,000 primarily as a result of a gain on the sale of one nonaccrual loan. There was also an increase in service charges on deposit accounts of $28,000 which was mainly attributable to an increase in overdraft and debit card fees. Lockbox fees decreased by $87,000 as a result of decreased customer volume.

Other operating income for the nine months ended September 30, 2011 increased by $103,000 to $11.9 million from $11.8 million for the same period last year. There was an increase from the sale of investments of $218,000.There was a decrease in service charges on deposit accounts of $24,000 which was mainly attributable to a decrease in service charges on business accounts. Lockbox fees decreased by $64,000 as a result of decreased customer volume. Other income decreased slightly by $27,000 mainly as a result of decreases in the growth of cash surrender values on life insurance policies offset by an increase in brokerage commissions as well as a gain on the sale of mortgages and a gain on the sale of one nonaccrual loan. The income related to cash surrender values decreased mainly as a result of additional earnings as a result of certain policies reaching their twenty year anniversary during the first quarter of 2010.

For the quarter ended September 30, 2011, operating expenses increased by $742,000 or 6.6% to $12.1 million, from the same period last year. The increase in operating expenses for the quarter was mainly attributable to an increase of $513,000 in salaries and employee benefits, $325,000 in other expenses and $276,000 occupancy and equipment expenses. This was offset somewhat by a decrease of $372,000 in FDIC assessments. Salaries and employee benefits increased mainly as a result of merit increases and increased staffing levels. Occupancy and equipment increased mainly as a result of costs associated with the Newton Centre branch opening during the second quarter of 2011. Other expenses increased mainly as a result of increases in marketing related expenses and legal expenses. FDIC assessments decreased mainly as a result of a decrease in the assessment rate.

For the nine months ended September 30, 2011, operating expenses increased by $563,000 or 1.6% to $36.0 million, from the same period last year. The increase in operating expenses for the nine months ended was mainly attributable to an increase of $329,000 in salaries and employee benefits, $445,000 in occupancy and equipment expenses and $352,000 in other expenses. This was offset somewhat by a decrease of $563,000 in FDIC assessments. Salaries and employee benefits increased mainly as a result of merit increases and increased staffing levels, this was offset somewhat as a result of a $916,000 charge for payments due to a former Co-CEO, in accordance with his separation agreement during the second quarter of 2010. Occupancy and equipment expenses increased mainly as a result of costs associated with the Newton Centre branch opening during the second quarter of 2011 as well as full period costs associated with opening the Coolidge Corner branch during the second quarter of 2010. Other expenses increased mainly as a result of increases in marketing related expenses and legal expenses. FDIC assessments decreased mainly as a result of a decrease in the assessment rate.

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Income Taxes

For the third quarter of 2011, the Company s income tax expense totaled $504,000 on pretax income of $5.1 million resulting in an effective tax rate of 9.9%. For last year s corresponding quarter, the Company s income tax expense totaled $220,000 on pretax income of $3.5 million resulting in an effective tax rate of 6.3%. For the nine months ended September 30, 2011, the Company s income tax expense totaled $1.0 million on pretax income of $13.5 million resulting in an effective tax rate of 7.5%. For last year s corresponding period, the Company s income tax expense totaled $879,000 on pretax income of $10.5 million resulting in an effective tax rate of 8.3%. The effective income tax rate increased for the current quarter mainly as a result of an increase in taxable income. The effective income tax rate decreased for the nine months ended mainly as a result of an increase in tax exempt income as a percentage of taxable income compared to the same period 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, 2010, 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 third quarter of 2011 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, 2010. 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)
July 1 July 31, 2011		$		300,000
August 1 August 31, 2011		$		300,000
September 1 September 30, 2011		$		300,000

(1) On July 12, 2011, 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

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.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF*	XBRL Taxonomy Definition Linkbase.

\+ 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.

* As provided in Rule 406T of Regulation S-T, this information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

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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 7, 2011 **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)