

CENTURY BANCORP INC

Form 10-Q

November 08, 2007

**Table of Contents**

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

(Mark One)

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

**For the quarterly period ended September 30, 2007.**

or

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

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

(Exact name of registrant as specified in its charter)

**COMMONWEALTH OF MASSACHUSETTS**

**04-2498617**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**400 MYSTIC AVENUE, MEDFORD, MA**

**02155**

(Address of principal executive offices)

(Zip Code)

**(781) 391-4000**

(Registrant's telephone number, including area code)

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

Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Yes  No

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

**Class A Common Stock, \$1.00 par value**

**3,515,204 Shares**

**Class B Common Stock, \$1.00 par value**

**2,028,600 Shares**

## Century Bancorp, Inc.

## Index

Page  
Number

<u>Part I</u>	<u>Financial Information</u>	
<u>Item 1.</u>	<u>Financial Statements (unaudited)</u>	
	<u>Consolidated Balance Sheets:</u> <u>September 30, 2007 and December 31, 2006</u>	3
	<u>Consolidated Statements of Income:</u> <u>Three (3) months and Nine (9) months ended September 30, 2007 and 2006</u>	4
	<u>Consolidated Statements of Changes in Stockholders' Equity:</u> <u>Nine (9) months ended September 30, 2007 and 2006</u>	5
	<u>Consolidated Statements of Cash Flows:</u> <u>Nine (9) months ended September 30, 2007 and 2006</u>	6
	<u>Notes to Consolidated Financial Statements</u>	7-11
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12-20
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosure About Market Risk</u>	21
<u>Item 4.</u>	<u>Controls and Procedures</u>	21
<u>Part II.</u>	<u>Other Information</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>	21
<u>Item 1A.</u>	<u>Risk Factors</u>	21
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	22
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Securities Holders</u>	22
<u>Item 5.</u>	<u>Other Information</u>	22
<u>Item 6.</u>	<u>Exhibits</u>	22
<u>Signatures</u>		23
<u>Exhibits</u>		
	<u>Ex-3.2 Bylaws of Century Bancorp, Inc.</u>	
	<u>Ex-31.1 Section 302 Certification of the Co-President and Co-Chief Executive Officer</u>	
	<u>Ex-31.2 Section 302 Certification of the Co-President and Co-Chief Executive Officer</u>	
	<u>Ex-31.3 Section 302 Certification of the Chief Financial Officer</u>	
	<u>Ex-32.1 Section 906 Certification of the Co-President and Co-Chief Executive officer</u>	
	<u>Ex-32.2 Section 906 Certification of the Co-President and Co-Chief Executive Officer</u>	
	<u>Ex-32.3 Section 906 Certification of the Chief Financial Officer</u>	



**Table of Contents****PART I Item 1**

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

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>Assets</b>		
Cash and due from banks	\$ 41,617	\$ 60,465
Federal funds sold and interest-bearing deposits in other banks	98,119	99,203
Total cash and cash equivalents	139,736	159,668
Securities available-for-sale, amortized cost \$357,240 and \$423,707, respectively	354,324	415,481
Securities held-to-maturity, market value \$238,604 and \$258,420, respectively	242,332	265,712
Loans, net:		
Commercial & industrial	122,273	117,497
Construction & land development	60,744	49,709
Commercial real estate	305,412	327,040
Residential real estate	172,809	167,946
Home equity	58,455	63,380
Consumer & other	17,299	11,201
Total loans, net	736,992	736,773
Less: allowance for loan losses	9,591	9,713
Net loans	727,401	727,060
Bank premises and equipment	22,478	22,955
Accrued interest receivable	7,686	7,372
Goodwill	2,714	2,714
Core deposit intangible	1,768	2,059
Other assets	44,354	41,269
Total assets	\$ 1,542,793	\$ 1,644,290
<b>Liabilities</b>		
Deposits:		
Demand deposits	\$ 263,617	\$ 283,449
Savings and NOW deposits	289,019	274,231
Money market accounts	250,538	301,188
Time deposits	306,921	410,097

Total deposits	1,110,095	1,268,965
Securities sold under agreements to repurchase	93,850	86,960
Other borrowed funds	166,126	123,023
Subordinated debentures	36,083	36,083
Other liabilities	22,438	22,441
Total liabilities	1,428,592	1,537,472

### Stockholders Equity

Class A common stock, \$1.00 par value per share; authorized 10,000,000 shares; issued 3,515,204 shares and 3,498,738 shares, respectively	3,515	3,499
Class B common stock, \$1.00 par value per share; authorized 5,000,000 shares; issued 2,028,600 shares and 2,042,450 shares, respectively	2,029	2,042
Additional paid-in capital	11,553	11,505
Retained earnings	103,720	99,859
	120,817	116,905
Unrealized losses on securities available-for-sale, net of taxes	(1,829)	(5,111)
Additional pension liability, net of taxes	(4,787)	(4,976)
Total accumulated other comprehensive loss, net of taxes	(6,616)	(10,087)
Total stockholders equity	114,201	106,818
Total liabilities and stockholders equity	\$ 1,542,793	\$ 1,644,290

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)

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Interest income				
Loans	\$ 13,637	\$ 13,290	\$ 39,740	\$ 38,137
Securities held-to-maturity	2,299	2,497	7,045	7,665
Securities available-for-sale	3,555	4,390	10,558	13,214
Federal funds sold and interest-bearing deposits in other banks	1,453	364	5,184	445
Total interest income	20,944	20,541	62,527	59,461
Interest expense				
Savings and NOW deposits	1,711	1,344	4,893	3,426
Money market accounts	2,230	2,711	7,052	6,850
Time deposits	3,606	4,157	12,263	11,069
Securities sold under agreements to repurchase	884	795	2,428	1,995
Other borrowed funds and subordinated debentures	2,404	2,163	6,791	8,346
Total interest expense	10,835	11,170	33,427	31,686
Net interest income	10,109	9,371	29,100	27,775
Provision for loan losses	300	225	900	600
Net interest income after provision for loan losses	9,809	9,146	28,200	27,175
Other operating income				
Service charges on deposit accounts	1,981	1,747	5,630	4,965
Lockbox fees	705	658	2,262	2,095
Gain on sale of building	1,321		1,321	
Other income	409	324	1,144	1,569
Total other operating income	4,416	2,729	10,357	8,629
Operating expenses				
Salaries and employee benefits	6,081	5,843	18,581	18,092
Occupancy	945	1,020	2,859	2,986
Equipment	759	785	2,265	2,305

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

Other	2,155	2,408	6,784	6,963
Total operating expenses	9,940	10,056	30,489	30,346
Income before income taxes	4,285	1,819	8,068	5,458
Provision for income taxes	1,421	622	2,577	1,858
Net income	\$ 2,864	\$ 1,197	\$ 5,491	\$ 3,600

Share data:

Weighted average number of shares outstanding, basic	5,542,483	5,541,088	5,542,009	5,540,902
Weighted average number of shares outstanding, diluted	5,545,915	5,548,842	5,547,170	5,550,697
Net income per share, basic	\$ 0.52	\$ 0.22	\$ 0.99	\$ 0.65
Net income per share, diluted	\$ 0.52	\$ 0.22	\$ 0.99	\$ 0.65
Cash dividends paid:				
Class A common stock	\$ 0.12	\$ 0.12	\$ 0.36	\$ 0.36
Class B common stock	\$ 0.06	\$ 0.06	\$ 0.18	\$ 0.18

See accompanying notes to unaudited consolidated interim financial statements.

Page 4 of 23



**Table of Contents**

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

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
				(In thousands)		
Balance at December 31, 2005	\$ 3,453	\$ 2,082	\$ 11,416	\$ 97,338	\$ (11,088)	\$ 103,201
Net income				3,600		3,600
Other comprehensive income, net of tax: Unrealized holding gains arising during period net of \$1,465 in taxes					2,037	2,037
Comprehensive income						5,637
Conversion of Class B common stock to Class A common stock, 40,000 shares	40	(40)				
Stock options exercised, 5,646 shares	6		88			94
Cash dividends paid, Class A common stock, \$.36 per share				(1,256)		(1,256)
Cash dividends paid, Class B common stock, \$.18 per share				(369)		(369)
Balance at September 30, 2006	\$ 3,499	\$ 2,042	\$ 11,504	\$ 99,313	\$ (9,051)	\$ 107,307
Balance at December 31, 2006	\$ 3,499	\$ 2,042	\$ 11,505	\$ 99,859	\$ (10,087)	\$ 106,818
Net income				5,491		5,491
Other comprehensive income, net of tax:						

Unrealized holding gains arising during period net of \$2,028 in taxes						3,282	3,282
Pension liability adjustment, net of \$132 in taxes						189	189
Comprehensive income							8,962
Conversion of Class B common stock to Class A common stock, 13,850 shares	13	(13)					
Stock options exercised, 2,616 shares	3		48				51
Cash dividends paid, Class A common stock, \$.36 per share					(1,261)		(1,261)
Cash dividends paid, Class B common stock, \$.18 per share					(369)		(369)
Balance at September 30, 2007	\$ 3,515	\$ 2,029	\$ 11,553	\$ 103,720	\$	(6,616)	\$ 114,201

See accompanying notes to unaudited consolidated interim financial statements.

**Table of Contents**

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

	<b>Nine months ended September</b>	
	<b>30,</b>	
	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 5,491	\$ 3,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of building	(1,321)	
Provision for loan losses	900	600
Deferred income taxes	(258)	(676)
Net depreciation and amortization	2,668	2,752
Increase in accrued interest receivable	(314)	(141)
Increase in other assets	(4,573)	(4,271)
Increase in other liabilities	354	1,328
Net cash provided by operating activities	2,947	3,192
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities of securities available-for-sale	136,349	76,260
Purchase of securities available-for-sale	(70,106)	(448)
Proceeds from maturities of securities held-to-maturity	23,436	16,348
Proceeds from sale of building	1,500	
Net increase in loans	(1,694)	(32,075)
Capital expenditures	(1,908)	(430)
Net cash provided by investing activities	87,577	59,655
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net decrease in time deposits	(103,176)	(21,185)
Net (decrease) increase in demand, savings, money market and NOW deposits	(55,694)	80,072
Net proceeds from the exercise of stock options	51	94
Cash dividends	(1,630)	(1,625)
Net increase in securities sold under agreements to repurchase	6,890	13,920
Net increase (decrease) in other borrowed funds	43,103	(190,442)
Net cash used in financing activities	(110,456)	(119,166)
Net decrease in cash and cash equivalents	(19,932)	(56,319)
Cash and cash equivalents at beginning of period	159,668	152,679
Cash and cash equivalents at end of period	\$ 139,736	\$ 96,360

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:

Interest	\$	34,568	\$	31,511
Income taxes		2,157		2,516
Change in unrealized losses on securities available-for-sale, net of taxes		3,282		2,037
Pension liability adjustment, net of taxes		189		

See accompanying notes to unaudited consolidated interim financial statements.

Page 6 of 23

---

**Table of Contents**

**Century Bancorp, Inc.**  
**Notes to Unaudited Consolidated Interim Financial Statements**  
**Three and Nine Months Ended September 30, 2007 and 2006**

**Note 1. Basis of Financial Statement Presentation**

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

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

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

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

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

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

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

	September 30, 2007	Weighted Average Exercise Price
	Amount	
Shares under option:		
Outstanding at beginning of year	122,737	\$ 27.20
Granted		
Cancelled	(21,884)	26.18
Exercised	(2,616)	19.20
Outstanding at end of period	98,237	\$ 27.64
Exercisable at end of period	98,237	\$ 27.64
Available to be granted at end of period	173,309	

On September 30, 2007, the outstanding options to purchase 98,237 shares of Class A common stock have exercise prices between \$15.063 and \$35.010, with a weighted average exercise price of \$27.64 and a weighted average remaining contractual life of 4.4 years. The weighted average intrinsic value of options exercised for the nine-month period ended September 30, 2007 was \$4.90 per share with an aggregate value of \$12,800. The average intrinsic value of options exercisable at September 30, 2007 had an aggregate value of \$72,000.

The Company uses the fair value method to account for stock options. All of the Company's stock options are vested and there were no options granted during the first nine months of 2007.

**Note 3. Employee Benefits**

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

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

Executive officers of the Company or its subsidiaries who have at least one year of service may participate in the Supplemental Plan. The Supplemental Plan is voluntary and participants are required to contribute to its cost.

Individual life insurance policies, which are owned by the Company, are purchased covering the lives of each participant.

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

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2007	2006	2007	2006
	(In thousands)			
Service cost	\$ 217	\$ 221	\$ 27	\$ 27
Interest	270	249	189	191
Expected return on plan assets	(277)	(254)		
Recognized prior service (cost) benefit	(29)	(29)	16	16
Recognized net actuarial losses	99	93	20	28
Net periodic benefit cost	\$ 280	\$ 280	\$ 252	\$ 262

**Components of Net Periodic Benefit Cost for the Nine Months Ending September 30,**

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2007	2006	2007	2006
	(In thousands)			
Service cost	\$ 651	\$ 663	\$ 80	\$ 81
Interest	810	747	568	573
Expected return on plan assets	(832)	(762)		
Recognized prior service (cost) benefit	(87)	(87)	48	48
Recognized net actuarial losses	299	279	61	83
Net periodic benefit cost	\$ 841	\$ 840	\$ 757	\$ 785

**Contributions**

The Company previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute \$1,560,000 to the Pension Plan in 2007. As of September 30, 2007, \$1,170,000 of the contribution had been made. The Company expects to contribute an additional \$390,000 by the end of the year.

Effective December 31, 2006, the Company adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - An Amendment of FASB Statements No. 87, 88, 106, and 132(R)*, which requires the Company to recognize the overfunded or underfunded status of a single employer defined benefit pension or postretirement plan as an asset or liability on its balance sheet and to recognize changes in the funded status in comprehensive income in the year in which the change occurred. However, gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in net periodic benefit cost as of the end of 2006, the fiscal year in which the Statement is initially applied are to be recognized as components of the ending balance of accumulated other comprehensive income, net of tax. During 2006, the Company recorded an additional \$2,158,000 pension liability adjustment, net of tax, through stockholders' equity, as a result of the adoption of SFAS 158. The Company recognized \$189,000, net of tax during the first nine months of 2007, as amortization of amounts previously recognized in accumulated other comprehensive income.





**Table of Contents**

**Note 3. Employee Benefits (continued)**

SFAS 158 also requires the Company to measure plan assets and benefit obligations as of the date of the Company's fiscal year end effective for fiscal years ending after December 15, 2008.

**Note 4. Bank Premises and Equipment**

On August 17, 2007, the Company sold the building which houses one of its branches located at 55 High Street, Medford, Massachusetts for \$1.5 million at market terms. This property was sold to C&S Capital Properties, LLC, an entity affiliated with Joseph J. Senna, Esq., who is a director of the Company. The Bank financed \$1.0 million of this purchase at market terms. This sale resulted in a pre-tax gain of \$1.3 million.

The Bank is relocating this branch to 1 Salem Street (formerly 3 Salem Street), Medford, Massachusetts. As previously disclosed in the Company's June 30, 2007 Form 10-Q, this property will be leased from Sloane Enterprises, LLC, an entity affiliated with Marshall M. Sloane, Chairman of the Board of the Company. The lease will be for a period of fifteen years. The annual base rent amount will be \$28,500 with annual increases based on the consumer price index, but not less than 2% per year. The Company is also required to pay 25% of all real estate taxes and operating costs. The lease contains options to extend the lease for three additional five year periods. The lease was effective on September 1, 2007. The terms of the lease were based on an independent appraisal of the property and are considered to be market terms.

Until such time as 1 Salem Street is opened as a branch, 55 High Street will be leased to the Bank as a tenant-at-will at market terms. It is anticipated that the new branch will be opened during the second or third quarter of 2008. The relocation of the branch is subject to customary regulatory approvals.

**Note 5. Income Taxes**

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

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

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

Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company adopted FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's results of operation or its financial position.

**Table of Contents**

**Note 6. Recent Accounting Developments**

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

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

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

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

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

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

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**Forward Looking Statements**

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

**Executive Overview**

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company formed in 1969. The Company had total assets of approximately \$1.5 billion as of September 30, 2007. The Company presently operates 22 banking offices in 16 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank's customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts. During the quarter ended June 30, 2006, the Company closed its branch on Atlantic Avenue in Boston and transferred its customers to the nearby State Street branch. As discussed in Note 4. Banking Premises and Equipment, the Company is currently in the process of relocating its Medford Square branch. The Company's results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the level of income and fees from loans, deposits, as well as operating expenses, the provision for loan losses, the impact of federal and state income taxes and the relative levels of interest rates and economic activity.

**Table of Contents**

**Executive Overview (continued)**

The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium-sized businesses and retail customers in its market area. The Company makes commercial loans, real estate and construction loans and consumer loans, and accepts savings, time, and demand deposits. In addition, the Company offers to its corporate and institutional customers automated lock box collection services, cash management services and account reconciliation services, and actively promotes the marketing of these services to the municipal market. Also, the Company provides full service securities brokerage services through its division, Investment Services at Century Bank, in conjunction with Independent Financial Marketing Group, a full service securities brokerage business.

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

Earnings for the third quarter ended September 30, 2007 were \$2,864,000, or \$0.52 per share diluted, compared to net income of \$1,197,000, or \$0.22 per share diluted, for the third quarter ended September 30, 2006. Included in income for the third quarter of 2007 is the previously announced \$1,321,000 pre-tax gain on the sale of the building which houses the Company's Medford Square branch. Included in income for the third quarter of 2006 was approximately \$354,000 of Federal Home Loan Bank (FHLB) stock dividend income. This dividend was for the second and third quarter of 2006 because the FHLB did not declare a dividend in the second quarter of 2006. For the first nine months of 2007, net income totaled \$5,491,000, or \$0.99 per share diluted, compared to net income of \$3,600,000, or \$0.65 per share diluted, for the same period a year ago. Included in income for the nine months ended September 30, 2006 is a pre-tax gain of \$600,000 from the sale of the Company's rights to future royalty payments for a portion of its Merchant Credit Card customer base.

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

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

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

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

the maturity of lower-yielding investment securities

While management will continue its efforts to improve the net interest margin, there can be no assurance that certain factors beyond its control, such as the prepayment of

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

loans and changes in market interest rates, will continue to positively impact the net interest margin. In addition, a great deal of emphasis has been placed on cost control during 2007 as demonstrated by the decrease of just over 1% in operating expenses for the quarter ended September 30, 2007 and the increase of 0.5% for the year-to-date period ended September 30, 2007 as compared to the comparable 2006 period.

**Financial Condition****Loans**

On September 30, 2007, total loans outstanding, net of unearned discount, were \$737.0 million, an increase of 0.03% from the total on December 31, 2006. At September 30, 2007, commercial real estate loans accounted for 41.4% and residential real estate loans, including home equity credit lines, accounted for 31.4% of total loans.

Commercial and industrial loans increased to \$122.3 million at September 30, 2007 from \$117.5 million on December 31, 2006. Construction loans increased to \$60.7 million at September 30, 2007 from \$49.7 million on December 31, 2006.

The primary reason for the stability in loans was due in large part to an increase in loan payoffs offset by loan originations.

**Allowance for Loan Losses**

The allowance for loan losses was 1.30% of total loans on September 30, 2007 compared with 1.32% on December 31, 2006. The ratio has remained relatively stable. Net charge-offs for the nine months ended September 30, 2007 were \$1,022,000 compared to net charge-offs of \$156,000 for the same period in 2006. The increase in charge-offs was mainly attributable to small business loans. Increased provision for loan losses in 2007 as compared to 2006 have been made due primarily to an increase in net charge-offs and an increase in nonaccruing loans.

During 2007, the Company has experienced increased levels of charge-offs and nonaccruing loans. Due to current uncertainties in the economy, this trend may continue if borrowers are negatively impacted by future 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:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
	(Dollars in thousands)	
Nonaccruing loans	\$531	\$ 135
Loans past due 90 days or more and still accruing	\$846	\$ 789
Other real estate owned	\$453	\$
Nonaccruing loans as a percentage of total loans	.07%	.02%

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

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

**Investments**

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

	<b>September 30, 2007</b>		<b>December 31, 2006</b>
	(In thousands)		
<b>Securities Available-for-Sale (at Fair Market Value)</b>			
U.S. Government and U.S. Government Sponsored Enterprises	\$ 183,555	\$	223,027
Other Bonds and Equity Securities	14,175		13,378
Mortgage-backed Securities	156,594		179,076
<b>Total Securities Available-for-Sale</b>	<b>\$ 354,324</b>	<b>\$</b>	<b>415,481</b>
<b>Securities Held-to-Maturity (at Amortized Cost)</b>			
U.S. Government Sponsored Enterprises	\$ 149,983	\$	159,969
Mortgage-backed Securities	92,349		105,743
<b>Total Securities Held-to-Maturity</b>	<b>\$ 242,332</b>	<b>\$</b>	<b>265,712</b>

**Securities Available-for-Sale**

The securities available-for-sale portfolio totaled \$354.3 million at September 30, 2007, a decrease of 14.7% from December 31, 2006. The portfolio decreased mainly because of a reduction in the size of the balance sheet. Purchases of securities available-for-sale totaled \$70.1 million for the nine months ended September 30, 2007. These purchases were made to take advantage of rising rates and the somewhat steeper yield curve. The portfolio is concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 1.9 years. Included in U.S. Government and U.S. Government Sponsored Enterprises is one U.S. Government security totaling \$2 million.

**Table of Contents**

**Financial Condition (continued)**

**Securities Held-to-Maturity**

The securities held-to-maturity portfolio totaled \$242.3 million on September 30, 2007, a decrease of 8.8% from the total on December 31, 2006. The portfolio decreased mainly because of a reduction in the size of the balance sheet. The portfolio is concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 1.7 years.

**Other Assets**

Other assets increased by \$3.1 million or 7.5%. Other assets increased mainly because of an increase in the cash surrender value of life insurance policies.

**Deposits and Borrowed Funds**

On September 30, 2007, deposits totaled \$1.11 billion, representing a 12.5% decrease in total deposits from December 31, 2006. Total deposits decreased primarily as a result of decreases in time deposits, money market deposits and demand deposits, offset somewhat by increases in savings and NOW deposits. Time deposits and money market deposits decreased mainly because of decreases in higher rate deposits. The Company competed less aggressively for these types of deposits. Demand deposits decreased mainly because of a decrease in the amount of customer balances necessary to offset service charges. Savings and NOW deposits increased mainly because the Company competed more aggressively for these types of deposits during the first nine months of the year. Borrowed funds totaled \$260.0 million compared to \$210.0 million at December 31, 2006. Borrowed funds remained relatively stable during the quarter.

**Results of Operations**

**Net Interest Income**

For the three months ended September 30, 2007, net interest income totaled \$10.1 million compared to \$9.4 million for the same period in 2006, an increase of \$738,000 or 7.9%. This increase in net interest income is due to an increase of 29 basis points in the net interest margin, from 2.48% on a fully taxable equivalent basis in 2006 to 2.77% on the same basis for 2007. Included in income for the third quarter of 2006 was approximately \$354,000 of FHLB stock dividend income. This dividend was for the second and third quarter of 2006 because the FHLB did not declare a dividend in the second quarter of 2006.

For the nine months ended September 30, 2007, net interest income totaled \$29.1 million compared to \$27.8 million for the same period in 2006, an increase of \$1,325,000 or 4.8%. This increase in net interest income is due to an increase of 18 basis points in the net interest margin, from 2.43% on a fully taxable equivalent basis in 2006 to 2.61% on the same basis for 2007. Included in interest income for the nine months ended September 30, 2007 was \$432,000 of prepayment fees collected on loans as compared to \$95,000 for the comparable 2006 period.

There can be no assurance that certain factors beyond its control, such as the prepayment of loans and changes in market interest rates, will continue to positively impact the net interest margin. Management believes that the relatively flat yield curve environment will continue to present challenges as deposit and borrowing costs may have the potential to increase at a faster rate than corresponding asset categories.

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

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

	Three Months Ended					
	September 30, 2007			September 30, 2006		
	Average Balance	Interest(1)	Average Yield/Rate (dollars in thousands)	Average Balance	Interest(1)	Average Yield/Rate
Assets						
Interest-earning assets:						
Loans (2)	\$ 733,160	\$ 13,664	7.40%	\$ 733,100	\$ 13,303	7.22%
Securities available-for-sale						
Taxable	356,717	3,554	3.99%	483,496	4,388	3.63%
Tax-exempt	91	1	5.68%	284	4	4.99%
Securities held-to-maturity						
Taxable	252,905	2,299	3.64%	273,233	2,497	3.66%
Federal funds sold	111,674	1,452	5.20%	27,185	361	5.30%
Interest bearing deposits in other banks	116	1	4.47%	308	3	3.56%
Total interest earning assets	1,454,663	20,971	5.73%	1,517,605	20,556	5.40%
Non interest-earning assets						
Allowance for loan losses	129,613			125,594		
	(9,583)			(9,672)		
Total assets	\$ 1,574,693			\$ 1,633,528		
Liabilities and Stockholders' Equity						
Interest bearing deposits:						
NOW account	\$ 204,215	\$ 1,089	2.12%	209,416	\$ 1,036	1.96%
Savings accounts	110,306	622	2.24%	88,474	308	1.38%
Money market accounts	269,019	2,230	3.29%	334,657	2,710	3.21%
Time deposits	309,570	3,606	4.62%	358,812	4,158	4.60%
Total interest-bearing deposits	893,110	7,547	3.35%	991,359	8,212	3.29%
Securities sold under agreements to repurchase	95,418	884	3.68%	79,283	795	3.98%
Other borrowed funds and subordinated debentures	172,185	2,404	5.53%	151,618	2,163	5.66%
	1,160,713	10,835	3.70%	1,222,260	11,170	3.63%



Total interest-bearing liabilities			
Non interest-bearing liabilities:			
Demand deposits	278,610	285,761	
Other liabilities	23,454	20,168	
Total liabilities	1,462,777	1,528,189	
Stockholders equity	111,916	105,339	
Total liabilities & stockholders equity	\$ 1,574,693	\$ 1,633,528	
Less taxable equivalent adjustment	(27)	(15)	
Net interest income	\$ 10,109	\$ 9,371	
Net interest spread (3)		2.03%	1.77%
Net interest margin (4)		2.77%	2.48%

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

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

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

(4)

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

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

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

	Nine Months Ended					
	September 30, 2007			September 30, 2006		
	Average Balance	Interest(1)	Average Yield/Rate (dollars in thousands)	Average Balance	Interest(1)	Average Yield/Rate
Assets						
Interest-earning assets:						
Loans (2)	\$ 724,398	\$ 39,802	7.35%	\$ 722,978	\$ 38,151	7.06%
Securities available-for-sale						
Taxable	372,623	10,557	3.78%	511,436	13,202	3.44%
Tax-exempt	36	1	5.74%	473	17	4.79%
Securities held-to-maturity						
Taxable	258,586	7,044	3.63%	278,497	7,665	3.67%
Federal funds sold	132,241	5,178	5.22%	11,484	440	5.11%
Interest bearing deposits in other banks	166	6	4.57%	178	5	3.75%
Total interest earning assets	1,488,050	62,588	5.61%	1,525,046	59,480	5.21%
Non interest-earning assets						
Allowance for loan losses	129,543			122,442		
	(9,723)			(9,527)		
Total assets	\$ 1,607,870			\$ 1,637,961		
Liabilities and Stockholders' Equity						
Interest bearing deposits:						
NOW account	\$ 204,814	\$ 3,265	2.13%	209,775	\$ 2,905	1.85%
Savings accounts	105,592	1,630	2.06%	79,195	521	0.88%
Money market accounts	288,192	7,051	3.27%	323,155	6,849	2.83%
Time deposits	347,909	12,262	4.71%	342,384	11,069	4.32%
Total interest-bearing deposits	946,507	24,208	3.42%	954,509	21,344	2.99%
Securities sold under agreements to repurchase	87,582	2,428	3.71%	70,004	1,995	3.81%
Other borrowed funds and subordinated debentures	161,994	6,791	5.60%	206,535	8,347	5.40%
	1,196,083	33,427	3.74%	1,231,048	31,686	3.44%

Total interest-bearing liabilities			
Non interest-bearing liabilities			
Demand deposits	278,451	283,089	
Other liabilities	23,378	19,373	
Total liabilities	1,497,912	1,533,510	
Stockholders equity	109,958	104,451	
Total liabilities & stockholders equity	\$ 1,607,870	\$ 1,637,961	
Less taxable equivalent adjustment	(61)	(19)	
Net interest income	\$ 29,100	\$ 27,775	
Net interest spread (3)		1.87%	1.77%
Net interest margin (4)		2.61%	2.43%

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

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

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

(4) Net interest margin

represents net  
interest income  
as a percentage  
of average  
interest-earning  
assets.

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

The following table 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 September 30, 2007 Compared with Three Months Ended September 30, 2006			Nine Months Ended September 30, 2007 Compared with Nine Months Ended September 30, 2006		
	Increase/(Decrease) Due to Change in			Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(In thousands)					
Interest Income:						
Loans	\$ 3	\$ 358	\$ 361	\$ 75	\$ 1,576	\$ 1,651
Securities available-for-sale						
Taxable	(1,233)	399	(834)	(3,840)	1,195	(2,645)
Tax-exempt	(3)		(3)	(16)		(16)
Securities held-to-maturity						
Taxable	(185)	(13)	(198)	(543)	(78)	(621)
Federal funds sold	1,099	(8)	1,091	4,728	10	4,738
Interest bearing deposits in other banks	(3)	1	(2)		1	1
Total interest income	(322)	737	415	404	2,704	3,108
Interest expense:						
Deposits:						
NOW accounts	(26)	79	53	(70)	430	360
Savings accounts	90	224	314	220	889	1,109
Money market accounts	(543)	63	(480)	(788)	990	202
Time deposits	(576)	24	(552)	181	1,012	1,193
Total interest-bearing deposits	(1,055)	390	(665)	(457)	3,321	2,864
Securities sold under agreements to repurchase	152	(63)	89	487	(54)	433
Other borrowed funds and subordinated debentures	291	(50)	241	(1,854)	298	(1,556)
Total interest expense	(612)	277	(335)	(1,824)	3,565	1,741
Change in net interest income	\$ 290	\$ 460	\$ 750	\$ 2,228	\$ (861)	\$ 1,367

**Provision for Loan Losses**

For the three months ended September 30, 2007, the loan loss provision was \$300,000 compared to a provision of \$225,000 for the same period last year. For the nine months ended September 30, 2007, the loan loss provision was \$900,000 compared to a provision of \$600,000 for the same period last year. The provision increased mainly because of an increase in net charge-offs and an increase in nonaccruing loans. The Company's loan loss allowance as a percentage of total loans outstanding has remained relatively stable at 1.30% at September 30, 2007 as compared to 1.32% at December 31, 2006. The coverage ratio remained stable mainly as a result of relative stability in the loan portfolio.

Non-Interest Income and Expense

Other operating income for the quarter ended September 30, 2007 was \$4.4 million as compared to \$2.7 million for the same period last year. The increase in other operating income was mainly attributable to a \$1,321,000 gain on the sale of the building which houses the Company's Medford Square branch. Also, there was a \$234,000 increase in service charges on deposit accounts. Service charges on deposit accounts increased mainly because of an increase in fees charged. Other income increased by \$85,000, mainly as a result of increases in foreign ATM transaction fees.

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

Also, lockbox fees increased by \$47,000 as a result of an increase in customer volume.

Other operating income was \$10.4 million for nine month period ended September 30, 2007 compared to \$8.6 million for the same period last year. The increase in other operating income was mainly attributable to a \$1,321,000 gain on the sale of the building which houses the Company's Medford Square branch. Other income decreased by \$425,000 mainly as a result of a gain recognized in the first quarter of 2006 of \$600,000 from the sale of rights to future royalty payments for a portion of the Company's Merchant Credit Card customer base somewhat offset by an increase of \$117,000 in foreign ATM transaction fees. Service charges on deposit accounts increased by \$665,000 mainly because of an increase in the Company's customer base. Also, lockbox fees increased by \$167,000 due to an increase in customer volume.

For quarter ended September 30, 2007, operating expenses decreased by \$116,000 or 1.2% to \$9.9 million, from the same period last year. The decrease in operating expenses for the quarter was mainly attributable to a decrease of \$253,000 in other expenses, \$75,000 in occupancy expenses and \$26,000 in equipment somewhat offset by an increase in salaries and employee benefits. Salaries and employee benefits increased mainly as a result of an increase in staffing, salaries and health insurance costs. Other expenses decreased mainly as a result of decreases in bank processing charges and supplies, offset somewhat by increases in software maintenance expense. Occupancy expense decreased mainly because of an increase in rental income. Equipment expense remained relatively stable.

For the nine months ended September 30, 2007, operating expenses increased by \$143,000 or 0.5% to \$30.5 million, from the same period last year. The increase in operating expenses for the period was mainly attributable to an increase of \$489,000 in salaries and employee benefits somewhat offset by decreases of \$179,000 in other expenses, \$127,000 in occupancy expense and \$40,000 in equipment expense. Salaries and employee benefits increased mainly as a result of an increase in staffing, salaries and health insurance costs. Other expenses decreased mainly as a result of a decrease in bank processing charges and legal expense offset somewhat by increases in miscellaneous expenses and software maintenance expense. Occupancy expense decreased mainly because of an increase in rental income. Equipment expense remained relatively stable.

**Income Taxes**

For the third quarter of 2007, the Company's income tax expense totaled \$1.4 million on pretax income of \$4.3 million for an effective tax rate of 33.2%. For last year's corresponding quarter, the Company's income tax expense totaled \$622,000 on pretax income of \$1.8 million for an effective tax rate of 34.2%. The effective income tax rate decreased for the current quarter mainly as a result of an increase in non-taxable income compared to the third quarter of the prior year. For the first nine months of 2007, the Company's income tax expense totaled \$2.6 million on pretax income of \$8.1 million for an effective tax rate of 31.9%. For last year's corresponding period, the Company's income tax expense totaled \$1.9 million on pretax income of \$5.5 million for an effective tax rate of 34.0%. The effective income tax rate decreased for the nine month period mainly as a result of an increase in non-taxable income compared to last year.



**Table of Contents**

**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 have 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, 2006, 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, have concluded that the Company's disclosure controls and procedures 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 officers 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 third quarter of 2007 there has been no change in its internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II Other Information**

**Item 1**

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

**Item 1A**

**Risk Factors** Please read "Risk Factors" in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. 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** None



**Table of Contents**

**Item 3**

Defaults Upon Senior Securities None

**Item 4**

Submission of Matters to a Vote of Security Holders None

**Item 5**

Other Information On August 17, 2007, the Company sold the building which houses one of its branches located at 55 High Street, Medford, Massachusetts for \$1.5 million at market terms. This property was sold to C&S Capital Properties, LLC, an entity affiliated with Joseph J. Senna, Esq., who is a director of the Company. The Bank financed \$1.0 million of this purchase at market terms. This sale resulted in a pre-tax gain of \$1.3 million.

The Bank is relocating this branch to 1 Salem Street (formerly 3 Salem Street), Medford, Massachusetts. As previously disclosed in the Company's June 30, 2007 Form 10-Q, this property will be leased from Sloane Enterprises, LLC, an entity affiliated with Marshall M. Sloane, Chairman of the Board of the Company. The lease will be for a period of fifteen years. The annual base rent amount will be \$28,500 with annual increases based on the consumer price index, but not less than 2% per year. The Company is also required to pay 25% of all real estate taxes and operating costs. The lease contains options to extend the lease for three additional five year periods. The lease was effective on September 1, 2007. The terms of the lease were based on an independent appraisal of the property and are considered to be market terms.

Until such time as 1 Salem Street is opened as a branch, 55 High Street will be leased to the Bank as a tenant-at-will at market terms. It is anticipated that the new branch will be opened during the second or third quarter of 2008. The relocation of the branch is subject to customary regulatory approvals.

**Item 6**

Exhibits

3.1 Certificate of Incorporation of Century Bancorp, Inc., incorporated by reference previously filed with registrant's initial registration statement on Form S-1 dated May 20, 1987 (Registration No. 33-13281).

3.2 Bylaws of Century Bancorp, Inc. as amended on October 9, 2007.

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

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

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

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

32.3 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.

**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: November 8, 2007**

**Century Bancorp, Inc**

**/s/ Barry R. Sloane**

**/s/ Jonathan G. Sloane**

**Barry R. Sloane**

**Jonathan G. Sloane**

**Co-President & Co-Chief Executive Officer**

**Co-President & Co-Chief Executive Officer**

**/s/ William P. Hornby**

**William P. Hornby, CPA**

**Treasurer**

**(Principal Accounting Officer)**

Page 23 of 23