CENTURY BANCORP INC
Form 10-Q
August 06, 2015
Table of Contents

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 June 30, 2015.

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 July 31, 2015, the Registrant had outstanding:

Class A Common Stock, $1.00 par value	**3,600,729 Shares**
Class B Common Stock, $1.00 par value	**1,967,180 Shares**

Table of Contents

Century Bancorp, Inc.

Index

Table of Contents

Forward Looking Statements

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

Table of Contents

PART I Item 1

Century Bancorp, Inc.

Consolidated Balance Sheets (unaudited)

(In thousands, except share data)

	June 30, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 60,547	$ 43,367
Federal funds sold and interest-bearing deposits in other banks	24,522	261,990
Total cash and cash equivalents	85,069	305,357
Short-term investments	2,139	2,131
Securities available-for-sale, amortized cost $440,044 and $448,210, respectively	440,059	448,390
Securities held-to-maturity, fair value $1,689,572 and $1,413,603, respectively	1,683,568	1,406,792
Federal Home Loan Bank of Boston stock, at cost	27,748	24,916
Loans, net:		
Commercial and industrial	291,142	149,732
Municipal	87,241	41,850
Construction and land development	26,521	22,744
Commercial real estate	713,770	696,272
Residential real estate	248,103	257,305
Home equity	167,271	151,275
Consumer and other	10,646	12,188
Total loans, net	1,544,694	1,331,366
Less: allowance for loan losses	22,245	22,318
Net loans	1,522,449	1,309,048
Bank premises and equipment	24,416	24,182
Accrued interest receivable	7,281	6,241
Goodwill	2,714	2,714
Other assets	118,375	94,265
Total assets	$ 3,913,818	$ 3,624,036
Liabilities		
Deposits:		
Demand deposits	$ 512,167	$ 484,928
Savings and NOW deposits	1,054,132	978,619
Money Market Accounts	902,106	890,899
Time deposits	383,284	383,145

Total deposits	2,851,689	2,737,591
Securities sold under agreements to repurchase	283,830	212,360
Other borrowed funds	485,500	395,500
Subordinated debentures	36,083	36,083
Due to broker	2,418	
Other liabilities	49,925	50,002
Total liabilities	3,709,445	3,431,536
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 3,600,729 shares and 3,600,729 shares, respectively	3,601	3,601
Class B common stock, $1.00 par value per share; authorized 5,000,000 shares; issued 1,967,180 and 1,976,180 shares, respectively	1,967	1,967
Additional paid-in capital	12,292	12,292
Retained earnings	210,196	200,411
	228,056	218,271
Unrealized (losses) gains on securities available-for-sale, net of taxes	(23)	77
Unrealized losses on securities transferred to held-to-maturity, net of taxes	(8,717)	(10,479)
Pension liability, net of taxes	(14,943)	(15,369)
Total accumulated other comprehensive loss, net of taxes	(23,683)	(25,771)
Total stockholders equity	204,373	192,500
Total liabilities and stockholders equity	$ 3,913,818	$ 3,624,036

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.

Consolidated Statements of Income (unaudited)

(In thousands, except share data)

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
Interest income				
Loans	$ 12,470	$ 12,611	$ 24,546	$ 25,060
Securities held-to-maturity	9,371	8,020	17,539	15,800
Securities available-for-sale	737	794	1,469	1,614
Federal funds sold and interest-bearing deposits in other banks	97	129	293	211
Total interest income	22,675	21,554	43,847	42,685
Interest expense				
Savings and NOW deposits	692	660	1,320	1,269
Money market accounts	734	669	1,516	1,308
Time deposits	1,207	1,141	2,363	2,226
Securities sold under agreements to repurchase	128	93	242	194
Other borrowed funds and subordinated debentures	2,200	2,237	4,285	4,420
Total interest expense	4,961	4,800	9,726	9,417
Net interest income	17,714	16,754	34,121	33,268
Provision for loan losses		450	200	1,050
Net interest income after provision for loan losses	17,714	16,304	33,921	32,218
Other operating income				
Service charges on deposit accounts	1,934	2,012	3,847	4,046
Lockbox fees	888	845	1,676	1,622
Net gains on sales of securities	118		118	
Gains on sales of mortgage loans	418	81	517	88
Other income	852	677	1,557	1,329
Total other operating income	4,210	3,615	7,715	7,085
Operating expenses				
Salaries and employee benefits	9,480	8,776	18,614	17,651
Occupancy	1,517	1,322	3,122	2,764
Equipment	659	585	1,252	1,157
FDIC assessments	545	494	1,048	974
Other	3,565	2,912	6,268	5,702

Total operating expenses	15,766	14,089	30,304	28,248
Income before income taxes	6,158	5,830	11,332	11,055
Provision for income taxes	233	231	448	524
Net income	$ 5,925	$ 5,599	$ 10,884	$ 10,531
Share data:				
Weighted average number of shares outstanding, basic				
Class A	3,600,729	3,589,125	3,600,729	3,585,773
Class B	1,967,180	1,967,580	1,967,180	1,970,880
Weighted average number of shares outstanding, diluted				
Class A	5,567,909	5,558,032	5,567,909	5,558,105
Class B	1,967,180	1,967,580	1,967,180	1,970,880
Basic earnings per share:				
Class A	$ 1.29	$ 1.22	$ 2.37	$ 2.30
Class B	$ 0.65	$ 0.61	$ 1.19	$ 1.15
Diluted earnings per share				
Class A	$ 1.06	$ 1.01	$ 1.95	$ 1.89
Class B	$ 0.65	$ 0.61	$ 1.19	$ 1.15

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.

Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)

	Three months ended June 30, 2015	Three months ended June 30, 2014
Net income	$ 5,925	$ 5,599
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized (losses) gains arising during period	1	262
Less: reclassification adjustment for gains included in net income	(71)	
Total unrealized (losses) gains on securities	(70)	262
Accretion of net unrealized losses transferred	1,027	808
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	213	56
Other comprehensive income (loss)	1,170	1,126
Comprehensive income (loss)	$ 7,095	$ 6,725

	Six months ended June 30, 2015	Six months ended June 30, 2014
Net income	$ 10,884	$ 10,531
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized (losses) gains arising during period	(29)	505
Less: reclassification adjustment for gains included in net income	(71)	
Total unrealized (losses) gains on securities	(100)	505
Accretion of net unrealized losses transferred	1,762	1,732
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	426	113
Other comprehensive income (loss)	2,088	2,350
Comprehensive income (loss)	$ 12,972	$ 12,881

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.

Consolidated Statements of Changes in Stockholders Equity (unaudited)

For the Six Months Ended June 30, 2015 and 2014

	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, 2013	$ 3,580	$ 1,976	$ 11,932	$ 180,747	$ (21,763)	$ 176,472
Net income				10,531		10,531
Other comprehensive income, net of tax:						
Unrealized holding (losses) gains arising during period, net of $339 in taxes					505	505
Accretion of unrealized losses on securities transferred to held-to-maturity net of $1,061 in taxes					1,732	1,732
Pension liability adjustment, net of $75 in taxes					113	113
Conversion of class B common stock to class A common stock, 8,600 shares	8	(8)				
Stock options exercised, 125 shares	1		3			4
Cash dividends paid, Class A common stock, $.24 per share				(859)		(859)
Cash dividends paid, Class B common stock, $.12 per share				(237)		(237)
Balance at June 30, 2014	$ 3,589	$ 1,968	$ 11,935	$ 190,182	$ (19,413)	$ 188,261
Balance at December 31, 2014	$ 3,601	$ 1,967	$ 12,292	$ 200,411	$ (25,771)	$ 192,500
Net income				10,884		10,884
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of $64 in taxes and $118 in realized net gains					(100)	(100)
Accretion of unrealized losses on securities transferred to					1,762	1,762

held-to-maturity, net of $943 in taxes						
Pension liability adjustment, net of $284 in taxes					426	426
Cash dividends paid, Class A common stock, $.24 per share				(865)		(865)
Cash dividends paid, Class B common stock, $.12 per share				(234)		(234)
Balance at June 30, 2015	$ 3,601	$ 1,967	$ 12,292	$ 210,196	$ (23,683)	$ 204,373

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Six months ended June 30, 2015	Six months ended June 30, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 10,884	$ 10,531
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Gain on sales of mortgage loans	(517)	(88)
Net gains on sales of securities	(118)	
Provision for loan losses	200	1,050
Deferred income taxes	(819)	(1,547)
Net depreciation and amortization	1,639	1,630
Increase in accrued interest receivable	(1,040)	(175)
Increase in other assets	(13,357)	(2,192)
Increase in other liabilities	632	454
Net cash (used in) provided by operating activities	(2,496)	9,663
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments		3,561
Purchase of short-term investments	(8)	(1,069)
Proceeds from calls/maturities of securities available-for-sale	91,052	71,155
Proceeds from sales of securities available-for-sale	21,215	
Purchase of securities available-for-sale	(115,690)	(100,084)
Proceeds from calls/maturities of securities held-to-maturity	169,457	106,312
Purchase of securities held-to-maturity	(443,705)	(152,901)
Net increase in loans	(249,003)	(55,701)
Proceeds from sales of portfolio loans	35,941	6,082
Capital expenditures	(1,520)	(1,252)
Net cash used in investing activities	(492,261)	(123,897)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in time deposits	139	5,965
Net increase in demand, savings, money market and NOW deposits	113,959	128,534
Net proceeds from exercise of stock options		4
Cash dividends	(1,099)	(1,096)
Net increase (decrease) in securities sold under agreements to repurchase	71,470	(34,430)
Net increase in other borrowed funds	90,000	12,356

Net cash provided by financing activities	274,469	111,333
Net decrease in cash and cash equivalents	(220,288)	(2,901)
Cash and cash equivalents at beginning of period	305,357	94,678
Cash and cash equivalents at end of period	$ 85,069	$ 91,777
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 9,646	$ 9,421
Income taxes	2,730	1,991
Change in unrealized gains (losses) on securities available-for-sale, net of taxes	(100)	505
Change in unrealized losses on securities transferred to held-to-maturity, net of taxes	1,762	1,732
Pension liability adjustment, net of taxes	426	113
Due (from) to broker	(8,764)	2,000
Loans transferred to other real estate owned	1,916	

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

Century Bancorp, Inc.

Notes to Unaudited Consolidated Interim Financial Statements

Six Months Ended June 30, 2015 and 2014

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, 2014, 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.

Table of Contents

Note 2. Securities Available-for-Sale

	June 30, 2015				December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in thousands)				
U.S. Treasury	**$ 1,999**	**$**	**$ 2**	**$ 1,997**	$ 1,999	$ 1	$	$ 2,000
Small Business Administration	**6,446**	**48**		**6,494**	6,684	33		6,717
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**272,775**	**1,114**	**326**	**273,563**	336,158	1,387	452	337,093
Privately Issued Residential Mortgage Backed Securities	**1,654**	**4**	**17**	**1,641**	1,894	5	25	1,874
Obligations Issued by States and Political Subdivisions	**153,417**		**876**	**152,541**	97,657		873	96,784
Other Debt Securities	**3,600**	**14**	**115**	**3,499**	3,600	24	100	3,524
Equity Securities	**153**	**171**		**324**	218	180		398
Total	**$ 440,044**	**$ 1,351**	**$ 1,336**	**$ 440,059**	$ 448,210	$ 1,630	$ 1,450	$ 448,390

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 $256,228,000 and $301,038,000 at June 30, 2015 and December 31, 2014, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank of Boston amounting to $22,268,000 and $24,810,000 at June 30, 2015 and December 31, 2014, respectively. The Company realized gross gains of $118,000 from the proceeds of $21,215,000 from the sales of available-for-sale securities for the six months ended June 30, 2015.

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

The following table shows the maturity distribution of the Company s securities available-for-sale at June 30, 2015.

	Amortized Cost	Fair Value
	(in thousands)	
Within one year	**$ 147,326**	**$ 147,327**
After one but within five years	**161,584**	**162,236**
After five but within ten years	**121,460**	**121,600**
More than 10 years	**8,021**	**7,187**
Non-maturing	**1,653**	**1,709**
Total	**$ 440,044**	**$ 440,059**

The weighted average remaining life of investment securities available-for-sale at June 30, 2015 was 3.7 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.

Table of Contents

As of June 30, 2015 and December 31, 2014, 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 that the principal and interest on these securities are from issuers that are investment grade. The change in the unrealized losses on the state and municipal securities and the nonagency mortgage-backed securities was primarily caused by changes in credit spreads and liquidity issues in the marketplace.

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

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

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at June 30, 2015. 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 5 and 14 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 285 holdings at June 30, 2015.

	June 30, 2015					
	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	$ 1,997	$ 2	$	$	$ 1,997	$ 2
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	7,335	5	74,363	321	81,698	326
Privately Issued Residential Mortgage Backed Securities			597	17	597	17
Obligations Issued by States and Political Subdivisions			3,820	876	3,820	876
Other Debt Securities	399	1	1,386	114	1,785	115
Total temporarily impaired securities	$ 9,731	$ 8	$ 80,166	$ 1,328	$ 89,897	$ 1,336

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 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 3 and 14 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 262 holdings at December 31, 2014.

Table of Contents

Temporarily Impaired Investments	December 31, 2014 Less than 12 months Fair Value	Unrealized Losses	12 months or longer Fair Value	Unrealized Losses	Total Fair Value	Unrealized Losses
			(in thousands)			
U.S. Government Sponsored Enterprises	$	$	$	$	$	$
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	24,457	85	77,585	367	102,042	452
Privately Issued Residential Mortgage Backed Securities			678	25	678	25
Obligations Issued by States and Political Subdivisions			3,820	873	3,820	873
Other Debt Securities			1,400	100	1,400	100
Total temporarily impaired securities	$ 24,457	$ 85	$ 83,483	$ 1,365	$ 107,940	$ 1,450

Note 3. Investment Securities Held-to-Maturity

	June 30, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	December 31, 2014 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
				(in thousands)				
U.S. Government Sponsored Enterprises	**$ 319,405**	**$ 3,233**	**$ 392**	**$ 322,246**	$ 251,617	$ 2,707	$ 249	$ 254,075
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**1,364,163**	**10,707**	**7,544**	**1,367,326**	1,155,175	11,185	6,832	1,159,528
Total	**$ 1,683,568**	**$ 13,940**	**$ 7,936**	**$ 1,689,572**	$ 1,406,792	$ 13,892	$ 7,081	$ 1,413,603

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to $1,062,575,000 and $868,924,000 at June 30, 2015 and December 31, 2014, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank of Boston at fair value amounting to $411,957,000 and $458,782,000 at June 30, 2015 and December 31, 2014, respectively.

At June 30, 2015 and December 31, 2014, 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 June 30, 2015.

	Amortized Cost	Fair Value
	(in thousands)	
Within one year	**$ 2,854**	**$ 2,895**
After one but within five years	**1,264,143**	**1,268,516**
After five but within ten years	**406,814**	**408,543**
More than ten years	**9,757**	**9,618**
Total	**$ 1,683,568**	**$ 1,689,572**

The weighted average remaining life of investment securities held-to-maturity at June 30, 2015 was 4.5 years. Included in the weighted average remaining life calculation at June 30, 2015 were $202,373,000 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 June 30, 2015 and December 31, 2014, 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.

Table of Contents

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 June 30, 2015 and December 31, 2014.

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

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at June 30, 2015. 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 98 and 22 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 352 holdings at June 30, 2015.

	June 30, 2015					
	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	**$ 91,968**	**$ 392**	**$**	**$**	**$ 91,968**	**$ 392**
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	**561,000**	**4,935**	**123,344**	**2,609**	**684,344**	**7,544**
Total temporarily impaired securities	**$ 652,968**	**$ 5,327**	**$ 123,344**	**$ 2,609**	**$ 776,312**	**$ 7,936**

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 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 34 and 48 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 December 31, 2014.

	December 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	$ 22,414	$ 25	$ 14,776	$ 224	$ 37,190	$ 249
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	194,119	1,678	308,526	5,154	502,645	6,832

Total temporarily impaired securities	$ 216,533	$ 1,703	$ 323,302	$ 5,378	$ 539,835	$ 7,081

Note 4. 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, financial condition of borrowers, the value of collateral securing loans and other relevant factors.

Table of Contents

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

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
	(In thousands)			
Allowance for loan losses, beginning of period	**$ 22,529**	$ 21,259	**$ 22,318**	$ 20,941
Loans charged off	**(403)**	(113)	**(484)**	(542)
Recoveries on loans previously charged-off	**119**	126	**211**	273
Net recoveries (charge-offs)	**(284)**	13	**(273)**	(269)
Provision charged to expense		450	**200**	1,050
Allowance for loan losses, end of period	**$ 22,245**	$ 21,722	**$ 22,245**	$ 21,722

Further information pertaining to the allowance for loan losses for the three months ending June 30, 2015 follows:

	Construction and Land Development	**Commercial and Industrial**	**Municipal**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Home Equity**	**Unallocated**	**Total**
					(In thousands)				
Allowance for loan losses:									
Balance at March 31, 2015	**$ 1,884**	**$ 4,645**	**$ 1,373**	**$ 11,127**	**$ 799**	**$ 714**	**$ 614**	**$ 1,373**	**$ 22,529**
Charge-offs		**(52)**		**(298)**		**(53)**			**(403)**
Recoveries		**56**		**2**	**2**	**59**			**119**
Provision	**(151)**	**(221)**	**(373)**	**892**	**(79)**	**(11)**	**36**	**(93)**	
Ending balance at June 30, 2015	**$ 1,733**	**$ 4,428**	**$ 1,000**	**$ 11,723**	**$ 722**	**$ 709**	**$ 650**	**$ 1,280**	**$ 22,245**
Amount of allowance for loan losses for loans deemed to	**$ 12**	**$ 43**	**$**	**$ 108**	**$ 41**	**$**	**$ 91**	**$**	**295**

be impaired									
Amount of allowance for loan losses for loans not deemed to be impaired	**$ 1,721**	**$ 4,385**	**$ 1,000**	**$ 11,615**	**$ 681**	**$ 709**	**$ 559**	**$ 1,280**	**$ 21,950**
Loans:									
Ending balance	**$ 26,521**	**$ 291,142**	**$ 87,241**	**$ 713,770**	**$ 248,103**	**$ 10,646**	**$ 167,271**	**$**	**$ 1,544,694**
Loans deemed to be impaired	**$ 101**	**$ 595**	**$**	**$ 1,705**	**$ 941**	**$**	**$ 91**	**$**	**$ 3,433**
Loans not deemed to be impaired	**$ 26,420**	**$ 290,547**	**$ 87,241**	**$ 712,065**	**$ 247,162**	**$ 10,646**	**$ 167,180**	**$**	**$ 1,541,261**

Further information pertaining to the allowance for loan losses for the six months ending June 30, 2015 follows:

	Construction and Land Development	**Commercial and Industrial**	**Municipal**	**Commercial Real Estate**	**Residential Real Estate**	**Consumer**	**Home Equity**	**Unallocated**	**Total**
					(In thousands)				
Allowance for loan losses:									
Balance at December 31, 2014	**$ 1,592**	**$ 4,758**	**$ 1,488**	**$ 11,199**	**$ 775**	**$ 810**	**$ 599**	**$ 1,097**	**$ 22,318**
Charge-offs		**(52)**		**(298)**		**(134)**			**(484)**
Recoveries		**71**		**4**	**4**	**132**			**211**
Provision	**141**	**(349)**	**(488)**	**818**	**(57)**	**(99)**	**51**	**183**	**200**
Ending balance at June 30, 2015	**$ 1,733**	**$ 4,428**	**$ 1,000**	**$ 11,723**	**$ 722**	**$ 709**	**$ 650**	**$ 1,280**	**$ 22,245**
Amount of allowance for loan losses for loans deemed to be impaired	**$ 12**	**$ 43**	**$**	**$ 108**	**$ 41**	**$**	**$ 91**	**$**	**295**

Amount of allowance for loan losses for loans not deemed to be impaired	**$ 1,721**	**$ 4,385**	**$ 1,000**	**$ 11,615**	**$ 681**	**$ 709**	**$ 559**	**$ 1,280**	**$ 21,950**
Loans:									
Ending balance	**$ 26,521**	**$ 291,142**	**$ 87,241**	**$ 713,770**	**$ 248,103**	**$ 10,646**	**$ 167,271**	**$**	**$ 1,544,694**
Loans deemed to be impaired	**$ 101**	**$ 595**	**$**	**$ 1,705**	**$ 941**	**$**	**$ 91**	**$**	**$ 3,433**
Loans not deemed to be impaired	**$ 26,420**	**$ 290,547**	**$ 87,241**	**$ 712,065**	**$ 247,162**	**$ 10,646**	**$ 167,180**	**$**	**$ 1,541,261**

Table of Contents

Further information pertaining to the allowance for loan losses for the three months ending June 30, 2014 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Balance at March 31, 2014	$ 1,825	$ 2,593	$ 804	$ 11,567	$ 1,873	$ 425	$ 902	$ 1,270	$ 21,259
Charge-offs		(14)				(99)			(113)
Recoveries		24		2	15	84	1		126
Provision	220	(173)	(41)	128	39	18	12	247	450
Ending balance at June 30, 2014	$ 2,045	$ 2,430	$ 763	$ 11,697	$ 1,927	$ 428	$ 915	$ 1,517	$ 21,722
Amount of allowance for loan losses for loans deemed to be impaired	$ 273	$ 353	$	$ 359	$ 160	$	$ 93	$	1. 238
Amount of allowance for loan losses for loans not deemed to be impaired	$ 1,772	$ 2,077	$ 763	$ 11,338	$ 1,767	$ 428	$ 822	$ 1,517	$ 20,484
Loans:									
Ending balance	$ 25,861	$ 73,204	$ 31,982	$ 750,445	$ 282,468	$ 9,649	$ 140,616	$	$ 1,314,225
Loans deemed to be impaired	$ 356	$ 1,093	$	$ 4,775	$ 1,559	$	$ 93	$	$ 7,876
Loans not deemed to be impaired	$ 25,505	$ 72,111	$ 31,982	$ 745,670	$ 280,909	$ 9,649	$ 140,523	$	$ 1,306,349

Further information pertaining to the allowance for loan losses for the six months ending June 30, 2014 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
					(In thousands)				
Allowance for loan losses:									
Balance at December 31, 2013	$ 2,174	$ 2,617	$ 655	$ 10,935	$ 2,006	$ 432	$ 959	$ 1,163	$ 20,941
Charge-offs	(250)	(14)				(278)			(542)
Recoveries		48		4	20	200	1		273
Provision	121	(221)	108	758	(99)	74	(45)	354	1,050
Ending balance at June 30, 2014	$ 2,045	$ 2,430	$ 763	$ 11,697	$ 1,927	$ 428	$ 915	$ 1,517	$ 21,722
Amount of allowance for loan losses for loans deemed to be impaired	$ 273	$ 353	$	$ 359	$ 160	$	$ 93	$	1. 238
Amount of allowance for loan losses for loans not deemed to be impaired	$ 1,772	$ 2,077	$ 763	$ 11,338	$ 1,767	$ 428	$ 822	$ 1,517	$ 20,484
Loans:									
Ending balance	$ 25,861	$ 73,204	$ 31,982	$ 750,445	$ 282,468	$ 9,649	$ 140,616	$	$ 1,314,225
Loans deemed to be impaired	$ 356	$ 1,093	$	$ 4,775	$ 1,559	$	$ 93	$	$ 7,876
Loans not deemed to be impaired	$ 25,505	$ 72,111	$ 31,982	$ 745,670	$ 280,909	$ 9,649	$ 140,523	$	$ 1,306,349

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.

Table of Contents

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 June 30, 2015 and December 31, 2014.

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 June 30, 2015 and December 31, 2014.

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 June 30, 2015 and December 31, 2014 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 June 30, 2015.

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
		(In thousands)		
Grade:				
1-3 (Pass)	**$ 19,396**	**$ 290,547**	**$ 87,241**	**$ 711,449**
4 (Monitor)	**7,024**			**616**
5 (Substandard)				
6 (Doubtful)				
Impaired	**101**	**595**		**1,705**
Total	**$ 26,521**	**$ 291,142**	**$ 87,241**	**$ 713,770**

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

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
		(In thousands)		
Grade:				

1-3 (Pass)	$ 15,515	$ 148,407	$ 41,850	$ 691,322
4 (Monitor)	7,126	472		633
5 (Substandard)				
6 (Doubtful)				
Impaired	103	853		4,317
Total	$ 22,744	$ 149,732	$ 41,850	$ 696,272

During the second quarter of 2015, the Company enhanced its approach to the development of the historical loss factors on certain loans within the portfolio. This was done in response to the changing composition of the portfolio. In recent quarters, the Company has increased its exposure to larger loans to larger institutions which receive credit ratings. The Company currently has limited loss experience with these types of loans. There is, however, a great deal of default and loss data available on these types of loans from the credit rating agencies. As of June 30, 2015, the Company incorporated this information into the development of the historical loss rates for these loan types. Credit ratings issued by national organizations were utilized as credit quality indicators as presented in the following table at June 30, 2015.

	Commercial and Industrial	Municipal	Commercial Real Estate
		(In thousands)	
Credit Rating:			
Aaa Aa3	$ 135,059	$ 60,483	$ 8,014
A1 A3	80,385	7,820	131,641
Baa1 Baa3		9,035	154,699
Ba2		4,480	
Total	$ 215,444	$ 81,818	$ 294,354

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.

Further information pertaining to the allowance for loan losses at June 30, 2015 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total
			(In thousands)			
Construction and land development	$	$ 101	$	$ 101	$ 26,420	$ 26,521
Commercial and industrial		122		122	291,020	291,142
Municipal					87,241	87,241
Commercial real estate	926	186		1,112	712,658	713,770
Residential real estate	927	1,136		2,063	246,040	248,103
Consumer and overdrafts	8	3		11	10,635	10,646
Home equity	407	638		1,045	166,226	167,271
Total	$ 2,268	$ 2,186	$	$ 4,454	$ 1,540,240	$ 1,544,694

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

	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total
			(In thousands)			
Construction and land development	$	$ 103	$	$ 103	$ 22,641	$ 22,744
Commercial and industrial	905	157		1,062	148,670	149,732

Municipal					41,850	41,850
Commercial real estate	1,046	2,781		3,827	692,445	696,272
Residential real estate	632	846		1,478	255,827	257,305
Consumer and overdrafts	6	5		11	12,177	12,188
Home equity	576	254		830	150,445	151,275
Total	$ 3,165	$ 4,146	$	$ 7,311	$ 1,324,055	$ 1,331,366

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, 2014.

The following is information pertaining to impaired loans for June 30, 2015:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value For 3 Months Ending 6/30/15	Interest Income Recognized For 3 Months Ending 6/30/15	Average Carrying Value For 6 Months Ending 6/30/15	Interest Income Recognized For 6 Months Ending 6/30/15
	(Dollars in thousands)						
With no required reserve recorded:							
Construction and land development	$	$	$	$	$	$	$
Commercial and industrial	32	32		47		40	
Municipal							
Commercial real estate				196		280	
Residential real estate	126	210		129	2	131	4
Consumer							
Home equity							
Total	$ 158	$ 242	$	$ 372	$ 2	$ 451	$ 4
With required reserve recorded:							
Construction and land development	$ 101	$ 108	$ 12	$ 102	$	$ 102	$
Commercial and industrial	563	765	43	644	5	722	11
Municipal							
Commercial real estate	1,705	1,801	108	2,809	17	3,286	33
Residential real estate	815	815	41	817	1	820	7
Consumer							
Home equity	91	91	91	91		92	
Total	$ 3,275	$ 3,580	$ 295	$ 4,463	$ 23	$ 5,022	$ 51
Total:							

Construction and land development	**$ 101**	**$ 108**	**$ 12**	**$ 102**	**$**	**$ 102**	**$**
Commercial and industrial	**595**	**797**	**43**	**691**	**5**	**762**	**11**
Municipal							
Commercial real estate	**1,705**	**1,801**	**108**	**3,005**	**17**	**3,566**	**33**
Residential real estate	**941**	**1,025**	**41**	**946**	**3**	**951**	**11**
Consumer							
Home equity	**91**	**91**	**91**	**91**		**92**	
Total	**$ 3,433**	**$ 3,822**	**$ 295**	**$ 4,835**	**$ 25**	**$ 5,473**	**$ 55**

Table of Contents

The following is information pertaining to impaired loans for June 30, 2014:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value For 3 Months Ending 6/30/14	Interest Income Recognized For 3 Months Ending 6/30/14	Average Carrying Value For 6 Months Ending 6/30/14	Interest Income Recognized For 6 Months Ending 6/30/14
				(Dollars in thousands)			
With no required reserve recorded:							
Construction and land development	$	$	$	$ 188	$	$ 321	$
Commercial and industrial	11	42		11		71	
Commercial real estate	400	400		100		80	
Residential real estate	70	70		31		104	
Consumer							
Home equity							
Total	$ 481	$ 512	$	$ 330	$	$ 576	$
With required reserve recorded:							
Construction and land development	$ 356	$ 3,400	$ 273	$ 169	$	$ 143	$
Commercial and industrial	1,082	1,332	353	1,095	8	1,104	19
Commercial real estate	4,375	4,466	359	4,391	36	4,405	74
Residential real estate	1,489	1,684	160	1,106	3	1,039	5
Consumer							
Home equity	93	93	93	94		94	
Total	$ 7,395	$ 10,975	$ 1,238	$ 6,855	$ 47	$ 6,785	$ 98
Total:							
Construction and land development	$ 356	$ 3,400	$ 273	$ 357	$	$ 465	$
Commercial and industrial	1,093	1,374	353	1,106	8	1,175	19
Commercial real estate	4,775	4,866	359	4,491	36	4,485	74
Residential real estate	1,559	1,754	160	1,137	3	1,143	5
Consumer							
Home equity	93	93	93	94		94	
Total	$ 7,876	$ 11,487	$ 1,238	$ 7,185	$ 47	$ 7,362	$ 98

There were no troubled debt restructurings occurring during the six month periods ended June 30, 2015 or June 30, 2014.

Note 5. Reclassifications Out of Accumulated Other Comprehensive Income (a)

Amount Reclassified from Accumulated Other Comprehensive Income

Details about Accumulated Other Comprehensive Income Components	**Three Months Ended June 30, 2015**	**Three Months Ended June 30, 2014**	**Affected Line Item in the Statement Where Net Income is Presented**
	(in thousands)		
Unrealized gains and losses on available-for-sale securities			
	$ 118	$	Net gains on sales of securities
	(47)		Provision for income taxes
	$ 71	$	Net income
Accretion of unrealized losses transferred			
	$ 1,576	$ 1,286	Interest on securities held-to-maturity
	(549)	(478)	Provision for income taxes
	$ 1,027	$ 808	Net income
Amortization of defined benefit pension items			
Prior-service costs	**$ (3)(b)**	$ (3)(b)	Salaries and employee benefits
Actuarial gains (losses)	**(352)(b)**	(91)(b)	Salaries and employee benefits
Total before tax	**(355)**	(94)	Income before taxes
Tax (expense) or benefit	**142**	38	Provision for income taxes
Net of tax	**$ (213)**	$ (56)	Net income
Total reclassifications for the period	**$ 885**	$ 752	Net income, net of tax

Table of Contents

Details about Accumulated Other Comprehensive Income Components	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014	Affected Line Item in the Statement Where Net Income is Presented
	(in thousands)		
Unrealized gains and losses on available-for-sale securities			
	$ 118	$	Net gains on sales of securities
	(47)		Provision for income taxes
	$ 71	$	Net income
Accretion of unrealized losses transferred			
	$ 2,705	$ 2,793	Interest on securities held-to-maturity
	(943)	(1,061)	Provision for income taxes
	$ 1,762	$ 1,732	Net income
Amortization of defined benefit pension items			
Prior-service costs	**$ (6)(b)**	$ (5)(b)	Salaries and employee benefits
Actuarial gains (losses)	**(704)(b)**	(183)(b)	Salaries and employee benefits
Total before tax	**(710)**	(188)	Income before taxes
Tax (expense) or benefit	**284**	75	Provision for income taxes
Net of tax	**$ (426)**	$ (113)	Net income
Total reclassifications for the period	**$ 1,407**	$ 1,619	Net income, net of tax

(a) Amount 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 8) for additional details).

Note 6. 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 three and six months ended June 30, 2014 was an increase of 1,327 and 1,452 shares, respectively. There were no stock options outstanding during the six months ended June 30, 2015.

Table of Contents

The following table is a reconciliation of basic EPS and diluted EPS for the three and six months ended June 30,

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Basic EPS Computation: (in thousands except share and per share data)				
Numerator:				
Net income, Class A	**$ 4,654**	$ 4,394	**$ 8,549**	$ 8,259
Net income, Class B	**1,271**	1,205	**2,335**	2,272
Denominator:				
Weighted average shares outstanding, Class A	**3,600,729**	3,589,125	**3,600,729**	3,585,773
Weighted average shares outstanding, Class B	**1,967,180**	1,967,580	**1,967,180**	1,970,880
Basic EPS, Class A	**$ 1.29**	$ 1.22	**$ 2.37**	$ 2.30
Basic EPS, Class B	**0.65**	0.61	**1.19**	1.15
Diluted EPS Computation:				
Numerator:				
Net income, Class A	**$ 4,654**	$ 4,394	**$ 8,549**	$ 8,259
Net income, Class B	**1,271**	1,205	**2,335**	2,272
Total net income, for diluted EPS, Class A computation	**5,925**	5,599	**10,884**	10,531
Denominator:				
Weighted average shares outstanding, basic, Class A	**3,600,729**	3,589,125	**3,600,729**	3,585,773
Weighted average shares outstanding, Class B	**1,967,180**	1,967,580	**1,967,180**	1,970,880
Dilutive effect of Class A stock options		1,327		1,452
Weighted average shares outstanding diluted, Class A	**5,567,909**	5,558,032	**5,567,909**	5,558,105
Weighted average shares outstanding, Class B	**1,967,180**	1,967,580	**1,967,180**	1,970,880
Diluted EPS, Class A	**$ 1.06**	$ 1.01	**$ 1.95**	$ 1.89
Diluted EPS, Class B	**0.65**	0.61	**1.19**	1.15

Note 7. 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 June 30,

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2015	2014	**2015**	**2014**
	(In thousands)			
Service cost	**$ 336**	$ 258	**$ 397**	$ 389
Interest	**394**	367	**341**	331
Expected return on plan assets	**(688)**	(636)		
Recognized prior service cost (benefit)	**(26)**	(26)	**29**	29
Recognized net actuarial losses	**204**	3	**149**	88
Net periodic benefit (credit) cost	**$ 220**	$ (34)	**$ 916**	$ 837

Page 21 of 41

Table of Contents

Components of Net Periodic Benefit Cost (Credit) for the Six Months Ended June 30,

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2015	2014	**2015**	2014
	(In thousands)			
Service cost	**$ 672**	$ 516	**$ 794**	$ 778
Interest	**788**	734	**682**	662
Expected return on plan assets	**(1,376)**	(1,272)		
Recognized prior service cost (benefit)	**(52)**	(52)	**58**	58
Recognized net actuarial losses	**407**	6	**299**	176
Net periodic benefit (credit) cost	**$ 439**	$ (68)	**$ 1,833**	$ 1,674

Contributions

The company intends to contribute $2,000,000 to the Pension Plan in 2015. As of June 30, 2015, $1,000,000 has been contributed.

Note 8. 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.

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.

Table of Contents

The results of the fair value hierarchy as of June 30, 2015, 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	$ 1,997	$	$ 1,997	$
SBA Backed Securities	6,494		6,494	
U.S. Government Agency and Sponsored Mortgage Backed Securities	273,563		273,563	
Privately Issued Residential Mortgage Backed Securities	1,641		1,641	
Obligations Issued by States and Political Subdivisions	152,541			152,541
Other Debt Securities	3,499		3,499	
Equity Securities	324	287		37
Total	$ 440,059	$ 287	$ 287,194	$ 152,578

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

Impaired Loans	1,159			1,159
Other Real Estate Owned	1,916			1,916

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, appraisal of collateral 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 and six-month periods ended June 30, 2015 amounted to $558,000 and $594,000, respectively.

There were no transfers between level 1, 2 and 3 for the six months ended June 30, 2015. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the six month period ended June 30, 2015.

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)	**$ 152,578**	Discounted cash flow	Discount rate	0%-1% (3)
Impaired Loans	**1,159**	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-30% discount
Other Real Estate Owned	**1,916**	Appraisal (1)	Appraisal adjustments (2)	0%-30% discount

Table of Contents

(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 six-month period ended June 30, 2015 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total
		(In thousands)		
Balance at December 31, 2014	**$ 3,820**	**$ 92,964**	**$ 102**	**$ 96,886**
Purchases		**113,179**		**113,179**
Maturities and calls		**(57,411)**	**(65)**	**(57,476)**
Amortization		**(11)**		**(11)**
Changes in fair value				
Balance at June 30, 2015	**$ 3,820**	**$ 148,721**	**$ 37**	**$ 152,578**

The amortized cost of Level 3 securities was $153,454,000 at June 30, 2015 with an unrealized loss of $876,000. 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 six-month period ended June 30, 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		51,471		51,471
Maturities and calls		(27,282)	(79)	(27,361)
Amortization		(2)		(2)
Changes in fair value				
Balance at June 30, 2014	$ 3,820	$ 56,674	$ 211	$ 60,705

The amortized cost of Level 3 securities was $61,577,000 at June 30, 2014 with an unrealized loss of $872,000. 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.

Table of Contents

The results of the fair value hierarchy as of December 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**	**$**
U.S. Government Sponsored Enterprises				
SBA Backed Securities	**6,717**		**6,717**	
U.S. Government Agency and Sponsored Mortgage Backed Securities	**337,093**		**337,093**	
Privately Issued Residential Mortgage Backed Securities	**1,874**		**1,874**	
Obligations Issued by States and Political Subdivisions	**96,784**			**96,784**
Other Debt Securities	**3,524**		**3,524**	
Equity Securities	**398**	**296**		**102**
Total	**$ 448,390**	**$ 296**	**$ 351,208**	**$ 96,886**

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

Impaired Loans	**3,410**			**3,410**

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, appraisal of collateral 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 period ended 2014 for the estimated credit loss amounted to $947,000.

There were no transfers between level 1, 2 and 3 for the year ended December 31, 2014. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the year ended December 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)	**$ 96,886**	Discounted cash flow	Discount rate	0%-1% (3)
Impaired Loans	**3,410**	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-30% 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.

Table of Contents

Note 9. 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 June 30, 2015 and December 31, 2014. 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.

Table of Contents

	Carrying Amount	Estimated Fair Value	Fair Value Measurements Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
			(In thousands)		
June 30, 2015					
Financial assets:					
Securities held-to-maturity	**$ 1,683,568**	**$ 1,689,572**	**$**	**$ 1,689,572**	**$**
Loans (1)	**1,522,449**	**1,503,326**			**1,503,326**
Financial liabilities:					
Time deposits	**383,284**	**387,675**		**387,675**	
Other borrowed funds	**485,500**	**487,271**		**487,271**	
Subordinated debentures	**36,083**	**36,083**			**36,083**
December 31, 2014					
Financial assets:					
Securities held-to-maturity	1,406,792	1,413,603		1,413,603	
Loans (1)	1,309,048	1,291,550			1,291,550
Financial liabilities:					
Time deposits	383,145	387,919		387,919	
Other borrowed funds	395,500	400,196		400,196	
Subordinated debentures	36,083	36,083			36,083

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

Note 10. Recent Accounting Developments

In November 2014, the FASB issued ASU 2014-17, Business Combinations . (Topic 805): *Pushdown Accounting (a consensus of the FASB Emerging Issues Task Force).* This ASU was issued to provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity s most recent change-in-control event. An election to apply pushdown accounting in a reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments in this Update are effective on November 18, 2014. The adoption of this standard did not have a material impact on the Company s financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement-Extraordinary and Unusual (Subtopic 225-20): *Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items*. This ASU eliminates from GAAP the concept of extraordinary items. This Update will align more closely GAAP income statement presentation guidance with International Audit Standards (IAS) 1, Presentation of Financial Statements, which prohibits the presentation and disclosure of extraordinary items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Company s financial statements.

In April 2015, the FASB issued ASU 2015-04, Compensation-Retirement Benefits (Topic 715): *Practical Expedient for the Measurement Date of an Employer s Defined Benefit Obligation and Plan Assets.* For an entity with a fiscal year-end that does not coincide with a month-end, the amendments in this update provide a practical expedient that permits the entity to measure defined benefit plan assets and obligations using the month-end that is closest to the entity s fiscal year-end and apply that practical expedient consistently from year to year. The practical expedient should be

Table of Contents

applied consistently to all plans if an entity has more than one plan. The amendments in this Update are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this standard is not expected to have a material impact on the Company s financial statements.

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 June 30, 2015, the Company had total assets of $3.9 billion. Currently, the Company operates 27 banking offices in 20 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.

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 has client engagements in Massachusetts, New Hampshire and Rhode Island with approximately 245 government entities throughout the region.

Net income for the quarter ended June 30, 2015 was $5,925,000, or $1.06 per Class A share diluted, compared to net income of $5,599,000, or $1.01 per Class A share diluted, for the quarter ended June 30, 2014. Net income for the six months ended June 30, 2015 was $10,884,000, or $1.95 per Class A share diluted, compared to net income of $10,531,000, or $1.89 per Class A share diluted, for the six months ended June 30, 2014.

Earnings per share (EPS) for each class of stock and time period is as follows:

	Three months ended June 30, 2015	Three months ended June 30, 2014
Basic EPS Class A common	**$ 1.29**	$ 1.22
Basic EPS Class B common	**$ 0.65**	$ 0.61
Diluted EPS Class A common	**$ 1.06**	$ 1.01

Diluted EPS	Class B common	**$**	**0.65**	$	0.61

Table of Contents

			Six months ended June 30, 2015		Six months ended June 30, 2014
Basic EPS	Class A common	**$**	**2.37**	$	2.30
Basic EPS	Class B common	**$**	**1.19**	$	1.15
Diluted EPS	Class A common	**$**	**1.95**	$	1.89
Diluted EPS	Class B common	**$**	**1.19**	$	1.15

Net interest income totaled $34.1 million for the six-months ended June 30, 2015 compared to $33.3 million for the same period in 2014. The 2.6% increase in net interest income is primarily due to an increase in average earning assets. The net interest margin decreased from 2.23% on a fully taxable equivalent basis in 2014 to 2.16% on the same basis for 2015. This was primarily the result of a decrease in rates on earning assets. The average balances of earning assets increased by 7.2% combined with a similar increase in average deposits. Also, interest expense increased 3.3% as a result of an increase in deposit balances.

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

The primary factor accounting for the decrease in the net interest margin for 2013 was an additional large influx of deposits. Management invested the funds in shorter term securities. The net interest margin has declined slightly throughout 2014 and the first quarter of 2015. During the second quarter of 2015 the net interest margin increased primarily as a result of an increase in higher yielding assets. This was primarily the result of lower yielding interest-bearing deposits in other banks invested in securities held-to-maturity.

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.

The provision for loan losses decreased by $450,000 for the quarter ended June 30, 2015 from $450,000 for the quarter ended June 30, 2014 primarily as a result of changes in portfolio composition. During the second quarter of 2015, the Company enhanced its approach to the development of the historical loss factors on certain loans within the portfolio. This was done in response to the changing composition of the portfolio. Non-performing assets totaled $4.1 million at June 30, 2015, compared to $4.1 million at December 31, 2014.

For the first six months of 2015, the Company s effective income tax rate was 4.0% compared to 4.7% for last year s corresponding period. The effective income tax rate decreased primarily as a result of an increase in tax-exempt income.

During December 2013, the Company entered into a lease agreement to open a branch located in Woburn, Massachusetts. The branch opened on November 3, 2014.

Table of Contents

During March 2014, the Company entered into a lease agreement to open a branch located on Boylston Street in Boston, Massachusetts. This property is leased from an entity affiliated with Marshall M. Sloane, Chairman of the Board of the Company. This agreement was approved by the Board of Directors in the absence of the Chairman of the Board. The branch opened on April 22, 2015. The deposits from the Kenmore Square, Boston Massachusetts branch, which closed on September 30, 2014, were moved to the new Boylston Street branch.

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. The conformance period for investments in and relationships with certain legacy covered funds has been extended to July 21, 2016. 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.

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 came 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 2.5 percent of risk-weighted assets. The implementation of the framework did not have a material impact on the Company s financial condition or results of operations.

Table of Contents

Financial Condition

Loans

On June 30, 2015, total loans outstanding were $1.5 billion, up by $213.3 million from the total on December 31, 2014. At June 30, 2015, commercial real estate loans accounted for 46.2% and residential real estate loans, including home equity loans, accounted for 26.9% of total loans.

Commercial and industrial loans increased to $291.1 million at June 30, 2015 from $149.7 million at December 31, 2014, primarily as a result of an increase in commercial and industrial financing. Construction loans increased to $26.5 million at June 30, 2015 from $22.7 million on December 31, 2014, primarily as a result of an increase in construction financing. Municipal loans increased from $41.9 million to $87.2 million, primarily as a result of loan originations.

Allowance for Loan Losses

The allowance for loan loss at June 30, 2015 was $22.2 million as compared to $22.3 million at December 31, 2014. The change in the allowance for loan losses was primarily due to changes in portfolio composition. The level of the allowance for loan losses to total loans was 1.44% at June 30, 2015 and 1.68% at December 31, 2014.

During the second quarter of 2015, the Company enhanced its approach to the development of the historical loss factors on certain loans within the portfolio. This was done in response to the changing composition of the portfolio. In recent quarters, the Company has increased its exposure to larger loans to larger institutions which receive credit ratings. The Company currently has limited loss experience with these types of loans. There is, however, a great deal of default and loss data available on these types of loans from the credit rating agencies. As of June 30, 2015, the Company incorporated this information into the development of the historical loss rates for these loan types. Management believes incorporating this data results a more accurate indication of historical losses. Credit ratings issued by national organizations were utilized as credit quality indicators as presented in the following table at June 30, 2015.

	Commercial and Industrial	Municipal	Commercial Real Estate
		(In thousands)	
Credit Rating:			
Aaa Aa3	**$ 135,059**	**$ 60,483**	**$ 8,014**
A1 A3	**80,385**	**7,820**	**131,641**
Baa1 Baa3		**9,035**	**154,699**
Ba2		**4,480**	
Total	**$ 215,444**	**$ 81,818**	**$ 294,354**

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 June 30, 2015 is $26.5 million as compared to $22.7 million at December 31, 2014. Based on the general local conditions facing construction, management closely monitors all construction loans and considers this type of loans to be higher risk.

Small business loans: The outstanding loan balances of small business loans is $37.8 million at June 30, 2015 as compared to $35.3 million at December 31, 2014. 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2015	**2014**	**2015**	**2014**
	(In thousands)			
Allowance for loan losses, beginning of period	**$ 22,529**	$ 21,259	**$ 22,318**	$ 20,941
Loans charged off	**(403)**	(113)	**(484)**	(542)
Recoveries on loans previously charged-off	**119**	126	**211**	273
Net recoveries (charge-offs)	**(284)**	13	**(273)**	(269)
Provision charged to expense		450	**200**	1,050
Allowance for loan losses, end of period	**$ 22,245**	$ 21,722	**$ 22,245**	$ 21,722

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:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Nonaccruing loans	**$ 2,186**	$ 4,146
Total nonperforming assets	**$ 4,101**	$ 4,146
Loans past due 90 days or more and still accruing	**$**	$
Nonaccruing loans as a percentage of total loans	**0.14%**	0.31%
Nonperfoming assets as a percentage of total assets	**0.10%**	0.11%
Accruing troubled debt restructures	**$ 3,024**	$ 3,296

Cash and Cash Equivalents

Cash and cash equivalents decreased during the first six months of 2015. This was primarily the result of a decrease in lower yielding interest-bearing deposits in other banks during the period. Management invested excess cash and cash equivalents in higher yielding securities and loans during the period.

Short-term Investments

Short-term investments remained stable during the six-month period.

Table of Contents

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 $440.1 million at June 30, 2015, a decrease of 1.9% from December 31, 2014. 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 $115.7 million for the six months ended June 30, 2015. 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 3.7 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 $152.6 million, or 3.9% 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 six months of 2015, net unrealized gains on the securities available-for-sale decreased to $15,000 from $180,000 at December 31, 2014. Unrealized gains on the available-for-sale portfolio decreased mainly as a result of a higher proportion of short-term obligations issued by states and political subdivisions that are carried at par value.

	June 30, 2015	**December 31, 2014**
	(In thousands)	
U.S. Treasury	**$ 1,997**	$ 2,000
Small Business Administration	**6,494**	6,717
U.S Government Agency and Sponsored Enterprise Mortgage-backed Securities	**273,563**	337,093
Privately Issued Residential Mortgage-backed Securities	**1,641**	1,874
Obligations issued by States and Political Subdivisions	**152,541**	96,784

Other Debt Securities	**3,499**	3,524
Equity Securities	**324**	398
Total Securities Available for-Sale	**$ 440,059**	$ 448,390

During the first six months of 2015, the Company capitalized on favorable market conditions and realized $118,000 of net gains on sales of investments. The sale of investments represented five U.S. Government Sponsored enterprises totaling $21,215,000. Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.

Table of Contents

Securities Held-to-Maturity (at Amortized Cost)

The securities held-to-maturity portfolio totaled $1.7 billion on June 30, 2015, an increase of 19.7% from the total on December 31, 2014. 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 4.5 years.

	June 30, 2015	December 31, 2014
	(In thousands)	
U.S. Government Sponsored Enterprises	**$ 319,405**	$ 251,617
U.S. Government Agency and Sponsored Enterprise Mortgage-backed Securities	**1,364,163**	1,155,175
Total Securities Held-to-Maturity	**$ 1,683,568**	$ 1,406,792

At June 30, 2015 and December 31, 2014, 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. During the first six months of 2015, the Company purchased $2.8 million and had no redemptions of FHLBB stock. As of June 30, 2015, no impairment has been recognized.

Deposits and Borrowed Funds

On June 30, 2015, deposits totaled $2.9 billion, representing a 4.2% increase from December 31, 2014. 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 six months of the year. Borrowed funds totaled $769.3 million compared to $607.9 million at December 31, 2014. Borrowed funds increased mainly as a result of borrowings to fund loan originations.

Stockholders Equity

At June 30, 2015, total equity was $204.4 million compared to $192.5 million at December 31, 2014. 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 and amortization of the pension liability. 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 6.58% at June 30, 2015, compared to 6.91% at December 31, 2014. The decrease in the leverage ratio is primarily due to an increase in quarterly average assets, offset somewhat by an increase in stockholders equity. Book value as of June 30, 2015 was $36.71 per share compared to $34.57 at December 31, 2014.

Table of Contents

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					
	June 30, 2015			June 30, 2014		
	(Dollars 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	**$ 746,178**	**$ 7,723**	**4.15%**	$ 764,653	$ 8,237	4.32%
Loans tax-exempt	**642,178**	**7,382**	**4.61**	526,116	6,791	5.18
Securities available-for-sale (5):						
Taxable	**350,301**	**609**	**0.70**	457,955	739	0.65
Tax-exempt	**112,405**	**194**	**0.69**	38,600	84	0.87
Securities held-to-maturity:						
Taxable	**1,743,636**	**9,371**	**2.15**	1,522,059	8,020	2.11
Interest-bearing deposits in other banks	**143,684**	**97**	**0.27**	194,418	129	0.27
Total interest-earning assets	**3,738,382**	**25,376**	**2.73**	3,503,801	24,000	2.75
Non interest-earning assets	**189,054**			164,071		
Allowance for loan losses	**(22,453)**			(21,566)		
Total assets	**$ 3,904,983**			$ 3,646,306		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	**$ 848,256**	**$ 470**	**0.22%**	$ 820,396	$ 450	0.22%
Savings accounts	**340,171**	**222**	**0.26**	333,290	210	0.25
Money market accounts	**947,778**	**734**	**0.31**	935,477	669	0.29
Time deposits	**390,161**	**1,207**	**1.24**	399,554	1,141	1.14
Total interest-bearing deposits	**2,526,366**	**2,633**	**0.42**	2,488,717	2,470	0.40
Securities sold under agreements to repurchase	**265,165**	**128**	**0.19**	211,829	93	0.18
Other borrowed funds and subordinated debentures	**352,189**	**2,200**	**2.51**	251,752	2,237	3.56
Total interest-bearing liabilities	**3,143,720**	**4,961**	**0.63%**	2,952,298	4,800	0.65%
	510,350			473,578		

Non interest-bearing liabilities Demand deposits						
Other liabilities	**49,977**			34,434		
Total liabilities	**3,704,047**			3,460,310		
Stockholders equity	**200,936**			185,996		
Total liabilities & stockholders equity	**$ 3,904,983**			$ 3,646,306		
Net interest income on a fully taxable equivalent basis		**20,415**			19,200	
Less taxable equivalent adjustment		**(2,701)**			(2,446)	
Net interest income		**$ 17,714**			$ 16,754	
Net interest spread (3)			**2.09%**			2.10%
Net interest margin (4)			**2.19%**			2.20%

(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.

Table of Contents

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

	Six Months Ended					
	June 30, 2015			June 30, 2014		
	(Dollars 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	**$ 739,223**	**$ 15,189**	**4.14%**	$ 763,474	$ 16,436	4.34%
Loans tax-exempt	**624,310**	**14,524**	**4.69**	514,506	13,399	5.25
Securities available-for-sale (5):						
Taxable	**362,345**	**1,234**	**0.68**	458,939	1,509	0.66
Tax-exempt	**102,334**	**356**	**0.70**	36,466	159	0.87
Securities held-to-maturity:						
Taxable	**1,637,598**	**17,539**	**2.14**	1,507,529	15,800	2.10
Interest-bearing deposits in other banks	**221,727**	**293**	**0.26**	157,958	211	0.27
Total interest-earning assets	**3,687,537**	**49,135**	**2.69**	3,438,872	47,514	2.79
Non interest-earning assets	**186,911**			163,195		
Allowance for loan losses	**(22,482)**			(21,380)		
Total assets	**$ 3,851,966**			$ 3,580,687		
LIABILITIES AND STOCKHOLDERS EQUITY						
Interest-bearing deposits:						
NOW accounts	**$ 805,761**	**$ 882**	**0.22%**	$ 776,427	$ 831	0.22%
Savings accounts	**337,077**	**438**	**0.26**	336,797	438	0.26
Money market accounts	**973,696**	**1,515**	**0.31**	919,844	1,308	0.29
Time deposits	**383,832**	**2,363**	**1.24**	388,236	2,226	1.16
Total interest-bearing deposits	**2,500,366**	**5,198**	**0.42**	2,421,304	4,803	0.40
Securities sold under agreements to repurchase	**256,883**	**242**	**0.19**	219,336	194	0.18
Other borrowed funds and subordinated debentures	**345,684**	**4,286**	**2.50**	252,022	4,420	3.54
Total interest-bearing liabilities	**3,102,933**	**9,726**	**0.63%**	2,892,662	9,417	0.66%
Non interest-bearing liabilities Demand deposits	**500,241**			471,114		
Other liabilities	**50,804**			34,025		

Total liabilities	**3,653,978**			3,397,801		
Stockholders equity	**197,988**			182,886		
Total liabilities & stockholders equity	**$ 3,851,966**			$ 3,580,687		
Net interest income on a fully taxable equivalent basis		**39,409**			38,097	
Less taxable equivalent adjustment		**(5,288)**			(4,829)	
Net interest income		**$ 34,121**			$ 33,268	
Net interest spread (3)			**2.05%**			2.13%
Net interest margin (4)			**2.16%**			2.23%

(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.

Table of Contents

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 June 30, 2015 Compared with Three Months Ended June 30, 2014 Increase/(Decrease) Due to Change in			Six Months Ended June 30, 2015 Compared with Six Months Ended June 30, 2014 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest income:						
Loans						
Taxable	$ (196)	$ (318)	$ (514)	$ (512)	$ (735)	$ (1,247)
Tax-exempt	1,389	(798)	591	2,656	(1,531)	1,125
Securities available-for-sale						
Taxable	(184)	54	(130)	(327)	52	(275)
Tax-exempt	131	(21)	110	235	(38)	197
Securities held-to-maturity						
Taxable	1,188	163	1,351	1,387	352	1,739
Interest-bearing deposits in other banks	(34)	2	(32)	84	(2)	82
Total interest income	2,294	(918)	1,376	3,523	(1,902)	1,621
Interest expense:						
Deposits:						
NOW accounts	15	5	20	32	19	51
Savings accounts	4	8	12			
Money market accounts	9	56	65	79	128	207
Time deposits	(27)	93	66	(25)	162	137
Total interest-bearing deposits	1	162	163	86	309	395
Securities sold under agreements to repurchase	25	10	35	35	13	48
Other borrowed funds and subordinated debentures	741	(778)	(37)	1,374	(1,508)	(134)
Total interest expense	767	(606)	161	1,495	(1,186)	309
Change in net interest income	$ 1,527	$ (312)	$ 1,215	$ 2,028	$ (716)	$ 1,312

Net Interest Income

For the three months ended June 30, 2015, net interest income on a fully taxable equivalent basis totaled $20.4 million compared to $19.2 million for the same period in 2014, an increase of $1.2 million or 6.3%. This increase in net interest income for the period is primarily due to an increase in interest earning assets, offset somewhat by a slight decrease in the net interest margin. The net interest margin decreased from 2.20% on a fully taxable equivalent basis in 2014 to 2.19% on the same basis for 2015. This was primarily the result of a slight decrease in rates on earning assets. Also, interest expense increased slightly as a result of an increase in deposit balances and there was a 6.7% increase in the average balances of earning assets, combined with a similar increase in average deposits.

For the six months ended June 30, 2015, net interest income on a fully taxable equivalent basis totaled $39.4 million compared to $38.1 million for the same period in 2014, an increase of $1.3 million or 3.4%. 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 decreased from 2.23% on a fully taxable equivalent basis in 2014 to 2.16% on the same basis for 2015. This was primarily the result of a decrease in rates on earning assets. The average balances of earning assets increased by 7.2% combined with a similar increase in average deposits. Also, interest expense increased slightly as a result of an increase in deposit balances.

Provision for Loan Losses

For the three months ended June 30, 2015, the loan loss provision was $0 compared to a provision of $450,000 for the same period last year. For the six months ended June 30, 2015, the loan loss provision was $200,000 compared to a provision of $1.1 million for the same period last year. The decrease in the provision was primarily as a result of changes in portfolio composition. During the second quarter of 2015, the Company enhanced its approach to the development of the historical loss factors on certain loans within the portfolio. This was done in response to the changing composition of the portfolio.

Non-Interest Income and Expense

Other operating income for the quarter ended June 30, 2015 increased by $595,000 from the same period last year to $4.2 million. This was mainly attributable to an increase in gains on sales of mortgage loans increase of $337,000 from the same period last year. Also, other income increased by $175,000. This was mainly attributable to an increase in customer fees. Gains on sales of investments increased by $118,000. Lockbox fees increased by $43,000 as a result of increased customer volume. Offsetting some of the increases were decreases in service charges on deposit accounts. This was mainly attributable to a decrease in overdraft fees.

Other operating income for the six months ended June 30, 2015 increased by $630,000 to $7.7 million from $7.1 million for the same period last year. This was mainly attributable to an increase in gains on sales of mortgage loans increase of $429,000 from the same period last year. Also, other income increased by $228,000. This was mainly attributable to an increase in customer fees. Gains on sales of investments increased by $118,000. Lockbox fees increased by $54,000 as a result of increased customer volume. Offsetting some of the increases were decreases in service charges on deposit accounts. This was mainly attributable to a decrease in overdraft fees.

For the quarter ended June 30, 2015, operating expenses increased by $1.7 million or 11.9% to $15.8 million, from the same period last year. The increase in operating expenses for the quarter was mainly attributable to an increase of $704,000 in salaries and employee benefits, $653,000 in other expenses, $195,000 increase in occupancy costs, $74,000 in equipment costs, and $51,000 in FDIC assessments. Salaries and employee benefits increased mainly as a result of increases in pension costs and merit increases. Other expenses increased mainly as a result of increases in marketing expenses. Occupancy costs increased mainly as a result of increased costs associated with branch expansion. Equipment costs increased mainly as a result of depreciation of capital improvements. FDIC assessments increased mainly as a result of an increase in the assessment base.

For the six months ended June 30, 2015, operating expenses increased by $2.1 million or 7.3% to $30.3 million, from the same period last year. The increase in operating expenses for the period was mainly attributable to an increase of $963,000 in salaries and employee benefits, $566,000 in other expenses, $358,000 increase in occupancy costs, $95,000 in equipment costs, and $74,000 in FDIC assessments. Salaries and employee benefits increased mainly as a result of increases in pension costs and merit increases. Other expenses increased mainly as a result of increases in marketing expenses and bank security. Occupancy costs increased mainly as a result of increased costs associated with branch expansion. Equipment costs increased mainly as a result of depreciation of capital improvements. FDIC assessments increased mainly as a result of an increase in the assessment base.

Table of Contents

Income Taxes

For the second quarter of 2015, the Company s income tax expense totaled $233,000 on pretax income of $6.2 million resulting in an effective tax rate of 3.8%. For last year s corresponding quarter, the Company s income tax expense totaled $231,000 on pretax income of $5.8 million resulting in an effective tax rate of 4.0%. For the first six months of 2015, the Company s income tax expense totaled $448,000 on pretax income of $11.3 million resulting in an effective tax rate of 4.0%. For last year s corresponding period, the Company s income tax expense totaled $524,000 on pretax income of $11.1 million resulting in an effective tax rate of 4.7%. The decrease in the effective income tax rate, for both periods, 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, 2014, 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 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 second quarter of 2015 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.

Table of Contents

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, 2014. 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) None

Item 3 Defaults Upon Senior Securities None

Item 4 Mine Safety Disclosures Not applicable

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 June 30, 2015, formatted in XBRL: (i) Consolidated Balance Sheets at June 30, 2015 and December 31, 2014; (ii) Consolidated Statements of Income for the three and six months ended June 30, 2015 and 2014; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014; (iv) Consolidated Statements of Changes in Stockholders Equity for the six months ended June 30, 2015 and 2014; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014; and (vi) Notes to Unaudited Consolidated Interim Financial Statements.

Table of Contents

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: August 6, 2015 **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)

Page 41 of 41