

CENTURY BANCORP INC
Form 10-Q
August 07, 2012

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 June 30, 2012.

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)

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

400 MYSTIC AVENUE, MEDFORD, MA
(Address of principal executive offices)

02155
(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

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 July 31, 2012, the Registrant had outstanding:

Class A Common Stock, \$1.00 par value	3,556,554 Shares
Class B Common Stock, \$1.00 par value	1,991,880 Shares

Century Bancorp, Inc.

	Index	Page Number
<u>Part I</u>	<u>Financial Information</u>	
	<u>Forward Looking Statements</u>	3
Item 1.	<u>Financial Statements (unaudited)</u>	
	<u>Consolidated Balance Sheets: June 30, 2012 and December 31, 2011</u>	4
	<u>Consolidated Statements of Income: Three months and six months ended June 30, 2012 and 2011</u>	5
	<u>Consolidated Statements of Comprehensive Income: Three and six months ended June 30, 2012 and 2011</u>	6
	<u>Consolidated Statements of Changes in Stockholders' Equity: Six months ended June 30, 2012 and 2011</u>	7
	<u>Consolidated Statements of Cash Flows: Six months ended June 30, 2012 and 2011</u>	8
	<u>Notes to Consolidated Financial Statements</u>	9-27
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	27-38
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4.	<u>Controls and Procedures</u>	38
<u>Part II.</u>	<u>Other Information</u>	
Item 1.	<u>Legal Proceedings</u>	38
Item 1A.	<u>Risk Factors</u>	39
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
Item 3.	<u>Defaults Upon Senior Securities</u>	
Item 5.	<u>Other Information</u>	39
Item 6.	<u>Exhibits</u>	39
<u>Signatures</u>		40
<u>Exhibits</u>	Ex-31.1	
	Ex-31.2	
	Ex-32.1	
	Ex-32.2	
	Ex-101 Instance Document	
	Ex-101 Schema Document	
	Ex-101 Calculation Linkbase Document	
	Ex-101 Labels Linkbase Document	
	Ex-101 Presentation Linkbase Document	
	Ex-101 Definition Linkbase Document	

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.

PART I Item 1**Century Bancorp, Inc.****Consolidated Balance Sheets (unaudited)****(In thousands, except share data)**

	June 30, 2012	December 31, 2011
Assets		
Cash and due from banks	\$ 58,530	\$ 50,187
Federal funds sold and interest-bearing deposits in other banks	270,128	157,579
Total cash and cash equivalents	328,658	207,766
Short-term investments	22,136	18,351
Securities available-for-sale, amortized cost \$1,219,888 and \$1,244,972, respectively	1,237,024	1,258,676
Securities held-to-maturity, fair value \$292,260 and \$184,822, respectively	286,662	179,368
Federal Home Loan Bank of Boston stock, at cost	15,146	15,531
Loans, net:		
Commercial and industrial	78,971	82,404
Construction and land development	36,422	56,819
Commercial real estate	535,232	487,495
Residential real estate	259,006	239,307
Home equity	112,602	110,786
Consumer and other	6,597	7,681
Total loans, net	1,028,830	984,492
Less: allowance for loan losses	17,979	16,574
Net loans	1,010,851	967,918
Bank premises and equipment	22,887	21,757
Accrued interest receivable	5,872	6,022
Goodwill	2,714	2,714
Core deposit intangible		120
Other assets	68,324	65,002
Total assets	\$ 3,000,274	\$ 2,743,225
Liabilities		
Deposits:		
Demand deposits	\$ 403,999	\$ 365,854
Savings and NOW deposits	810,018	708,988
Money market accounts	705,963	616,241
Time deposits	419,414	433,501
Total deposits	2,339,394	2,124,584
Securities sold under agreements to repurchase	173,190	143,320
Other borrowed funds	208,553	244,143
Subordinated debentures	36,083	36,083
Due to broker	37,195	
Other liabilities	35,151	34,446

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

Total liabilities	2,829,566	2,582,576
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 3,556,529 shares and 3,548,317 shares, respectively	3,556	3,548
Class B common stock, \$1.00 par value per share; authorized 5,000,000 shares; issued 1,991,880 and 1,994,380 shares, respectively	1,992	1,994
Additional paid-in capital	11,711	11,587
Retained earnings	153,526	146,039
	170,785	163,168
Unrealized gains on securities available-for-sale, net of taxes	10,437	8,319
Pension liability, net of taxes	(10,514)	(10,838)
Total accumulated other comprehensive loss, net of taxes	(77)	(2,519)
Total stockholders' equity	170,708	160,649
Total liabilities and stockholders' equity	\$ 3,000,274	\$ 2,743,225

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Consolidated Statements of Income (unaudited)

(In thousands, except share data)

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Interest income				
Loans	\$ 12,572	\$ 12,012	\$ 24,620	\$ 24,117
Securities held-to-maturity	1,924	1,518	3,387	3,291
Securities available-for-sale	5,668	5,709	11,383	11,062
Federal funds sold and interest-bearing deposits in other banks	148	358	287	705
Total interest income	20,312	19,597	39,677	39,175
Interest expense				
Savings and NOW deposits	560	719	1,087	1,431
Money market accounts	618	777	1,230	1,482
Time deposits	1,600	2,494	3,281	4,773
Securities sold under agreements to repurchase	88	98	180	208
Other borrowed funds and subordinated debentures	2,057	1,994	4,108	3,839
Total interest expense	4,923	6,082	9,886	11,733
Net interest income	15,389	13,515	29,791	27,442
Provision for loan losses	900	1,200	2,000	2,400
Net interest income after provision for loan losses	14,489	12,315	27,791	25,042
Other operating income				
Service charges on deposit accounts	1,922	1,936	3,910	3,823
Lockbox fees	781	734	1,480	1,471
Net gain on sales of investments	442	198	590	362
Other income	843	973	1,627	1,720
Total other operating income	3,988	3,841	7,607	7,376
Operating expenses				
Salaries and employee benefits	8,191	7,250	16,332	14,591
Occupancy	1,176	975	2,298	2,226
Equipment	544	534	1,127	1,092
FDIC assessments	445	464	852	1,199
Other	3,095	2,552	5,642	4,877
Total operating expenses	13,451	11,775	26,251	23,985
Income before income taxes	5,026	4,381	9,147	8,433
Provision for income taxes	255	184	568	511
Net income	\$ 4,771	\$ 4,197	\$ 8,579	\$ 7,922
Share data:				
Weighted average number of shares outstanding, basic				
Class A	3,556,474	3,543,717	3,553,734	3,540,773

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

Class B	1,991,880	1,996,880	1,992,818	1,999,818
Weighted average number of shares outstanding, diluted				
Class A	5,548,830	5,541,595	5,547,237	5,541,743
Class B	1,991,880	1,996,880	1,992,818	1,999,818
Basic earnings per share:				
Class A	\$ 1.05	\$ 0.92	\$ 1.89	\$ 1.74
Class B	\$ 0.52	\$ 0.46	\$ 0.94	\$ 0.87
Diluted earnings per share				
Class A	\$ 0.86	\$ 0.76	\$ 1.55	\$ 1.43
Class B	\$ 0.52	\$ 0.46	\$ 0.94	\$ 0.87

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)

	Three months ended June 30,	
	2012	2011
Net income	\$ 4,771	\$ 4,197
Other comprehensive income, net of tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period	824	4,175
Less: reclassification adjustment for gains included in net income	(442)	(198)
	382	3,977
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	162	95
Other comprehensive income	544	4,072
Comprehensive income	\$ 5,315	\$ 8,269

	Six months ended June 30,	
	2012	2011
Net income	\$ 8,579	\$ 7,922
Other comprehensive income, net of tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period	2,708	3,652
Less: reclassification adjustment for gains included in net income	(590)	(362)
	2,118	3,290
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	324	190
Other comprehensive income	2,442	3,480
Comprehensive income	\$ 11,021	\$ 11,402

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Consolidated Statements of Changes in Stockholders' Equity (unaudited)

For the Six Months Ended June 30, 2012 and 2011

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings (In thousands)	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2010	\$ 3,529	\$ 2,011	\$ 11,537	\$ 131,526	\$ (3,578)	\$ 145,025
Net income				7,922		7,922
Unrealized holding losses arising during period, net of \$2,098 in taxes and \$362 in realized net gains					3,290	3,290
Pension liability adjustment, net of \$126 in taxes					190	190
Conversion of class B common stock to class A common stock, 14,500 shares	14	(14)				
Stock options exercised, 350 shares	1		5			6
Cash dividends paid, Class A common stock, \$.24 per share				(850)		(850)
Cash dividends paid, Class B common stock, \$.12 per share				(241)		(241)
Balance at June 30, 2011	\$ 3,544	\$ 1,997	\$ 11,542	\$ 138,357	\$ (98)	\$ 155,342
Balance at December 31, 2011	\$ 3,548	\$ 1,994	\$ 11,587	\$ 146,039	\$ (2,519)	\$ 160,649
Net income				8,579		8,579
Unrealized holding gains arising during period, net of \$1,314 in taxes and \$590 in realized net gains					2,118	2,118
Pension liability adjustment, net of \$216 in taxes					324	324
Conversion of class B common stock to class A common stock, 2,500 shares	2	(2)				
Stock options exercised, 5,712 shares	6		124			130
Cash dividends paid, Class A common stock, \$.24 per share				(852)		(852)
Cash dividends paid, Class B common stock, \$.12 per share				(240)		(240)
Balance at June 30, 2012	\$ 3,556	\$ 1,992	\$ 11,711	\$ 153,526	\$ (77)	\$ 170,708

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Six months ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 8,579	\$ 7,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Mortgage loans originated for sale	(2,448)	
Proceeds from mortgage loans sold	5,968	
Gain on sales of mortgage loans held for sale	(131)	
Net gain on sales of investments	(590)	(362)
Gain on sale of loans		(95)
Provision for loan losses	2,000	2,400
Deferred income taxes	(783)	(875)
Net depreciation and amortization	3,158	2,626
Decrease (increase) in accrued interest receivable	150	(453)
Gain on sale of other real estate owned	(4)	
Increase in other assets	(5,311)	(8,572)
Increase in other liabilities	1,271	235
 Net cash provided by operating activities	 11,859	 2,826
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	17,315	41,192
Purchase of short-term investments	(21,100)	(21,365)
Proceeds from maturities of securities available-for-sale	318,626	250,729
Proceeds from sales of securities available-for-sale	233,002	20,516
Purchase of securities available-for-sale	(490,103)	(434,375)
Proceeds from maturities of securities held-to-maturity	54,211	33,546
Purchase of securities held-to-maturity	(161,722)	
Proceeds from sales of loans		7,318
Net increase in loans	(48,302)	(64,601)
Proceeds from sales of other real estate owned	1,187	
Capital expenditures	(2,209)	(1,510)
 Net cash used in investing activities	 (99,095)	 (168,550)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in time deposits	(14,087)	90,070
Net increase in demand, savings, money market and NOW deposits	228,897	64,113
Net proceeds from exercise of stock options	130	6
Cash dividends	(1,092)	(1,091)
Net increase in securities sold under agreements to repurchase	29,870	380
Net decrease in other borrowed funds	(35,590)	(8,975)
 Net cash provided by financing activities	 208,128	 144,503
 Net increase (decrease) in cash and cash equivalents	 120,892	 (21,221)
Cash and cash equivalents at beginning of period	207,766	188,552
 Cash and cash equivalents at end of period	 \$ 328,658	 \$ 167,331

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$ 10,022	\$ 11,704
Income taxes	1,353	1,785
Change in unrealized gains on securities available-for-sale, net of taxes	2,118	3,290
Pension liability adjustment, net of taxes	324	190
Due to broker	37,195	

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Notes to Unaudited Consolidated Interim Financial Statements

Six Months Ended June 30, 2012 and 2011

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); Century Subsidiary Investments, Inc. III (CSII III); and Century Financial Services Inc. (CFSI). CSII, CSII II, CSII III are engaged in buying, selling and holding investment securities. CFSI has the power to engage in financial agency, securities brokerage, and investment and financial advisory services and related securities credit. The Company also owns 100% of Century Bancorp Capital Trust II (CBCT II). The entity is an unconsolidated subsidiary of the Company.

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

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and 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, 2011, 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, including historical charge-off rates with additional allocations based on risk factors for each category and general economic factors. 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. Certain reclassifications are made to prior-year amounts whenever necessary to conform with the current-year presentation.

Revision of EPS Presentation

The Company determined in the quarter ended June 30, 2012 that although the Class A and Class B common stock have different dividend rates, the Company had not applied the two-class method when calculating earnings per share (EPS) separately for the Class A and Class B common stock. This resulted in immaterial revisions to previously reported basic EPS for Class A and Class B common stock and diluted EPS for the Class B common stock as summarized below:

For the quarter ended June 30, 2011:

	As previously reported	As revised
Basic EPS Class A common	\$ 0.76	\$ 0.92
Basic EPS Class B common	\$ 0.76	\$ 0.46
Diluted EPS Class A common	\$ 0.76	\$ 0.76
Diluted EPS Class B common	\$ 0.76	\$ 0.46

For the six months ended June 30, 2011:

	As previously reported	As revised
Basic EPS Class A common	\$ 1.43	\$ 1.74
Basic EPS Class B common	\$ 1.43	\$ 0.87
Diluted EPS Class A common	\$ 1.43	\$ 1.43
Diluted EPS Class B common	\$ 1.43	\$ 0.87

Note 2. Recent Market Developments

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

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

requirements will increase. The Act broadens the base for FDIC assessments to average consolidated assets less tangible equity of financial institutions and also permanently raises the current standard maximum FDIC deposit insurance amount to \$250,000. The Act extends unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012.

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking (NPR) that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period from seven to eight years. This rule was finalized on November 2, 2009. As a result, the Company is carrying a prepaid asset of \$3.6 million as of June 30, 2012. The Company's quarterly risk-based deposit insurance assessments will be paid from this amount until the amount is exhausted or until December 30, 2014, when any amount remaining would be returned to the Company.

On September 30, 2011, the Massachusetts Department of Revenue issued a Draft Directive prohibiting a corporation from pledging more than 50 percent of security corporation stock it owns to secure a borrowing, effective for tax years beginning on or after October, 2012. Century Bank currently utilizes the stock of two of its security corporations to secure Federal Home Loan Bank of Boston (FHLBB) advances. Should this draft directive have become effective, Century Bank would have had fewer assets available to secure FHLBB advances, or would have had a higher tax rate if it chose to utilize security corporations to a lesser extent. On April 6, 2012, the Massachusetts Department of Revenue issued an updated Draft Directive allowing a corporation to pledge up to 100% of security corporation stock it owns to secure a borrowing. This revised Draft Directive would allow Century Bank to continue to utilize existing assets to secure FHLBB advances without pledging limitations. On May 24, 2012, the Massachusetts Department of Revenue issued Directive 12-2. The directive states that the pledge by a shareholder of shares of stock of a corporation as security or collateral for a loan to the shareholder, in and of itself, will not preclude classification of the corporation as a security corporation or result in revocation of a corporation's existing security corporation classification.

Note 3. Stock Option Accounting

Stock option activity under the Company's stock option plan for the six months ended June 30, 2012 is as follows:

	Amount	Weighted Average Exercise Price
Shares under option:		
Outstanding at beginning of year	36,062	\$ 28.90
Exercised	(5,712)	22.68
Forfeited	(450)	22.50
Outstanding at end of period	29,900	\$ 30.19
Exercisable at end of period	29,900	\$ 30.19
Available to be granted at end of period	223,534	

On June 30, 2012, the outstanding options to purchase 29,900 shares of Class A common stock have exercise prices between \$26.68 and \$31.83, with a weighted average exercise price of \$30.19 and a weighted average remaining contractual life of 1.7 years. The intrinsic value of options exercisable at June 30, 2012 had an aggregate value of \$13,300. The intrinsic value of options exercised at June 30, 2012 had an aggregate value of \$30,828.

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

The Company uses the fair value method to account for stock options. All of the Company's stock options are vested and there were no options granted during the first six months of 2012.

Note 4. Securities Available-for-Sale

	June 30, 2012				December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
(In thousands)								
U.S. Treasury	\$ 1,999	\$ 7	\$	\$ 2,006	\$ 1,999	\$ 13	\$	\$ 2,012
U.S. Government Sponsored Enterprises	44,269	49	31	44,287	174,657	311	11	174,957
Small Business Administration	8,320	95		8,415	8,714	87		8,801
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	1,076,906	18,282	454	1,094,734	1,020,752	16,262	1,176	1,035,838
Privately Issued Residential Mortgage Backed Securities	3,269	7	154	3,122	3,509		311	3,198
Obligations Issued by States and Political Subdivisions	71,405	65	959	70,511	21,515	84	957	20,642
Other Debt Securities	13,221	164	45	13,340	13,293		683	12,610
Equity Securities	499	110		609	533	85		618
Total	\$ 1,219,888	\$ 18,779	\$ 1,643	\$ 1,237,024	\$ 1,244,972	\$ 16,842	\$ 3,138	\$ 1,258,676

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 \$518,480,000 and \$488,690,000 at June 30, 2012 and December 31, 2011, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank of Boston amounting to \$261,401,000 and \$246,036,000 at June 30, 2012 and December 31, 2011, respectively. The Company realized gross gains of \$590,000 from the proceeds of \$233,002,000 from the sales of available-for-sale securities for the six months ended June 30, 2012. The Company realized gross gains of \$362,000 from the proceeds of \$20,516,000 from the sales of available-for-sale securities for the six months ended June 30, 2011.

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

The following table shows the maturity distribution of the Company's securities available-for-sale at June 30, 2012.

	Amortized Cost	Fair Value
(In thousands)		
Within one year	\$ 107,680	\$ 108,256
After one but within five years	930,190	945,124
After five but within ten years	169,462	171,792
More than 10 years	10,557	9,789
Non-maturing	1,999	2,063
Total	\$ 1,219,888	\$ 1,237,024

The weighted average remaining life of investment securities available-for-sale at June 30, 2012 was 3.5 years. Included in the weighted average remaining life calculation at June 30, 2012 was \$34,269,000 of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life. The contractual maturities, which were used in the table above, of mortgage-backed securities will differ from the actual maturities, due to the ability of the issuers to prepay underlying obligations.

As of June 30, 2012 and December 31, 2011, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not likely that it will be required to sell these debt securities before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade. The change in the unrealized losses on the state and municipal securities and the nonagency mortgage-backed securities was primarily caused by changes in credit spreads and liquidity issues in the marketplace.

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.

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

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at June 30, 2012. 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 23 and 5 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 461 holdings at June 30, 2012.

	Less than 12 months		June 30, 2012 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	\$ 10,013	\$ 32	\$ —	\$ —	\$ 10,013	\$ 32
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	126,302	453	—	—	126,302	453
Privately Issued Residential Mortgage Backed Securities	—	—	1,957	154	1,957	154
Obligations Issued by States and Political Subdivisions	—	—	3,725	959	3,725	959
Other Debt Securities	—	—	1,455	45	1,455	45
Total temporarily impaired securities	136,315	\$ 485	\$ 7,137	\$ 1,158	\$ 143,452	\$ 1,643