CENTURY BANCORP INC
Form 10-Q
August 07, 2012

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, 2012.

or

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

Commission file number: 0-15752

CENTURY BANCORP, INC.

(Exact name of registrant as specified in its charter)

COMMONWEALTH OF MASSACHUSETTS	**04-2498617**

(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

400 MYSTIC AVENUE, MEDFORD, MA	**02155**
(Address of principal executive offices)	**(Zip Code)**

(781) 391-4000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 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, 2012, the Registrant had outstanding:

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

Century Bancorp, Inc.

Forward Looking Statements

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

PART I Item 1

Century Bancorp, Inc.

Consolidated Balance Sheets (unaudited)

(In thousands, except share data)

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

Total liabilities	2,829,566	2,582,576
Stockholders Equity		
Preferred stock $1.00 par value; 100,000 shares authorized; no shares issued and outstanding		
Class A common stock, $1.00 par value per share; authorized 10,000,000 shares; issued 3,556,529 shares and 3,548,317 shares, respectively	3,556	3,548
Class B common stock, $1.00 par value per share; authorized 5,000,000 shares; issued 1,991,880 and 1,994,380 shares, respectively	1,992	1,994
Additional paid-in capital	11,711	11,587
Retained earnings	153,526	146,039
	170,785	163,168
Unrealized gains on securities available-for-sale, net of taxes	10,437	8,319
Pension liability, net of taxes	(10,514)	(10,838)
Total accumulated other comprehensive loss, net of taxes	(77)	(2,519)
Total stockholders equity	170,708	160,649
Total liabilities and stockholders' equity	$ 3,000,274	$ 2,743,225

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Consolidated Statements of Income (unaudited)

(In thousands, except share data)

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

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

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)

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

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

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Consolidated Statements of Changes in Stockholders' Equity (unaudited)

For the Six Months Ended June 30, 2012 and 2011

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

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

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

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 10,022	$ 11,704
Income taxes	1,353	1,785
Change in unrealized gains on securities available-for-sale, net of taxes	2,118	3,290
Pension liability adjustment, net of taxes	324	190
Due to broker	37,195	

See accompanying notes to unaudited consolidated interim financial statements.

Century Bancorp, Inc.

Notes to Unaudited Consolidated Interim Financial Statements

Six Months Ended June 30, 2012 and 2011

Note 1. Basis of Financial Statement Presentation

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

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

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The Company s quarterly report on Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011, as filed with the Securities and Exchange Commission.

Material estimates that are susceptible to change in the near-term relate to the allowance for loan losses. Management believes that the allowance for loan losses is adequate based on independent appraisals and review of other factors, including historical charge-off rates with additional allocations based on risk factors for each category and general economic factors. While management uses available information to recognize loan losses, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, regulatory agencies periodically review the Company s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Certain reclassifications are made to prior-year amounts whenever necessary to conform with the current-year presentation.

Revision of EPS Presentation

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

For the quarter ended June 30, 2011:

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

For the six months ended June 30, 2011:

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

Note 2. Recent Market Developments

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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act became law. The Act was intended to address many issues arising in the recent financial crisis and is exceedingly broad in scope affecting many aspects of bank and financial market regulation. The Act requires, or permits by implementing regulation, enhanced prudential standards for banks and bank holding companies inclusive of capital, leverage, liquidity, concentration and exposure measures. In addition, traditional bank regulatory principles such as restrictions on transactions with affiliates and insiders were enhanced. The Act also contains reforms of consumer mortgage lending practices and creates a Bureau of Consumer Financial Protection which is granted broad authority over consumer financial practices of banks and others. It is expected as the specific new or incremental requirements applicable to the Company become effective that the costs and difficulties of remaining compliant with all such requirements will increase. The Act broadens the base for FDIC assessments to average consolidated assets less tangible equity of financial institutions and also permanently raises the current standard maximum FDIC deposit insurance amount to $250,000. The Act extends unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012.

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

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

Note 3. Stock Option Accounting

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

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

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

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

Note 4. Securities Available-for-Sale

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

Included in U.S. Government Sponsored Enterprise Securities and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities are securities at fair value pledged to secure public deposits and repurchase agreements amounting to $518,480,000 and $488,690,000 at June 30, 2012 and December 31, 2011, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank of Boston amounting to $261,401,000 and $246,036,000 at June 30, 2012 and December 31, 2011, respectively. The Company realized gross gains of $590,000 from the proceeds of $233,002,000 from the sales of available-for-sale securities for the six months ended June 30, 2012. The Company realized gross gains of $362,000 from the proceeds of $20,516,000 from the sales of available-for-sale securities for the six months ended June 30, 2011.

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

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

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

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

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

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

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

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at June 30, 2012. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 23 and 5 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 461 holdings at June 30, 2012.

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

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 31, 2011. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 60 and 6 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 393 holdings at December 31, 2011.

	December 31, 2011					
	Less than 12 months		**12 months or longer**		**Total**	
Temporarily Impaired Investments	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(In thousands)			
U.S. Government Sponsored Enterprises	$ 14,989	$ 11	$	$	$ 14,989	$ 11
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	331,469	1,176			331,469	1,176
Privately Issued Residential Mortgage Backed Securities			3,198	311	3,198	311
Obligations Issued by States and Political Subdivisions			3,725	957	3,725	957
Other Debt Securities	10,542	652	1,468	31	12,010	683
Equity Securities						
Total temporarily impaired securities	$ 357,000	$ 1,839	$ 8,391	$ 1,299	$ 365,391	$ 3,138

Note 5. Investment Securities Held-to-Maturity

	June 30, 2012				December 31, 2011			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
				(In thousands)				
U.S. Government Sponsored Enterprises	**$ 7,745**	**$ 38**	**$**	**$ 7,783**	$ 26,979	$ 36	$ 2	$ 27,013
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**278,917**	**5,697**	**137**	**284,477**	152,389	5,435	15	157,809
Total	**$ 286,662**	**$ 5,735**	**$ 137**	**$ 292,260**	$ 179,368	$ 5,471	$ 17	$ 184,822

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to $154,999,000 and $8,885,000 at June 30, 2012 and December 31, 2011, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank of Boston at fair value amounting to $118,431,000 and $49,345,000 at June 30, 2012 and December 31, 2011, respectively.

At June 30, 2012 and December 31, 2011, 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, 2012.

	Amortized Cost	**Fair Value**
	(In thousands)	
Within one year	$ 21,486	$ 21,676
After one but within five years	211,518	215,957
After five but within ten years	53,378	54,338
More than ten years	280	289
Total	$ 286,662	$ 292,260

The weighted average remaining life of investment securities held-to-maturity at June 30, 2012 was 3.6 years. Included in the weighted average remaining life calculation at June 30, 2012 were $7,745,000 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, 2012 and December 31, 2011, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not likely that it will be required to sell these debt securities before the anticipated recovery of their remaining amortized costs. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade.

The unrealized loss on U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities related primarily to interest rates and not credit quality, and because the Company does not intend to sell any of these securities and it is not likely that it will be required to sell these securities before the anticipated recovery of the remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2012 and December 31, 2011.

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, 2012. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 3 and 1 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 105 holdings at June 30, 2012.

	June 30, 2012					
	Less Than 12 Months		**12 Months or Longer**		**Total**	
Temporarily Impaired Investments	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
			(Dollars in thousands)			
U.S. Government Sponsored Enterprises	**$**	**$**	**$**	**$**	**$**	**$**
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	**20,197**	**118**	**5,369**	**19**	**25,566**	**137**
Total temporarily impaired securities	**$ 20,197**	**$ 118**	**$ 5,369**	**$ 19**	**$ 25,566**	**$ 137**

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 31, 2011. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 2 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 92 holdings at December 31, 2011.

	December 31, 2011					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
U.S. Government Sponsored Enterprises	$ 4,994	$ 2	$	$	$ 4,994	$ 2
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	5,367	15			5,367	15
Total temporarily impaired securities	$ 10,361	$ 17	$	$	$ 10,361	$ 17

Note 6. Allowance for Loan Losses

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

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

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Allowance for loan losses, beginning of period	**$ 17,434**	$ 14,958	**$ 16,574**	$ 14,053
Loans charged off	**(635)**	(380)	**(1,059)**	(969)
Recoveries on loans previously charged-off	**280**	137	**464**	431
Net charge-offs	**(355)**	(243)	**(595)**	(538)
Provision charged to expense	**900**	1,200	**2,000**	2,400
Allowance for loan losses, end of period	**$ 17,979**	$ 15,915	**$ 17,979**	$ 15,915

Further information pertaining to the allowance for loan losses for the three months ending June 30, 2012 follows:

	Construction and land development	Commercial and industrial	Commercial real estate	Residential real estate	Consumer and other	Home Equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at March 31, 2012	**$ 2,920**	**$ 3,220**	**$ 7,341**	**$ 1,784**	**$ 317**	**$ 741**	**$ 1,111**	**$ 17,434**
Charge-offs		**(289)**		**(59)**	**(287)**			**(635)**
Recoveries		**164**	**2**	**3**	**111**			**280**
Provision	**(31)**	**371**	**411**	**65**	**152**	**(60)**	**(8)**	**900**
Balance at June 30, 2012	**$ 2,889**	**$ 3,466**	**$ 7,754**	**$ 1,793**	**$ 293**	**$ 681**	**$ 1,103**	**$ 17,979**

Further information pertaining to the allowance for loan losses for six months ending June 30, 2012 follows:

	Construction and Land Development	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at December 31, 2011	**$ 2,893**	**$ 3,139**	**$ 6,566**	**$ 1,886**	**$ 356**	**$ 704**	**$ 1,030**	**$ 16,574**
Charge-offs		**(399)**		**(219)**	**(441)**			**(1,059)**
Recoveries		**206**	**3**	**9**	**246**			**464**
Provision	**(4)**	**520**	**1,185**	**117**	**132**	**(23)**	**73**	**2,000**
Ending balance at June 30, 2012	**$ 2,889**	**$ 3,466**	**$ 7,754**	**$ 1,793**	**$ 293**	**$ 681**	**$ 1,103**	**$ 17,979**

Amount of allowance for loan losses for loans deemed to be impaired	**$ 1,000**	**$ 871**	**$ 450**	**$ 92**	**$**	**$**	**$**	**2,413**
Amount of allowance for loan losses for loans not deemed to be impaired	**$ 1,889**	**$ 2,595**	**$ 7,304**	**$ 1,701**	**$ 293**	**$ 681**	**$ 1,103**	**$ 15,566**
Loans:								
Ending balance	**$ 36,422**	**$ 78,971**	**$ 535,232**	**$ 259,006**	**$ 6,597**	**$ 112,602**	**$**	**$ 1,028,830**
Loans deemed to be impaired	**$ 1,500**	**$ 2,328**	**$ 2,321**	**$ 513**	**$**	**$**	**$**	**$ 6,662**
Loans not deemed to be impaired	**$ 34,922**	**$ 76,643**	**$ 532,911**	**$ 258,493**	**$ 6,597**	**$ 112,602**	**$**	**$ 1,022,168**

Further information pertaining to the allowance for loan losses for three months ending June 30, 2011 follows:

	Construction and Land Development	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at March 31, 2011	$ 1,978	$ 3,632	$ 6,021	$ 1,801	$ 286	$ 707	$ 533	$ 14,958
Charge-offs		(228)		(1)	(150)	(1)		(380)
Recoveries		30			107			137
Provision	594	141	300	(55)	48	69	103	1,200
Balance at June 30, 2011	$ 2,572	$ 3,575	$ 6,321	$ 1,745	$ 291	$ 775	$ 636	$ 15,915

Further information pertaining to the allowance for loan losses for six months ending June 30, 2011 follows:

	Construction and Land Development	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at December 31, 2010	$ 1,752	$ 3,163	$ 5,671	$ 1,718	$ 298	$ 725	$ 726	$ 14,053
Charge-offs		(385)		(281)	(302)	(1)		(969)
Recoveries		175		14	242			431
Provision	820	621	650	294	54	51	(90)	2,400
Balance at June 30, 2011	$ 2,572	$ 3,574	$ 6,321	$ 1,745	$ 292	$ 775	$ 636	$ 15,915
Amount of allowance for loan losses for loans deemed to be impaired	$ 303	$ 770	$ 394	$ 3	$	$	$	1,470
Amount of allowance for loan losses for loans not deemed to be impaired	$ 2,269	$ 2,804	$ 5,927	$ 1,742	$ 292	$ 775	$ 636	$ 14,445
Loans:								
Ending balance	$ 55,572	$ 88,619	$ 470,041	$ 232,235	$ 6,560	$ 110,001	$	$ 963,028
Loans deemed to be impaired	$ 4,000	$ 1,861	$ 7,867	$ 33	$	$	$	$ 13,761
Loans not deemed to be impaired	$ 51,572	$ 86,758	$ 462,174	$ 232,202	$ 6,560	$ 110,001	$	$ 949,267

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

Loans rated 1-3 (Pass):

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

Loans rated 4 (Monitor):

These loans represent classified loans that management is closely monitoring for credit quality. These loans have had or may have minor credit quality deterioration as of June 30, 2012 and December 31, 2011.

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, 2012 and December 31, 2011.

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, 2012 and December 31, 2011 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, 2012.

	Construction and land development	**Commercial and industrial**	**Commercial real estate**
		(Dollars in thousands)	
Grade:			
1-3 (Pass)	**$ 27,484**	**$ 76,046**	**$ 528,630**
4 (Monitor)	**7,438**	**597**	**4,281**
5 (Substandard)			
6 (Doubtful)			
Impaired	**1,500**	**2,328**	**2,321**
Total	**$ 36,422**	**$ 78,971**	**$ 535,232**

The following table presents the Company s loans by risk rating at December 31, 2011.

	Construction and land development	Commercial and industrial	Commercial real estate
		(Dollars in thousands)	
Grade:			
1-3(Pass)	$ 48,298	$ 80,140	$ 478,186
4 (Monitor)	7,021	739	4,748
5 (Substandard)			
6 (Doubtful)			

Impaired	1,500	1,525	4,561
Total	$ 56,819	$ 82,404	$ 487,495

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, 2012 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accrual Greater Than 90 Days	Total Past Due	Current Loans	Total
			(Dollars in thousands)			
Construction and land development	**$**	**$ 1,500**	**$**	**$ 1,500**	**$ 34,922**	**$ 36,422**
Commercial and industrial	**594**	**1,706**	**57**	**2,357**	**76,614**	**78,971**
Commercial real estate	**2,427**	**704**		**3,131**	**532,101**	**535,232**
Residential real estate	**2,203**	**1,287**		**3,490**	**255,516**	**259,006**
Consumer and overdrafts	**4**	**17**		**21**	**6,576**	**6,597**
Home equity	**179**	**99**		**278**	**112,324**	**112,602**
Total	**$ 5,407**	**$ 5,313**	**$ 57**	**$ 10,777**	**$ 1,018,053**	**$ 1,028,830**

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

	Accruing 30-89 Days Past Due	Non Accrual	Accrual Greater Than 90 Days	Total Past Due	Current Loans	Total
			(Dollars in thousands)			
Construction and land development	$	$ 1,500	$	$ 1,500	$ 55,319	$ 56,819
Commercial and industrial	1,417	763	18	2,198	80,206	82,404
Commercial real estate	2,528	736		3,264	484,231	487,495
Residential real estate	2,635	2,324		4,959	234,348	239,307
Consumer and overdrafts	519	9		528	7,153	7,681
Home equity	171	495		666	110,120	110,786
Total	$ 7,270	$ 5,827	$ 18	$ 13,115	$ 971,377	$ 984,492

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. The Company s policy for recognizing interest income on impaired loans is contained within Note 1 of the consolidated financial statements.

The following is information pertaining to impaired loans for June 30, 2012:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value for 3 Months Ending 6/30/12	Average Carrying Value for 6 Months Ending 6/30/12	Interest Income Recognized For 3 Months Ending 6/30/12	Interest Income Recognized For 6 months Ending 6/30/12
	(Dollars in thousands)						
With no required reserve recorded:							
Construction and land development	$	$	$	$	$ 643	$	$
Commercial and industrial	409	454		282	334		
Commercial real estate	176	201		178	180		
Residential real estate	31	32		32	97		
Consumer							
Home equity							
Total	$ 616	$ 687	$	$ 492	$ 1,254	$	$
With required reserve recorded:							
Construction and land development	$ 1,500	$ 3,292	$ 1,000	$ 1,500	$ 857	$	$
Commercial and industrial	1,919	2,147	871	1,556	1,408	12	27
Commercial real estate	2,145	2,183	450	3,056	3,410	58	78
Residential real estate	482	482	92	482	657		1
Consumer							
Home equity							
Total	$ 6,046	$ 8,104	$ 2,413	$ 6,594	$ 6,332	$ 70	$ 106
Total							
Construction and land development	$ 1,500	$ 3,292	$ 1,000	$ 1,500	$ 1,500	$	$
Commercial and industrial	2,328	2,601	871	1,838	1,742	12	27
Commercial real estate	2,321	2,384	450	3,234	3,590	58	78
Residential real estate	513	514	92	514	754		1
Consumer							
Home equity							
Total	$ 6,662	$ 8,791	$ 2,413	$ 7,086	$ 7,586	$ 70	$ 106

The following is information pertaining to impaired loans for June 30, 2011:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value For 3 Months Ending 6/30/11	Average Carrying Value For 6 Months Ending 6/30/11	Interest Income Recognized for 3 Months Ending 6/30/11	Interest Income Recognized for 6 Months Ending 6/30/11
	(Dollars in thousands)						
With no required reserve recorded:							
Construction and land development	$ 1,800	$ 3,292	$	$ 3,450	$ 3,686	$	$

Commercial and industrial	324	725		337	407		
Commercial real estate	190	203		191	427		
Residential real estate							
Consumer							
Home equity							
Total	$ 2,314	$ 4,220	$	$ 3,978	$ 4,520	$	$

With required reserve recorded:							
Construction and land development	2,239	$ 5,251	$ 303	$ 560	$ 320	$	$
Commercial and industrial	1,537	1,551	770	1,189	956	3	6
Commercial real estate	7,677	7,809	394	6,305	4,695	21	33
Residential real estate	33	33	3	34	19	1	1
Consumer							
Home equity							
Total	$ 11,486	$ 14,644	$ 1,470	$ 8,088	$ 5,990	$ 25	$ 40
Total							
Construction and land development	$ 4,039	$ 8,543	$ 303	$ 4,010	$ 4,006	$	$
Commercial and industrial	1,861	2,276	770	1,526	1,362	3	6
Commercial real estate	7,867	8,012	394	6,496	5,123	21	33
Residential real estate	33	33	3	34	19	1	1
Consumer							
Home equity							
Total	$ 13,800	$ 18,864	$ 1,470	$ 12,066	$ 10,510	$ 25	$ 40

There were no troubled debt restructurings occurring during the six month period ended June 30, 2012.

Troubled Debt Restructurings occurring during the three month period ended June 30, 2011:

	Number of Contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
		(Dollars in thousands)	
Construction and land development	**1**	**$ 39**	**$ 39**
Commercial and industrial	**4**	**394**	**370**
Commercial real estate	**3**	**2,201**	**2,200**
Total	**8**	**$ 2,634**	**$ 2,609**

Troubled Debt Restructurings occurring during the six month period ended June 30, 2011:

	Number of Contracts	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
		(Dollars in thousands)	
Construction and land development	**1**	**$ 39**	**$ 39**
Commercial and industrial	**6**	**443**	**414**
Commercial real estate	**4**	**2,641**	**2,636**
Total	**11**	**$ 3,123**	**$ 3,089**

Troubled Debt Restructurings were identified as a modification where a concession was granted to a customer who is having financial difficulties. This concession may be below market rate, longer amortization/term, and a lower payment amount. The present value calculation of the modification did not result in an increase in the allowance for these loans beyond any previously

established allocations. The loans were modified, for both the commercial and industrial and commercial real estate loans, by reducing interest rates as well as extending terms on the loans. The financial impact of the modifications for performing commercial and industrial loans were $6,770 reduction in principal and $461 reduction in interest payments for the quarter ended June 30, 2011 and $7,010 reduction in principal and $525 reduction in interest payments for the six months ended June 30, 2011. The financial impact of the modifications for performing commercial real estate were $8,399 reduction in principal and $11,267 reduction in interest payments for the quarter ended June 30, 2011 and $8,816 reduction in principal and $13,156 reduction in interest payments for the six months ended June 30, 2011.

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 for the Three Months Ended June 30,

	Pension Benefits		**Supplemental Insurance/ Retirement Plan**	
	2012	**2011**	**2012**	**2011**
	(In thousands)			
Service cost	**$ 274**	$ 211	**$ 355**	$ 170
Interest	**323**	355	**231**	233
Expected return on plan assets	**(410)**	(399)		
Recognized prior service cost (benefit)	**(26)**	(26)	**29**	28
Recognized net actuarial losses	**184**	123	**84**	32
Net periodic benefit cost	**$ 345**	$ 264	**$ 699**	$ 463

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

	Pension Benefits		**Supplemental Insurance/ Retirement Plan**	
	2012	**2011**	**2012**	**2011**
	(In thousands)			
Service cost	**$ 548**	$ 422	**$ 711**	$ 340
Interest	**647**	710	**462**	466
Expected return on plan assets	**(820)**	(798)		
Recognized prior service cost (benefit)	**(52)**	(52)	**58**	56
Recognized net actuarial losses	**368**	247	**168**	65
Net periodic benefit cost	**$ 691**	$ 529	**$ 1,399**	$ 927

<u>Contributions</u>

The Company previously disclosed in its financial statements for the year ended December 31, 2011 that it expected to contribute $1,800,000 to the Pension Plan in 2012. As of June 30, 2012, $900,000 of the contribution had been made. The Company expects to contribute an additional $900,000 by the end of the year.

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.

The results of the fair value hierarchy as of June 30, 2012, 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	**$ 2,006**	**$**	**$ 2,006**	**$**
U.S. Government Sponsored Enterprises	**44,287**		**44,287**	
SBA Backed Securities	**8,415**		**8,415**	
U.S. Government Agency and Sponsored Mortgage Backed Securities	**1,094,734**		**1,094,734**	
Privately Issued Residential Mortgage Backed Securities	**3,122**		**3,122**	
Obligations Issued by States and Political Subdivisions	**70,511**		**2,117**	**68,394**
Other Debt Securities	**13,340**		**13,340**	
Equity Securities	**609**	**226**		**383**
Total	**$ 1,237,024**	**$ 226**	**$ 1,168,021**	**$ 68,777**

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

Impaired Loans	**4,630**	**4,630**

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. Specific provisions relate to impaired loans recognized for the three and six-month periods ended June 30, 2012 amounted to $367,000 and $1.8 million, respectively. The Company uses appraisals, discounted as appropriate, based on management s observations of the local real estate market for loans in this category.

There were no transfers between level 1 and 2 for the six months ended June 30, 2012. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the six month period ended June 30, 2012.

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).

Asset	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Unobservable Input Value or Range**
Securities AFS	$ 68,777	Discounted cash flow	Discount rate	0% -1% (3)
Impaired Loans	4,630	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 25% discount

(1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated expenses.

(3) Weighted averages

The changes in Level 3 securities for the six-month period ended June 30, 2012 are shown in the table below:

	Auction Rate Securities	**Obligations Issued by States & Political Subdivisions**	**Equity Securities**	**Total**
		(In thousands)		
Balance at December 31, 2011	**$ 3,725**	**$ 14,772**	**$ 417**	**$ 18,914**
Purchases		**64,970**		**64,970**
Maturities and calls		**(15,058)**	**(34)**	**(15,092)**
Amortization		**(15)**		**(15)**
Changes in fair value				
Balance at June 30, 2012	**$ 3,725**	**$ 64,669**	**$ 383**	**$ 68,777**

The amortized cost of Level 3 securities was $69,733,000 at June 30, 2012 with an unrealized loss of $956,000. 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, 2011, are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total
	(In thousands)			
Balance at December 31, 2010	$ 4,393	$ 15,988	$ 279	$ 20,660
Purchases		10,321		10,321
Maturities and calls		(11,288)		(11,288)
Amortization				
Changes in fair value		(2)		
Balance at June 30, 2011	$ 4,393	$ 15,019	$ 279	$ 19,691

The amortized cost of Level 3 securities was $19,978,000 at June 30, 2011 with an unrealized loss of $287,000. 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.

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, 2012 and December 31, 2011. 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.

			Fair Value Measurements		
	Carrying Amount	**Estimated Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
June 30, 2012					
Financial assets:					
Securities held-to-maturity	**$ 286,662**	**$ 292,260**	**$**	**$ 292,260**	**$**
Loans (1)	**1,010,851**	**1,061,540**			**1,061,540**
Financial liabilities:					
Time deposits	**419,414**	**426,036**		**426,036**	
Other borrowed funds	**208,553**	**220,292**		**220,292**	
Subordinated debentures	**36,083**	**43,787**			**43,787**
December 31, 2011					
Financial assets:					
Securities held-to-maturity	179,368	184,822		184,822	
Loans (1)	967,918	1,018,822			1,018,822
Financial liabilities:					
Time deposits	433,501	439,711		439,711	
Other borrowed funds	244,143	258,165		258,165	
Subordinated debentures	36,083	43,063			43,063

(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 April 2011, the FASB issued ASU No. 2011-03, Transfers and Servicing (Topic 860), *Reconsideration of Effective Control for Repurchase Agreements*. This update revises the criteria for assessing effective control for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The determination of whether the transfer of a financial asset subject to a repurchase agreement is a sale is based, in part, on whether the entity maintains effective control over the financial asset. This update removes from the assessment of effective control: the criterion requiring the transferor to have the ability to repurchase or redeem the financial asset on substantially the agreed terms, even in the event of default by the transferee, and the related requirement to demonstrate that the transferor possesses adequate collateral to fund substantially all the cost of purchasing replacement financial assets. The amendments in this update will be effective for interim and annual reporting periods beginning on or after December 15, 2011. The amendments will be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date and early adoption is permitted. The adoption of this guidance did not have a material impact on the Company s financial condition or results of operations.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The guidance clarifies and expands the disclosures pertaining to unobservable inputs used in Level 3 fair value measurements, including the disclosure of quantitative information related to (1) the valuation processes used, (2) the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, and (3) use of a nonfinancial asset in a way that differs from the asset s highest and best use. The guidance also requires, for public entities, disclosure of the level within the fair value hierarchy for assets and liabilities not measured at fair value in the statement of financial position but for which the fair value is disclosed. The amendments in this Update are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application was permitted. The Company has presented the requirements for this amendment in footnotes 8 and 9.

In June 2011, the FASB issued ASU 2011-05, *Comprehensive Income (Topic 220), Presentation of Comprehensive Income.* This ASU amends the disclosure requirements for the presentation of comprehensive income. The amended guidance eliminates the option to present components of other comprehensive income (OCI) as part of the consolidated statement of changes in stockholders equity. Under the amended guidance, all changes in OCI are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive financial statements. The changes are effective for fiscal years, and interim periods within those years, ending after December 15, 2011, with retrospective application required. Early application is permitted. There was no impact on the Company s consolidated financial results as the amendments relate only to changes in financial statement presentation. In December 2011, the FASB elected to defer the effective date of those changes in ASU 2011-05 that relate only to the presentation of reclassification adjustments in the statement of income by issuing ASU 2011-12, Comprehensive Income (Topic 220), *Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income* in Accounting Standards Update No. 2011-05. The Company has presented a separate financial statement as a result of this pronouncement.

In September 2011, the FASB issued ASU 2011-08, Intangibles Goodwill and Other (Topic 350), *Testing Goodwill for Impairment*. This ASU is intended to reduce the complexity and cost of performing an evaluation of impairment of goodwill. Under the new guidance, an entity will have the option of first assessing qualitative factors (events and circumstances) to determine whether it is more likely than not (meaning a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If, after considering all relevant events and circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test will be unnecessary. The amendments will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company implemented the provisions of ASU 2011-08 as of January 1, 2012. The adoption of this pronouncement did not have a material effect on the consolidated 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. The Company had total assets of approximately $3.0 billion as of June 30, 2012. The Company presently operates 25 banking offices in 18 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank s customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

During July 2010, the Company entered into a lease agreement to open a branch located at Newton Centre in Newton, Massachusetts. The branch opened on June 20, 2011.

During September 2010, the Company entered into a lease agreement to open a branch located in Andover, Massachusetts. The branch opened on July 16, 2012.

During June 2012, the Company entered into a lease agreement to open a branch located in Wellesley, Massachusetts. The branch is scheduled to open during the fourth quarter of 2012.

During July 2012, the Company received state regulatory approval to close a branch at Chestnut Hill in Newton, Massachusetts. The branch is scheduled to close during the third quarter of 2012 and the accounts will be temporarily moved to the Brookline, Massachusetts branch. During July 2012, the Company entered into a lease agreement and received regulatory approval to open a branch at a new location at Chestnut Hill in Newton, Massachusetts. The branch is scheduled to open during the fourth quarter of 2013 and the accounts that were temporarily moved to the Brookline, Massachusetts branch will be moved to the new branch at Chestnut Hill in Newton, 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 full-service securities brokerage business.

The Company is also a provider of financial services, including cash management, transaction processing and short term financing to municipalities in Massachusetts and Rhode Island. The Company has deposit relationships with approximately 189 (54%) of the 351 cities and towns in Massachusetts.

Net income for the second quarter ended June 30, 2012 was $4,771,000, or $0.86 per Class A share diluted, compared to net income of $4,197,000, or $0.76 per Class A share diluted, for the second quarter ended June 30, 2011. Net income for the six months ended June 30, 2012 was $8,579,000, or $1.55 per Class A share diluted, compared to net income of $7,922,000, or $1.43 per Class A share diluted, for the same period a year ago. Earnings per share (EPS) for each class of stock and time period is as follows:

	Three months ended June 30, 2012	Three months ended June 30, 2011
Basic EPS Class A common	$ **1.05**	$ **0.92**
Basic EPS Class B common	$ **0.52**	$ **0.46**
Diluted EPS Class A common	$ **0.86**	$ **0.76**
Diluted EPS Class B common	$ **0.52**	$ **0.46**

		Six months ended June 30, 2012	Six months ended June 30, 2011
Basic EPS	Class A common	$ **1.89**	$ **1.74**
Basic EPS	Class B common	$ **0.94**	$ **0.87**
Diluted EPS	Class A common	$ **1.55**	$ **1.43**
Diluted EPS	Class B common	$ **0.94**	$ **0.87**

Net interest income totaled $29.8 million for the first six months of 2012 compared to $27.4 million for the same period in 2011. The 8.6% increase in net interest income for the period is due to an 10.6% increase in the average balances of earning assets, combined with a similar increase in deposits, offset by a decrease in the net interest margin. The net interest margin decreased from 2.53% on a fully taxable equivalent basis in 2011 to 2.50% on the same basis for 2012. The company collected approximately $600,000 of prepayment penalties during the first six months of 2012.

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

The primary factor accounting for the general decrease in the net interest margin for the third quarter of 2010 was a large influx of deposits, primarily from municipalities, and a corresponding increase in short-term investments. Pricing discipline continued through the first quarter of 2011. The net interest margin fell somewhat during the second quarter of 2011 mainly as a result of increased deposits and corresponding lower yield short-term investments. During the third quarter of 2011 through the second quarter of 2012, management stabilized the net interest margin by continuing to lower cost of funds, and by deploying excess liquidity through expansion of the investment portfolio.

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

For the three months ended June 30, 2012, the loan loss provision was $900,000 compared to a provision of $1.2 million for the same period last year. For the six months ended June 30, 2012, the loan loss provision was $2.0 million compared to a provision of $2.4 million for the same period last year. The decrease in the provision, for both periods, was primarily as a result of a decline in the balance of construction loans, partially offset by an increase in commercial real estate loans. During the six months ended June 30, 2012, management provided $1.0 million for one large construction loan. Nonperforming loans decreased to $5.3 million at June 30, 2012 from $12.3 million on June 30, 2011.

The Company capitalized on favorable market conditions for the second quarter and six months ended June 30, 2012 and realized net gains on sales of investments of $442,000 and $590,000 as compared to $198,000 and $362,000 for the same periods in 2011. Included in operating expenses for the first six months ended June 30, 2012 are

FDIC assessments of $852,000, compared to $1.2 million for the same period in 2011. FDIC assessments decreased primarily as a result of a decrease in the assessment rate, offset somewhat by an increase in the assessment base.

For the first six months of 2012, the Company s effective income tax rate was 6.2% compared to 6.1% for last year s corresponding period. The effective income tax rate has remained low primarily as a result of tax-exempt income.

Financial Condition

Loans

On June 30, 2012, total loans outstanding were $1.0 billion, an increase of 4.5% from the total on December 31, 2011. At June 30, 2012, commercial real estate loans accounted for 52.0% and residential real estate loans, including home equity loans, accounted for 36.1% of total loans.

Commercial and industrial loans decreased to $79.0 million at June 30, 2012 from $82.4 million at December 31, 2011. Construction loans decreased to $36.4 million at June 30, 2012 from $56.8 million on December 31, 2011, primarily as a result of a large loan moving into permanent financing.

Allowance for Loan Losses

The allowance for loan loss at June 30, 2012 was $18.0 million as compared to $16.6 million at December 31, 2011. The increase was due to quantitative factors associated with the loan loss reserve requirement. As part of the analysis, management provided $1.0 million for one large construction loan in the first quarter of 2012. Also, the level of the allowance for loan losses to total loans increased from 1.68% at December 31, 2011 to 1.75% at June 30, 2012. The dollar amount of the allowance for loan losses and the level of the allowance for loan losses to total loans increased, primarily as a result of increases in required specific reserves associated with impaired loans. Also, the allowance for loan losses increased as a result of growth in the commercial real estate portfolio which increased from $487.5 million at December 31, 2011 to $535.2 million at June 30, 2012. 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, 2012 is $36.4 million as compared to $56.8 million at December 31, 2011. A major factor in nonaccrual loans is one large construction loan. Based on this fact, and the general local conditions facing construction, management closely monitors all construction loans and considers this type of loans to be higher risk.

Higher balance loans: Loans greater than $1.0 million are considered high balance loans . The balance of these loans is $525.3 million at June 30, 2012 as compared to $489.1 million at December 31, 2011. These loans are considered higher risk due to the concentration in individual loans. Additional allowance allocations are made based upon the level of high balance loans. Included in high balance loans are loans greater than $10.0 million. The balance of these loans, which is included in the loans greater than $1.0 million category, is $212.1 million, at June 30, 2012 as compared to $189.2 million at December 31, 2011. Additional allowance allocations are made based upon the level of this type of high balance loans that is separate and greater than the $1.0 million allocation.

Small business loans: The outstanding loan balances of small business loans is $42.5 million at June 30, 2012 as compared to $44.0 million at December 31, 2011. 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,	
	2012	**2011**	**2012**	**2011**
		(in thousands)		
Allowance for loan losses, beginning of period	**$ 17,434**	$ 14,958	**$ 16,574**	$ 14,053
Loans charged off	**(635)**	(380)	**(1,059)**	(969)
Recoveries on loans previously charged-off	**280**	137	**464**	431
Net charge-offs	**(355)**	(243)	**(595)**	(538)
Provision charged to expense	**900**	1,200	**2,000**	2,400
Allowance for loan losses, end of period	**$ 17,979**	$ 15,915	**$ 17,979**	$ 15,915

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, 2012	**December 31, 2011**
	(Dollars in thousands)	
Nonaccruing loans	**$ 5,313**	$ 5,827
Loans past due 90 days or more and still accruing	**$ 57**	$ 18
Other real estate owned	**$**	$ 1,183