CENTURY BANCORP INC
Form 10-Q
May 08, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014.

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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), (2) has been subject to such filing requirements for the past 90 days. x 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). x 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	x
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 x No

As of April 30, 2014, the Registrant had outstanding:

Class A Common Stock, $1.00 par value	**3,582,529 Shares**
Class B Common Stock, $1.00 par value	**1,974,180 Shares**

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Century Bancorp, Inc.

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PART I - Item 1

Century Bancorp, Inc.

Consolidated Balance Sheets (unaudited)

(In thousands, except share data)

	March 31, 2014	December 31, 2013
Assets		
Cash and due from banks	$ 80,087	$ 59,956
Federal funds sold and interest-bearing deposits in other banks	83,306	34,722
Total cash and cash equivalents	163,393	94,678
Short-term investments	4,625	4,617
Securities available-for-sale, amortized cost $474,586 and $465,943, respectively	473,302	464,245
Securities held-to-maturity, fair value $1,468,731 and $1,464,449, respectively	1,478,450	1,487,884
Federal Home Loan Bank of Boston stock, at cost	18,872	18,072
Loans, net:		
Commercial and industrial	95,775	92,402
Construction and land development	25,928	33,058
Commercial real estate	708,551	713,327
Residential real estate	290,465	286,041
Home equity	133,800	130,277
Consumer and other	9,542	9,658
Total loans, net	1,264,061	1,264,763
Less: allowance for loan losses	21,259	20,941
Net loans	1,242,802	1,243,822
Bank premises and equipment	23,450	23,400
Accrued interest receivable	6,338	6,539
Goodwill	2,714	2,714
Other assets	86,101	85,183
Total assets	$ 3,500,047	$ 3,431,154
Liabilities		
Deposits:		
Demand deposits	$ 489,679	$ 475,862
Savings and NOW deposits	1,018,871	992,796

Money Market Accounts	874,264	864,957
Time deposits	381,199	382,224
Total deposits	2,764,013	2,715,839
Securities sold under agreements to repurchase	210,650	214,440
Other borrowed funds	272,644	255,144
Subordinated debentures	36,083	36,083
Due to broker	1,000	
Other liabilities	33,575	33,176
Total liabilities	3,317,965	3,254,682
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 3,582,479 shares and 3,580,404 shares, respectively	3,583	3,580
Class B common stock, $1.00 par value per share; authorized 5,000,000 shares; issued 1,974,180 and 1,976,180 shares, respectively	1,974	1,976
Additional paid-in capital	11,934	11,932
Retained earnings	185,130	180,747
	202,621	198,235
Unrealized losses on securities available-for-sale, net of taxes	(802)	(1,045)
Unrealized losses on securities transferred to held-to-maturity, net of taxes	(12,743)	(13,667)
Pension liability, net of taxes	(6,994)	(7,051)
Total accumulated other comprehensive loss, net of taxes	(20,539)	(21,763)
Total stockholders equity	182,082	176,472
Total liabilities and stockholders equity	$ 3,500,047	$ 3,431,154

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, 2014	2013
Interest income		
Loans	$ 12,449	$ 11,881
Securities held-to-maturity	7,780	1,520
Securities available-for-sale	820	5,617
Federal funds sold and interest-bearing deposits in other banks	82	119
Total interest income	21,131	19,137
Interest expense		
Savings and NOW deposits	609	610
Money market accounts	639	532
Time deposits	1,085	1,334
Securities sold under agreements to repurchase	101	90
Other borrowed funds and subordinated debentures	2,183	2,026
Total interest expense	4,617	4,592
Net interest income	16,514	14,545
Provision for loan losses	600	750
Net interest income after provision for loan losses	15,914	13,795
Other operating income		
Service charges on deposit accounts	2,034	1,942
Lockbox fees	777	772
Net gains on sales of investments		883
Gains on sales of mortgage loans held for sale	7	170
Other income	652	667
Total other operating income	3,470	4,434
Operating expenses		
Salaries and employee benefits	8,875	8,618
Occupancy	1,442	1,282
Equipment	572	582
FDIC assessments	480	400
Other	2,790	2,583

Total operating expenses		14,159		13,465
Income before income taxes		5,225		4,764
Provision for income taxes		293		288
Net income	$	4,932	$	4,476
Share data:				
Weighted average number of shares outstanding, basic				
Class A		3,582,421		3,569,546
Class B		1,974,180		1,986,880
Weighted average number of shares outstanding, diluted				
Class A		5,558,177		5,557,365
Class B		1,974,180		1,986,880
Basic earnings per share:				
Class A	$	1.08	$	0.98
Class B	$	0.54	$	0.49
Diluted earnings per share				
Class A	$	0.89	$	0.81
Class B	$	0.54	$	0.49

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.

Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)

	Three months ended March 31, 2014	2013
Net income	$ 4,932	$ 4,476
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized gains (losses) arising and transferred during period	243	(2,233)
Less: reclassification adjustment for gains included in net income		(883)
Total unrealized gains (losses) on securities	243	(3,116)
Accretion of net unrealized losses transferred	924	
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	57	173
Other comprehensive income (loss)	1,224	(2,943)
Comprehensive income	$ 6,156	$ 1,533

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, 2014 and 2013

	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, 2012	$ 3,568	$ 1,986	$ 11,891	$ 162,892	$ (347)	$ 179,990
Net income				4,476		4,476
Other comprehensive income, net of tax:						
Unrealized holding (losses) gains arising during period, net of $2,023 in taxes and $883 in realized net gains					(3,116)	(3,116)
Pension liability adjustment, net of $117 in taxes					173	173
Stock options exercised, 1,600 shares	2		40			42
Cash dividends paid, Class A common stock, $.12 per share				(428)		(428)
Cash dividends paid, Class B common stock, $.06 per share				(119)		(119)
Balance at March 31, 2013	$ 3,570	$ 1,986	$ 11,931	$ 166,821	$ (3,290)	$ 181,018
Balance at December 31, 2013	$ 3,580	$ 1,976	$ 11,932	$ 180,747	$ (21,763)	$ 176,472
Net income				4,932		4,932
Other comprehensive income, net of tax:						
Unrealized holding (losses) gains arising during period, net of $170 in taxes					243	243
Unrealized losses accretion on securities transferred to held-to-maturity, net of $583 in taxes					924	924
					57	57

Pension liability adjustment, net of $38 in taxes						
Conversion of class B common stock to class A common stock, 2,000 shares	2	(2)				
Stock options exercised, 75 shares	1		2			3
Cash dividends paid, Class A common stock, $.12 per share				(430)		(430)
Cash dividends paid, Class B common stock, $.06 per share				(119)		(119)
Balance at March 31, 2014	$ 3,583	$ 1,974	$ 11,934	$ 185,130	$ (20,539)	$ 182,082

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, 2014	Three months ended March 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 4,932	$ 4,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Mortgage loans originated for sale	(13,383)	(13,666)
Proceeds from mortgage loans sold	570	10,865
Gain on sales of mortgage loans held for sale	(7)	(170)
Net gain on sales of investments		(883)
Provision for loan losses	600	750
Deferred income taxes	(744)	(441)
Net depreciation and amortization	867	1,619
Decrease (increase) in accrued interest receivable	201	(200)
Increase in other assets	(998)	(3,764)
Increase in other liabilities	493	1,688
Net cash (used in) provided by operating activities	(7,469)	274
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	1,061	6,317
Purchase of short-term investments	(1,069)	(1,061)
Proceeds from calls/maturities of securities available-for-sale	36,157	90,591
Proceeds from sales of securities available-for-sale		87,570
Purchase of securities available-for-sale	(44,658)	(145,429)
Proceeds from calls/maturities of securities held-to-maturity	41,692	14,811
Purchase of securities held-to-maturity	(30,957)	
Net decrease (increase) in loans	13,256	(23,194)
Capital expenditures	(636)	(364)
Net cash provided by investing activities	14,846	29,241
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in time deposits	(1,025)	22,997
Net increase in demand, savings, money market and NOW deposits	49,199	57,805
Net proceeds from exercise of stock options	3	42
Cash dividends	(549)	(547)
Net decrease in securities sold under agreements to repurchase	(3,790)	(4,310)
Net increase (decrease) in other borrowed funds	17,500	(13,000)
Net cash provided by financing activities	61,338	62,987

Net increase in cash and cash equivalents		68,715		92,502
Cash and cash equivalents at beginning of period		94,678		152,283
Cash and cash equivalents at end of period	$	163,393	$	244,785
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	4,583	$	4,594
Income taxes		171		345
Change in unrealized (losses) gains on securities available-for-sale, net of taxes		243		(3,116)
Change in unrealized losses on securities transferred to held-to-maturity, net of taxes		924		
Pension liability adjustment, net of taxes		57		173
Due to broker		1,000		10,019

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, 2014 and 2013

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, and 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, 2013, 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.

Note 2. Recent Market Developments

The financial services industry continues to face challenges in the aftermath of the recent national and global economic crisis. Since June 2009, the U.S. 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 U.S. exports; nevertheless, the pace of economic recovery has been slow. Financial markets have improved since the depths of the crisis but are still unsettled and volatile. There is continued concern about the U.S. economic outlook.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the 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 extended unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012. In addition, the Act added a new Section 13 to the Bank Holding Company Act, the so-called Volcker Rule, (the Rule) which generally restricts certain banking entities such as the Company and its subsidiaries or affiliates, from engaging in proprietary trading activities and owning equity in or sponsoring any private equity or hedge fund. The Rule became effective July 21, 2012. The final implementing regulations for the Rule were issued by various regulatory agencies in December, 2013 and under an extended conformance regulation compliance must be achieved by July 21, 2015. Under the Rule, the Company may be restricted from engaging in proprietary trading, investing in third party hedge or private equity funds or sponsoring new funds unless it qualifies for an exemption from the rule. The Company has little involvement in prohibited proprietary trading or investment activities in covered funds and the Company does not expect that complying with the requirements of the Rule will have any material effect on the Company s financial condition or results of operation.

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. The Company s quarterly risk-based deposit insurance assessments were paid from this amount until June 30, 2013. The Company received a refund of $2.4 million of prepaid FDIC assessments in June 2013.

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance-sheet items. Also, the Basel Committee has issued capital standards entitled Basel III: A global regulatory framework for more resilient banks and banking systems (Basel III). The Federal Reserve Board has finalized its rule implementing the Basel III regulatory capital framework. The rule, that will come into effect in January 2015, sets the Basel III minimum regulatory capital requirements for all organizations. It includes a new common equity Tier I ratio of 4.5 percent of risk-weighted assets, raises the minimum Tier I capital ratio from 4 percent to 6 percent of risk-weighted assets and would set a new conservation buffer of

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2.5 percent of rick-weighted assets. The Company has analyzed the final rules; the implementation of the framework will not have a material impact on the Company s financial condition or results of operations.

The Governor of Massachusetts has proposed a tax plan that would modify existing income tax rules. The governor s plan is part of his budget recommendations for fiscal year 2015, and will subject security corporations to the same tax base and rate as regular business corporations. The proposed tax changes would take effect as of January 1, 2015. The Company is currently analyzing the financial impact of the proposed changes.

Note 3. Stock Option Accounting

Stock option activity under the Company s stock option plan for the three months ended March 31, 2014 is as follows:

	Amount	Weighted Average Exercise Price
Shares under option:		
Outstanding at beginning of year	**20,375**	**$ 31.82**
Exercised	**(75)**	**31.83**
Forfeited		
Outstanding at end of period	**20,300**	**$ 31.82**
Exercisable at end of period	**20,300**	**$ 31.82**
Available to be granted at end of period	**224,884**	

On March 31, 2014, the outstanding options to purchase 20,300 shares of Class A common stock have exercise prices between $31.60 and $31.83, with a weighted average exercise price of $31.82 and a weighted average remaining contractual life of 0.5 years. The intrinsic value of options exercisable at March 31, 2014 had an aggregate value of $46,284. The intrinsic value of options exercised at March 31, 2014 had an aggregate value of $171.

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 quarter of 2014.

Note 4. Securities Available-for-Sale

	March 31, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(In thousands)				
U.S. Treasury	**$ 1,998**	**$ 2**	**$**	**$ 2,000**	$ 1,997	$ 1	$	$ 1,998
U.S. Government Sponsored Enterprises					9,995	9		10,004

Small Business Administration	**7,109**	**40**		**7,149**	7,270	32		7,302
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**426,521**	**825**	**1,331**	**426,015**	404,103	588	1,501	403,190
Privately Issued Residential Mortgage Backed Securities	**2,189**	**18**	**20**	**2,187**	2,294	6	23	2,277
Obligations Issued by States and Political Subdivisions	**34,063**	**8**	**870**	**33,201**	37,578	15	870	36,723
Other Debt Securities	**2,300**		**120**	**2,180**	2,300		125	2,175
Equity Securities	**406**	**164**		**570**	406	170		576
Total	**$ 474,586**	**$ 1,057**	**$ 2,341**	**$ 473,302**	$ 465,943	$ 821	$ 2,519	$ 464,245

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During the third quarter of 2013, securities available-for-sale with an amortized cost of $1,012,370,000 were transferred to securities held-to-maturity at their fair value of $987,037,000 in response to rising interest rates. Rising interest rates have the potential to increase unrealized losses on the available-for-sale portfolio. The transfer was implemented to lessen the effects of rising interest rates.

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 $357,512,000 and $368,137,000 at March 31, 2014 and December 31, 2013, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank of Boston amounting to $30,744,000 and $12,214,000 at March 31, 2014 and December 31, 2013, respectively. There were no realized gains on sales of investments for the three months ended March 31, 2014. The Company realized gross gains of $883,000 from the proceeds of $87,570,000 from the sales of available-for-sale securities for the three months ended March 31, 2013.

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 March 31, 2014.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	**$ 29,408**	**$ 29,429**
After one but within five years	**193,847**	**193,971**
After five but within ten years	**230,394**	**229,759**
More than 10 years	**19,031**	**18,193**
Non-maturing	**1,906**	**1,950**
Total	**$ 474,586**	**$ 473,302**

The weighted average remaining life of investment securities available-for-sale at March 31, 2014 was 5.2 years. 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 March 31, 2014 and December 31, 2013, 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 more likely than not 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.

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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 March 31, 2014. 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 32 and 10 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 240 holdings at March 31, 2014.

	March 31, 2014					
	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	$	$	$	$	$	$
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	208,531	980	56,658	351	265,189	1,331
Privately Issued Residential Mortgage Backed Securities	800	20			800	20
Obligations Issued by States and Political Subdivisions			3,820	870	3,820	870
Other Debt Securities			1,380	120	1,380	120
Total temporarily impaired securities	$ 209,331	$ 1,000	$ 61,858	$ 1,341	$ 271,189	$ 2,341

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 31, 2013. 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 20 and 7 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 458 holdings at December 31, 2013.

	December 31, 2013					
	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	$	$	$	$	$	$
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	289,709	1, 352	24,557	149	314,266	1,501
Privately Issued Residential Mortgage Backed Securities	1,486	23			1,486	23
Obligations Issued by States and Political Subdivisions			3,820	870	3,820	870
Other Debt Securities			1,376	125	1,376	125
Total temporarily impaired securities	$ 291,195	$ 1,375	$ 29,753	$ 1,144	$ 320,948	$ 2,519

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Note 5. Investment Securities Held-to-Maturity

	March 31, 2014				December 31, 2013			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)							
U.S. Government Sponsored Enterprises	**$ 292,325**	**$ 512**	**$ 1,653**	**$ 291,184**	$ 291,779	$ 185	$ 5,043	$ 286,921
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**1,186,125**	**4,949**	**13,527**	**1,177,547**	1,196,105	2,239	20,816	1,177,528
Total	**$ 1,478,450**	**$ 5,461**	**$ 15,180**	**$ 1,468,731**	$ 1,487,884	$ 2,424	$ 25,859	$ 1,464,449

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to $751,754,000 and $732,144,000 at March 31, 2014 and December 31, 2013, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank of Boston at fair value amounting to $514,421,000 and $510,060,000 at March 31, 2014 and December 31, 2013, respectively.

At March 31, 2014 and December 31, 2013, 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, 2014.

	Amortized Cost	**Fair Value**
	(In thousands)	
Within one year	**$ 4,830**	**$ 4,849**
After one but within five years	**845,948**	**842,706**
After five but within ten years	**626,601**	**620,086**
More than ten years	**1,071**	**1 ,090**
Total	**$ 1,478,450**	**$ 1,468,731**

The weighted average remaining life of investment securities held-to-maturity at March 31, 2014 was 5.0 years. Included in the weighted average remaining life calculation at March 31, 2014 were $224,667,000 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.

As of March 31, 2014 and December 31, 2013, 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 their remaining amortized costs. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade.

The unrealized loss on U.S. Government 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, 2014 and December 31, 2013.

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.

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The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at March 31, 2014. 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 134 and 21 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 303 holdings at March 31, 2014.

	March 31, 2014					
	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	**$ 164,174**	**$ 1,653**	**$**	**$**	**$ 164,174**	**$ 1,653**
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	**607,346**	**10,558**	**129,838**	**2,969**	**737,184**	**13,527**
Total temporarily impaired securities	**$ 771,520**	**$ 12,211**	**$ 129,838**	**$ 2,969**	**$ 901,358**	**$ 15,180**

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 31, 2013. 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 3 and 1 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 96 holdings at December 31, 2013.

	December 31, 2013					
	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	$ 232,535	$ 5,043	$	$	$ 232,535	$ 5,043
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	931,180	18,654	80,362	2,162	1,011,542	20,816
Total temporarily impaired securities	$ 1,163,715	$ 23,697	$ 80,362	$ 2,162	$ 1,244,077	$ 25,859

Note 6. Allowance for Loan Losses

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

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

	Three months ended March 31, 2014	Three months ended March 31, 2013
	(in thousands)	
Allowance for loan losses, beginning of period	**$ 20,941**	$ 19,197
Loans charged off	**(429)**	(371)
Recoveries on loans previously charged-off	**147**	183
Net charge-offs	**(282)**	(188)
Provision charged to expense	**600**	750
Allowance for loan losses, end of period	**$ 21,259**	$ 19,759

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Further information pertaining to the allowance for loan losses for the three months ending March 31, 2014 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, 2013	$ 2,174	$ 2,989	$ 11,218	$ 2,006	$ 432	$ 959	$ 1,163	$ 20,941
Charge-offs	(250)				(179)			(429)
Recoveries		24	1	5	116	1		147
Provision	(99)	77	655	(138)	56	(58)	107	600
Ending balance at March 31, 2014	$ 1,825	$ 3,090	$ 11,874	$ 1,873	$ 425	$ 902	$ 1,270	$ 21,259
Amount of allowance for loan losses for loans deemed to be impaired	$ 25	$ 358	$ 382	$ 122	$	$ 94	$	981
Amount of allowance for loan losses for loans not deemed to be impaired	$ 1,800	$ 2,732	$ 11,492	$ 1,751	$ 425	$ 808	$ 1,270	$ 20,278
Loans:								
Ending balance	$ 25,928	$ 95,775	$ 708,551	$ 290,465	$ 9,542	$ 133,800	$	$ 1,264,061
Loans deemed to be impaired	$ 358	$ 1,129	$ 4,408	$ 998	$	$ 94	$	$ 6,987
Loans not deemed to be impaired	$ 25,570	$ 94,646	$ 704,143	$ 289,467	$ 9,542	$ 133,706	$	$ 1,257,074

Further information pertaining to the allowance for loan losses for three months ending March 31, 2013 follows:

	Construction and	Commercial and	Commercial Real	Residential Real	Consumer	Home Equity	Unallocated	Total

	Land Development	Industrial	Estate	Estate				
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at December 31, 2012	$ 3,041	$ 3,118	$ 9,065	$ 1,994	$ 333	$ 886	$ 760	$ 19,197
Charge-offs		(226)			(145)			(371)
Recoveries		65	2	2	114			183
Provision	158	566	(288)	75	55	(53)	237	750
Ending balance at March 31, 2013	$ 3,199	$ 3,523	$ 8,779	$ 2,071	$ 357	$ 833	$ 997	$ 19,759
Amount of allowance for loan losses for loans deemed to be impaired	$ 1,000	$ 103	$ 396	$ 155	$	$ 96	$	1,750
Amount of allowance for loan losses for loans not deemed to be impaired	$ 2,199	$ 3,420	$ 8,383	$ 1,916	$ 357	$ 737	$ 997	$ 18,009
Loans:								
Ending balance	$ 34,021	$ 110,537	$ 570,441	$ 292,871	$ 7,910	$ 121,989	$	$ 1,137,769
Loans deemed to be impaired	$ 1,500	$ 1,396	$ 2,262	$ 1,232	$	$ 96	$	$ 6,486
Loans not deemed to be impaired	$ 32,521	$ 109,141	$ 568,179	$ 291,639	$ 7,910	$ 121,893	$	$ 1,131,283

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

Loans rated 1-3 (Pass):

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

Loans rated 4 (Monitor):

These loans represent classified loans that management is closely monitoring for credit quality. These loans have had or may have minor credit quality deterioration as of March 31, 2014 and December 31, 2013.

Loans rated 5 (Substandard):

Substandard loans represent classified loans that management is closely monitoring for credit quality. These loans have had more significant credit quality deterioration as of March 31, 2014 and December 31, 2013.

Loans rated 6 (Doubtful):

Doubtful loans represent classified loans that management is closely monitoring for credit quality. These loans had more significant credit quality deterioration as of March 31, 2014 and December 31, 2013 and are doubtful for full collection.

Impaired:

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

The following table presents the Company s loans by risk rating at March 31, 2014.

	Construction and land development	Commercial and industrial	Commercial real estate
		(Dollars in thousands)	
Grade:			
1-3 (Pass)	**$ 18,303**	**$ 93,485**	**$ 699,238**
4 (Monitor)	**7,267**	**1,120**	**4,905**
5 (Substandard)			
6 (Doubtful)			
Impaired	**358**	**1,170**	**4,408**
Total	**$ 25,928**	**$ 95,775**	**$ 708,551**

The following table presents the Company s loans by risk rating at December 31, 2013.

	Construction and land development	Commercial and industrial	Commercial real estate
	(Dollars in thousands)		
Grade:			
1-3(Pass)	$ 25,138	$ 90,563	$ 707,461
4 (Monitor)	7,312	472	1,346
5 (Substandard)			
6 (Doubtful)			
Impaired	608	1,367	4,520
Total	$ 33,058	$ 92,402	$ 713,327

The Company utilized payment performance as credit quality indicators for residential real estate, consumer and overdrafts, and the home equity portfolio. The indicators are depicted in the table aging of past due loans, below.

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Further information pertaining to the allowance for loan losses at March 31, 2014 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accrual Greater Than 90 Days	Total Past Due	Current Loans	Total
	(Dollars in thousands)					
Construction and land development	**$**	**$ 358**	**$**	**$ 358**	**$ 25,570**	**$ 25,928**
Commercial and industrial	**467**	**475**		**942**	**94,833**	**95,775**
Commercial real estate	**2,633**	**218**		**2,851**	**705,700**	**708,551**
Residential real estate	**229**	**464**		**693**	**289,772**	**290,465**
Consumer and overdrafts	**1**	**5**		**6**	**9,536**	**9,542**
Home equity	**470**	**40**		**510**	**133,290**	**133,800**
Total	**$ 3,800**	**$ 1,560**	**$**	**$ 5,360**	**$ 1,258,701**	**$ 1,264,061**

Further information pertaining to the allowance for loan losses at December 31, 2013 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accrual Greater Than 90 Days	Total Past Due	Current Loans	Total
	(Dollars in thousands)					
Construction and land development	$	$ 500	$	$ 500	$ 32,558	$ 33,058
Commercial and industrial	112	706		818	91,584	92,402
Commercial real estate	1,496	306		1,802	711,525	713,327
Residential real estate	2,232	1,034		3,266	282,775	286,041
Consumer and overdrafts	11	3		14	9,644	9,658
Home equity	1,710			1,710	128,567	130,277
Total	$ 5,561	$ 2,549	$	$ 8,110	$ 1,256,653	$ 1,264,763

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan s effective interest rate, except that as a practical expedient, the Company measures impairment based on a loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. Loans are charged-off when management believes that the collectability of the loan s principal is not probable. The specific factors that management considers in making the determination that the collectability of the loan s principal is not probable include; the delinquency status of the loan, the fair value of the collateral, if secured, and the financial strength of the borrower and/or guarantors. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance amount when such an amount has been identified definitively as uncollectible. The Company s policy for recognizing interest income on impaired loans is contained within Note 1 of the consolidated financial statements contained in the Company s Annual Report for the fiscal year ended December 31, 2013.

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The following is information pertaining to impaired loans for March 31, 2014:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value	Interest Income Recognized
			(Dollars in thousands)		
With no required reserve recorded:					
Construction and land development	**$ 250**	**$ 3,292**	**$**	**$ 437**	**$**
Commercial and industrial	**11**	**42**		**116**	
Commercial real estate	**55**	**56**		**41**	
Residential real estate				**164**	
Consumer					
Home equity					
Total	**$ 316**	**$ 3 390**	**$**	**758**	**$**
With required reserve recorded:					
Construction and land development	**$ 108**	**$ 108**	**$ 25**	**108**	**$**
Commercial and industrial	**1,118**	**1,352**	**358**	**1,116**	**8**
Commercial real estate	**4,353**	**4,442**	**382**	**4,420**	**32**
Residential real estate	**998**	**1,082**	**122**	**949**	**1**
Consumer					
Home equity	**94**	**94**	**94**	**94**	
Total	**$ 6,671**	**$ 7,078**	**$ 981**	**$ 6,687**	**$ 41**
Total:					
Construction and land development	**$ 358**	**$ 3,400**	**$ 25**	**545**	**$**
Commercial and industrial	**1,129**	**1,394**	**358**	**1,232**	**8**
Commercial real estate	**4,408**	**4,498**	**382**	**4,461**	**32**
Residential real estate	**998**	**1,082**	**122**	**1,113**	**1**
Consumer					
Home equity	**94**	**94**	**94**	**94**	
Total	**$ 6,987**	**$ 10,468**	**$ 981**	**$ 7,445**	**$ 41**

The following is information pertaining to impaired loans for March 31, 2013:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value	Interest Income Recognized
			(Dollars in thousands)		
With no required reserve recorded:					
Construction and land development	$	$	$	$	$

Commercial and industrial	566	1,058		545	
Commercial real estate	165	198		167	
Residential real estate	319	321		102	
Consumer					
Home equity					
Total	$ 1,050	$ 1,577	$	$ 814	$
With required reserve recorded:					
Construction and land development	$ 1,500	$ 3,292	$ 1,000	$ 1,500	$
Commercial and industrial	830	1,046	103	840	9
Commercial real estate	2,097	2,146	396	2,105	24
Residential real estate	913	995	155	779	
Consumer					
Home equity	96	96	96	96	
Total	$ 5,436	$ 7,575	$ 1,750	$ 5,320	$ 33
Total:					
Construction and land development	$ 1,500	$ 3,292	$ 1,000	$ 1,500	$
Commercial and industrial	1,396	2,104	103	1,385	9
Commercial real estate	2,262	2,344	396	2,272	24
Residential real estate	1,232	1,316	155	881	
Consumer					
Home equity	96	96	96	96	
Total	$ 6,486	$ 9,152	$ 1,750	$ 6,134	$ 33

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There were no troubled debt restructurings occurring during the three month periods ended March 31, 2013 or March 31, 2014.

Note 7. Reclassifications Out of Accumulated Other Comprehensive Income (a)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income				Affected Line Item in the Statement Where Net Income is Presented
	Three Months Ended March 31, 2014		Three Months Ended March 31, 2013		
	(in thousands)				
Unrealized gains and losses on available-for-sale securities					
	$		$	883	Net gains on sales of investments
				(350)	Provision for income taxes
	$		$	533	Net income
Accretion of unrealized losses transferred					
	$	1,507	$		Securities held-to-maturity
		(583)			Provision for income taxes
	$	924	$		Net income
Amortization of defined benefit pension items					
Prior-service costs	$	(3)(b)	$	(3)	Salaries and employee benefits
Actuarial gains (losses)		(92)(b)		(287)	Salaries and employee benefits
Total before tax		(95)		(290)	Income before taxes
Tax (expense) or benefit		38		117	Provision for income taxes
Net of tax	$	(57)	$	(173)	Net income
Total reclassifications for the period	$	867	$	360	Net income, net of tax

(a) Amounts in parentheses indicate debits to profit/loss.
(b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see employee benefits footnote (Note 9) for additional details).

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Note 8. Earnings per Share (EPS)

Class A and Class B shares participate equally in undistributed earnings. Under the Company s Articles of Organization, the holders of Class A Common Stock are entitled to receive dividends per share equal to at least 200% of dividends paid, if any, from time to time, on each share of Class B Common Stock.

Diluted EPS includes the dilutive effect of common stock equivalents; basic EPS excludes all common stock equivalents. The only common stock equivalents for the Company are the stock options discussed below. The dilutive effect of these stock options for 2014 and 2013 was an increase of 1,576 and 939 shares, respectively.

The following table is a reconciliation of basic EPS and diluted EPS for the three months ended March 31,

	2014	2013
Basic EPS Computation:		
(in thousands except share and per share data)		
Numerator:		
Net income, Class A	**$ 3,867**	$ 3,502
Net income, Class B	**1,065**	974
Denominator:		
Weighted average shares outstanding, Class A	**3,582,421**	3,569,546
Weighted average shares outstanding, Class B	**1,974,180**	1,986,880
Basic EPS, Class A	**$ 1.08**	$ 0.98
Basic EPS, Class B	**0.54**	0.49
Diluted EPS Computation:		
Numerator:		
Net income, Class A	**$ 3,867**	$ 3,502
Net income, Class B	**1,065**	974
Total net income, for diluted EPS, Class A computation	**4,932**	4,476
Denominator:		
Weighted average shares outstanding, basic, Class A	**3,582,421**	3,569,546
Weighted average shares outstanding, Class B	**1,974,180**	1,986,880
Dilutive effect of Class A stock options	**1,576**	939
Weighted average shares outstanding diluted, Class A	**5,558,177**	5,557,365
Weighted average shares outstanding, Class B	**1,974,180**	1,986,880
Diluted EPS, Class A	**$ 0.89**	$ 0.81
Diluted EPS, Class B	**0.54**	0.49

Note 9. Employee Benefits

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

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

Executive officers of the Company and its subsidiaries who have at least one year of

service may participate in the Supplemental Plan. The Supplemental Plan is voluntary and participants are required to contribute to its cost. Life insurance policies, which are owned by the Company, are purchased covering the lives of each participant.

Components of Net Periodic Benefit Cost (Credit) for the Three Months Ended March 31,

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2014	2013	**2014**	2013
	(In thousands)			
Service cost	**$ 258**	$ 299	**$ 389**	$ 381
Interest	**367**	314	**331**	267
Expected return on plan assets	**(636)**	(470)		
Recognized prior service cost (benefit)	**(26)**	(26)	**29**	29
Recognized net actuarial losses	**3**	158	**88**	129
Net periodic benefit (credit)cost	**$ (34)**	$ 275	**$ 837**	$ 806

Contributions

The Company currently intends to contribute $1,000,000 to the Pension Plan in 2014. As of March 31, 2014, $460,000 of the contribution had been made. The Company expects to contribute an additional $540,000 by the end of the year.

Note 10. Fair Value Measurements

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, (formerly SFAS 157, Fair Value Measurements,) which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. ASC 820-10 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels of the hierarchy are as follows:

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

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

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

The results of the fair value hierarchy as of March 31, 2014, are as follows:

Financial Instruments Measured at Fair Value on a Recurring Basis:

	Securities AFS Fair Value Measurements Using			
	Carrying Value	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
	(In thousands)			
U.S. Treasury	**$ 2,000**	$	**$ 2,000**	$
U.S. Government Sponsored Enterprises				
SBA Backed Securities	**7,149**		**7,149**	
U.S. Government Agency and Sponsored Mortgage Backed Securities	**426,015**		**426,015**	
Privately Issued Residential Mortgage Backed Securities	**2,187**		**2,187**	
Obligations Issued by States and Political Subdivisions	**33,201**		**411**	**32,790**
Other Debt Securities	**2,180**		**2,180**	
Equity Securities	**570**	**280**		**290**
Total	**$ 473,302**	**$ 280**	**$ 439,942**	**$ 33,080**

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

Impaired Loans	**1,833**			**1,833**

Impaired loan balances represent those collateral dependent loans where management has estimated the credit loss by comparing the loan s carrying value against the expected realizable fair value of the collateral. Fair value is generally determined through a review process that includes independent appraisals, discounted cash flows, or other external assessments of the underlying collateral, which generally include various Level 3 inputs which are not identifiable. The Company discounts the fair values, as appropriate, based on management s observations of the local real estate market for loans in this category.

Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management s estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis or other type of real estate tax assessment. The types of adjustments that are made to specific provisions (credits) relate to impaired loans recognized for the three-month period ended March 31, 2014 amounted to $254,000.

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There were no transfers between level 1 and 2 for the three months ended March 31, 2014. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the three month period ended March 31, 2014.

The following table presents additional information about assets measured at fair value on a recurring and nonrecurring basis for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands). Management continues to monitor the assumptions used to value the assets listed below.

Asset	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Securities AFS(4)	$ 33,080	Discounted cash flow	Discount rate	0% -1% (3)
Impaired Loans	1,833	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-25% discount

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.
(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated expenses.
(3) Weighted averages
(4) Municipal securities generally have maturities of one year or less and, therefore, the amortized cost equates to the fair value.

The changes in Level 3 securities for the three-month period ended March 31, 2014 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total
		(In thousands)		
Balance at December 31, 2013	**$ 3,820**	**$ 32,487**	**$ 290**	**$ 36,597**
Purchases		**7,205**		**7,205**
Maturities and calls		**(10,717)**		**(10,717)**
Amortization		**(5)**		**(5)**
Changes in fair value				
Balance at March 31, 2014	**$ 3,820**	**$ 28,970**	**$ 290**	**$ 33,080**

The amortized cost of Level 3 securities was $33,951,000 at March 31, 2014 with an unrealized loss of $870,000. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

The changes in Level 3 securities for the three-month period ended March 31, 2013, are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total
		(In thousands)		
Balance at December 31, 2012	$ 3,963	$ 49,477	$ 342	$ 53,782
Purchases		6,179		6,179
Maturities and calls		(9,974)		(9,974)
Amortization		(9)		(9)
Changes in fair value				
Balance at March 31, 2013	$ 3,963	$ 45,673	$ 342	$ 49,978

The amortized cost of Level 3 securities was $50,701,000 at March 31, 2013 with an unrealized loss of $723,000. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

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Note 11. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values of its financial instruments. Excluded from this disclosure are all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The assumptions used below are expected to approximate those that market participants would use in valuing these financial instruments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. Such estimates do not consider the tax impact of the realization of unrealized gains or losses. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument. Care should be exercised in deriving conclusions about our business, its value or financial position based on the fair value information of financial instruments presented below.

Securities held-to-maturity: The fair values of these securities were based on quoted market prices, where available, as provided by third-party investment portfolio pricing vendors. If quoted market prices were not available, fair values provided by the vendors were based on quoted market prices of comparable instruments in active markets and/or based on a matrix pricing methodology which employs The Bond Market Association s standard calculations for cash flow and price/yield analysis, live benchmark bond pricing and terms/condition data available from major pricing sources. Management regards the inputs and methods used by third party pricing vendors to be Level 2 inputs and methods as defined in the fair value hierarchy provided by FASB.

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

Time deposits: The fair value of time deposits was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments. The fair values of the Company s time deposit liabilities do not take into consideration the value of the Company s long-term relationships with depositors, which may have significant value.

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

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

The following presents (in thousands) the carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company s financial instruments as of March 31, 2014 and December 31, 2013. This table excludes financial instruments for which the carrying amount approximates fair value. Financial assets for which the fair value approximates carrying value include cash and cash equivalents, short-term investments, FHLBB stock and accrued interest receivable. Financial liabilities for which the fair value approximates carrying value include non-maturity deposits, short-

term borrowings and accrued interest payable.

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			Fair Value Measurements		
	Carrying Amount	Estimated Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
(in thousands)					
March 31, 2014					
Financial assets:					
Securities held-to-maturity	**$ 1,478,450**	**$ 1,468,731**	**$**	**$ 1,468,731**	**$**
Loans (1)	**1,242,802**	**1,219,892**			**1,219,892**
Financial liabilities:					
Time deposits	**381,199**	**386,274**		**386,274**	
Other borrowed funds	**272,644**	**272,343**		**272,343**	
Subordinated debentures	**36,083**	**40,427**			**40,427**
December 31, 2013					
Financial assets:					
Securities held-to-maturity	1,487,884	1,464,449		1,464,449	
Loans (1)	1,243,822	1,214,192			1,214,192
Financial liabilities:					
Time deposits	382,224	386,742		386,742	
Other borrowed funds	255,144	254,736		254,736	
Subordinated debentures	36,083	39,503			39,503

(1) Comprised of loans (including collateral dependent impaired loans), net of deferred loan costs and the allowance for loan losses.

Note 12. Recent Accounting Developments

In December 2011, the FASB issued ASU 2011-11, Balance Sheet (Topic 210), *Disclosures about offsetting assets and liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The Company implemented the provisions of ASU 2011-11 as of January 1, 2013. The adoption of this pronouncement did not have a material effect on the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220) *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.* ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income or as a separate disclosure in the notes to the financial statements. The new standard is effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. The Company has presented a separate footnote (Note 7) as a result of this pronouncement.

In January 2014, the FASB issued ASU 2014-04, Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40) *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or

(2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company has assessed the impact of ASU 2014-14 and the adoption of this amendment will not have a material impact on the Company s financial statements.

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

Executive Overview

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state-chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company formed in 1969. At March 31, 2014, the Company had total assets of $3.5 billion. Currently, the Company operates 26 banking offices in 19 cities and towns in Massachusetts, ranging from Braintree in the south to Andover 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 July 2012, the Company received state regulatory approval to close a branch at Chestnut Hill in Newton, Massachusetts. The branch closed on September 21, 2012 and the accounts were temporarily moved to the Brookline, Massachusetts branch. During July 2012, the Company entered into a lease agreement and received regulatory approval to open a branch at a new location at Chestnut Hill in Newton, Massachusetts. The branch opened on November 7, 2013 and the majority of the accounts that were temporarily moved to the Brookline, Massachusetts branch were moved to the new branch at Chestnut Hill in Newton, Massachusetts.

During December 2013, the Company entered into a lease agreement to open a branch located in Woburn, Massachusetts. The branch is scheduled to open during the fourth quarter of 2014.

During March 2014, the Company entered into a lease agreement to open a branch located on Boylston Street in Boston, Massachusetts. The branch is scheduled to open during the first quarter of 2015. The deposits from the Kenmore Square, Boston Massachusetts branch, which is scheduled to close on September 30, 2014, will be moved to the new Boylston Street branch. The transaction is subject to regulatory approval.

The Company s results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the level of income and fees from loans, deposits, as well as operating expenses, the provision for loan losses, the impact of federal and state income taxes and the relative levels of interest rates and economic activity.

The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium-sized businesses and retail customers in its market area. The Company makes commercial loans, real estate and construction loans and consumer loans, and accepts savings, time, and demand deposits. In addition, the Company offers to its corporate and institutional customers automated lock box collection services, cash management services and account reconciliation services, and actively promotes the marketing of these services to the municipal market. Also, the Company provides full service securities brokerage services through a program called Investment Services at Century Bank, which is supported by LPL Financial, a third party 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 193 (55%) of the 351 cities and towns in Massachusetts.

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Net income for the first quarter ended March 31, 2014 was $4,932,000, or $0.89 per Class A share diluted, compared to net income of $4,476,000, or $0.81 per Class A share diluted, for the first quarter ended March 31, 2013. Earnings per share (EPS) for each class of stock and time period is as follows:

		Three months ended March 31, 2014	Three months ended March 31, 2013
Basic EPS	Class A common	$ 1.08	$ 0.98
Basic EPS	Class B common	$ 0.54	$ 0.49
Diluted EPS	Class A common	$ 0.89	$ 0.81
Diluted EPS	Class B common	$ 0.54	$ 0.49

Net interest income totaled $16.5 million for the quarter ended March 31, 2014 compared to $14.5 million for the same period in 2013. The 13.5% increase in net interest income for the period is primarily due to an increase in average earning assets. The net interest margin increased from 2.25% on a fully taxable equivalent basis in 2013 to 2.27% on the same basis for 2014. This was primarily the result of a decrease in rates paid on deposits and borrowed funds. Also, interest expense increased slightly as a result of an increase in deposit balances and there was a 13.0% increase in the average balances of earning assets, combined with a similar increase in average deposits.

The trends in the net interest margin are illustrated in the graph below:

From the beginning of 2012 through the third quarter of 2012, management stabilized the net interest margin by continuing to lower the cost of funds, and by deploying excess liquidity through expansion of the investment portfolio. Also, the Company collected approximately $3,253,000 of prepayment penalties during 2012. The primary factor accounting for the decrease in the net interest margin for the fourth quarter of 2012 and through the fourth quarter of 2013 was an additional large influx of deposits. Management invested the funds in shorter term securities. The net interest margin increased during the first quarter of 2014 primarily as a result of pricing discipline.

While management will continue its efforts to improve the net interest margin, there can be no assurance that certain factors beyond its control, such as the prepayment of loans and changes in market interest rates, will continue to positively impact the net interest margin.

For the three months ended March 31, 2014, the loan loss provision was $600,000 compared to a provision of $750,000 for the same period last year. The decrease in the provision was primarily as a result of changes in the portfolio composition. Nonperforming loans decreased to $1.6 million at March 31, 2014 from $4.1 million on March 31, 2013.

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The Company had no sales of investment securities during the first quarter ended March 31, 2014. The Company capitalized on favorable market conditions for the first quarter ended March 31, 2013 and realized net gains on sales of investments of $883,000. Included in operating expenses for the first three months ended March 31, 2014 are FDIC assessments of $480,000 compared to $400,000 for the same period in 2013.

For the first three months of 2014, the Company s effective income tax rate was 5.6% compared to 6.0% for last year s corresponding period. The effective income tax rate decreased primarily as a result of an increase in tax-exempt income.

Financial Condition

Loans

On March 31, 2014, total loans outstanding were $1.3 billion, down slightly from the total on December 31, 2013. At March 31, 2014, commercial real estate loans accounted for 56.1% and residential real estate loans, including home equity loans, accounted for 33.6% of total loans. The company had $12.8 million of residential real estate loans held for sale at March 31, 2014.

Commercial and industrial loans increased to $95.8 million at March 31, 2014 from $92.4 million at December 31, 2013, primarily as a result of an increase in commercial and industrial financing. Construction loans decreased to $25.9 million at March 31, 2014 from $33.1 million on December 31, 2013, primarily as a result of loan payments.

Allowance for Loan Losses

The allowance for loan loss at March 31, 2014 was $21.3 million as compared to $20.9 million at December 31, 2013. The increase was due to the composition of the loan portfolio as well as qualitative factors. Also, the level of the allowance for loan losses to total loans increased from 1.66% at December 31, 2013 to 1.68% at March 31, 2014. In evaluating the allowance for loan losses the Company considered the following categories to be higher risk:

Construction loans: The outstanding loan balance of construction loans at March 31, 2014 is $25.9 million as compared to $33.1 million at December 31, 2013. Based on the general local conditions facing construction, management closely monitors all construction loans and considers this type of loans to be higher risk.

Higher balance loans: Loans greater than $1.0 million are considered high balance loans . The balance of these loans is $693.5 million at March 31, 2014 as compared to $701.1 million at December 31, 2013. These loans are considered higher risk due to the concentration in individual loans. Additional allowance allocations are made based upon the level of high balance loans. Included in high balance loans are loans greater than $10.0 million. The balance of these loans, which is included in the loans greater than $1.0 million category, is $371.7 million, at March 31, 2014 as compared to $377.9 million at December 31, 2013. Additional allowance allocations are made based upon the level of this type of high balance loans that is separate and greater than the $1.0 million allocation.

Small business loans: The outstanding loan balances of small business loans is $39.0 million at March 31, 2014 as compared to $40.2 million at December 31, 2013. These are considered higher risk loans because small businesses have been negatively impacted by the current economic conditions. In a liquidation scenario, the collateral, if any, is often not sufficient to fully recover the outstanding balance of the loan. As a result, the Company often seeks additional collateral prior to renewing maturing small business loans. In addition, the payment status of the loans is monitored closely in order to initiate collection efforts in a timely fashion.

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

	Three months ended March 31, (in thousands)	
	2014	**2013**
Allowance for loan losses, beginning of period	**$ 20,941**	$ 19,197
Loans charged off	**(429)**	(371)
Recoveries on loans previously charged-off	**147**	183
Net charge-offs	**(282)**	(188)
Provision charged to expense	**600**	750
Allowance for loan losses, end of period	**$ 21,259**	$ 19,759

The Company may experience increased levels of nonaccrual loans if borrowers are negatively impacted by future negative economic conditions. Management continually monitors trends in the loan portfolio to determine the appropriate level of allowance for loan losses. At the current time, management believes that the allowance for loan losses is adequate.

Nonperforming Assets

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

	March 31, 2014	December 31, 2013
	(Dollars in thousands)	
Nonaccruing loans	**$ 1,560**	$ 2,549
Loans past due 90 days or more and still accruing	**$**	$
Nonaccruing loans as a percentage of total loans	**0.12%**	0.20%
Accruing troubled debt restructures	**$ 5,811**	$ 5,969

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

Cash and Cash Equivalents

Cash and cash equivalents increased during the first quarter of 2014. This was primarily the result of an influx of deposits during the quarter.

Short-term Investments

Short-term investments remained relatively stable.

Investments

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

Securities Available-for-Sale (at Fair Value)

The securities available-for-sale portfolio totaled $473.3 million at March 31, 2014, an increase of 2.0% from December 31, 2013. During the third quarter of 2013, $987.0 million of securities available-for-sale with unrealized losses of $25.3 million were transferred to securities held-to-maturity. This was done in response to rising interest rates. Purchases of securities available-for-sale totaled $44.7 million for the three months ended March 31, 2014. The portfolio is concentrated in United States Government Sponsored Enterprises, Mortgage-backed Securities and Obligations issued by States and Political Subdivisions and had an estimated weighted average remaining life of 5.2 years.

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

Securities available-for-sale totaling $33.1 million, or 0.9% of assets are classified as Level 3. These securities are generally failed auction rate securities, equity investments or obligations of states and political subdivisions with no readily determinable fair value. Failed auction rate securities were reclassified to Level 3 during the first quarter of 2009 due to the lack of an active market. Fair values for Level 3 securities are, generally, arrived at based upon a review of market trades of similar instruments, if any, as well as an analysis of the security based upon market liquidity and prevailing market interest rates.

During the first quarter unrealized losses on the securities available-for-sale decreased to $1.3 million from $1.7 million at December 31, 2013. Unrealized losses on the available-for-sale portfolio increased as a result of increases in interest rates.

	March 31, 2014	**December 31, 2013**
	(In thousands)	
U.S. Treasury	**$ 2,000**	$ 1,998
U.S. Government Sponsored Enterprises		10,004
Small Business Administration	**7,149**	7,302
U.S Government Agency and Sponsored Enterprise Mortgage-backed Securities	**426,015**	403,190
Privately Issued Residential Mortgage-backed Securities	**2,187**	2,277
Obligations issued by States and Political Subdivisions	**33,201**	36,723
Other Debt Securities	**2,180**	2,175
Equity Securities	**570**	576
Total Securities Available for-Sale	**$ 473,302**	$ 464,245

There were no realized gains on sales of investments for the first three months of 2014.

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

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Securities Held-to-Maturity (at Amortized Cost)

The securities held-to-maturity portfolio totaled $1.5 billion million on March 31, 2014, an increase of 0.6% from the total on December 31, 2013. During the third quarter of 2013, $987.0 million of securities available-for-sale with unrealized losses of $25.3 million were transferred to securities held-to-maturity. This was done in response to rising interest rates. The portfolio is concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 5.0 years.

	March 31, 2014	December 31, 2013
	(In thousands)	
U.S. Government Sponsored Enterprises	**$ 292,325**	$ 291,779
U.S. Government Agency and Sponsored Enterprise Mortgage-backed Securities	**1,186,125**	1,196,105
Total Securities Held-to-Maturity	**$ 1,478,450**	$ 1,487,884

At March 31, 2014 and December 31, 2013, all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises.

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

Federal Home Loan Bank of Boston Stock

The Bank, as a member of the Federal Home Loan Bank of Boston (FHLBB) system, is required to maintain an investment in capital stock of the FHLBB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLBB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the stock. For the quarter ended March 31, 2014, the FHLBB reported preliminary net income of $36.1 million. The FHLBB also declared a dividend equal to an annual yield of 1.49%. During the first quarter of 2014, the Company purchased $800,000 of additional capital stock. As of March 31, 2014, no impairment has been recognized.

Deposits and Borrowed Funds

On March 31, 2014, deposits totaled $2.8 billion, representing a 1.8% increase from December 31, 2013. Total deposits increased primarily as a result of increases in demand deposits, money market accounts, and savings and NOW deposits. Money market and Savings and NOW deposits increased as the Company continued to offer attractive rates for these types of deposits during the first three months of the year. Borrowed funds totaled $483.3 million compared to $469.6 million at December 31, 2013. Borrowed funds increased mainly as a result of an increase in borrowings from the FHLBB.

Stockholders Equity

At March 31, 2014, total equity was $182.1 million compared to $176.5 million at December 31, 2013. The Company s equity increased primarily as a result of earnings and a decrease in other comprehensive loss, net of taxes, offset somewhat by dividends paid. Other comprehensive loss, net of taxes, decreased as a result of a decrease in unrealized losses on securities available-for-sale and securities transferred from available-for-sale to held-to-maturity. During the third quarter of 2013, $987.0 million of securities available-for-sale with unrealized losses of $25.3 million were transferred to securities held-to-maturity. This was done in response to rising interest rates. The Company s leverage ratio stood at 6.57% at March 31, 2014, compared to 6.50% at December 31, 2013. The increase in the leverage ratio is due to an increase in stockholders equity, offset somewhat, by an increase in assets. Book value as of March 31, 2014 was $32.77 per share compared to $31.76 at December 31, 2013.

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Results of Operations

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

	Three Months Ended					
	March 31, 2014			March 31, 2013		
	(In thousands)					
	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid(1)	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid(1)
ASSETS						
Interest-earning assets:						
Loans (2)						
Loans taxable	**$ 762,284**	**$ 8,200**	**4.36%**	$ 754,464	$ 8,353	4.49%
Loans tax-exempt	**502,765**	**6,607**	**5.33**	372,288	5,530	6.02
Securities available-for-sale (5):						
Taxable	**459,934**	**770**	**0.67**	1,365,332	5,528	1.62
Tax-exempt	**34,308**	**75**	**0.87**	54,257	135	1.00
Securities held-to-maturity:						
Taxable	**1,492,839**	**7,780**	**2.08**	268,199	1,520	2.27
Interest-bearing deposits in other banks	**121,093**	**82**	**0.27**	170,727	119	0.28
Total interest-earning assets	**3,373,223**	**23,514**	**2.80**	2,985,267	21,185	2.85
Non interest-earning assets	**162,308**			176,421		
Allowance for loan losses	**(21,193)**			(19,503)		
Total assets	**$ 3,514,338**			$ 3,142,185		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	**$ 731,971**	**$ 383**	**0.21%**	$ 676,513	$ 388	0.23%
Savings accounts	**340,343**	**226**	**0.27**	312,165	222	0.29
Money market accounts	**904,037**	**639**	**0.29**	701,838	532	0.31
Time deposits	**376,792**	**1,085**	**1.17**	394,668	1,334	1.37
Total interest-bearing deposits	**2,353,143**	**2,333**	**0.40**	2,085,184	2,476	0.48
Securities sold under agreements to repurchase	**226,927**	**101**	**0.18**	208,306	90	0.18
Other borrowed funds and subordinated debentures	**252,295**	**2,183**	**3.51**	210,605	2,026	3.90
Total interest-bearing liabilities	**2,832,365**	**4,617**	**0.66%**	2,504,095	4,592	0.74%
Non interest-bearing liabilities						

Demand deposits	**468,623**			417,886		
Other liabilities	**33,609**			40,045		
Total liabilities	**3,334,597**			2,962,026		
Stockholders equity	**179,741**			180,159		
Total liabilities & stockholders equity	**$ 3,514,338**			$ 3,142,185		
Net interest income on a fully taxable equivalent basis		**18,897**			16,593	
Less taxable equivalent adjustment		**(2,383)**			(2,048)	
Net interest income		**$ 16,514**			$ 14,545	
Net interest spread (3)			**2.14%**			2.11%
Net interest margin (4)			**2.27%**			2.25%

(1) On a fully taxable equivalent basis calculated using a federal tax rate of 34%.
(2) Nonaccrual loans are included in average amounts outstanding.
(3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
(4) Net interest margin represents net interest income as a percentage of average interest-earning assets.
(5) Average balances of securities available-for-sale calculated utilizing amortized cost.

The following table presents certain information on a fully-tax equivalent basis regarding changes in the Company s interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to changes in rate and changes in volume.

	Three Months Ended March 31, 2014 Compared with Three Months Ended March 31, 2013 Increase/(Decrease) Due to Change in		
	Volume	**Rate**	**Total**
		(in thousands)	
Interest income:			
Loans			
Taxable	$ 86	$ (239)	$ (153)
Tax-exempt	1,770	(693)	1,077
Securities available-for-sale			
Taxable	(2,525)	(2,233)	(4,758)
Tax-exempt	(45)	(15)	(60)
Securities held-to-maturity			
Taxable	6,392	(132)	6,260
Interest-bearing deposits in other banks	(34)	(3)	(37)
Total interest income	5,644	(3,315)	2,329
Interest expense:			
Deposits:			
NOW accounts	30	(35)	(5)
Savings accounts	19	(15)	4
Money market accounts	145	(38)	107
Time deposits	(58)	(191)	(249)
Total interest-bearing deposits	136	(279)	(143)
Securities sold under agreements to repurchase	8	3	11
Other borrowed funds and subordinated debentures	374	(217)	157
Total interest expense	518	(493)	25
Change in net interest income	$ 5,126	$ (2,822)	$ 2,304

Net Interest Income

For the three months ended March 31, 2014, net interest income on a fully taxable equivalent basis totaled $18.9 million compared to $16.6 million for the same period in 2013, an increase of $2.3 million or 13.9%. This increase in net interest income for the period is primarily due to an increase in interest earning assets as well as a decrease in rates paid on deposits and borrowed funds. The net interest margin increased from 2.25% on a fully taxable equivalent basis in 2013 to 2.27% on the same basis for 2014. This was primarily the result of a decrease in rates paid on deposits and borrowed funds. Also, interest expense increased slightly as a result of an increase in deposit balances and there was a 13.0% increase in the average balances of earning assets, combined with a similar increase in average deposits.

Provision for Loan Losses

For the three months ended March 31, 2014, the loan loss provision was $600,000 compared to a provision of $750,000 for the same period last year. The decrease in the provision for the three months ended March 31, 2014, was primarily as a result of changes in the portfolio composition. The level of the allowance for loan losses to total loans increased from 1.66% at December 31, 2013 to 1.68% at March 31, 2014. The increase was due to the composition of the loan portfolio as well as qualitative factors.

Non-Interest Income and Expense

Other operating income for the quarter ended March 31, 2014 decreased by $964,000 to $3.5 million from $4.4 million for the same period last year. This was mainly attributable to a decrease in net gains on sales of investments of $883,000. Also, there was a decrease in gains on sales of mortgage loans held for sale of $163,000. There was an increase in service charges on deposit accounts of $92,000, which was mainly attributable to an increase in deposit related fees, overdraft fees and debit card fees. Lockbox fees increased by $5,000 as a result of increased customer volume.

For the quarter ended March 31, 2014, operating expenses increased by $694,000 or 5.2% to $14.2 million, from the same period last year. The increase in operating expenses for the quarter was mainly attributable to an increase of $257,000 in salaries and employee benefits, $160,000 in occupancy expenses, and $207,000 in other expenses. Equipment expenses decreased by $10,000. Salaries and employee benefits increased mainly as a result of merit increases, increased staffing levels, and increased taxes. This was offset, somewhat by a decrease in pension costs. Occupancy increased mainly as a result of costs associated with the Chestnut Hill branch opening during the fourth quarter of 2013. Other expenses increased mainly as a result of an increase in uninsured losses, legal expense and marketing expense.

Income Taxes

For the first quarter of 2014, the Company s income tax expense totaled $293,000 on pretax income of $5.2 million resulting in an effective tax rate of 5.6%. For last year s corresponding quarter, the Company s income tax expense totaled $288,000 on pretax income of $4.8 million resulting in an effective tax rate of 6.0%. The decrease in the effective income tax rate was primarily the result of an increase in tax-exempt income.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. The Company s market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. To that end, management actively monitors and manages its interest rate risk exposure. The Company s profitability is affected by fluctuations in interest rates. A sudden and substantial increase or decrease in interest rates may adversely impact the Company s earnings to the extent that the interest rates tied to specific assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company monitors the impact of changes in interest rates on its net interest income using several tools. The Company s primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Company s net interest income and capital, while structuring the Company s asset-liability structure to obtain the maximum yield-cost spread on that structure. Management believes that there has been no material changes in the interest rate risk reported in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, filed with the Securities and Exchange Commission. The information is contained in the Form 10-K within the Market Risk and Asset Liability Management section of Management s Discussion and Analysis of Results of Operations and Financial Condition.

Item 4. Controls and Procedures

The Company s management, with participation of the Company s principal executive and financial officers, has evaluated its disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, the Company s management, with participation of its principal executive and financial officers, has concluded that the Company s disclosure controls and procedures are effective. The disclosure controls and procedures also effectively ensure that information required to be

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disclosed in the Company s filings and submissions with the Securities and Exchange Commission under the Exchange Act is accumulated and reported to Company management (including the principal executive officer and the principal financial officer) as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. In addition, the Company has evaluated its internal control over financial reporting and during the first quarter of 2014 there were no changes that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II Other Information

Item 1 Legal proceedings At the present time, the Company is not engaged in any legal proceedings which, if adversely determined to the Company, would have a material adverse impact on the Company s financial condition or results of operations. From time to time, the Company is party to routine legal proceedings within the normal course of business. Such routine legal proceedings, in the aggregate, are believed by management to be immaterial to the Company s financial condition and results of operation.

Item 1A Risk Factors Please read Risk Factors in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2013. There have been no material changes since this 10-K was filed. These risks are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely effect the Company s business, financial condition and operating results.

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

(a) (b) Not applicable.

(c) The following table sets forth information with respect to any purchase made by or on behalf of Century Bancorp, Inc. or any affiliated purchaser, as defined in 204.10b-18(a)(3) under the Exchange Act, of shares of Century Bancorp, Inc. Class A common stock during the indicated periods:

Issuer Purchases of Equity Securities

Period	Total number of shares purchased	Weighted Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (1)
January 1 January 31, 2014		$		300,000
February 1 February 28, 2014		$		300,000
March 1 March 31, 2014		$		300,000

(1) On July 10, 2013, the Company announced a reauthorization of the Class A common stock repurchase program to repurchase up to 300,000 shares. The Company placed no deadline on the repurchase program. There were no shares purchased other than through a publicly announced plan or program.

Item 3 Defaults Upon Senior Securities None

Item 5 Other Information None

Item 6 Exhibits

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

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

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

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

++ 101.INS XBRL Instance Document

++ 101.SCH XBRL Taxonomy Extension Schema

++ 101.CAL XBRL Taxonomy Extension Calculation Linkbase

++ 101.LAB XBRL Taxonomy Extension Label Linkbase

++ 101.PRE XBRL Taxonomy Extension Presentation Linkbase

++ 101.DEF XBRL Taxonomy Definition Linkbase

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

++ As provided in Rule 406T of regulation S-T, this information is filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 and consists of the following materials from Century Bancorp Inc. s Quarterly Report on 10-Q for the quarter ended March 31, 2014, formatted in XBRL: (i) Consolidated Balance Sheets at March 31, 2014 and December 31, 2013; (ii) Consolidated Statements of Income for the three months ended March 31, 2014 and 2013; (iii) Consolidated Statements of Comprehensive Income for the three months ended March 31, 2014 and 2013; (iv) Consolidated Statements of Changes in Stockholders Equity for the three months ended March 31, 2014 and 2013; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2014 and 2013; and (vi) Notes to Unaudited Consolidated Interim Financial Statements.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: May 8, 2014 **Century Bancorp, Inc.**

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

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