

CENTURY BANCORP INC

Form 10-Q

August 08, 2007

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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 June 30, 2007.

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of July 31, 2007, the Registrant had outstanding:

Class A Common Stock, \$1.00 par value

3,513,704 Shares

Class B Common Stock, \$1.00 par value

2,028,600 Shares

Century Bancorp, Inc.

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Item 1**

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

	June 30, 2007	December 31, 2006
Assets		
Cash and due from banks	\$ 44,366	\$ 60,465
Federal funds sold and interest-bearing deposits in other banks	63,115	99,203
Total cash and cash equivalents	107,481	159,668
Securities available-for-sale, amortized cost \$373,390 and \$423,707, respectively	367,022	415,481
Securities held-to-maturity, market value \$250,008 and \$258,420, respectively	256,741	265,712
Loans, net:		
Commercial & industrial	126,445	117,497
Construction & land development	55,082	49,709
Commercial real estate	298,243	327,040
Residential real estate	168,317	167,946
Consumer & other	14,065	11,201
Home equity	60,081	63,380
Total loans, net	722,233	736,773
Less: allowance for loan losses	9,314	9,713
Net loans	712,919	727,060
Bank premises and equipment	23,224	22,955
Accrued interest receivable	6,959	7,372
Goodwill	2,714	2,714
Core deposit intangible	1,865	2,059
Other assets	44,035	41,269
Total assets	\$ 1,522,960	\$ 1,644,290
Liabilities		
Deposits:		
Demand deposits	\$ 269,394	\$ 283,449
Savings and NOW deposits	280,663	274,231
Money market accounts	270,590	301,188

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Time deposits	313,407	410,097
Total deposits	1,134,054	1,268,965
Securities sold under agreements to repurchase	85,590	86,960
Other borrowed funds	135,183	123,023
Subordinated debentures	36,083	36,083
Other liabilities	22,400	22,441
Total liabilities	1,413,310	1,537,472

Stockholders Equity

Class A common stock, \$1.00 par value per share; authorized 10,000,000 shares; issued 3,513,704 shares and 3,498,738 shares, respectively	3,514	3,499
Class B common stock, \$1.00 par value per share; authorized 5,000,000 shares; issued 2,028,600 shares and 2,042,450 shares, respectively	2,028	2,042
Additional paid-in capital	11,532	11,505
Retained earnings	101,400	99,859
	118,474	116,905
Unrealized losses on securities available-for-sale, net of taxes	(3,974)	(5,111)
Additional pension liability, net of taxes	(4,850)	(4,976)
Total accumulated other comprehensive loss, net of taxes	(8,824)	(10,087)
Total stockholders equity	109,650	106,818
Total liabilities and stockholders equity	\$ 1,522,960	\$ 1,644,290

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 June		Six months ended June 30,	
	2007	30, 2006	2007	2006
Interest income				
Loans	\$ 13,132	\$ 12,912	\$ 26,103	\$ 24,847
Securities held-to-maturity	2,350	2,555	4,746	5,168
Securities available-for-sale	3,451	4,215	7,003	8,824
Federal funds sold and interest-bearing deposits in other banks	1,904	51	3,731	81
Total interest income	20,837	19,733	41,583	38,920
Interest expense				
Savings and NOW deposits	1,590	1,159	3,182	2,082
Money market accounts	2,436	2,361	4,822	4,139
Time deposits	4,047	3,731	8,657	6,912
Securities sold under agreements to repurchase	771	785	1,544	1,200
Other borrowed funds and subordinated debentures	2,204	2,620	4,387	6,183
Total interest expense	11,048	10,656	22,592	20,516
Net interest income	9,789	9,077	18,991	18,404
Provision for loan losses	300	225	600	375
Net interest income after provision for loan losses	9,489	8,852	18,391	18,029
Other operating income				
Service charges on deposit accounts	1,863	1,702	3,649	3,218
Lockbox fees	823	762	1,557	1,437
Brokerage commissions	37	30	61	78
Other income	369	279	674	1,167
Total other operating income	3,092	2,773	5,941	5,900
Operating expenses				
Salaries and employee benefits	6,287	6,001	12,500	12,249
Occupancy	918	921	1,914	1,966
Equipment	773	785	1,506	1,520

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Other	2,269	2,418	4,629	4,555
Total operating expenses	10,247	10,125	20,549	20,290
Income before income taxes	2,334	1,500	3,783	3,639
Provision for income taxes	711	527	1,156	1,236
Net income	\$ 1,623	\$ 973	\$ 2,627	\$ 2,403

Share data:

Weighted average number of shares outstanding, basic	5,542,304	5,541,088	5,541,768	5,540,807
Weighted average number of shares outstanding, diluted	5,548,105	5,550,784	5,549,651	5,551,746
Net income per share, basic	\$ 0.29	\$ 0.18	\$ 0.47	\$ 0.43
Net income per share, diluted	\$ 0.29	\$ 0.18	\$ 0.47	\$ 0.43
Cash dividends paid:				
Class A common stock	\$ 0.12	\$ 0.12	\$ 0.24	\$ 0.24
Class B common stock	\$ 0.06	\$ 0.06	\$ 0.12	\$ 0.12

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.
Consolidated Statements of Changes in Stockholders Equity (unaudited)
For the Six Months Ended June 30, 2007 and 2006

	Class		Additional Paid-In Capital	Retained Earnings	Accumulated	Total Stockholders Equity
	Class A Common Stock	Class B Common Stock			Other Comprehensive Loss	
				(In thousands)		
Balance at December 31, 2005	\$ 3,453	\$ 2,082	\$ 11,416	\$ 97,338	\$ (11,088)	\$ 103,201
Net income				2,403		2,403
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period net of \$748 in taxes					(1,220)	(1,220)
Comprehensive income						1,183
Conversion of Class B common stock to Class A common stock, 24,790 shares	25	(25)				
Stock options exercised, 5,646 shares	6		88			94
Cash dividends paid, Class A common stock, \$.24 per share				(836)		(836)
Cash dividends paid, Class B common stock, \$.12 per share				(248)		(248)
Balance at June 30, 2006	\$ 3,484	\$ 2,057	\$ 11,504	\$ 98,657	\$ (12,308)	\$ 103,394
Balance at December 31, 2006	\$ 3,499	\$ 2,042	\$ 11,505	\$ 99,859	\$ (10,087)	\$ 106,818
Net income				2,627		2,627
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period net of \$721 in taxes					1,137	1,137
Pension liability adjustment, net of \$88 in taxes					126	126

Comprehensive income							3,890
Conversion of Class B common stock to Class A common stock, 13,850 shares	14	(14)					
Stock options exercised, 1,116 shares	1		27				28
Cash dividends paid, Class A common stock, \$.24 per share					(840)		(840)
Cash dividends paid, Class B common stock, \$.12 per share					(246)		(246)
Balance at June 30, 2007	\$ 3,514	\$ 2,028	\$ 11,532	\$ 101,400	\$ (8,824)	\$	109,650

See accompanying notes to unaudited consolidated interim financial statements.

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

	Six months ended June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 2,627	\$ 2,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	600	375
Deferred income taxes	(357)	(395)
Net depreciation and amortization	1,788	1,829
Decrease in accrued interest receivable	413	200
Increase in other assets	(3,243)	(2,824)
Increase in other liabilities	198	1,010
 Net cash provided by operating activities	 2,026	 2,598
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of securities available-for-sale	99,889	50,842
Purchase of securities available-for-sale	(49,721)	(348)
Proceeds from maturities of securities held-to-maturity	9,008	11,047
Net decrease (increase) in loans	13,541	(55,650)
Capital expenditures	(1,751)	(175)
 Net cash provided by investing activities	 70,966	 5,716
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in time deposits	(96,690)	(43,175)
Net (decrease) increase in demand, savings, money market and NOW deposits	(38,221)	74,008
Net proceeds from the exercise of stock options	28	94
Cash dividends	(1,086)	(1,084)
Net (decrease) increase in securities sold under agreements to repurchase	(1,370)	89,450
Net increase (decrease) in other borrowed funds	12,160	(190,398)
 Net cash used in financing activities	 (125,179)	 (71,105)
 Net decrease in cash and cash equivalents	 (52,187)	 (62,791)
Cash and cash equivalents at beginning of period	159,668	152,679
 Cash and cash equivalents at end of period	 \$ 107,481	 \$ 89,888
 SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	\$ 23,497	\$ 20,492

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Income taxes	1,472	1,931
Change in unrealized losses on securities available-for-sale, net of taxes	1,137	(1,220)
Pension liability adjustment, net of taxes	126	
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 Six Months Ended June 30, 2007 and 2006

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). CSII, CSII II, CSII III are engaged in buying, selling and holding investment securities. The Company also owns 100% of Century Bancorp Capital Trust II (CBCT II). The entity is an unconsolidated subsidiary of the Company.

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

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and to general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The Company's Quarterly report on Form 10-Q should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the Securities and Exchange Commission.

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

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

Table of Contents**Note 2. Stock Option Accounting**

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

	Amount	June 30, 2007 Weighted Average Exercise Price
Shares under option:		
Outstanding at beginning of year	122,737	\$ 27.20
Granted		
Cancelled	(11,484)	24.99
Exercised	(1,116)	24.75
Outstanding at end of period	110,137	\$ 27.45
Exercisable at end of period	110,137	\$ 27.45
Available to be granted at end of period	162,909	

On June 30, 2007, the outstanding options to purchase 110,137 shares of Class A common stock have exercise prices between \$15.063 and \$35.010, with a weighted average exercise price at \$27.45 and a weighted average remaining contractual life of 4.6 years. The weighted average intrinsic value of options exercised for the six-month period ended June 30, 2007 was \$1.83 per share with an aggregate value of \$2,000. The average intrinsic value of options exercisable at June 30, 2007 had an aggregate value of \$96,000.

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 2007.

Note 3. 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.

Table of Contents**Note 3. Employee Benefits (continued)****Components of Net Periodic Benefit Cost for the Three Months Ending June 30,**

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2007	2006	2007	2006
	(In thousands)			
Service Cost	\$ 217	\$ 221	\$ 27	\$ 27
Interest	270	249	190	191
Expected Return on Plan Assets	(278)	(254)		
Recognized Prior Service (Cost) Benefit	(29)	(29)	16	16
Recognized Net Actuarial Losses	100	93	20	28
Net Periodic Benefit Cost	\$ 280	\$ 280	\$ 253	\$ 262

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

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2007	2006	2007	2006
	(In thousands)			
Service Cost	\$ 434	\$ 442	\$ 54	\$ 54
Interest	540	498	379	382
Expected Return on Plan Assets	(555)	(508)		
Recognized Prior Service (Cost) Benefit	(58)	(58)	32	32
Recognized Net Actuarial Losses	200	186	40	55
Net Periodic Benefit Cost	\$ 561	\$ 560	\$ 505	\$ 523

Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute \$1,560,000 to the Pension Plan in 2007. As of June 30, 2007, \$780,000 of the contribution had been made. The Company expects to contribute an additional \$780,000 by the end of the year.

Effective December 31, 2006, the Company adopted 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 have not yet been included in net periodic benefit cost as of the end of 2006, the fiscal year in which the Statement is initially applied are 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 of SFAS 158. The Company recognized \$126,000, net of tax during the first six months of 2007, as amortization of amounts previously recognized in accumulated other comprehensive income.

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Note 3. Employee Benefits (continued)

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.

Note 4. Bank Premises and Equipment

On June 13, 2007, the Company entered into a lease arrangement with Sloane Enterprises, LLC, a company affiliated with the Company's Chairman, Marshall M. Sloane. The lease is for banking office space and the term will be for a period of fifteen years. The annual base rent amount will be \$28,500 with annual increases based on the consumer price index, but not less than 2% per year. The Company is also required to pay 25% of all real estate taxes and operating costs. The lease contains options to extend the lease for three additional five year periods. The lease will be effective the earlier of September 1, 2007 or the date the Company occupies the property. The terms of the lease are based on an independent appraisal of the property and are considered to be market terms.

Note 5. Income Taxes

The Company classifies interest resulting from underpayment of income taxes as income tax expense in the first period the interest would begin accruing according to the provisions of the relevant tax law.

The Company classifies penalties resulting from underpayment of income taxes as income tax expense in the period for which the Company claims or expects to claim an uncertain tax position or in the period in which the Company's judgment changes regarding an uncertain tax position.

In July 2006 the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109,

Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company's results of operation or its financial position.

Note 6. Recent Accounting Developments

In September 2006, the FASB issued SFAS 157, Fair Value Measurements, which among other things, requires enhanced disclosures about financial instruments carried at fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007. SFAS 157 establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels defined by the SFAS 157 hierarchy are as follows:

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

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Note 6. Recent Accounting Developments (continued)

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 Company is currently evaluating the impact SFAS 157 will have upon adoption.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities, which gives entities the option to measure eligible financial assets, and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company's first fiscal year after November 15, 2007. The Company is continuing to analyze the impact of SFAS 159 upon adoption on January 1, 2008.

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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 \$1.5 billion as of June 30, 2007. The Company presently operates 22 banking offices in 16 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank's customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts. During the quarter ended June 30, 2006, the Company closed its branch on Atlantic Avenue in Boston and transferred its customers to the nearby State Street branch.

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

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Executive Overview (continued)

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 Independent Financial Marketing Group, a full service securities brokerage business.

The Company is also a provider of financial services, including cash management, transaction processing and short term financing to municipalities in Massachusetts and Rhode Island. The Company has deposit relationships with approximately 35% of the 351 cities and towns in Massachusetts.

Earnings for the second quarter ended June 30, 2007 were \$1,623,000, or \$0.29 per share diluted, compared to net income of \$973,000, or \$0.18 per share diluted, for the second quarter ended June 30, 2006. Excluded from income for the second quarter of 2006 was approximately \$170,000 of Federal Home Loan Bank (FHLB) stock dividend income that was not recorded because the FHLB did not declare a dividend. The dividend was declared during the third quarter of 2006. For the first six months of 2007, net income totaled \$2,627,000, or \$0.47 per share diluted, compared to net income of \$2,403,000, or \$0.43 per share diluted, for the same period a year ago. Included in income for 2006 is a pre-tax gain of \$600,000 from the sale of the Company's rights to future royalty payments for a portion of its Merchant Credit Card customer base.

Throughout 2007, the Company has seen improvement in its net interest margin as illustrated in the graph below:

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Table of Contents**Executive Overview (continued)**

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

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

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

the maturity of lower-yielding investment securities

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.

In addition, a great deal of emphasis has been placed on cost control during 2007 as evident by the modest increase of just over 1% in operating expenses for both the quarter and year-to-date periods ended June 30, 2007 as compared to the comparable 2006 periods.

Financial Condition**Loans**

On June 30, 2007, total loans outstanding, net of unearned discount, were \$722.2 million, a decrease of 2.0% from the total on December 31, 2006. At June 30, 2007, commercial real estate loans accounted for 40.6% and residential real estate loans, including home equity credit lines, accounted for 31.6% of total loans.

Commercial and industrial loans increased to \$126.4 million at June 30, 2007 from \$117.5 million on December 31, 2006. Construction loans increased to \$55.1 million at June 30, 2007 from \$49.7 million on December 31, 2006.

The primary reason for the decrease in loans was due in large part to an increase in loan payoffs.

Allowance for Loan Losses

The allowance for loan losses was 1.29% of total loans on June 30, 2007 compared with 1.32% on December 31, 2006. The ratio has remained relatively stable. Net charge-offs for the six months ended June 30, 2007 were \$999,000 compared to net charge-offs of \$164,000 for the same period in 2006. Increased provision for loan losses in 2007 as compared to 2006 have been made due primarily to an increase in net charge-offs and an increase in nonaccruing loans offset partially by a decrease in the loan portfolio. 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:

	June 30, 2007	December 31, 2006
	(Dollars in thousands)	
Nonaccruing loans	\$ 1,454	\$ 135
Nonperforming assets	\$ 1,454	\$ 135
Loans past due 90 days or more and still accruing	\$	\$ 789
Nonaccruing loans as a percentage of total loans	.20%	.02%

Table of Contents**Financial Condition (continued)****Cash and Cash Equivalents**

Cash and cash equivalents decreased mainly as a result of decreases in time deposits. Time deposits decreased mainly because of a decreased reliance on higher rate time deposits.

Investments

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

	June 30, 2007		December 31, 2006
		(In thousands)	
Securities Available-for-Sale (at Fair Market Value)			
U.S. Government and U.S. Government Sponsored Enterprises	\$ 192,044	\$	223,027
Other Bonds and Equity Securities	14,323		13,378
Mortgage-backed Securities	160,655		179,076
Total Securities Available-for-Sale	\$ 367,022	\$	415,481
Securities Held-to-Maturity (at Amortized Cost)			
U.S. Government Sponsored Enterprises	\$ 159,978	\$	159,969
Mortgage-backed Securities	96,763		105,743
Total Securities Held-to-Maturity	\$ 256,741	\$	265,712

Securities Available-for-Sale

The securities available-for-sale portfolio totaled \$367.0 million at June 30, 2007, a decrease of 11.7% from December 31, 2006. The portfolio decreased mainly because of a reduction in the size of the balance sheet. Purchases of securities available-for-sale totaled \$49.7 million for the six months ended June 30, 2007. These purchases were made to take advantage of rising rates. The portfolio is concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 2.5 years. Included in U.S. Government and U.S. Government Sponsored Enterprises is one U.S. Government security totaling \$2 million.

Securities Held-to-Maturity

The securities held-to-maturity portfolio totaled \$256.7 million on June 30, 2007, a decrease of 3.4% from the total on December 31, 2006. The portfolio decreased mainly

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Financial Condition (continued)

because of a reduction in the size of the balance sheet. The portfolio is concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 2.2 years.

Other Assets

Other assets increased by \$2.8 million or 6.7%. Other Assets increased mainly because of an increase in the cash surrender value of life insurance policies.

Deposits and Borrowed Funds

On June 30, 2007, deposits totaled \$1.13 billion, representing a 10.6% decrease in total deposits from December 31, 2006. Total deposits decreased primarily as a result of decreases in time deposits, money market deposits and demand deposits, offset somewhat by increases in savings and NOW deposits. Time deposits and money market deposits decreased mainly because of decreases in higher rate deposits. The Company competed less aggressively for these types of deposits. Demand deposits decreased mainly because of a decrease in the amount of customer balances necessary to offset service charges. Savings and NOW deposits increased mainly because the Company competed more aggressively for these types of deposits during the first six months of the year. Borrowed funds totaled \$220.8 million compared to \$210.0 million at December 31, 2006. Borrowed funds remained relatively stable during the quarter.

Results of Operations

Net Interest Income

For the three months ended June 30, 2007, net interest income totaled \$9.8 million compared to \$9.1 million for the same period in 2006, an increase of \$712,000 or 7.8%. This increase in net interest income is due to an increase of 26 basis points in the net interest margin, from 2.38% on a fully taxable equivalent basis in 2006 to 2.64% on the same basis for 2007. Included in interest income for the 2007 period is \$287,000 of prepayment fees collected on loans as compared to \$37,000 for the comparable period in 2006. Excluded from interest income for the second quarter of 2006 was approximately \$170,000 of Federal Home Loan Bank (FHLB) stock dividend income that was not recorded because the FHLB did not declare a dividend. The dividend was declared during the third quarter of 2006.

For the six months ended June 30, 2007, net interest income totaled \$19.0 million compared to \$18.4 million for the same period in 2006, an increase of \$587,000 or 3.2%. This increase in net interest income is due to an increase of 12 basis points in the net interest margin, from 2.40% on a fully taxable equivalent basis in 2006 to 2.52% on the same basis for 2007. Included in interest income for the six months ended June 30, 2007 was \$418,000 of prepayment fees collected on loans as compared to \$85,000 for the comparable 2006 period.

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. Management believes that the relatively flat yield curve environment will continue to present challenges as deposit and borrowing costs may have the potential to increase at a faster rate than corresponding asset categories.

Table of Contents**Results of Operations (continued)**

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

	Three Months Ended					
	June 30, 2007			June 30, 2006		
	Average Balance	Interest	(Yield/Rate)	Average Balance	Interest	(Yield/Rate)
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans (2)	\$ 714,082	\$ 13,151	7.38%	\$ 733,169	\$ 12,912	7.06%
Securities available-for-sale						
Taxable	365,386	3,451	3.78%	514,307	4,211	3.27%
Tax-exempt	17		5.97%	557	7	5.01%
Securities held-to-maturity						
Taxable	259,258	2,349	3.62%	278,428	2,554	3.67%
Federal funds sold	144,760	1,903	5.26%	3,988	49	4.90%
Interest bearing deposits in other banks	172	2	4.62%	172	2	4.50%
Total interest earning assets	1,483,675	20,856	5.63%	1,530,621	19,735	5.17%
Non interest-earning assets						
Allowance for loan losses	128,855			120,216		
	(9,770)			(9,510)		
Total assets	\$ 1,602,760			\$ 1,641,327		
Liabilities and Stockholders' Equity						
Interest bearing deposits:						
NOW account	\$ 208,601	\$ 1,086	2.09%	215,295	\$ 1,013	1.89%
Savings accounts	102,304	504	1.98%	76,993	146	0.76%
Money market accounts	297,753	2,436	3.28%	332,203	2,361	2.85%
Time deposits	344,429	4,047	4.71%	344,728	3,731	4.34%
Total interest-bearing deposits	953,087	8,073	3.40%	969,219	7,251	3.00%
Securities sold under agreements to repurchase	83,073	771	3.72%	78,176	785	4.03%
Other borrowed funds and subordinated debentures	156,884	2,204	5.63%	190,361	2,620	5.52%
Total interest-bearing liabilities	1,193,044	11,048	3.71%	1,237,756	10,656	3.45%
Non interest-bearing liabilities:						
Demand deposits	276,860			280,602		
Other liabilities	23,449			19,470		
Total liabilities	1,493,353			1,537,828		
Stockholders' equity	109,407			103,499		

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Total liabilities & stockholders equity	\$ 1,602,760	\$ 1,641,327
Less taxable equivalent adjustment	(19)	(2)
Net interest income	\$ 9,789	\$ 9,077
Net interest spread (3)	1.92%	1.72%
Net interest margin (4)	2.64%	2.38%

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

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

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

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

Table of Contents**Results of Operations (continued)**

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

	Six Months Ended					
	June 30, 2007			June 30, 2006		
	Average Balance	Average Interest	Average (Yield/Rate)	Average Balance	Average Interest	Average (Yield/Rate)
	(dollars in thousands)					
Assets						
Interest-earning assets:						
Loans (2)	\$ 719,945	\$ 26,136	7.31%	\$ 717,833	\$ 24,847	6.97%
Securities available-for-sale						
Taxable	380,707	7,003	3.68%	525,637	8,815	3.35%
Tax-exempt	9		5.63%	569	14	4.98%
Securities held-to-maturity						
Taxable	261,474	4,746	3.63%	281,173	5,168	3.68%
Federal funds sold	142,695	3,727	5.22%	3,504	79	4.50%
Interest bearing deposits in other banks	191	4	2.30%	112	3	2.27%
Total interest earning assets	1,505,021	41,616	5.55%	1,528,828	38,926	5.11%
Non interest-earning assets						
Allowance for loan losses	(9,793)			(9,452)		
Total assets	\$ 1,624,385			\$ 1,640,021		
Liabilities and Stockholders' Equity						
Interest bearing deposits:						
NOW account	\$ 205,119	\$ 2,175	2.14%	209,958	\$ 1,870	1.80%
Savings accounts	103,195	1,007	1.97%	74,478	212	0.57%
Money market accounts	297,938	4,822	3.26%	317,309	4,139	2.63%
Time deposits	367,396	8,657	4.75%	334,035	6,912	4.17%
Total interest-bearing deposits	973,648	16,661	3.45%	935,780	13,133	2.83%
Securities sold under agreements to repurchase	83,599	1,544	3.72%	65,288	1,200	3.71%
Other borrowed funds and subordinated debentures	156,814	4,387	5.64%	234,448	6,183	5.32%
Total interest-bearing liabilities	1,214,061	22,592	3.75%	1,235,516	20,516	3.35%
Non interest-bearing liabilities						
Demand deposits	278,371			281,730		
Other liabilities	23,338			19,069		
Total liabilities	1,515,770			1,536,315		
Stockholders' equity	108,615			103,706		
Total liabilities & stockholders equity	\$ 1,624,385			\$ 1,640,021		

Less Taxable Equivalent Adjustments	(33)	(6)
Net interest income	\$ 18,991	\$ 18,404
Net interest spread (3)	1.80%	1.76%
Net interest margin (4)	2.52%	2.40%