

CENTURY BANCORP INC

Form 10-Q

November 06, 2009

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

(Mark One)

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

For the quarterly period ended September 30, 2009.

or

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

Yes No

As of October 31, 2009, the Registrant had outstanding:

Class A Common Stock, \$1.00 par value

3,514,267 Shares

Class B Common Stock, \$1.00 par value

2,016,030 Shares

Century Bancorp, Inc.

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

	September 30, 2009	December 31, 2008
Assets		
Cash and due from banks	\$ 45,366	\$ 61,195
Federal funds sold and interest-bearing deposits in other banks	156,283	94,973
Total cash and cash equivalents	201,649	156,168
Short-term investments	69,013	43,814
Securities available-for-sale, amortized cost \$639,043 and \$496,046, respectively	646,906	495,585
Securities held-to-maturity, market value \$182,110 and \$185,433, respectively	177,006	184,047
Federal Home Loan Bank of Boston stock, at cost	15,531	15,531
Loans, net:		
Commercial and industrial	133,497	141,373
Construction and land development	62,406	59,511
Commercial real estate	361,856	332,325
Residential real estate	193,590	194,644
Home equity	115,884	98,954
Consumer and other	7,806	9,258
Total loans, net	875,039	836,065
Less: allowance for loan losses	14,216	11,119
Net loans	860,823	824,946
Bank premises and equipment	20,932	22,054
Accrued interest receivable	6,546	6,723
Goodwill	2,714	2,714
Core deposit intangible	993	1,283
Other assets	49,134	48,701
Total assets	\$ 2,051,247	\$ 1,801,566

Liabilities

Deposits:

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Demand deposits	\$ 277,667	\$ 277,217
Savings and NOW deposits	547,770	353,261
Money market accounts	402,632	308,177
Time deposits	304,778	326,872
Total deposits	1,532,847	1,265,527
Securities sold under agreements to repurchase	91,210	112,510
Other borrowed funds	205,449	238,558
Subordinated debentures	36,083	36,083
Investment purchases payable	25,000	
Other liabilities	29,505	28,385
Total liabilities	1,920,094	1,681,063

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 3,514,267 shares and 3,511,307 shares, respectively	3,514	3,511
Class B common stock, \$1.00 par value per share; authorized 5,000,000 shares; issued 2,016,030 and 2,027,100 shares, respectively	2,016	2,027
Additional paid-in capital	11,376	11,475
Retained earnings	117,583	112,135
	134,489	129,148
Unrealized gains (losses) on securities available-for-sale, net of taxes	4,648	(292)
Additional pension liability, net of taxes	(7,984)	(8,353)
Total accumulated other comprehensive loss, net of taxes	(3,336)	(8,645)
Total stockholders equity	131,153	120,503
Total liabilities and stockholders equity	\$ 2,051,247	\$ 1,801,566

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		Nine months ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Interest income				
Loans	\$ 12,118	\$ 12,583	\$ 35,933	\$ 36,727
Securities held-to-maturity	1,927	2,191	6,330	6,190
Securities available-for-sale	5,486	5,563	15,740	14,699
Federal funds sold and interest-bearing deposits in other banks	506	554	1,811	2,507
Total interest income	20,037	20,891	59,814	60,123
Interest expense				
Savings and NOW deposits	1,139	1,524	3,872	4,596
Money market accounts	1,266	2,061	4,919	5,480
Time deposits	2,297	2,155	7,465	7,342
Securities sold under agreements to repurchase	98	330	423	1,205
Other borrowed funds and subordinated debentures	2,563	2,862	7,707	8,653
Total interest expense	7,363	8,932	24,386	27,276
Net interest income	12,674	11,959	35,428	32,847
Provision for loan losses	1,250	1,350	4,150	2,975
Net interest income after provision for loan losses	11,424	10,609	31,278	29,872
Other operating income				
Service charges on deposit accounts	2,032	2,032	6,060	6,041
Lockbox fees	660	700	2,154	2,299
Net gain on sales of investments	137	147	1,115	249
Write-down of certain investments to fair value		(76)		(76)
Other income	570	774	2,280	1,963
Total other operating income	3,399	3,577	11,609	10,476
Operating expenses				

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Salaries and employee benefits	6,753	6,438	20,182	19,043
Occupancy	931	1,010	3,071	3,153
Equipment	544	727	1,826	2,199
FDIC assessments	638	212	2,754	390
Other	2,362	2,664	7,128	7,393
Total operating expenses	11,228	11,051	34,961	32,178
Income before income taxes	3,595	3,135	7,926	8,170
Provision for income taxes	413	576	851	1,935
Net income	\$ 3,182	\$ 2,559	\$ 7,075	\$ 6,235

Share data:

Weighted average number of shares outstanding, basic	5,530,297	5,541,345	5,532,907	5,542,971
Weighted average number of shares outstanding, diluted	5,533,622	5,542,404	5,534,364	5,545,138
Net income per share, basic	\$ 0.58	\$ 0.46	\$ 1.28	\$ 1.12
Net income per share, diluted	\$ 0.58	\$ 0.46	\$ 1.28	\$ 1.12
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, 2009 and 2008

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
				(In thousands)		
Balance at December 31, 2007	\$ 3,517	\$ 2,027	\$ 11,553	\$ 105,550	\$ (3,841)	\$ 118,806
Net income				6,235		6,235
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of \$519 in taxes and \$249 in realized net gains					(887)	(887)
Pension liability adjustment, net of \$44 in taxes					95	95
Comprehensive income						5,443
Effects of changing pension plans measurement date, net of \$177 in taxes				(287)	31	(256)
Stock repurchased, 3,097 shares	(3)		(46)			(49)
Cash dividends paid, Class A common stock, \$.36 per share				(1,265)		(1,265)
Cash dividends paid, Class B common stock, \$.18 per share				(365)		(365)
Balance at September 30, 2008	\$ 3,514	\$ 2,027	\$ 11,507	\$ 109,868	\$ (4,602)	\$ 122,314
Balance at December 31, 2008	\$ 3,511	\$ 2,027	\$ 11,475	\$ 112,135	\$ (8,645)	\$ 120,503
Net income				7,075		7,075
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of \$3,384 in taxes and					4,940	4,940

\$1,115 in realized net gains							
Pension liability adjustment, net of \$245 in taxes						369	369
Comprehensive income							12,384
Conversion of class B common stock to class A common stock, 10,800 shares	11	(11)					
Stock repurchased, 8,110 shares	(8)		(99)				(107)
Cash dividends paid, Class A common stock, \$.36 per share					(1,262)		(1,262)
Cash dividends paid, Class B common stock, \$.18 per share					(365)		(365)
Balance at September 30, 2009	\$ 3,514	\$ 2,016	\$ 11,376	\$ 117,583	\$ (3,336)	\$ 131,153	

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,	
	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 7,075	\$ 6,235
Adjustments to reconcile net income to net cash provided by operating activities:		
Mortgage loans originated for sale	(374)	(512)
Proceeds from mortgage loans sold	379	515
Net gain on sales of loans	(5)	(3)
Net gain on sales of investments	(1,115)	(249)
Writedown of certain investments to fair value		76
Provision for loan losses	4,150	2,975
Deferred income taxes	(1,346)	(416)
Net depreciation and amortization	4,553	2,483
Decrease (increase) in accrued interest receivable	177	(529)
Increase in other assets	(2,775)	(2,477)
Increase in other liabilities	1,771	1,348
 Net cash provided by operating activities	 12,490	 9,446
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	159,168	
Purchase of short-term investments	(184,367)	
Proceeds from maturities of securities available-for-sale	235,521	225,596
Proceeds from sales of securities available-for-sale	46,044	151,742
Purchase of securities available-for-sale	(400,429)	(513,279)
Proceeds from maturities of securities held-to-maturity	74,339	81,509
Purchase of securities held-to-maturity	(67,818)	(91,431)
Loan acquired, net of discount		(4,099)
Net increase in loans	(39,991)	(73,957)
Capital expenditures	(653)	(2,537)
 Net cash used in investing activities	 (178,186)	 (226,456)
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in time deposits	(22,094)	(2,318)
Net increase in demand, savings, money market and NOW deposits	289,414	110,187
Net payments for the repurchase of stock	(107)	(49)
Cash dividends	(1,627)	(1,630)
Net decrease in securities sold under agreements to repurchase	(21,300)	(1,685)
Net decrease in other borrowed funds	(33,109)	(46,308)

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Net cash provided by financing activities	211,177	58,197
Net decrease in cash and cash equivalents	45,481	(158,813)
Cash and cash equivalents at beginning of period	156,168	299,901
Cash and cash equivalents at end of period	\$ 201,649	\$ 141,088

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 24,760	\$ 32,960
Income taxes	1,883	2,313
Change in unrealized (losses) gains on securities available-for-sale, net of taxes	4,940	(887)
Pension liability adjustment, net of taxes	369	95
Effects of changing pension plans measurement date, net of taxes		(256)
Due to broker	25,000	
Transfers of loans to other real estate owned		329

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.
Notes to Unaudited Consolidated Interim Financial Statements
Three and Nine Months Ended September 30, 2009 and 2008

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). CBCT II is an unconsolidated subsidiary of the Company.

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

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and to general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The Company's Quarterly report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008, as filed with the Securities and Exchange Commission.

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

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

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Note 2. Recent Market Developments

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

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

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. The EESA authorizes the U.S. Treasury to, among other things, purchase up to \$700 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The Company does not expect to participate in the sale of any of our assets into these programs. EESA, as amended, also increases the FDIC deposit insurance limit from \$100,000 to \$250,000 through December 31, 2013.

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

On October 14, 2008, the U. S. Treasury and the FDIC jointly announced a new program, known as the Temporary Liquidity Guarantee Program (TLGP), to strengthen confidence and encourage liquidity in the nation's banking system. The TLGP consists of two programs: the Debt Guarantee Program (DGP) and the Transaction Account Guarantee Program (TAGP). Under the DGP, as amended, the FDIC will guarantee certain newly issued senior unsecured debt of participating banks, thrifts and certain holding companies issued from October 14, 2008 through October 31, 2009, which debt matures on or prior to December 31, 2012, up to a fixed maximum amount

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per participant. In addition, under the TAGP, the FDIC will fully guarantee deposits in noninterest bearing transaction accounts without dollar limitation through December 31, 2009. Institutions opting to participate in the DGP will be charged a 50-, 75- or 100-basis point fee (depending on maturity) for the guarantee of eligible debt, and a 10-basis point assessment will be applicable to deposits in noninterest bearing transaction accounts at institutions participating in the TAGP that exceed the existing deposit insurance limit of \$250,000. The Company opted to participate in both the DGP and the TAGP. The TAGP has been extended through June 30, 2010. The annual assessment rate that will apply during the extension period will be either 15, 20 or 25 basis points, depending on the risk category assigned to the institution under the FDIC's risk-based premium system.

On May 22, 2009, the FDIC announced a special assessment on insured institutions as part of its efforts to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The special assessment is five basis points of each FDIC-insured depository institution's assets minus Tier 1 capital, as of June 30, 2009. The Company recorded a pre-tax charge of approximately \$1.0 million in the second quarter of 2009 in connection with the special assessment. On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking (NPR) that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period from seven to eight years.

Note 3. Stock Option Accounting

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

	September 30, 2009	
	Amount	Weighted Average Exercise Price
Shares under option:		
Outstanding at beginning of year	81,037	\$ 27.42
Cancelled	(400)	27.57
Outstanding at end of period	80,637	\$ 27.42
Exercisable at end of period	80,637	\$ 27.42
Available to be granted at end of period	190,909	

On September 30, 2009, the outstanding options to purchase 80,637 shares of Class A common stock have exercise prices between \$15.06 and \$35.01, with a weighted average exercise price of \$27.42 and a weighted average remaining contractual life of 3.0 years. The intrinsic value of options exercisable at September 30, 2009 had an aggregate value of \$70,600.

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 2009.

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	September 30, 2009				December 31, 2008			
	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	\$ 1,998	\$ 8	\$	\$ 2,006	\$ 1,999	\$ 29	\$	\$ 2,028
U.S. Government Sponsored Enterprises	134,806	628	38	135,396	159,100	2,216	24	161,292
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	445,368	11,042	402	456,008	259,264	2,427	1,559	260,132
Privately Issued Residential Mortgage Backed Securities	5,785		437	5,348	7,539		1,880	5,659
Privately Issued Commercial Mortgage Backed Securities	709	9		718	3,433		66	3,367
Obligations Issued by States and Political Subdivisions	46,785	145	2,886	44,044	61,532	38	1,311	60,259
Other Debt Securities	2,550		32	2,518	2,200		100	2,100
Equity Securities	1,042	75	249	868	979	73	304	748
Total	\$ 639,043	\$ 11,907	\$ 4,044	\$ 646,906	\$ 496,046	\$ 4,783	\$ 5,244	\$ 495,585

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 \$224,018,000 and \$113,259,000 at September 30, 2009 and December 31, 2008, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$210,398,000 and \$244,409,000 at September 30, 2009 and December 31, 2008 respectively. The Company realized gross gains of \$1,115,000 from the proceeds of \$46,044,000 from the sales of available-for-sale securities for the nine months ended September 30, 2009.

Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac. Control of these enterprises was directly taken over by the U.S. Government in the 3rd quarter of 2008. The following table shows the maturity distribution of the Company's securities available-for-sale at September 30, 2009.

Amortized Cost	Fair Value
-------------------	---------------

	(In thousands)	
Within one year	\$ 24,478	\$ 24,938
After one but within five years	476,900	486,341
After five but within ten years	102,696	103,415
More than 10 years	32,427	29,876
Non-maturing	2,542	2,336
 Total	 \$ 639,043	 \$ 646,906

The weighted average remaining life of investment securities available-for-sale at September 30, 2009 was 4.2 years. Excluding auction rate municipal obligations (ARSs) and variable rate demand notes (VRDNs), which have maturities up to 30 years, but reprice more frequently, the estimated average remaining life is 3.3 years at September 30, 2009. ARSs and VRDNs are included in Obligations Issued by States and Political Subdivisions. Included in the weighted average remaining life calculation at September 30, 2009 was \$99,806,000 of U.S. Government Sponsored Enterprise obligations that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life. The contractual maturities,

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which were used in the table above, of mortgage-backed securities will differ from the actual maturities, due to the ability of the issuers to prepay underlying obligations. The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at September 30, 2009. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 15 and 18 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 274 holdings at September 30, 2009.

As of September 30, 2009, management has concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade. The change in the unrealized losses on the state and municipal securities and the nonagency mortgage-backed securities were primarily caused by changes in credit spreads and liquidity issues in the marketplace.

In evaluating the underlying credit quality of a security, management considers several factors such as the credit rating of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary. In the case of privately issued mortgage-backed securities, the performance of the underlying loans is analyzed as deemed necessary to determine the estimated future cash flows of the securities. Factors considered include the level of subordination, current and estimated future default rates, current and estimated prepayment rates, estimated loss severity rates, geographic concentrates 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.

	Less than 12 months		September 30, 2009		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments*						
U.S. Government Sponsored Enterprises	\$ 17,960	\$ 38	\$	\$	\$ 17,960	\$ 38
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	21,264	126	19,254	276	40,518	402
Privately Issued Residential Mortgage Backed Securities			5,348	437	5,348	437
Privately Issued Commercial Mortgage Backed Securities						
Obligations Issued by States and Political Subdivisions	9,484	1,628	5,916	1,258	15,400	2,886
Other Debt Securities			1,468	32	1,468	32
Equity Securities	26	5	418	244	444	249

Total temporarily impaired securities	\$ 48,734	\$ 1,797	\$ 32,404	\$ 2,247	\$ 81,138	\$ 4,044
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* At September 30, 2009, the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. The unrealized losses on Obligations Issued by States and Political Subdivisions were considered by management to be temporary in nature. Full collection of those debt securities is expected because the financial condition of the obligors is considered to be sound, there has been no default in scheduled payment and the debt securities are rated investment grade. The unrealized loss on U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprises Mortgage Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be

other-than-temporarily impaired at September 30, 2009. Excluded from the table above are two equity securities that were written down by \$76,000. The fair value is \$118,000 with an unrealized gain of \$9,000. These stocks were deemed to be other than temporarily impaired based on the extent of the decline in value and the length of time the stocks had been trading below cost.

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The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2008. 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 44 and 17 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 260 holdings at December 31, 2008. The Company believes that the investments are temporarily impaired.

	Less than 12 months		December 31, 2008 12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments*						
U.S. Government Sponsored Enterprises	\$ 4,976	\$ 24	\$	\$	\$ 4,976	\$ 24
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	80,873	1,351	15,793	208	96,666	1,559
Privately Issued Residential Mortgage Backed Securities	1,716	569	5,455	1,320	7,171	1,889
Privately Issued Commercial Mortgage Backed Securities			1,855	57	1,855	57
Obligations Issued by States and Political Subdivisions	13,645	1,311			13,645	1,311
Other Debt Securities	100	1	150	1	250	2
Equity Securities	382	265	1,419	124	1,801	389
Total temporarily impaired securities	\$ 101,692	\$ 3,521	\$ 24,672	\$ 1,710	\$ 126,364	\$ 5,231

* The decline in fair value is attributable to change in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company

does not consider these investments to be other-than-temporarily impaired at December 31, 2008. Excluded from the table above are two equity securities that were written down by \$76,000. The fair value is \$96,000 with an unrealized loss of \$13,000. These stocks were deemed to be other than temporarily impaired based on the extent of the decline in value and the length of time the stocks had been trading below cost.

Note 5. Investment Securities Held-to-Maturity

	September 30, 2009			Fair Value (In thousands)	December 31, 2008			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
U.S. Government Sponsored Enterprises	\$ 17,600	\$ 132	\$	\$ 17,732	\$ 44,000	\$ 506	\$	\$ 44,506
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	159,406	4,987	15	164,378	140,047	1,314	434	140,927
Total	\$ 177,006	\$ 5,119	\$ 15	\$ 182,110	\$ 184,047	\$ 1,820	\$ 434	\$ 185,433

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to \$13,000,000 and \$35,000,000 at September 30, 2009 and December 31, 2008, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank at fair value amounting to \$128,729,000 and \$114,103,000 at September 30, 2009 and December 31, 2008, respectively. At September 30, 2009 and December 31, 2008, 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. Control of these enterprises was directly taken over by the U.S. Government in the 3rd quarter of 2008.

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The following table shows the maturity distribution of the Company's securities held-to-maturity at September 30, 2009.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	\$ 6,917	\$ 6,957
After one but within five years	165,627	170,628
After five but within ten years	4,462	4,525
Total	\$ 177,006	\$ 182,110

The weighted average remaining life of investment securities held-to-maturity at September 30, 2009 was 2.6 years. Included in the weighted average remaining life calculation at September 30, 2009 were \$9,000,000 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, 2009. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 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 86 holdings at September 30, 2009.

As of September 30, 2009, management has concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell this debt security and it is not likely that it will be required to sell this debt security before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on this security are from an issuer that is investment grade. In evaluating the underlying credit quality of a security, management considers several factors such as the credit notary of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary.

	Less Than 12 Months		September 30, 2009		Total	
	Fair Value	Unrealized Losses	12 Months or Longer	Unrealized	Fair Value	Unrealized Losses
			Fair Value	Losses		
	(In thousands)					
Temporarily Impaired Investments*						
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	\$ 4,297	\$ 15	\$	\$	\$ 4,297	\$ 15
Total temporarily impaired securities	\$ 4,297	\$ 15	\$	\$	\$ 4,297	\$ 15

*

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 this security and it is not likely that it will be required to sell this security before the anticipated recovery of the remaining amortized cost, the Company does not consider this investment to be other-than-temporarily impaired at September 30, 2009.

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2008. 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 9 and 12

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securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 80 holdings at December 31, 2008.

	Less Than 12 Months		December 31, 2008		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments*						
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	\$ 12,995	\$ 111	\$ 19,821	\$ 323	\$ 32,816	\$ 434
Total temporarily impaired securities	\$ 12,995	\$ 111	\$ 19,821	\$ 323	\$ 32,816	\$ 434

* The unrealized loss on U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Note 6. Employee Benefits

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

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

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

Components of Net Periodic Benefit Cost for the Three Months Ended September 30.

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2009	2008	2009	2008
	(In thousands)			
Service cost	\$ 196	\$ 205	\$ 113	\$ 28
Interest	308	287	233	193
Expected return on plan assets	(281)	(333)		
Recognized prior service cost (benefit)	(29)	(29)	27	16
Recognized net actuarial losses	171	53	35	13
Net periodic benefit cost	\$ 365	\$ 183	\$ 408	\$ 250

Table of Contents**Components of Net Periodic Benefit Cost for the Nine Months Ended September 30.**

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2009	2008	2009	2008
	(In thousands)			
Service cost	\$ 588	\$ 615	\$ 339	\$ 84
Interest	924	861	699	580
Expected return on plan assets	(843)	(999)		
Recognized prior service cost (benefit)	(87)	(87)	81	48
Recognized net actuarial losses	514	159	106	39
Net periodic benefit cost	\$ 1,096	\$ 549	\$ 1,225	\$ 751

Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2008 that it expected to contribute \$1,275,000 to the Pension Plan in 2009. As of September 30, 2009, \$956,000 of the contribution had been made. The Company expects to contribute an additional \$319,000 by the end of the year.

Effective December 31, 2006, the Company adopted FASB Accounting Standards Codification (ASC) 715-30, *Defined Benefit Plans-Pension* (formerly SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106, and 132(R)*,) which requires the Company to recognize the overfunded or underfunded status of a single employer defined benefit pension or postretirement plan as an asset or liability on its balance sheet and to recognize changes in the funded status in comprehensive income in the year in which the change occurred. However, gains or losses, prior service costs or credits, and transition assets or obligations that had not yet been included in net periodic benefit cost as of the end of 2006, the fiscal year in which the Statement was initially applied were to be recognized as components of the ending balance of accumulated other comprehensive income, net of tax. During 2006, the Company recorded an additional \$2,158,000 pension liability adjustment, net of tax, through stockholders equity, as a result of the adoption. The Company recognized \$368,000, net of tax during the first nine months of 2009, as amortization of amounts previously recognized in accumulated other comprehensive income.

SFAS 158 also requires the Company to measure plan assets and benefit obligations as of the date of the Company s fiscal year end effective for fiscal years ending after December 15, 2008. As a result of the change in the measurement date, the Company recorded an additional \$433,000 pension liability adjustment as of January 1, 2008.

Note 7. Fair Value Measurements

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, (formerly SFAS 157, *Fair Value Measurements*,) which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. The principles were effective for fiscal years beginning after November 15, 2007. The effective date for nonfinancial assets and nonfinancial liabilities was delayed, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. These elements were adopted on January 1, 2009. 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:

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Level I Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The type of financial instruments included in Level I are highly liquid cash instruments with quoted prices such as G-7 government, agency securities, listed equities and money market securities, as well as listed derivative instruments.

Level II Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments include cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Instruments which are generally included in this category are corporate bonds and loans, mortgage whole loans, municipal bonds and OTC derivatives.

Level III Instruments that have little to no pricing observability as of the reported date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Instruments that are included in this category generally include certain commercial mortgage loans, certain private equity investments, distressed debt, non-investment grade residual interests in securitizations, as well as certain highly structured OTC derivative contracts.

The results of the fair value hierarchy as of September 30, 2009 are as follows:

Financial Instruments Measured at Fair Value on a Recurring Basis:

Securities AFS :

	Carrying Value	Fair Value Measurements Using		
		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 and Agency	\$ 2,006	\$	\$ 2,006	\$
U.S. Government Sponsored Enterprises	135,396		135,396	
U.S. Government Agency and Sponsored Mortgage Backed Securities	456,008		456,009	
Privately Issued Residential Mortgage Backed Securities	5,348		5,347	
Privately Issued Commercial Mortgage Backed Securities	718		718	
Obligations Issued by States and Political Subdivisions	44,044		22,973	21,071
Other Debt Securities	2,518		2,518	
Equity Securities	868	634		234
Total	\$ 646,906	\$ 634	\$ 624,967	\$ 21,305

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

Impaired Loans	9,860	1,356	8,504
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Impaired loan balances in the table above represent those collateral dependent loans where management has estimated the credit loss by comparing the loan s carrying

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value against the expected realizable fair value of the collateral. Specific provisions relates to impaired loans recognized for the three and nine month periods ended September 30, 2009 for the estimated credit loss amounted to \$716,000 and \$2.7 million, respectively. There was an \$8.5 million reclassification of impaired loans to Level 3 during the third quarter of 2009 due to the lack of an active real estate market for the loans in this category. The Company uses discounts to appraisals based on management's observations of the local real estate market for loans in this category.

The changes in Level 3 securities for the nine month period ended September 30, 2009 are shown in the table below:

	(In thousands)			
	Auction Rate Securities	Political Subdivisions	Equity Securities	Total
Balance at December 31, 2008	\$	\$ 3,300	\$ 170	\$ 3,470
Purchases		5,838	64	5,902
Maturities	(5,000)	(3,467)		(8,467)
Reclassification	21,061			21,061
Change in fair value	(661)			(661)
Balance at September 30, 2009	\$ 15,400	\$ 5,671	\$ 234	\$ 21,305

The changes in Level 3 securities for the nine month period ended September 30, 2008 are shown in the table below:

	Auction Rate Securities	Political Subdivisions	Equity Securities	Total
Balance at December 31, 2007	\$	\$	\$	\$
Purchases		3,391	29	3,420
Maturities		(1,912)	(12)	(1,924)
Reclassification		753	153	906
Change in fair value				
Balance at September 30, 2008	\$	\$ 2,232	\$ 170	\$ 2,402

There was a \$21.1 million reclassification of failed auction rate securities to Level 3 during the first quarter of 2009 due to the lack of an active market. The amortized cost of Level 3 securities was \$24.2 million with an unrealized loss of \$2.9 million. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

Note 8. Fair Values of Financial Instruments

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

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

Cash and Cash Equivalents

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

Short-term Investments

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

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

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

Securities available-for-sale totaling \$21.3 million, or 1.04% of assets are classified as Level 3. These securities are generally failed auction rate securities, equity investments or obligations of states and political subdivisions with no readily determinable fair value. Failed auction rate securities were reclassified to level 3 during the first quarter of 2009 due to the lack of an active market. Fair values for Level 3 securities are generally arrived at based upon a review of market trades, if any, as well as an analysis of the security based upon market liquidity and prevailing market interest rates.

Loans

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

Accrued Interest Receivable and Payable

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

Deposits

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

Table of Contents**Repurchase Agreements and Other Borrowed Funds**

The fair value of repurchase agreements and other borrowed funds is based on the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for other borrowed funds of similar remaining maturities.

Subordinated Debentures

The fair value of subordinated debentures is based on the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for other subordinated debentures of similar remaining maturities.

Off-Balance Sheets Instruments

The fair values of the Company's unused lines of credit and unadvanced portions of construction loans, commitments to originate and sell loans and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The carrying amounts and fair values of the Company's financial instruments are as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	\$ 201,649	\$ 201,649	\$ 156,168	\$ 156,168
Short-term investments	69,013	69,274	43,814	43,978
Securities available-for-sale	646,906	646,906	495,585	495,585
Securities held-to-maturity	177,006	182,110	184,047	185,433
Net loans	860,823	880,439	824,946	837,064
Accrued interest receivable	6,546	6,546	6,723	6,723
Financial liabilities:				
Deposits	1,532,847	1,537,996	1,265,527	1,271,404
Repurchase agreement and other borrowed funds	296,659	301,499	351,068	357,927
Subordinated debentures	36,083	38,720	36,083	41,908
Accrued interest payable	1,114	1,114	1,488	1,488
Standby letters of credit		75		117

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

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

Note 9. Recent Accounting Developments

FASB ASC 320-10, *Investments-Debt and Equity Securities* (formerly FASB Staff Position FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*). On April 9, 2009, the FASB issued FASB ASC 320-10 which is intended to provide greater clarity to investors about the credit and noncredit component of an OTTI event and to more effectively communicate when an OTTI event has occurred. The FSP applies to debt securities and requires that the total OTTI be presented in the statement of income with an offset for the amount of impairment that is recognized in other comprehensive income, which is the noncredit component. Noncredit component losses are to be recorded in other comprehensive income if an investor can assess that (a) it does not have the intent to sell or (b) it is more likely than not that it will have to sell the security prior to its anticipated recovery. The Company adopted FASB ASC 320-10 as of April 1, 2009. The adoption did not have a material effect on the Company's consolidated financial statements.

FASB ASC 820-10, *Fair Value Measurements and Disclosures-Overall* (formerly FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*). On April 9, 2009, FASB issued FASB ASC 820 which provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements. The FSP will be applied prospectively and retrospective application will not be permitted. The Company adopted FASB ASC 820 as of April 1, 2009. The adoption did not have a material effect on the Company's consolidated financial statements.

FASB ASC 805, *Business Combinations* (formerly Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations*) and FASB ASC 810, *Consolidation* (formerly Statement of Financial Accounting Standards No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51*). In December 2007, the FASB issued FASB ASC 805 and FASB ASC 810. These statements require significant changes in the accounting and reporting for business acquisitions and the reporting of noncontrolling interests in subsidiaries. Among many changes under FASB ASC 805, an acquirer will record 100% of all assets and liabilities at fair value for partial acquisitions, contingent consideration will be recognized at fair value at the acquisition date with changes possibly recognized in earnings, and acquisition related costs will be expensed rather than capitalized. FASB ASC 810 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary. Key changes under the standard are that noncontrolling interests in a subsidiary will be reported as part of equity, losses allocated to a noncontrolling interest can result in a deficit balance, and changes in ownership interests that do not result in a change of control are accounted for as equity transactions and, upon a loss of control, gain or loss is recognized and the remaining interest is remeasured at fair value on the date control is lost. FASB ASC 805 applies prospectively to business combinations for which the acquisition is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The effective date for applying FASB ASC 810 is also the first annual reporting period beginning on or after December 15, 2008. Adoption of these statements will affect the Company's accounting for any business acquisitions occurring after the effective date and the reporting of any noncontrolling interests in subsidiaries existing on or after the effective date.

FASB ASC 350 *Intangibles-Goodwill and Other* (formerly FSP FAS 142-3, *Determination of the Useful Life of Intangible Assets*). In April 2008, the FASB issued FASB ASC 350. This FSP amends the factors that should be considered in

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developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. These principles are effective for fiscal years beginning on or after December 15, 2008, and interim periods within those years. Early application is not permitted. The Company has determined that the impact of the adoption of FASB ASC 350 to the Company's statement of financial position or results of operations is immaterial.

FASB ASC 260-10 *Earnings per Share- Overall* (formerly FSP EITF 03-6-01, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.*) In June 2008, the FASB issued FASB ASC 260-10-55, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities.* FASB ASC 260-10-55 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method. The guidance applies to the calculation of EPS for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FASB 260-10-55 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings and selected financial data) to conform with these provisions. Early application is not permitted. The Company has determined that the impact of the adoption of FASB ASC 260-10-55 to the Company's statement of financial position or results of operations is immaterial.

FASB ASC 715-20 *Defined Benefit Plans-General* (formerly FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets.*) In December 2008, the FASB issued FASB ASC 715-30-50, *Employers' Disclosures about Postretirement Benefit Plan Assets.* FASB ASC 715-30-50 requires disclosure of additional information about investment allocation, fair values of major asset categories of assets, the development of fair value measurements, and concentrations of risk. FASB ASC 715-30-50 is effective for fiscal years ending after December 15, 2009; however, earlier application is permitted. The Company will adopt the FSP upon its effective date and will report the required disclosures in our Form 10-K for the period ending December 31, 2009.

FASB ASC 825-10-50 *Financial Instruments-Overall-Disclosure* and FASB ASC 270-10-05 *Interim Reporting-Overall- Disclosure* (formerly FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments.*) These standards requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. These standards, which becomes effective for interim reporting periods ending after June 15, 2009, allows early adoption for periods ending after March 15, 2009, only if a company also elects to early adopt. The Company adopted these standards for the period ended June 30, 2009.

On June 30, 2009, the Company adopted FASB ASC 855 *Subsequent Events* (formerly Statement of Financial Accounting Standards No. 165, *Subsequent Events*). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, FASB ASC 855 defines: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements,

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and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Management has reviewed events occurring through November 6, 2009, the date the financial statements were issued and no subsequent events occurred requiring accrual or disclosure.

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

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

ASC 105 *Generally Accepted Accounting Principles* (formerly Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162). The codification will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all previously-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. ASC 105 has not had a material impact on our financial statements.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Forward Looking Statements

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

Executive Overview

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company formed in 1969. The Company had total assets of approximately \$2.1 billion as of September 30, 2009. The Company presently operates 22 banking offices in 16 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank's customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

On August 17, 2007, the Company sold the building which houses one of its branches located at 55 High Street, Medford, Massachusetts for \$1.5 million at market terms. The Bank relocated this branch to 1 Salem Street (formerly 3 Salem Street), Medford, Massachusetts. This sale resulted in a gain of \$1,321,000. The branch opened on May 5, 2008.

During 2008, the Company entered into a lease agreement to open a branch located on Main Street in Winchester, Massachusetts. The branch opened during October 2008.

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

During August 2009, the Company entered into a lease agreement to open a branch located at Coolidge Corner in Brookline, Massachusetts. The branch is scheduled to open during February 2010.

The Company's results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the 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 its division, Investment Services at Century Bank, in conjunction with Linsco/Private Ledger Corp. (LPL), an unaffiliated registered securities broker-dealer and investment advisor. 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 48% of the 351 cities and towns in Massachusetts.

Earnings for the third quarter ended September 30, 2009 were \$3,182,000, or \$0.58 per share diluted, compared to net income of \$2,559,000, or \$0.46 per share diluted, for the third quarter ended September 30, 2008. For the first nine months of 2009, net income totaled \$7,075,000, or \$1.28 per share diluted, an increase of 13.5% when compared to net income of \$6,235,000, or \$1.12 per share diluted, for the same period a year ago.

On May 22, 2009, the FDIC announced a special assessment on insured institutions as part of its efforts to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The special assessment is five basis points of each FDIC-insured depository institution's assets minus Tier 1 capital, as of June 30, 2009. The Company recorded a pre-tax charge of approximately \$1.0 million in the second quarter of 2009 in connection with the special assessment. Also, the FDIC assessment increased by an additional \$1.4 million for the first nine months of 2009 compared to the same period last year primarily as a result of an increase in the deposit assessment rate, an increase in deposit balances and the usage of a one-time credit during 2008.

Net interest income totaled \$35.4 million for the first nine months of 2009 compared to \$32.8 million for 2008. The 7.9% increase in net interest income for the period is mainly due to a 21.2% increase in the average balances of earning assets, combined with a similar increase in deposits. The increased volume was somewhat offset by a decrease of twenty-six basis points in the net interest margin. The net interest margin decreased from 2.94% on a fully taxable equivalent basis in 2008 to 2.68% on the same basis for 2009.

Throughout 2007 and 2008, the Company had seen improvement in its net interest margin, however, the first quarter of 2009 reflects a decrease in the net interest margin

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with a modest increase during the second quarter and third quarter of 2009 as illustrated in the graph below:

The primary factors accounting for the increase in the net interest margin for 2007 and 2008 are:

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

 an increase in average loans outstanding during 2008,

 the maturity of lower-yielding investment securities,

 an increase in the slope of the yield curve,

 an increase in the loan yield due to an increase in prepayment fees, particularly in the second quarter of 2007, and

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

The primary factor accounting for the decrease in the net interest margin for the first quarter of 2009 was a large influx of deposits, primarily from municipalities, and a corresponding increase in short-term investments. The Company is continuing to deploy these funds in higher yielding assets and the net interest margin has improved accordingly. The cost of funds has also declined from the first quarter of 2009 to the third quarter of 2009.

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, 2009, the loan loss provision was \$1.3 million compared to a provision of \$1.4 million for the same period last year for a decrease of \$100,000. For the nine months ended September 30, 2009, the loan loss provision was \$4.2 million compared to a provision of \$3.0 million for the same period last year for an increase of \$1.2 million. The increase in the provision was due to an increase in nonperforming loans as well as deterioration in the economy in Company's market area. Nonperforming loans increased to \$17.0 million at September 30, 2009 from \$3.7 million on December 31, 2008.

For the third quarter of 2009, the Company's effective income tax was 11.5% compared to 18.4% for last year's corresponding quarter. For the first nine months of 2009, the Company's effective income tax was 10.7% compared to 23.7% for last year's corresponding period. The effective income tax rate decreased for both periods primarily as a result of increased levels of tax-exempt income.

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Financial Condition

Loans

On September 30, 2009, total loans outstanding, net, were \$875.0 million, an increase of 4.7% from the total on December 31, 2008. At September 30, 2009, commercial real estate loans accounted for 41.4% and residential real estate loans, including home equity loans, accounted for 35.4% of total loans.

Commercial and industrial loans decreased to \$133.5 million at September 30, 2009 from \$141.4 million on December 31, 2008. Construction loans increased to \$62.4 million at September 30, 2009 from \$59.5 million on December 31, 2008.

Allowance for Loan Losses

The allowance for loan loss at September 30, 2009 was \$14.2 million as compared to \$11.1 million at December 31, 2008. This increase was due to the provision for loan losses exceeding net loan charge offs for the nine months ended September 30, 2009 as

shown in the table below. The provision for loan losses increased by \$1.2 million from \$3.0 million to \$4.2 million; this increase in the provision was due to an increase in nonperforming loans as well as deterioration in the economy in Company's market area. Also, the level of the allowance for loan losses to total loans increased from 1.33% at December 31, 2008 to 1.62% at September 30, 2009. This increase in the ratio is primarily a result of an increase in non-performing loans to \$17.0 million from \$3.7 million on December 31, 2008. The increase in nonperforming loans was primarily as a result of three loan relationships totaling \$11.0 million with specific reserves of \$2.0 million, one primarily commercial real estate and two construction. In evaluating the allowance for loan losses the Company considered the following categories to be higher risk:

Small business loans: The outstanding loan balances of small business loans is \$30.8 million at September 30, 2009. These are considered higher risk loans because small businesses have been negatively impacted by the current economic conditions. In a liquidation scenario, the collateral, if any, is often not sufficient to fully recover the outstanding balance of the loan. As a result, the Company often seeks additional collateral prior to renewing maturing small business loans. In addition, the payment status of the loans is monitored closely in order to initiate collection efforts in a timely fashion.

Construction loans: The outstanding loan balance of construction loans at September 30, 2009 is \$62.4 million. As noted above, a major factor in nonaccrual loans is two large construction loans. Based on this fact, and the general local construction conditions facing construction, the management closely monitors all construction loans and considers this type of loans to be higher risk.

Higher balance loans: Loans greater than \$1.0 million are considered high balance loans. The balance of these loans is \$413.6 million at September 30, 2009. 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.

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	(In thousands)			
	2009	2008	2009	2008
Allowance for loan losses, beginning of period	\$ 13,364	\$ 9,469	\$ 11,119	\$ 9,633
Loans charged off	(496)	(659)	(1,511)	(2,593)
Recoveries on loans previously charged-off	98	94	458	239
Net charge-offs	(398)	(565)	(1,053)	(2,354)
Provision charged to expense	1,250	1,350	4,150	2,975
Allowance for loan losses, end of period	\$ 14,216	\$ 10,254	\$ 14,216	\$ 10,254

During 2009, the Company has experienced increased levels of nonaccruing loans. Due to current economic conditions, this trend may continue if borrowers are negatively impacted by future 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	December 31,
	30, 2009	2008
(Dollars in thousands)		
Nonaccruing loans	\$ 17,001	\$ 3,661
Loans past due 90 days or more and still accruing	\$	\$ 89
Other real estate owned	\$	\$
Nonaccruing loans as a percentage of total loans	1.94%	.44%
Accruing troubled debt restructures	\$ 511	\$

Cash and Cash Equivalents

Cash and cash equivalents remained relatively stable during the third quarter of 2009.

Short-term Investments

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

Investments

Management continually evaluates its investment alternatives in order to properly manage the overall balance sheet mix. The timing of purchases, sales and reinvestments, if any, will be based on various factors including expectation of

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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, 2009	December 31, 2008
	(In thousands)	
U.S Treasury	\$ 2,006	\$ 2,028
U.S. Government Sponsored Enterprises	135,396	161,292
U.S. Government Agency and Sponsored Enterprise Mortgage-backed Securities	456,008	260,132
Privately Issued Residential Mortgage-backed Securities	5,348	5,659
Privately Issued Commercial Mortgage-backed Securities	718	3,367
Obligations issued by States and Political Subdivisions	44,044	60,259
Other Debt Securities	2,518	2,100
Equity Securities	868	748
Total Securities Available-for-Sale	\$ 646,906	\$ 495,585

During the first nine months of 2009 the Company capitalized on favorable market conditions and realized \$1.1 million of gains on sales of investments. The sales of investments represented seven U.S. Government Sponsored Enterprise bonds totaling \$36.0 million.

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

Securities Held-to-Maturity (at Amortized Cost)

	September 30, 2009	December 31, 2008
	(In thousands)	
U.S. Government Sponsored Enterprises	\$ 17,600	\$ 44,000
U.S. Government Agency and Sponsored Enterprise Mortgage-backed Securities	159,406	140,047
Total Securities Held-to-Maturity	\$ 177,006	\$ 184,047

At September 30, 2009 and December 31, 2008, 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. Control of these enterprises was directly taken over by the U.S. Government in the 3rd quarter of 2008.

Table of Contents**Securities Available-for-Sale**

The securities available-for-sale portfolio totaled \$646.9 million at September 30, 2009, an increase of 30.5% from December 31, 2008. Purchases of securities available-for-sale totaled \$425.4 million for the nine months ended September 30, 2009. 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. Excluding auction rate municipal obligations (ARS) and variable rate demand notes (VRDN), which have maturities of up to 30 years, but reprice frequently, the estimated average remaining life is 3.3 years.

Included in Obligations Issued by States and Political Subdivisions as of September 30, 2009, are \$22.1 million of ARS s and \$14.7 million of VRDN s with unrealized losses of \$2.9 million for ARS s. VRDN s fair value is estimated to equal the cost. These debt securities were issued by governmental entities, but are not necessarily debt obligations of the issuing entity. Of the total of \$36.8 million of ARS s and VRDN s, \$15.0 million are obligations of governmental entities and the remainder are obligations of large non-profit entities. These obligations are variable rate securities with long-term maturities whose interest rates are set periodically through an auction process for ARS s and by prevailing market rates for VRDN s. Should the auction not attract sufficient bidders, the interest rate adjusts to the default rate defined in each obligation s underlying documents. The Company increased its holdings in these types of securities during the second and third quarters of 2008 to take advantage of yields available at that time due to market disruption. Although many of these issuers have bond insurance, the Company purchased the securities based on the creditworthiness of the underlying obligors. Based on the creditworthiness of the underlying obligors, management does not believe that any of these securities are other-than-temporarily impaired. As of September 30, 2009 the weighted average taxable equivalent yield on these securities was 0.77%. At the time of purchase, these securities generally had higher yields. The overall yield has declined due to an overall decline in prevailing short-term interest rates as well as declining spreads to market rates.

In the case of a failed auction, the Company may not have access to funds as only a limited market exists for failed ARS s. As of September 30, 2009, three of the Company s ARS s were purchased subsequent to their failure with a fair value of \$10.7 million and an amortized cost of \$13.3 million. These securities were issued by governmental entities, and are the debt of non-profit organizations which the Company believes to be creditworthy. Securities issued by governmental entities were purchased prior to their failure with a fair value of \$4.8 million and amortized cost of \$5.0 million. The securities purchased prior to their failure are not considered to have other than temporary impairment. The majority of the Company s securities AFS are classified as Level 2. The fair values of these securities are obtained from a pricing service, which provides the Company with a description of the inputs generally utilized for each type of security. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Market indicators and industry and economic events are also monitored.

Securities available-for-sale totaling \$21.3 million, or 1.04% of assets are classified as Level 3. These securities are generally failed auction rate securities, equity investments or obligations of states and political subdivisions with no readily determinable fair value. Failed auction rate securities were reclassified to level 3 during the first quarter of 2009 due to the lack of an active market. Fair values for Level 3 securities are generally arrived at based upon a review of market trades, if any, as well as an analysis of the security based upon market liquidity and prevailing market interest rates.

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Securities Held-to-Maturity

The securities held-to-maturity portfolio totaled \$177.0 million on September 30, 2009, a decrease of 3.8% from the total on December 31, 2008. These purchases were made to take advantage of rising rates and the somewhat steeper yield curve. The portfolio is concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 2.6 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 six months ended June 30, 2009, the FHLBB reported a net loss of \$87.6 million resulting from the recognition of \$197.4 million of impairment losses which were recognized through income. 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, 2009. The Company will continue to monitor its investment in FHLBB stock.

Deposits and Borrowed Funds

On September 30, 2009, deposits totaled \$1.53 billion, representing a 21.1% increase in total deposits from December 31, 2008. Total deposits increased primarily as a result of increases in money market accounts and savings and NOW deposits. Money market accounts and savings and NOW deposits increased mainly because the Company competed more aggressively for these types of deposits during the first nine months of the year. Borrowed funds totaled \$296.7 million compared to \$351.1 million at December 31, 2008. Borrowed funds decreased due to the maturity of short-term borrowings.

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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, 2009			September 30, 2008		
	(In thousands)					
	Average Balance	Interest(1)	Average Yield/ Rate	Average Balance	Interest(1)	Average Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans(2)	\$ 860,683	\$ 13,107	5.92%	\$ 789,715	\$ 12,840	6.46%
Securities available-for-sale(5):						
Taxable	600,929	5,336	3.55	431,141	4,762	4.42
Tax-exempt	49,087	229	1.87	81,752	1,216	5.94
Securities held-to-maturity:						
Taxable	185,998	1,927	4.14	200,386	2,191	4.37
Federal funds sold				92,016	460	1.96
Interest-bearing deposits in other banks	211,780	505	0.93	11,400	94	3.28
Total interest-earning assets	1,908,477	21,104	4.34%	1,606,410	21,563	5.35%
Non interest-earning assets	142,214			138,324		
Allowance for loan losses	(13,777)			(9,767)		
Total assets	\$ 2,036,914			\$ 1,734,967		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	\$ 280,927	\$ 549	0.78%	\$ 218,764	\$ 831	1.51%
Savings accounts	264,902	590	0.88	169,448	693	1.62
Money market accounts	428,292	1,266	1.17	347,543	2,061	2.36
Time deposits	316,154	2,296	2.88	265,024	2,155	3.23
Total interest-bearing deposits	1,290,275	4,701	1.45	1,000,779	5,740	2.28
Securities sold under agreements to repurchase	89,568	99	0.44	96,696	330	1.36
Other borrowed funds and subordinated debentures	221,279	2,563	4.60	223,853	2,862	5.09
Total interest-bearing liabilities	1,601,122	7,363	1.83%	1,321,328	8,932	2.69%

Non interest-bearing liabilities			
Demand deposits	276,300		271,396
Other liabilities	31,156		21,020
Total liabilities	1,908,578		1,613,744
Stockholders equity	128,336		121,223
Total liabilities & stockholders equity	\$ 2,036,914		\$ 1,734,967
Net interest income on a fully taxable equivalent basis		13,741	12,631
Less taxable equivalent adjustment		(1,067)	(672)
Net interest income		\$ 12,674	\$ 11,959
Net interest spread (3)		2.51%	2.66%
Net interest margin (4)		2.81%	3.14%

(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 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, 2009			September 30, 2008		
	(In thousands)					
	Average Balance	Interest(1)	Average Yield/ Rate	Average Balance	Interest(1)	Average Yield/ Rate
ASSETS						
Interest-earning assets:						
Loans(2)	\$ 846,895	\$ 38,039	5.94%	\$ 758,133	\$ 37,224	6.55%
Securities available-for-sale(5):						
Taxable	541,820	15,122	3.72	403,366	13,393	4.43
Tax-exempt	52,808	939	2.37	48,815	1,988	5.37
Securities held-to-maturity:						
Taxable	201,484	6,330	4.19	195,115	6,190	4.23
Federal funds sold				128,499	2,409	2.50
Interest-bearing deposits in other banks	220,625	1,811	1.08	3,994	98	3.27
Total interest-earning assets	1,863,632	62,241	4.43%	1,537,922	61,302	5.31%
Non interest-earning assets	143,844			136,989		
Allowance for loan losses	(12,843)			(9,729)		
Total assets	\$ 1,994,633			\$ 1,665,182		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	\$ 257,580	\$ 1,665	0.86%	\$ 204,888	\$ 2,422	1.58%
Savings accounts	239,613	2,207	1.23	162,024	2,174	1.79
Money market accounts	434,330	4,919	1.51	303,112	5,480	2.41
Time deposits	325,255	7,465	3.07	268,425	7,342	3.65
Total interest-bearing deposits	1,256,778	16,256	1.73	938,449	17,418	2.48
Securities sold under agreements to repurchase	93,935	423	0.60	95,636	1,205	1.68
Other borrowed funds and subordinated debentures	214,122	7,707	4.81	225,106	8,653	5.13
Total interest-bearing liabilities	1,564,835	24,386	2.08%	1,259,191	27,276	2.89%
Non interest-bearing liabilities						

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Demand deposits	274,025	263,503	
Other liabilities	30,677	21,204	
Total liabilities	1,869,537	1,543,898	
Stockholders equity	125,096	121,284	
Total liabilities & stockholders equity	\$ 1,994,633	\$ 1,665,182	
Net interest income on a fully taxable equivalent basis	37,855	34,026	
Less taxable equivalent adjustment	(2,427)	(1,179)	
Net interest income	\$ 35,428	\$ 32,847	
Net interest spread (3)		2.34%	2.42%
Net interest margin (4)		2.68%	2.94%

(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, 2009			Nine Months Ended September 30, 2009		
	Compared with Three Months Ended September 30, 2008			Compared with Nine Months Ended September 30, 2008		
	Increase/(Decrease) Due to Change in			Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest income:						
Loans	\$ 1,098	\$ (831)	\$ 267	\$ 4,317	\$ (3,502)	\$ 815
Securities available-for-sale						
Taxable	1,630	(1,056)	574	4,097	(2,368)	1,729
Tax-exempt	(363)	(624)	(987)	147	(1,196)	(1,049)
Securities held-to-maturity						
Taxable	(153)	(111)	(264)	201	(61)	140
Federal funds sold	(460)		(460)	(2,410)		(2,410)
Interest-bearing deposits in other banks	507	(96)	411	1,820	(106)	1,714
Total interest income	2,259	(2,718)	(459)	8,172	(7,233)	939
Interest expense:						
Deposits:						
NOW accounts	195	(477)	(282)	520	(1,277)	(757)
Savings accounts	294	(397)	(103)	844	(811)	33
Money market accounts	406	(1,201)	(795)	1,896	(2,457)	(561)
Time deposits	393	(252)	141	1,412	(1,289)	123
Total interest-bearing deposits	1,288	(2,327)	(1,039)	4,672	(5,834)	(1,162)
Securities sold under agreements to repurchase	(23)	(208)	(231)	(21)	(761)	(782)
Other borrowed funds and subordinated debentures	(32)	(267)	(299)	(410)	(536)	(946)
Total interest expense	1,233	(2,802)	(1,569)	4,241	(7,131)	(2,890)
Change in net interest income	\$ 1,026	\$ 84	\$ 1,110	\$ 3,931	\$ (102)	\$ 3,829

Net Interest Income

For the three months ended September 30, 2009, net interest income on a fully taxable equivalent basis totaled \$13.7 million compared to \$12.6 million for the same period in 2008, an increase of \$1.1 million or 8.8%. This increase in net interest income for the period is mainly due to an 18.8% increase in the average balances of earning

assets, combined with a similar increase in deposits. The increased volume was somewhat offset by a decrease of thirty-three basis points in the net interest margin. The net interest margin decreased from 3.14% on a fully taxable equivalent basis in 2008 to 2.81% on the same basis for 2009.

For the nine months ended September 30, 2009, net interest income on a fully taxable equivalent basis totaled \$37.9 million compared to \$34.0 million for the same period in 2008, an increase of \$3.8 million or 11.3%. This increase in net interest income for the period is mainly due to a 21.2% increase in the average balances of earning assets, combined with a similar increase in deposits. The increased volume was somewhat offset by a decrease of twenty-six basis points in the net interest margin. The net interest margin decreased from 2.94% on a fully taxable equivalent basis in 2008 to 2.68% on the same basis for 2009.

Provision for Loan Losses

For the three months ended September 30, 2009, the loan loss provision was \$1.3 million compared to a provision of \$1.4 for the same period last year for a decrease of \$100,000. The provision decreased primarily as a result of increased loan loss reserve

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requirements associated with specific and qualitative factors as well as increased loan balances for the third quarter of 2008 compared to the same period in 2009. For the nine months ended September 30, 2009, the loan loss provision was \$4.2 million compared to a provision of \$3.0 million for the same period last year for an increase of \$1.2 million. The increase in the provision for the year to date period was due to an increase in nonperforming loans as well as current economic conditions such as increased unemployment. The level of the allowance for loan losses to total loans increased from 1.33% at December 31, 2008 to 1.62% at September 30, 2009. This increase in the ratio is primarily a result of an increase in nonperforming loans. The increase in nonperforming loans caused an increase in specific loan loss reserves.

Non-Interest Income and Expense

Other operating income for the quarter ended September 30, 2009 was \$3.4 million compared to \$3.6 million for the same period last year. The changes in other operating income, which decreased by \$178,000, was mainly attributable to a decrease in other income of \$204,000. The decrease in other operating income consisted primarily of \$252,000 decrease in the growth of cash surrender values on life insurance policies. Lockbox fees decreased as a result of decreased customer volume. Service charges on deposit accounts remained flat.

Other operating income for the nine months ended September 30, 2009 was \$11.6 million compared to \$10.5 million for the same period last year. The increase in other operating income was mainly attributable to an increase in net gain on sales of investments of \$866,000. Also, other income increased by \$317,000. This increase in other operating income consisted mainly of \$252,000 increase in the growth of cash surrender values on life insurance policies. Also, lockbox fees decreased by \$145,000 as a result of decreased customer volume. Service charges on deposit accounts remained relatively flat.

For the quarter ended September 30, 2009, operating expenses increased by \$177,000 or 1.6% to \$11.2 million, from the same period last year. The increase in operating expenses for the quarter was mainly attributable to an increase of \$426,000 million in FDIC assessments. FDIC assessments increased as a result of an increase in the deposit assessment rate, an increase in deposit balances and usage of a one-time credit during 2008. There were also increases of \$315,000 in salaries and employee benefits. Other expenses decreased by \$302,000. Occupancy expenses decreased by \$79,000 and equipment expense decreased by \$183,000. Salaries and employee benefits increased mainly as a result of increases in pension expense. Occupancy and equipment expenses decreased mainly as a result of decreases in depreciation expense. Other expenses decreased mainly as a result of decreased OREO, contributions and marketing expenses.

For the nine month period ended September 30, 2009, operating expenses increased by \$2.8 million or 8.6% to \$35.0 million, from the same period last year. The increase in operating expenses for the period was mainly attributable to an increase of \$2.4 million in FDIC assessments. FDIC assessments increased as a result of a special assessment of \$1.0 million, an increase in the deposit assessment rate, an increase in deposit balances and usage of a one-time credit during 2008. There were also increases of \$1.1 million in salaries and employee benefits. Equipment expenses decreased by \$373,000. Salaries and employee benefits increased mainly as a result of increases in pension expense. Equipment expenses decreased mainly as a result of decreases in depreciation expense.

On May 22, 2009, the FDIC announced a special assessment on insured institutions as part of its efforts to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The special assessment is five basis points of each FDIC-insured depository institution's assets minus Tier 1 capital, as of June 30, 2009.

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The Company recorded a pre-tax charge of approximately \$1.0 million in the second quarter of 2009 in connection with the special assessment.

Income Taxes

For the third quarter of 2009, the Company's income tax expense totaled \$413,000 on pretax income of \$3.6 million for an effective tax rate of 11.5%. For last year's corresponding quarter, the Company's income tax expense totaled \$576,000 on pretax income of \$3.1 million for an effective tax rate of 18.4%. The effective income tax rate decreased for the current quarter mainly as a result of an increase in tax exempt income as a percentage of taxable income compared to the third quarter of the prior year.

For the nine month period ended September 30, 2009, the Company's income tax expense totaled \$851,000 on pretax income of \$7.9 million for an effective tax rate of 10.7%. For last year's corresponding period, the Company's income tax expense totaled \$1.9 million on pretax income of \$8.2 million for an effective tax rate of 23.7%. The effective income tax rate decreased for the current period mainly as a result of an increase in tax exempt income as a percentage of pretax 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, 2008, 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

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2009 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, 2008. 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:

Period	Total number of shares purchased	Issuer Purchases of Equity Securities		
		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, 2009		\$		289,193
August 1 - August 31, 2009		\$		289,193
September 1 - September 30, 2009		\$		289,193

(1) On July 14, 2009, 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 4 Submission of Matters to a vote of Security Holders None

Item 5 Other Information None

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Item 6 Exhibits

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

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

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

10.1 The Century Bancorp, Inc. Supplemental Executive Retirement and Insurance Plan First Amendment amended on July 14, 2009, incorporated by reference previously filed with an 8-K filed on July 16, 2009.

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

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

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

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

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

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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 6, 2009

Century Bancorp, Inc

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

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

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