CENTURY BANCORP INC
Form 10-Q
May 06, 2011

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

(Mark One)

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

For the quarterly period ended March 31, 2011.

or

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

Commission file number: 0-15752
CENTURY BANCORP, INC.

(Exact name of registrant as specified in its charter)

COMMONWEALTH OF MASSACHUSETTS	**04-2498617**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
400 MYSTIC AVENUE, MEDFORD, MA	**02155**
(Address of principal executive offices)	(Zip Code)

(781) 391-4000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes o 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).
o Yes o 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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes þ No

As of April 30, 2011, the Registrant had outstanding:

Class A Common Stock, $1.00 par value	**3,543,717 Shares**

Class B Common Stock, $1.00 par value	**1,996,880 Shares**

Century Bancorp, Inc.

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Forward Looking Statements

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

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PART I Item 1

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

	March 31, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 41,276	$ 37,215
Federal funds sold and interest-bearing deposits in other banks	197,457	151,337
Total cash and cash equivalents	238,733	188,552
Short-term investments	110,951	113,918
Securities available-for-sale, amortized cost $967,693 and $903,556, respectively	972,359	909,391
Securities held-to-maturity, fair value $206,737 and $233,524, respectively	204,100	230,116
Federal Home Loan Bank of Boston stock, at cost	15,531	15,531
Loans, net:		
Commercial and industrial	90,696	90,654
Construction and land development	54,027	53,583
Commercial real estate	448,772	433,337
Residential real estate	231,876	207,787
Home equity	113,151	114,209
Consumer and other	6,340	6,594
Total loans, net	944,862	906,164
Less: allowance for loan losses	14,958	14,053
Net loans	929,904	892,111
Bank premises and equipment	21,020	21,228
Accrued interest receivable	6,568	6,601
Goodwill	2,714	2,714
Core deposit intangible	411	508
Other assets	61,236	61,014
Total assets	$ 2,563,527	$ 2,441,684
Liabilities		
Deposits:		

Demand deposits	$ 312,253	$ 322,002
Savings and NOW deposits	668,236	649,402
Money market accounts	552,193	513,359
Time deposits	499,696	417,260
Total deposits	2,032,378	1,902,023
Securities sold under agreements to repurchase	119,590	108,550
Other borrowed funds	198,143	222,118
Subordinated debentures	36,083	36,083
Due to broker	1,250	
Other liabilities	28,463	27,885
Total liabilities	2,415,907	2,296,659
Stockholders Equity		
Preferred stock $1.00 par value; 100,000 shares authorized; no shares issued and outstanding		
Class A common stock, $1.00 par value per share; authorized 10,000,000 shares; issued 3,543,717 shares and 3,528,867 shares, respectively	3,544	3,529
Class B common stock, $1.00 par value per share; authorized 5,000,000 shares; issued 1,996,880 and 2,011,380 shares, respectively	1,997	2,011
Additional paid-in capital	11,542	11,537
Retained earnings	134,707	131,526
	151,790	148,603
Unrealized gains on securities available-for-sale, net of taxes	2,906	3,593
Pension liability, net of taxes	(7,076)	(7,171)
Total accumulated other comprehensive income (loss), net of taxes	(4,170)	(3,578)
Total stockholders equity	147,620	145,025
Total liabilities and stockholders equity	$ 2,563,527	$ 2,441,684

See accompanying notes to unaudited consolidated interim financial statements.

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

	Three months ended March 31,	
	2011	**2010**
Interest income		
Loans	$ 12,105	$ 12,112
Securities held-to-maturity	1,773	1,985
Securities available-for-sale	5,353	5,033
Federal funds sold and interest-bearing deposits in other banks	347	378
Total interest income	19,578	19,508
Interest expense		
Savings and NOW deposits	712	1,221
Money market accounts	705	1,224
Time deposits	2,279	1,708
Securities sold under agreements to repurchase	110	219
Other borrowed funds and subordinated debentures	1,845	2,411
Total interest expense	5,651	6,783
Net interest income	13,927	12,725
Provision for loan losses	1,200	1,575
Net interest income after provision for loan losses	12,727	11,150
Other operating income		
Service charges on deposit accounts	1,887	1,923
Lockbox fees	737	700
Net gain on sales of investments	164	378
Other income	747	1,258
Total other operating income	3,535	4,259
Operating expenses		
Salaries and employee benefits	7,341	6,925
Occupancy	1,251	1,068
Equipment	558	550
FDIC assessments	735	650
Other	2,325	2,373

Total operating expenses		12,210		11,566
Income before income taxes		4,052		3,843
Provision for income taxes		327		421
Net income	$	3,725	$	3,422
Share data:				
Weighted average number of shares outstanding, basic		5,540,583		5,530,297
Weighted average number of shares outstanding, diluted		5,562,327		5,533,070
Net income per share, basic	$	0.67	$	0.62
Net income per share, diluted	$	0.67	$	0.62
Cash dividends paid:				
Class A common stock	$	0.12	$	0.12
Class B common stock	$	0.06	$	0.06

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 Three Months Ended March 31, 2011 and 2010

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
	(In thousands)					
Balance at December 31, 2009	$ 3,516	$ 2,014	$ 11,376	$ 120,125	$ (4,301)	$ 132,730
Net income				3,422		3,422
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of $1,527 in taxes and $378 in realized net gains					2,247	2,247
Pension liability adjustment, net of $81 in taxes					122	122
Comprehensive income						5,791
Cash dividends paid, Class A common stock, $.12 per share				(421)		(421)
Cash dividends paid, Class B common stock, $.06 per share				(122)		(122)
Balance at March 31, 2010	$ 3,516	$ 2,014	$ 11,376	$ 123,004	$ (1,932)	$ 137,978
Balance at December 31, 2010	$ 3,529	$ 2,011	$ 11,537	$ 131,526	$ (3,578)	$ 145,025
Net income				3,725		3,725
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $482 in taxes and $164 in realized net gains					(687)	(687)
Pension liability adjustment, net of $63 in taxes					95	95

Comprehensive income						3,133
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, $.12 per share				(424)		(424)
Cash dividends paid, Class B common stock, $.06 per share				(120)		(120)
Balance at March 31, 2011	$ 3,544	$ 1,997	$ 11,542	$ 134,707	$ (4,170)	$ 147,620

See accompanying notes to unaudited consolidated interim financial statements.

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

	Three months ended March 31,	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,725	$ 3,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Net gain on sales of investments	(164)	(378)
Provision for loan losses	1,200	1,575
Deferred income taxes	(421)	(471)
Net depreciation and amortization	1,411	1,474
Decrease (increase) in accrued interest receivable	33	(566)
Decrease in other assets	596	781
Increase (decrease) in other liabilities	748	(669)
Net cash provided by operating activities	7,128	5,168
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	37,098	5,633
Purchase of short-term investments	(34,131)	(123,090)
Proceeds from maturities of securities available-for-sale	99,533	121,737
Proceeds from sales of securities available-for-sale	12,642	14,229
Purchase of securities available-for-sale	(175,589)	(278,267)
Proceeds from maturities of securities held-to-maturity	25,918	22,360
Purchase of securities held-to-maturity		(34,389)
Net increase in loans	(38,981)	(4,705)
Capital expenditures	(319)	(709)
Net cash used in investing activities	(73,829)	(277,201)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in time deposits	82,436	107,019
Net increase in demand, savings, money market and NOW deposits	47,919	13,844
Net proceeds from exercise of stock options	6	
Cash dividends	(544)	(543)
Net increase (decrease) in securities sold under agreements to repurchase	11,040	(5,285)
Net decrease in other borrowed funds	(23,975)	(22,056)
Net cash provided by financing activities	116,882	92,979
Net increase (decrease) in cash and cash equivalents	50,181	(179,054)
Cash and cash equivalents at beginning of period	188,552	398,642

Cash and cash equivalents at end of period	$ 238,733	$ 219,588
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 5,533	$ 6,768
Income taxes	434	860
Change in unrealized gains on securities available-for-sale, net of taxes	(687)	2,247
Pension liability adjustment, net of taxes	95	(122)
Due to broker	1,250	4,546

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.
Notes to Unaudited Consolidated Interim Financial Statements
Three Months Ended March 31, 2011 and 2010

Note 1. Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of Century Bancorp, Inc. (the Company) and its wholly-owned subsidiary, Century Bank and Trust Company (the Bank). The consolidated financial statements also include the accounts of the Bank s wholly-owned subsidiaries: Century Subsidiary Investments, Inc. (CSII); Century Subsidiary Investments, Inc. II (CSII II); and Century Subsidiary Investments, Inc. III (CSII III). CSII, CSII II, CSII III are engaged in buying, selling and holding investment securities. The Company also owns 100% of Century Bancorp Capital Trust II (CBCT II). The entity is an unconsolidated subsidiary of the Company.

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

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and to general practices within the banking industry. In the opinion of management, all adjustments considered necessary for a fair presentation of the financial statements, primarily consisting of normal recurring adjustments, have been included. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The Company s Quarterly report on Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2010, as filed with the Securities and Exchange Commission.

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

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

Note 2. Recent Market Developments

The financial services industry is facing unprecedented challenges in the face of the recent national and global economic crisis. The global and U.S. economies are experiencing significantly reduced business activity. Dramatic declines in the housing market during the past several years, 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 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 $750 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.

On October 14, 2008, the U.S. Treasury announced that it would purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Assets Relief Program Capital Purchase Program (the TARP Capital Purchase Program), the U.S. Treasury made $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 received warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions were 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 had already agreed to participate in the TARP Capital Purchase Program. Subsequently, a number of smaller institutions had 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 guaranteed 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 per participant. In addition, under the TAGP, the FDIC guaranteed 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 annual assessment rate that was applied during the extension period was 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 April 13, 2010 the FDIC approved an interim rule to extend the TAGP to December 31, 2010. The Company continued to participate in the TAGP through December 31, 2010. The interim rule gave the FDIC discretion to extend the program to the end of 2011, without additional rulemaking, if it determines that economic conditions warrant such an extension. On November 9, 2010 the FDIC approved temporary unlimited coverage for noninterest-bearing transaction accounts. This coverage became effective on December 31, 2010, and will end on December 31, 2012.

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 was 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. This rule was finalized on November 2, 2009. As a result, the Company is carrying a prepaid asset of $6.1 million as of March 31, 2011. 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 July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act became law. The Act was intended to address many issues arising in the recent financial crisis and is exceedingly broad in scope affecting many aspects of bank and financial market regulation. The Act requires, or permits by implementing regulation, enhanced prudential standards for banks and bank holding companies inclusive of capital, leverage, liquidity, concentration and exposure measures. In addition, traditional bank regulatory principles such as restrictions on transactions with affiliates and insiders were enhanced. The Act also contains reforms of consumer mortgage lending practices and creates a Bureau of Consumer Financial Protection which is granted broad authority over consumer financial practices of banks and others. It is expected as the specific new or incremental requirements applicable to the company become effective that the costs and difficulties of remaining compliant with all such requirements will increase. The Act broadens the base for FDIC assessments to average consolidated assets less tangible equity of financial institutions and also permanently raises the current standard maximum FDIC deposit insurance amount to $250,000. The Act extends unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2013.

Note 3. Stock Option Accounting

Stock option activity under the Company s stock option plan for the three months ended March 31, 2011 is as follows:

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

On March 31, 2011, the outstanding options to purchase 38,162 shares of Class A common stock have exercise prices between $22.50 and $35.01, with a weighted average exercise price of $28.55 and a weighted average remaining contractual life of 2.5 years. The intrinsic value of options exercisable at March 31, 2011 had an aggregate value of $35,089. The intrinsic value of options exercised at March 31, 2011 had an aggregate value of $4,085.

The Company uses the fair value method to account for stock options. All of the Company s stock options are vested and there were no options granted during the first three months of 2011.

Note 4. Securities Available-for-Sale

	March 31, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(In thousands)				
U.S. Treasury	**$ 2,000**	**$ 1**	**$**	**$ 2,001**	$ 2,000	$ 5	$	$ 2,005
U.S. Government Sponsored Enterprises	**247,421**	**274**	**649**	**247,046**	175,842	386	565	175,663
Small Business Administration	**9,462**	**27**		**9,489**	9,735	1	4	9,732
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**671,707**	**9,959**	**4,685**	**676,981**	674,481	11,842	5,425	680,898
Privately Issued Residential Mortgage Backed Securities	**4,062**		**127**	**3,935**	4,247		279	3,968
Privately Issued Commercial Mortgage Backed Securities	**244**			**244**	285	2		287
	30,102	**93**	**291**	**29,904**	34,271	98	295	34,074

Obligations Issued by States and Political Subdivisions								
Other Debt Securities	**2,300**		**60**	**2,240**	2,300		47	2,253
Equity Securities	**395**	**124**		**519**	395	116		511
Total	**$ 967,693**	**$ 10,478**	**$ 5,812**	**$ 972,359**	$ 903,556	$ 12,450	$ 6,615	$ 909,391

Included in U.S. Government Sponsored Enterprise Securities and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities are securities at fair value pledged to secure public deposits and repurchase agreements amounting to $380,027,000 and $363,240,000 at March 31, 2011 and December 31, 2010, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank amounting to $242,891,000 and $124,189,000 at March 31, 2011 and December 31, 2010, respectively. The Company realized gross gains of $164,000 from the proceeds of $12,642,000 from the sales of available-for-sale securities for the three months ended March 31, 2011. The Company realized gross gains of $378,000 from the proceeds of $14,229,000 from the sales of available-for-sale securities for the three months ended March 31, 2010.

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The following table shows the maturity distribution of the Company s securities available-for-sale at March 31, 2011.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	$ 52,671	$ 53,632
After one but within five years	690,516	696,247
After five but within ten years	201,533	199,494
More than 10 years	21,077	21,027
Non-maturing	1,896	1,959
Total	$ 967,693	$ 972,359

The weighted average remaining life of investment securities available-for-sale at March 31, 2011 was 4.4 years. Included in the weighted average remaining life calculation at March 31, 2011 was $247,046,000 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, 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 March 31, 2011. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 76 and 5 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 348 holdings at March 31, 2011.

	March 31, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Temporarily Impaired Investments*						
U.S. Government Sponsored Enterprises	$ 126,287	$ 649	$	$	$ 126,287	$ 649
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	218,012	4,685			218,012	4,685
Privately Issued Residential Mortgage Backed Securities	1,452	35	2,483	92	3,935	127
Obligations Issued by States and Political Subdivisions	7,108	6	4,393	285	11,501	291
Other Debt Securities			1,440	60	1,440	60
Total temporarily impaired securities	$ 352,859	$ 5,375	$ 8,316	$ 437	$ 361,175	$ 5,812

* At March 31, 2011, 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 March 31, 2011.

As of March 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

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before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade.

In evaluating the underlying credit quality of a security, management considers several factors such as the credit rating of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary.

The change in the unrealized losses on the state and municipal securities and the nonagency mortgage-backed securities were primarily caused by changes in credit spreads and liquidity issues in the marketplace.

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

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 31, 2010. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 59 and 5 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 345 holdings at December 31, 2010. The Company believes that the investments are temporarily impaired.

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

* At December 31, 2010, 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 December 31, 2010.

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Note 5. Investment Securities Held-to-Maturity

	March 31, 2011				December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
U.S. Government Sponsored Enterprises	**$ 69,531**	**$ 72**	**$ 629**	**$ 68,974**	$ 84,534	$ 148	$ 488	$ 84,194
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**134,569**	**4,502**	**1,308**	**137,763**	145,582	5,246	1,498	149,330
Total	**$ 204,100**	**$ 4,574**	**$ 1,937**	**$ 206,737**	$ 230,116	$ 5,394	$ 1,986	$ 233,524

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to $9,576,000 and $10,000,000 at March 31, 2011 and December 31, 2010, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank of Boston at fair value amounting to $67,368,000 and $79,844,000 at March 31, 2011 and December 31, 2010, respectively.

At March 31, 2011 and December 31, 2010, all mortgage-backed securities are obligations of U.S. Government Agencies and Government Sponsored Enterprises. Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.

The following table shows the maturity distribution of the Company s securities held-to-maturity at March 31, 2011.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	**$ 5,782**	**$ 5,919**
After one but within five years	**108,328**	**112,540**
After five but within ten years	**89,699**	**87,976**
More than ten years	**291**	**302**
Total	**$ 204,100**	**$ 206,737**

The weighted average remaining life of investment securities held-to-maturity at March 31, 2011 was 4.5 years. Included in the weighted average remaining life calculation at March 31, 2011 were $69,531,000 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 March 31, 2011. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 13 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 98 holdings at March 31, 2011.

As of March 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.

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.

	March 31, 2011					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments*	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(Dollars in thousands)			
U.S. Government Sponsored Enterprises	**$ 34,405**	**$ 629**	**$**	**$**	**$ 34,405**	**$ 629**
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	**42,647**	**1,308**			**42,647**	**1,308**
Total temporarily impaired securities	**$ 77,052**	**$ 1,937**	**$**	**$**	**$ 77,052**	**$ 1,937**

* The unrealized loss on U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities related primarily to interest rates and not credit quality, and because the Company does not intend to sell any of these securities and it is not likely that it will be required to sell these securities before the anticipated recovery of the remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at March 31, 2011.

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 31, 2010. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 11 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 101 holdings at December 31, 2010.

	December 31, 2010					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments*	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
U.S. Government Sponsored Enterprises	$ 29,491	$ 488	$	$	$ 29,491	$ 488
U.S. Government Agency and Sponsored Enterprise	37,628	1,498			37,628	1,498

Mortgage-Backed Securities						
Total temporarily impaired securities	$ 67,119	$ 1,986	$	$	$ 67,119	$ 1,986

* 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, 2010.

Note 6. Allowance for Loan Losses

The Company maintains an allowance for loan losses in an amount determined by management on the basis of the character of the loans, loan performance, the financial

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condition of borrowers, the value of collateral securing loans and other relevant factors. The following table summarizes the changes in the Company s allowance for loan losses for the years indicated.

	Three months ended March 31, 2011	2010
	(in thousands)	
Allowance for loan losses, beginning of period	**$ 14,053**	$ 12,373
Loans charged off	**(589)**	(832)
Recoveries on loans previously charged-off	**294**	113
Net charge-offs	**(295)**	(719)
Provision charged to expense	**1,200**	1,575
Allowance for loan losses, end of period	**$ 14,958**	$ 13,229

Further information pertaining to the allowance for loan losses at March 31, 2011 follows:

	Construction and Land Development	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
	(Dollars in thousands)							
Allowance for loan losses:								
Balance at December 31, 2010	**$ 1,752**	**$ 3,163**	**$ 5,671**	**$ 1,718**	**$ 298**	**$ 725**	**$ 726**	**$ 14,053**
Charge-offs		**(156)**		**(279)**	**(154)**			**(589)**
Recoveries		**146**		**14**	**134**			**294**
Provision	**226**	**479**	**350**	**348**	**8**	**(18)**	**(193)**	**1,200**
Ending balance at March 31, 2011	**$ 1,978**	**$ 3,632**	**$ 6,021**	**$ 1,801**	**$ 286**	**$ 707**	**$ 533**	**$ 14,958**
Amount of allowance for loan losses for loans deemed to be impaired	**$**	**$ 709**	**$ 351**	**$ 1**	**$**	**$**	**$**	**1,061**
Amount of allowance for loan losses for loans not deemed to be impaired	**$ 1,978**	**$ 2,923**	**$ 5,670**	**$ 1,800**	**$ 286**	**$ 707**	**$ 533**	**$ 13,897**

Loans:

Ending balance	**$ 54,027**	**$ 90,696**	**$ 448,772**	**$ 231,876**	**$ 6,340**	**$ 113,151**	**$**	**$ 944,862**
Loans deemed to be impaired	**$ 4,000**	**$ 1,430**	**$ 6,069**	**$ 34**	**$**	**$**	**$**	**$ 11,533**
Loans not deemed to be impaired	**$ 50,027**	**$ 89,266**	**$ 442,703**	**$ 231,842**	**$ 6,340**	**$ 113,151**	**$**	**$ 933,329**

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

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Construction	Commercial	Commercial	Residential