CENTURY BANCORP INC
Form 10-Q
August 07, 2009

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

(Mark One)

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

For the quarterly period ended June 30, 2009.

or

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

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

(Exact name of registrant as specified in its charter)

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

(781) 391-4000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15 (d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
o Yes o No

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 31, 2009, the Registrant had outstanding:

Class A Common Stock, $1.00 par value	**3,503,467 Shares**
Class B Common Stock, $1.00 par value	**2,026,830 Shares**

Century Bancorp, Inc.

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PART I Item 1

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

	June 30, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 43,635	$ 61,195
Federal funds sold and interest-bearing deposits in other banks	80,256	94,973
Total cash and cash equivalents	123,891	156,168
Short-term investments	140,885	43,814
Securities available-for-sale, amortized cost $654,725 and $496,046, respectively	657,292	495,585
Securities held-to-maturity, market value $198,914 and $185,433, respectively	195,230	184,047
Federal Home Loan Bank of Boston stock, at cost	15,531	15,531
Loans, net:		
Commercial & industrial	130,059	141,373
Construction & land development	63,448	59,511
Commercial real estate	327,306	332,325
Residential real estate	192,381	194,644
Home equity	113,468	98,954
Consumer & other	8,760	9,258
Total loans, net	835,422	836,065
Less: allowance for loan losses	13,364	11,119
Net loans	822,058	824,946
Bank premises and equipment	21,345	22,054
Accrued interest receivable	6,771	6,723
Goodwill	2,714	2,714
Core deposit intangible	1,090	1,283
Other assets	51,135	48,701
Total assets	$ 2,037,942	$ 1,801,566
Liabilities		
Deposits:		

Demand deposits	$ 273,257	$ 277,217
Savings and NOW deposits	502,503	353,261
Money market accounts	424,163	308,177
Time deposits	324,260	326,872
Total deposits	1,524,183	1,265,527
Securities sold under agreements to repurchase	66,652	112,510
Other borrowed funds	245,988	238,558
Subordinated debentures	36,083	36,083
Investment purchases payable	10,050	
Other liabilities	29,764	28,385
Total liabilities	1,912,720	1,681,063
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 3,503,467 shares and 3,511,307 shares, respectively	3,503	3,511
Class B common stock, $1.00 par value per share; authorized 5,000,000 shares; issued 2,026,830 and 2,027,100 shares, respectively	2,027	2,027
Additional paid-in capital	11,376	11,475
Retained earnings	114,943	112,135
	131,849	129,148
Unrealized gains (losses) on securities available-for-sale, net of taxes	1,480	(292)
Additional pension liability, net of taxes	(8,107)	(8,353)
Total accumulated other comprehensive loss, net of taxes	(6,627)	(8,645)
Total stockholders equity	125,222	120,503
Total liabilities and stockholders equity	$ 2,037,942	$ 1,801,566

See accompanying notes to unaudited consolidated interim financial statements.

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

	Three months ended June 30,		Six months ended June 30,	
	2009	**2008**	**2009**	**2008**
Interest income				
Loans	$ 12,026	$ 11,882	$ 23,815	$ 24,144
Securities held-to-maturity	2,180	2,094	4,403	3,999
Securities available-for-sale	5,225	4,757	10,254	9,136
Federal funds sold and interest-bearing deposits in other banks	763	737	1,305	1,953
Total interest income	20,194	19,470	39,777	39,232
Interest expense				
Savings and NOW deposits	1,337	1,458	2,733	3,072
Money market accounts	1,718	1,829	3,653	3,419
Time deposits	2,561	2,271	5,168	5,187
Securities sold under agreements to repurchase	117	359	325	875
Other borrowed funds and subordinated debentures	2,499	2,897	5,144	5,791
Total interest expense	8,232	8,814	17,023	18,344
Net interest income	11,962	10,656	22,754	20,888
Provision for loan losses	1,050	925	2,900	1,625
Net interest income after provision for loan losses	10,912	9,731	19,854	19,263
Other operating income				
Service charges on deposit accounts	2,006	2,028	4,028	4,009
Lockbox fees	753	827	1,494	1,599
Net gain on sales of investments		2	978	102
Other income	781	620	1,710	1,189
Total other operating income	3,540	3,477	8,210	6,899
Operating expenses				
Salaries and employee benefits	6,541	6,315	13,429	12,605
Occupancy	995	1,079	2,140	2,143
Equipment	654	742	1,282	1,472

FDIC assessments	1,623	145	2,116	178
Other	2,470	2,462	4,766	4,729
Total operating expenses	12,283	10,743	23,733	21,127
Income before income taxes	2,169	2,465	4,331	5,035
Provision for income taxes	162	589	438	1,359
Net income	$ 2,007	$ 1,876	$ 3,893	$ 3,676
Share data:				
Weighted average number of shares outstanding, basic	5,530,724	5,543,781	5,534,233	5,543,792
Weighted average number of shares outstanding, diluted	5,531,329	5,546,128	5,534,345	5,546,423
Net income per share, basic	$ 0.36	$ 0.34	$ 0.70	$ 0.66
Net income per share, diluted	$ 0.36	$ 0.34	$ 0.70	$ 0.66
Cash dividends paid:				
Class A common stock	$ 0.12	$ 0.12	$ 0.24	$ 0.24
Class B common stock	$ 0.06	$ 0.06	$ 0.12	$ 0.12

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.
Consolidated Statements of Changes in Stockholders Equity (unaudited)
For the Six Months Ended June 30, 2009 and 2008

	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, 2007	$ 3,517	$ 2,027	$ 11,553	$ 105,550	$ (3,841)	$ 118,806
Net income				3,676		3,676
Other comprehensive income, net of tax: Unrealized holding losses arising during period net of $358 in taxes and $102 in realized net gains					(575)	(575)
Pension liability adjustment, net of $44 in taxes					63	63
Comprehensive income						3,164
Effects of changing pension plans measurement date pursuant to SFAS 158, net of $177 in taxes				(287)	31	(256)
Stock repurchased, 400 shares	(1)		(6)			(7)
Cash dividends paid, Class A common stock, $.24 per share				(843)		(843)
Cash dividends paid, Class B common stock, $.12 per share				(244)		(244)
Balance at June 30, 2008	$ 3,516	$ 2,027	$ 11,547	$ 107,852	$ (4,322)	$ 120,620
Balance at December 31, 2008	$ 3,511	$ 2,027	$ 11,475	$ 112,135	$ (8,645)	$ 120,503

Net income				3,893		3,893
Other comprehensive income, net of tax: Unrealized holding gains arising during period net of $1,256 in taxes and $978 in realized net gains					1,772	1,772
Pension liability adjustment, net of $163 in taxes					246	246
Comprehensive income						5,911
Stock repurchased, 8,110 shares	(8)		(99)			(107)
Cash dividends paid, Class A common stock, $.24 per share				(842)		(842)
Cash dividends paid, Class B common stock, $.12 per share				(243)		(243)
Balance at June 30, 2009	$ 3,503	$ 2,027	$ 11,376	$ 114,943	$ (6,627)	$ 125,222

See accompanying notes to unaudited consolidated interim financial statements.

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

	Six months ended June 30, 2009	Six months ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,893	$ 3,676
Adjustments to reconcile net income to net cash provided by operating activities:		
Mortgage loans originated for sale	(374)	(341)
Proceeds from mortgage loans sold	379	343
Gain on sales of loans	(5)	(2)
Net gain on sales of investments	(978)	(102)
Provision for loan losses	2,900	1,625
Deferred income taxes	(1,137)	(108)
Net depreciation and amortization	2,826	1,748
(Increase) decrease in accrued interest receivable	(48)	234
Increase in other assets	(2,756)	(2,654)
Increase in other liabilities	1,814	553
Net cash provided by operating activities	6,514	4,972
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	79,816	
Purchase of short-term investments	(176,887)	
Proceeds from maturities of securities available-for-sale	178,780	181,724
Proceeds from sales of securities available-for-sale	32,158	68,736
Purchase of securities available-for-sale	(359,662)	(345,491)
Proceeds from maturities of securities held-to-maturity	56,314	71,498
Purchase of securities held-to-maturity	(67,818)	(91,431)
Loan acquired, net of discount		(4,099)
Net decrease (increase) in loans	11	(35,928)
Capital expenditures	(539)	(1,994)
Net cash used in investing activities	(257,827)	(156,985)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in time deposits	(2,612)	(48,274)
Net increase in demand, savings, money market and NOW deposits	261,268	92,261
Net payments for the repurchase of stock	(107)	(4)
Cash dividends	(1,085)	(1,087)
Net (decrease) increase in securities sold under agreements to repurchase	(45,858)	13,160
Net (decrease) increase in other borrowed funds	7,430	(32,300)
Net cash provided by financing activities	219,036	23,756

Net decrease in cash and cash equivalents	(32,277)	(128,257)
Cash and cash equivalents at beginning of period	156,168	299,901
Cash and cash equivalents at end of period	$ 123,891	$ 171,644
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 17,448	$ 18,454
Income taxes	1,677	2,023
Change in unrealized (losses) gains on securities available-for-sale, net of taxes	1,772	(575)
Pension liability adjustment, net of taxes	246	63
Effects of changing pension plans measurement date pursuant to SFAS 158, net of taxes		(256)
Due to broker	10,050	6,459
Due from broker		19,865

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.
Notes to Unaudited Consolidated Interim Financial Statements
Three and Six Months Ended June 30, 2009 and 2008

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, 2008, as filed with the Securities and Exchange Commission.

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

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

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Note 2. Recent Market Developments

The financial services industry is facing unprecedented challenges in the face of the current national and global economic crisis. The global and U. S. economies are experiencing significantly reduced business activity as a result of, among other factors, disruptions in the financial system during the past year. Dramatic declines in the housing market during the past year, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital; to merge with larger and stronger institutions; and, in some cases, to fail. The Company is fortunate that the markets it serves have been impacted to a lesser extent than many areas around the country.

In response to the financial crises affecting the banking system and financial markets, there have been several recent announcements of federal programs designed to purchase assets from, provide equity capital to, and guarantee the liquidity of the industry.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the EESA) was signed into law. The EESA authorizes the U.S. Treasury to, among other things, purchase up to $700 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The Company does not expect to participate in the sale of any of our assets into these programs. EESA, as amended, also increases the FDIC deposit insurance limit from $100,000 to $250,000 through December 31, 2013.

On October 14, 2008, the U.S. Treasury announced that it will purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Asset Relief Program Capital Purchase Program (the TARP Capital Purchase Program), the U.S. Treasury will make $250 billion of capital available (from the $750 billion authorized by the EESA) to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the U.S. Treasury will receive warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions will be required to adopt the U. S. Treasury s standards for executive compensation, dividend restrictions and corporate governance for the period during which the Treasury holds equity issued under the TARP Capital Purchase Program. The U.S. Treasury also announced that nine large financial institutions have already agreed to participate in the TARP Capital Purchase Program. Subsequently, a number of smaller institutions have participated in the TARP Capital Purchase Program. On December 18, 2008, the Company announced in a press release, it had received preliminary approval from the U.S. Treasury to participate in the TARP Capital Purchase Program, in an amount up to $30 million in the form of Century Bancorp, Inc. preferred stock and warrants to purchase Class A common stock. In light of uncertainty surrounding additional restrictions that may be imposed on participants under pending legislation, the Company, on January 14, 2009, informed the U.S. Treasury that it would not be closing on the transaction on January 16, 2009, as originally scheduled. The Company subsequently withdrew its application.

On October 14, 2008, the U. S. Treasury and the FDIC jointly announced a new program, known as the Temporary Liquidity Guarantee Program (TLGP), to strengthen confidence and encourage liquidity in the nation s banking system. The TLGP consists of two programs: the Debt Guarantee Program (DGP) and the Transaction Account Guarantee Program (TAGP). Under the DGP, as amended, the FDIC will guarantee certain newly issued senior unsecured debt of participating banks, thrifts and certain holding companies issued from October 14, 2008 through October 31, 2009, which debt matures on or prior to December 31, 2012, up to a fixed maximum amount per participant. In addition, under the TAGP, the FDIC will fully guarantee deposits in

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noninterest bearing transaction accounts without dollar limitation through December 31, 2009. Institutions opting to participate in the DGP will be charged a 50-, 75- or 100-basis point fee (depending on maturity) for the guarantee of eligible debt, and a 10-basis point assessment will be applicable to deposits in noninterest bearing transaction accounts at institutions participating in the TAGP that exceed the existing deposit insurance limit of $250,000. The Company opted to participate in both the DGP and the TAGP.

On May 22, 2009, the FDIC announced a special assessment on insured institutions as part of its efforts to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The special assessment is five basis points of each FDIC-insured depository institution s assets minus Tier 1 capital, as of June 30, 2009. The Company recorded a pre-tax charge of approximately $1.0 million in the second quarter of 2009 in connection with the special assessment.

Note 3. Stock Option Accounting

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

	June 30, 2009		
	Amount		Weighted Average Exercise Price
Shares under option:			
Outstanding at beginning of year	81,037	$	27.42
Cancelled	(400)		27.57
Outstanding at end of period	80,637	$	27.42
Exercisable at end of period	80,637	$	27.42
Available to be granted at end of period	190,909		

On June 30, 2009, the outstanding options to purchase 80,637 shares of Class A common stock have exercise prices between $15.06 and $35.01, with a weighted average exercise price of $27.42 and a weighted average remaining contractual life of 3.2 years. The intrinsic value of options exercisable at June 30, 2009 had an aggregate value of $9,700.

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 2009.

Note 4. Securities Available for-Sale

	June 30, 2009				December 31, 2008			
	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	$ 1,997	$	$ 3	$ 1,994	$ 1,999	$ 29	$	$ 2,028
U.S. Government Sponsored Enterprises	107,161	503	251	107,413	159,100	2,216	24	161,292
U.S. Government Agency and Sponsored Enterprises	479,831	7,181	900	486,112	259,264	2,427	1,559	260,132

Mortgage Backed Securities								
Privately Issued Residential Mortgage Backed Securities	6,425		751	5,674	7,539		1,880	5,659
Privately Issued Commercial Mortgage Backed Securities	1,503		11	1,492	3,433		66	3,367
Obligations Issued by States and Political Subdivisions	54,280	85	3,138	51,227	61,532	38	1,311	60,259
Other Debt Securities	2,550		57	2,493	2,200		100	2,100
Equity Securities	978	70	161	887	979	73	304	748
Total	$ 654,725	$ 7,839	$ 5,272	$ 657,292	$ 496,046	$ 4,783	$ 5,244	$ 495,585

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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 $164,440,000 and $113,259,000 at June 30, 2009 and December 31, 2008, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank amounting to $239,901,000 and $244,409,000 at June 30, 2009 and December 31, 2008 respectively. The Company realized gross gains of $978,000 from the proceeds of $32,158,000 from the sales of available-for-sale securities for the year-to-date June 30, 2009.

Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac. Control of these enterprises was directly taken over by the U.S. Government in the 3rd quarter of 2008.

The following table shows the maturity distribution of the Company s securities available-for-sale at June 30, 2009.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	$ 30,388	$ 30,775
After one but within five years	480,415	485,552
After five but within ten years	103,997	104,046
More than 10 years	37,446	34,588
Non-maturing	2,479	2,331
Total	$ 654,725	$ 657,292

The weighted average remaining life of investment securities available-for-sale at June 30, 2009 was 4.4 years. Excluding auction rate municipal obligations (ARSs) and variable rate demand notes (VRDNs), which have maturities up to 30 years, but reprice more frequently, the estimated average remaining life is 3.5 years for June 30, 2009. ARSs and VRDNs are included in Obligations Issued by States and Political Subdivisions above. Included in the weighted average remaining life calculation at June 30, 2009 was $97,367,000 of U.S. Government Sponsored Enterprise obligations that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life. The contractual maturities, which were used in the table above, of mortgage-backed securities will differ from the actual maturities, due to the ability of the issuers to prepay underlying obligations.

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at June 30, 2009. 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 39 and 16 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 281 holdings at June 30, 2009.

As of June 30, 2009, management has 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 any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. 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 were primarily caused by changes in credit spreads and liquidity issues in the marketplace.

In evaluating the underlying credit quality of a security, management considers several factors such as the credit rating of the obligor and the issuer, if applicable. Internal

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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 concentrates 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 Company s financial performance are considered.

	June 30, 2009					
	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	$ 36,838	$ 254	$	$	$ 36,838	$ 254
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	85,293	807	15,872	92	101,165	899
Privately Issued Residential Mortgage Backed Securities			5,674	751	5,674	751
Privately Issued Commercial Mortgage Backed Securities			1,492	11	1,492	11
Obligations Issued by States and Political Subdivisions	20,998	3,138			20,998	3,138
Other Debt Securities			1,444	56	1,444	56
Equity Securities	31	1	501	162	532	163
Total temporarily impaired securities	$ 143,160	$ 4,200	$ 24,983	$ 1,072	$ 168,143	$ 5,272

* At June 30, 2009, the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. The unrealized losses on Obligations Issued by States and Political Subdivisions were considered by management to be temporary in nature.

Full collection of those debt securities is expected because the financial condition of the obligors is considered to be sound, there has been no default in scheduled payment and the debt securities are rated investment grade. The unrealized loss on U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprises Mortgage Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at June 30, 2009. Excluded from the table above are two equity securities that were written down by $76,000. The fair value is $123,000 with an unrealized gain of $14,000. These stocks were deemed to be impaired based on the extent of the decline in value and the length of time the stocks had been trading below cost.

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 31, 2008. 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 44 and 17 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 260 holdings at December 31, 2008. The Company believes that the investments are temporarily impaired.

	December 31, 2008					
	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	$ 4,976	$ 24	$	$	$ 4,976	$ 24
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	80,873	1,351	15,793	208	96,666	1,559
Privately Issued Residential Mortgage Backed Securities	1,716	569	5,455	1,320	7,171	1,889
Privately Issued Commercial Mortgage Backed Securities			1,855	57	1,855	57
Obligations Issued by States and Political Subdivisions	13,645	1,311			13,645	1,311
Other Debt Securities	100	1	150	1	250	2
Equity Securities	382	265	1,419	124	1,801	389
Total temporarily impaired securities	$ 101,692	$ 3,521	$ 24,672	$ 1,710	$ 126,364	$ 5,231

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* The decline in fair value is attributable to change in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008. Excluded from the table above are two equity securities that were written down by $76,000. The fair value is $96,000 with an unrealized loss of $13,000. These stocks were deemed to be impaired based on the extent of the decline in value and the length of time the stocks had been trading below cost.

Note 5. Investment Securities Held-to-Maturity

	June 30, 2009				December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)							
U.S. Government Sponsored Enterprises	$ 22,600	$ 177	$	$ 22,777	$ 44,000	$ 506	$	$ 44,506
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	172,630	3,584	77	176,137	140,047	1,314	434	140,927

Total	$ 195,230	$ 3,761	$ 77	$ 198,914	$ 184,047	$ 1,820	$ 434	$ 185,433

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to $18,000,000 and $35,000,000 at June 30, 2009 and December 31, 2008, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank at fair value amounting to $139,814,000 and $114,103,000 at June 30, 2009 and December 31, 2008, respectively.

At June 30, 2009 and December 31, 2008, all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises. Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac. Control of these enterprises was directly taken over by the U.S. Government in the 3rd quarter of 2008.

The following table shows the maturity distribution of the Company s securities held-to-maturity at June 30, 2009.

	Amortized Cost	**Fair Value**
	(In thousands)	
Within one year	$ 11,164	$ 11,271
After one but within five years	173,584	177,090
After five but within ten years	10,482	10,553
Total	$ 195,230	$ 198,914

The weighted average remaining life of investment securities held-to-maturity at June 30, 2009 was 2.7 years. Included in the weighted average remaining life calculation at June 30, 2009 were $14,000,000 of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. The actual maturities, which were used in the table above, of mortgage-backed securities, will differ from the contractual maturities, due to the ability of the issuers to prepay underlying obligations.

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at June 30, 2009. 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 7 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 87 holdings at June 30, 2009.

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As of June 30, 2009, management has 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 any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade.
In evaluating the underlying credit quality of a security, management considers several factors such as the credit notary of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary.

	June 30, 2009					
	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 Agency and Sponsored Enterprises Mortgage Backed Securities	$ 21,953	$ 77	$	$	$ 21,953	$ 77
Total temporarily impaired securities	$ 21,953	$ 77	$	$	$ 21,953	$ 77

* 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 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, 2009.

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 31, 2008. 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 9 and 12 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 80 holdings at December 31, 2008.

	December 31, 2008					
	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 Agency and Sponsored Enterprises Mortgage Backed Securities	$ 12,995	$ 111	$ 19,821	$ 323	$ 32,816	$ 434
Total temporarily impaired securities	$ 12,995	$ 111	$ 19,821	$ 323	$ 32,816	$ 434

* The unrealized loss on U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprises Mortgage Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2008.

Note 6. 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.

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

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2009	2008	2009	2008
	(In thousands)			
Service cost	$ 196	$ 205	$ 113	$ 28
Interest	308	287	233	193
Expected return on plan assets	(281)	(333)		
Recognized prior service cost (benefit)	(29)	(29)	27	16
Recognized net actuarial losses	171	53	35	13
Net periodic benefit cost	$ 365	$ 183	$ 408	$ 250

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

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2009	2008	2009	2008
	(In thousands)			
Service cost	$ 392	$ 410	$ 226	$ 56
Interest	616	574	466	387
Expected return on plan assets	(562)	(666)		
Recognized prior service cost (benefit)	(58)	(58)	54	32
Recognized net actuarial losses	342	106	70	26
Net periodic benefit cost	$ 730	$ 366	$ 816	$ 501

Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2008 that it expected to contribute $1,275,000 to the Pension Plan in 2009. As of June 30, 2009, $637,500 of the contribution had been made. The Company expects to contribute an additional $637,500 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 had not yet been included in net periodic benefit cost as of the end of 2006, the fiscal year in which the Statement was

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initially applied were 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   equ