CENTURY BANCORP INC
Form 10-Q
November 08, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013.

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), (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of October 31, 2013, the Registrant had outstanding:

Class A Common Stock, $1.00 par value	**3,580,404 Shares**
Class B Common Stock, $1.00 par value	**1,976,180 Shares**

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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.

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PART I - Item 1

Century Bancorp, Inc.

Consolidated Balance Sheets (unaudited)

(In thousands, except share data)

	September 30, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 66,893	$ 53,646
Federal funds sold and interest-bearing deposits in other banks	66,596	98,637
Total cash and cash equivalents	133,489	152,283
Short-term investments	9,611	17,367
Securities available-for-sale, amortized cost $495,931 and $1,414,595, respectively	494,901	1,434,801
Securities held-to-maturity, fair value $1,371,118 and $281,924, respectively	1,374,712	275,507
Federal Home Loan Bank of Boston stock, at cost	17,692	15,146
Loans, net:		
Commercial and industrial	87,468	88,475
Construction and land development	32,750	38,618
Commercial real estate	666,166	576,465
Residential real estate	309,291	281,857
Home equity	126,645	118,923
Consumer and other	8,728	7,450
Total loans, net	1,231,048	1,111,788
Less: allowance for loan losses	21,250	19,197
Net loans	1,209,798	1,092,591
Bank premises and equipment	23,355	23,899
Accrued interest receivable	6,076	5,811
Goodwill	2,714	2,714
Other assets	88,735	66,090
Total assets	$ 3,361,083	$ 3,086,209
Liabilities		
Deposits:		

Demand deposits	$ 475,644	$ 438,429
Savings and NOW deposits	990,637	933,316
Money Market Accounts	870,298	653,345
Time deposits	351,550	419,983
Total deposits	2,688,129	2,445,073
Securities sold under agreements to repurchase	185,160	191,390
Other borrowed funds	241,144	195,144
Subordinated debentures	36,083	36,083
Due to broker	3,086	
Other liabilities	41,161	38,529
Total liabilities	3,194,763	2,906,219
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 3,578,404 shares and 3,568,079 shares, respectively	3,578	3,568
Class B common stock, $1.00 par value per share; authorized 5,000,000 shares; issued 1,978,180 and 1,986,880 shares, respectively	1,978	1,986
Additional paid-in capital	11,932	11,891
Retained earnings	176,271	162,892
	193,759	180,337
Unrealized (losses) gains on securities available-for-sale, net of taxes	(639)	12,330
Unrealized losses on securities transferred to held-to-maturity, net of taxes	(14,643)	
Pension liability, net of taxes	(12,157)	(12,677)
Total accumulated other comprehensive loss, net of taxes	(27,439)	(347)
Total stockholders equity	166,320	179,990
Total liabilities and stockholders equity	$ 3,361,083	$ 3,086,209

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 September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
Interest income				
Loans	$ 12,856	$ 14,494	$ 36,734	$ 39,114
Securities held-to-maturity	6,181	1,744	9,120	5,131
Securities available-for-sale	1,392	5,671	12,580	17,054
Federal funds sold and interest-bearing deposits in other banks	120	170	384	457
Total interest income	20,549	22,079	58,818	61,756
Interest expense				
Savings and NOW deposits	674	562	1,933	1,649
Money market accounts	681	603	1,795	1,833
Time deposits	1,089	1,493	3,657	4,774
Securities sold under agreements to repurchase	89	94	268	274
Other borrowed funds and subordinated debentures	2,218	2,107	6,310	6,215
Total interest expense	4,751	4,859	13,963	14,745
Net interest income	15,798	17,220	44,855	47,011
Provision for loan losses	750	1,250	2,250	3,250
Net interest income after provision for loan losses	15,048	15,970	42,605	43,761
Other operating income				
Service charges on deposit accounts	2,064	1,977	6,040	5,887
Lockbox fees	736	745	2,346	2,225
Net gains on sales of investments	1,001	529	2,665	1,119
Gains on sales of mortgage loans held for sale	247	166	1,238	296
Other income	726	688	2,140	2,185
Total other operating income	4,774	4,105	14,429	11,712
Operating expenses				
Salaries and employee benefits	8,858	8,400	25,858	24,732
Occupancy	1,240	1,161	3,715	3,459

Equipment		554		627		1,746		1,754
FDIC assessments		462		450		1,312		1,302
Other		2,881		3,070		8,491		8,712
Total operating expenses		13,995		13,708		41,122		39,959
Income before income taxes		5,827		6,367		15,912		15,514
Provision for income taxes		308		685		891		1,253
Net income	$	5,519	$	5,682	$	15,021	$	14,261
Share data:								
Weighted average number of shares outstanding, basic								
Class A		3,578,400		3,559,125		3,574,109		3,555,536
Class B		1,978,180		1,989,380		1,982,413		1,991,671
Weighted average number of shares outstanding, diluted								
Class A		5,558,031		5,549,810		5,557,783		5,548,133
Class B		1,978,180		1,989,380		1,982,413		1,991,671
Basic earnings per share:								
Class A	$	1.21	$	1.25	$	3.29	$	3.13
Class B	$	0.60	$	0.62	$	1.64	$	1.57
Diluted earnings per share								
Class A	$	0.99	$	1.02	$	2.70	$	2.57
Class B	$	0.60	$	0.62	$	1.64	$	1.57

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.

Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)

	Three months ended September 30, 2013	2012
Net income	$ 5,519	$ 5,682
Other comprehensive income (loss), net of tax:		
Unrealized (losses) gains on securities:		
Unrealized (losses) gains arising and transferred during period	(4,968)	2,628
Less: reclassification adjustment for gains included in net income	(1,001)	(529)
Total unrealized (losses) gains on securities	(5,969)	2,099
Accretion of net unrealized losses transferred during period	910	
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	173	163
Other comprehensive (loss) income	(4,886)	2,262
Comprehensive income	$ 633	$ 7,944

	Nine months ended September 30, 2013	2012
Net income	$ 15,021	$ 14,261
Other comprehensive income, net of tax:		
Unrealized (losses) gains on securities:		
Unrealized (losses) gains arising and transferred during period	(25,857)	5,336
Less: reclassification adjustment for gains included in net income	(2,665)	(1,119)
Total unrealized (losses) gains on securities	(28,522)	4,217
Accretion of net unrealized losses transferred during period	910	
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	520	487
Other comprehensive (loss) income	(27,092)	4,704
Comprehensive (loss) income	$ (12,071)	$ 18,965

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 Nine Months Ended September 30, 2013 and 2012

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
				(In thousands)		
Balance at December 31, 2011	$ 3,548	$ 1,994	$ 11,587	$ 146,039	$ (2,519)	$ 160,649
Net income				14,261		14,261
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $2,651 in taxes and $1,119 in realized net gains					4,217	4,217
Pension liability adjustment, net of $324 in taxes					487	487
Conversion of class B common stock to class A common stock, 7,500 shares	8	(8)				
Stock options exercised, 5,987 shares	6		131			137
Cash dividends paid, Class A common stock, $.36 per share				(1,279)		(1,279)
Cash dividends paid, Class B common stock, $.18 per share				(360)		(360)
Balance at September 30, 2012	$ 3,562	$ 1,986	$ 11,718	$ 158,661	$ 2,185	$ 178,112
Balance at December 31, 2012	$ 3,568	$ 1,986	$ 11,891	$ 162,892	$ (347)	$ 179,990
Net income				15,021		15,021
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of $8,266 in taxes and $2,665 in realized net gains					(12,969)	(12,969)
					(14,643)	(14,643)

Unrealized losses on securities transferred to held-to-maturity net of $9,206 in taxes						
Pension liability adjustment, net of $346 in taxes					520	520
Conversion of class B common stock to class A common stock, 8,700 shares	8	(8)				
Stock options exercised, 1,625 shares	2		41			43
Cash dividends paid, Class A common stock, $.36 per share				(1,285)		(1,285)
Cash dividends paid, Class B common stock, $.18 per share				(357)		(357)
Balance at September 30, 2013	$ 3,578	$ 1,978	$ 11,932	$ 176,271	$ (27,439)	$ 166,320

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.

Consolidated Statements of Cash Flows (unaudited)

(In thousands)

	Nine months ended September 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 15,021	$ 14,261
Adjustments to reconcile net income to net cash provided by operating activities:		
Mortgage loans originated for sale	(60,165)	(10,812)
Proceeds from mortgage loans sold	64,219	14,497
Gain on sales of mortgage loans held for sale	(1,238)	(296)
Net gain on sales of investments	(2,665)	(1,119)
Provision for loan losses	2,250	3,250
Deferred income taxes	(1,297)	(1,377)
Net depreciation and amortization	4,421	4,838
(Decrease) increase in accrued interest receivable	(265)	156
Gain on sale of other real estate owned		(4)
Increase in other assets	(4,321)	(3,303)
Increase in other liabilities	3,527	3,788
Net cash provided by operating activities	19,487	23,879
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities of short-term investments	16,317	23,351
Purchase of short-term investments	(8,561)	(36,364)
Proceeds from calls/maturities of securities available-for-sale	228,212	429,440
Proceeds from sales of securities available-for-sale	216,078	271,500
Purchase of securities available-for-sale	(536,612)	(654,900)
Proceeds from calls/maturities of securities held-to-maturity	79,249	69,831
Purchase of securities held-to-maturity	(190,718)	(175,343)
Net increase in loans	(122,241)	(85,354)
Proceeds from sales of other real estate owned		1,187
Capital expenditures	(1,232)	(3,309)
Net cash used in investing activities	(319,508)	(159,961)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net decrease in time deposits	(68,433)	(1,871)
Net increase in demand, savings, money market and NOW deposits	311,489	220,570
Net proceeds from exercise of stock options	43	137
Cash dividends	(1,642)	(1,639)
Net (decrease) increase in securities sold under agreements to repurchase	(6,230)	32,740

Net increase (decrease) in other borrowed funds		46,000		(59,999)
Net cash provided by financing activities		281,227		189,938
Net (decrease) increase in cash and cash equivalents		(18,794)		53,856
Cash and cash equivalents at beginning of period		152,283		207,766
Cash and cash equivalents at end of period	$	133,489	$	261,622
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$	13,993	$	14,828
Income taxes		2,898		1,828
Change in unrealized (losses) gains on securities available-for-sale, net of taxes		(12,969)		4,217
Change in unrealized losses on securities transferred to held-to-maturity, net of taxes		(14,643)		
Pension liability adjustment, net of taxes		520		487
Due to broker		3,086		10,750
Transfer of loans to other real estate owned				400
Transfer of securities available-for-sale to held-to-maturity		987,037		

See accompanying notes to unaudited consolidated interim financial statements.

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Century Bancorp, Inc.

Notes to Unaudited Consolidated Interim Financial Statements

Nine Months Ended September 30, 2013 and 2012

Note 1. Basis of Financial Statement Presentation

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

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

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates. The Company s quarterly report on Form 10-Q should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2012, as filed with the Securities and Exchange Commission.

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

Certain reclassifications are made to prior-year amounts whenever necessary to conform with the current-year presentation.

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Note 2. Recent Market Developments

The financial services industry continues to face challenges in the aftermath of the recent national and global economic crisis. Since June 2009, the U.S. economy has been recovering from the most severe recession and financial crisis since the Great Depression. There have been some improvements in private-sector employment, industrial production and U.S. exports; nevertheless, the pace of economic recovery has been slow. The housing markets, while improving, continue to be depressed. Financial markets have improved since the depths of the crisis but are still unsettled and volatile. There is continued concern about the U.S. economic outlook and the potential effects of the continued crisis in the European financial markets.

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

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking (NPR) that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period from seven to eight years. This rule was finalized on November 2, 2009. As a result, the Company was carrying a prepaid asset of $2.4 million as of March 31, 2013. The Company s quarterly risk-based deposit insurance assessments were paid from this amount until the amount is exhausted or until June 30, 2013, when any amount remaining would be returned to the Company. The Company received a refund of $2.4 million of prepaid FDIC assessments in June 2013.

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance-sheet items. Also, the Basel Committee has issued capital standards entitled Basel III: A global regulatory framework for more resilient banks and banking systems (Basel III). The Federal Reserve Board has finalized its rule implementing the Basel III regulatory capital framework. The rule sets the Basel III minimum regulatory capital requirements for all organizations. It includes a new common equity Tier 1 ratio of 4.5 percent of risk-weighted assets, raises the minimum Tier 1 capital ratio from 4 percent to 6 percent of risk-weighted assets and would set a new conservation buffer of 2.5 percent of risk-weighted assets. The Company has analyzed the final rules; the implementation of the framework will not have a material impact on the Company s financial condition or results of operations.

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Note 3. Stock Option Accounting

Stock option activity under the Company s stock option plan for the nine months ended September 30, 2013 is as follows:

	Amount	Weighted Average Exercise Price
Shares under option:		
Outstanding at beginning of year	**23,350**	**$ 31.17**
Exercised	**(1,625)**	**26.76**
Forfeited	**(1,350)**	**26.68**
Outstanding at end of period	**20,375**	**$ 31.82**
Exercisable at end of period	**20,375**	**$ 31.82**
Available to be granted at end of period	**224,884**	

On September 30, 2013, the outstanding options to purchase 20,375 shares of Class A common stock have exercise prices between $31.60 and $31.83, with a weighted average exercise price of $31.82 and a weighted average remaining contractual life of 1 year. The intrinsic value of options exercisable at September 30, 2013 had an aggregate value of $30,766. The intrinsic value of options exercised at September 30, 2013 had an aggregate value of $10,678.

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 2013.

Note 4. Securities Available-for-Sale

	September 30, 2013				December 31, 2012			
	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**	**$**	**$ 1**	**$ 1,996**	$ 2,000	$ 4	$	$ 2,004
U.S. Government Sponsored Enterprises	**9,995**	**3**		**9,998**	130,048	360	68	130,340
Small Business Administration	**7,414**	**17**		**7,431**	8,043	113		8,156
U.S. Government Agency and Sponsored Enterprises	**429,665**	**1,032**	**1,388**	**429,309**	1,212,953	20,816	412	1,233,357

Mortgage Backed Securities								
Privately Issued Residential Mortgage Backed Securities	**2,434**	**6**	**22**	**2,418**	2,938	31	22	2,947
Obligations Issued by States and Political Subdivisions	**41,720**	**18**	**725**	**41,013**	55,855	41	722	55,174
Other Debt Securities	**2,300**		**111**	**2,189**	2,300		47	2,253
Equity Securities	**406**	**141**		**547**	458	112		570
Total	**$ 495,931**	**$ 1,217**	**$ 2,247**	**$ 494,901**	$ 1,414,595	$ 21,477	$ 1,271	$ 1,434,801

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

Included in U.S. Government Sponsored Enterprise Securities and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities are securities at fair value pledged to secure public deposits and repurchase agreements amounting to

$285,264,000 and $665,028,000 at September 30, 2013 and December 31, 2012, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank of Boston amounting to $13,450,000 and $220,313,000 at September 30, 2013 and December 31, 2012, respectively. The Company realized gross gains of $2,665,000 from the proceeds of $216,078,000 from the sales of available-for-sale securities for the nine months ended September 30, 2013. The Company realized gross gains of $1,119,000 from the proceeds of $271,500,000 from the sales of available-for-sale securities for the nine months ended September 30, 2012.

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

The following table shows the maturity distribution of the Company s securities available-for-sale at September 30, 2013.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	**$ 36,030**	**$ 36,072**
After one but within five years	**228,332**	**228,266**
After five but within ten years	**217,786**	**217,202**
More than 10 years	**11,876**	**11,426**
Non-maturing	**1,907**	**1,935**
Total	**$ 495,931**	**$ 494,901**

The weighted average remaining life of investment securities available-for-sale at September 30, 2013 was 4.9 years. The contractual maturities, which were used in the table above, of mortgage-backed securities, will differ from the actual maturities, due to the ability of the issuers to prepay underlying obligations.

As of September 30, 2013 and December 31, 2012, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not more likely than not that it will be required to sell these debt securities before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade. The change in the unrealized losses on the state and municipal securities and the nonagency mortgage-backed securities was primarily caused by changes in credit spreads and liquidity issues in the marketplace.

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

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

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The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at September 30, 2013. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 51 and 4 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 245 holdings at September 30, 2013.

	September 30, 2013					
	Less than 12 months		12 months or longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government Sponsored Enterprises	**$ 1,996**	**$ 1**	**$**	**$**	**$ 1,996**	**$ 1**
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**328,829**	**1,368**	**1,945**	**20**	**330,774**	**1,388**
Privately Issued Residential Mortgage Backed Securities	**1, 575**	**22**			**1,575**	**22**
Obligations Issued by States and Political Subdivisions			**3,963**	**725**	**3,963**	**725**
Other Debt Securities			**1,389**	**111**	**1,389**	**111**
Total temporarily impaired securities	**$ 332,400**	**$ 1,391**	**$ 7,297**	**$ 856**	**$ 339,697**	**$ 2,247**

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 31, 2012. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 20 and 7 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 458 holdings at December 31, 2012.

	December 31, 2012					
	Less than 12 months		12 months or longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government Sponsored Enterprises	$ 34,967	$ 68	$	$	$ 34,967	$ 68
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	93,006	383	10,169	29	103,175	412
Privately Issued Residential Mortgage Backed Securities			1,863	22	1,863	22
Obligations Issued by States and Political Subdivisions			3,963	722	3,963	722
Other Debt Securities			1,453	47	1,453	47
Equity Securities						

Total temporarily impaired securities	$ 127,973	$ 451	$ 17,448	$ 820	$ 145,421	$ 1,271

Note 5. Investment Securities Held-to-Maturity

	September 30, 2013				December 31, 2012			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
				(In thousands)				
U.S. Government Sponsored Enterprises	**$ 276,509**	**$ 637**	**$ 1,756**	**$ 275,390**	$ 17,747	$ 19	$ 8	$ 17,758
U.S. Government Agency and Sponsored Enterprises Mortgage Backed Securities	**1,098,203**	**5,334**	**7,809**	**1,095,728**	257,760	6,480	74	264,166
Total	**$ 1,374,712**	**$ 5,971**	**$ 9,565**	**$ 1,371,118**	$ 275,507	$ 6,499	$ 82	$ 281,924

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to $550,098,000 and $149,366,000 at September 30, 2013 and December 31, 2012, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank of Boston at fair value amounting to $411,072,000 and $103,617,000 at September 30, 2013 and December 31, 2012, respectively.

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At September 30, 2013 and December 31, 2012, all mortgage-backed securities are obligations of U.S. Government Agencies and Government Sponsored Enterprises. Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.

The following table shows the maturity distribution of the Company s securities held-to-maturity at September 30, 2013.

	Amortized Cost	Fair Value
	(In thousands)	
Within one year	**$ 20,936**	**$ 21,053**
After one but within five years	**680,506**	**680,292**
After five but within ten years	**673,002**	**669,498**
More than ten years	**268**	**275**
Total	**$ 1,374,712**	**$ 1,371,118**

The weighted average remaining life of investment securities held-to-maturity at September 30, 2013 was 5.2 years. Included in the weighted average remaining life calculation at September 30, 2013 were $209,956,000 of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. The actual maturities, which were used in the table above, of mortgage-backed securities, will differ from the contractual maturities, due to the ability of the issuers to prepay underlying obligations.

As of September 30, 2013 and December 31, 2012, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not more likely than not that it will be required to sell these debt securities before the anticipated recovery of their remaining amortized costs. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade.

The unrealized loss on U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities related primarily to interest rates and not credit quality, and because the Company does not intend to sell any of these securities and it is not more likely than not 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 September 30, 2013 and December 31, 2012.

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

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at September 30, 2013. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 105 and 2 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 279 holdings at September 30, 2013.

	September 30, 2013					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
U.S. Government Sponsored Enterprises	$ 147,360	$ 1,756	$	$	$ 147,360	$ 1,756
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	579,478	7,621	7,787	188	587,265	7,809
Total temporarily impaired securities	$ 726,838	$ 9,377	$ 7,787	$ 188	$ 734,625	$ 9,565

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The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 31, 2012. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 3 and 1 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 96 holdings at December 31, 2012.

	December 31, 2012					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government Sponsored Enterprises	$ 9,994	$ 8	$	$	$ 9,994	$ 8
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	8,936	50	5,371	24	14,307	74
Total temporarily impaired securities	$ 18,930	$ 58	$ 5,371	$ 24	$ 24,301	$ 82

Note 6. Allowance for Loan Losses

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

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2013	**2012**	**2013**	**2012**
	(in thousands)			
Allowance for loan losses, beginning of period	**$ 20,500**	$ 17,979	**$ 19,197**	$ 16,574
Loans charged off	**(149)**	(728)	**(682)**	(1,787)
Recoveries on loans previously charged-off	**149**	157	**485**	621
Net charge-offs		(571)	**(197)**	(1,166)
Provision charged to expense	**750**	1,250	**2,250**	3,250
Allowance for loan losses, end of period	**$ 21,250**	$ 18,658	**$ 21,250**	$ 18,658

Further information pertaining to the allowance for loan losses for the three months ending September 30, 2013 follows:

	Construction and Land Development	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at June 30, 2013	$ 3,241	$ 3,215	$ 9,424	$ 2,030	$ 363	$ 932	$ 1,295	$ 20,500
Charge-offs					(149)			(149)
Recoveries		42	2	4	101			149
Provision	(114)	(534)	1,162	176	76	17	(33)	750
Ending balance at September 30, 2013	$ 3,127	$ 2,723	$ 10,588	$ 2,210	$ 391	$ 949	$ 1,262	$ 21,250
Amount of allowance for loan losses for loans deemed to be impaired	$ 1,000	$ 90	$ 445	$ 139	$	$ 95	$	1,769
Amount of allowance for loan losses for loans not deemed to be impaired	$ 2,127	$ 2,633	$ 10,143	$ 2,071	$ 391	$ 854	$ 1,262	$ 19,481
Loans:								
Ending balance	$ 32,750	$ 87,468	$ 666,166	$ 309,291	$ 8,728	$ 126,645	$	$ 1,231,048
Loans deemed to be impaired	$ 1,500	$ 1,132	$ 4,688	$ 1,151	$	$ 95	$	$ 8,566
Loans not deemed to be impaired	$ 31,250	$ 86,336	$ 661,478	$ 308,140	$ 8,728	$ 126,550	$	$ 1,222,482

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Further information pertaining to the allowance for loan losses for the nine months ending September 30, 2013 follows:

	Construction and Land Development	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at December 31, 2012	$ 3,041	$ 3,118	$ 9,065	$ 1,994	$ 333	$ 886	$ 760	$ 19,197
Charge-offs		(234)			(448)			(682)
Recoveries		163	5	9	307	1		485
Provision	86	(324)	1,518	207	199	62	502	2,250
Ending balance at September 30, 2013	$ 3,127	$ 2,723	$ 10,588	$ 2,210	$ 391	$ 949	$ 1,262	$ 21,250
Amount of allowance for loan losses for loans deemed to be impaired	$ 1,000	$ 90	$ 445	$ 139	$	$ 95	$	1,769
Amount of allowance for loan losses for loans not deemed to be impaired	$ 2,127	$ 2,633	$ 10,143	$ 2,071	$ 391	$ 854	$ 1,262	$ 19,481
Loans:								
Ending balance	$ 32,750	$ 87,468	$ 666,166	$ 309,291	$ 8,728	$ 126,645	$	$ 1,231,048
Loans deemed to be impaired	$ 1,500	$ 1,132	$ 4,688	$ 1,151	$	$ 95	$	$ 8,566
Loans not deemed to be impaired	$ 31,250	$ 86,336	$ 661,478	$ 308,140	$ 8,728	$ 126,550	$	$ 1,222,482

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

	Construction and Land	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total

	Development							
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at June 30, 2012	$ 2,889	$ 3,466	$ 7,754	$ 1,793	$ 293	$ 681	$ 1,103	$ 17,979
Charge-offs		(532)		(49)	(147)			(728)
Recoveries		38	2	2	99	16		157
Provision	140	133	967	240	52	176	(458)	1,250
Ending balance at September 30, 2012	$ 3,029	$ 3,105	$ 8,723	$ 1,986	$ 297	$ 873	$ 645	$ 18,658
Amount of allowance for loan losses for loans deemed to be impaired	$ 1,000	$ 455	$ 434	$ 127	$	$ 97	$	2,113
Amount of allowance for loan losses for loans not deemed to be impaired	$ 2,029	$ 2,650	$ 8,289	$ 1,859	$ 297	$ 776	$ 645	$ 16,545
Loans:								
Ending balance	$ 38,318	$ 78,567	$ 562,252	$ 262,426	$ 6,661	$ 116,699	$	$ 1,064,923
Loans deemed to be impaired	$ 1,500	$ 1,882	$ 2,302	$ 777	$	$ 97	$	$ 6,558
Loans not deemed to be impaired	$ 36,818	$ 76,685	$ 559,950	$ 261,649	$ 6,661	$ 116,602	$	$ 1 058,365

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

	Construction and Land Development	Commercial and Industrial	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
				(Dollars in thousands)				
Allowance for loan losses:								
Balance at December 31, 2011	$ 2,893	$ 3,139	$ 6,566	$ 1,886	$ 356	$ 704	$ 1,030	$ 16,574
Charge-offs		(931)		(110)	(587)	(159)		(1,787)
Recoveries		243	5	11	346	16		621
Provision	136	654	2,152	199	182	312	(385)	3,250
Ending balance at September 30, 2012	$ 3,029	$ 3,105	$ 8,723	$ 1,986	$ 297	$ 873	$ 645	$ 18,658
Amount of allowance for loan losses for loans deemed to be impaired	$ 1,000	$ 455	$ 434	$ 127	$	$ 97	$	$ 2,113
Amount of allowance for loan losses for loans not deemed to be impaired	$ 2,029	$ 2,649	$ 8,289	$ 1,859	$ 297	$ 776	$ 645	$ 16,545
Loans:								
Ending balance	$ 38,318	$ 78,567	$ 562,252	$ 262,426	$ 6,661	$ 116,699	$	$ 1,064,923
Loans deemed to be impaired	$ 1,500	$ 1,882	$ 2,302	$ 777	$	$ 97	$	$ 6,558
Loans not deemed to be impaired	$ 36,818	$ 76,685	$ 559,950	$ 261,649	$ 6,661	$ 116,602	$	$ 1 058,365

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

Loans rated 1-3 (Pass):

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

Loans rated 4 (Monitor):

These loans represent classified loans that management is closely monitoring for credit quality. These loans have had or may have minor credit quality deterioration as of September 30, 2013 and December 31, 2012.

Loans rated 5 (Substandard):

Substandard loans represent classified loans that management is closely monitoring for credit quality. These loans have had more significant credit quality deterioration as of September 30, 2013 and December 31, 2012.

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Loans rated 6 (Doubtful):

Doubtful loans represent classified loans that management is closely monitoring for credit quality. These loans had more significant credit quality deterioration as of September 30, 2013 and December 31, 2012 and are doubtful for full collection.

Impaired:

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

The following table presents the Company s loans by risk rating at September 30, 2013.

	Construction and land development	**Commercial and industrial**	**Commercial real estate**
	(Dollars in thousands)		
Grade:			
1-3 (Pass)	**$ 23,789**	**$ 85,797**	**$ 660,114**
4 (Monitor)	**7,461**	**539**	**1,364**
5 (Substandard)			
6 (Doubtful)			
Impaired	**1,500**	**1,132**	**4,688**
Total	**$ 32,750**	**$ 87,468**	**$ 666,166**

The following table presents the Company s loans by risk rating at December 31, 2012.

	Construction and land development	Commercial and industrial	Commercial real estate
	(Dollars in thousands)		
Grade:			
1-3(Pass)	$ 29,719	$ 86,587	$ 569,760
4 (Monitor)	7,399	606	4,424
5 (Substandard)			
6 (Doubtful)			
Impaired	1,500	1,282	2,281
Total	$ 38,618	$ 88,475	$ 576,465

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

Further information pertaining to the allowance for loan losses at September 30, 2013 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accrual Greater Than 90 Days	Total Past Due	Current Loans	Total
	(Dollars in thousands)					
Construction and land development	**$**	**$ 1,500**	**$**	**$ 1,500**	**$ 31,250**	**$ 32,750**
Commercial and industrial	**392**	**501**		**893**	**86,575**	**87,468**
Commercial real estate	**3,174**	**448**		**3,622**	**662,544**	**666,166**
Residential real estate	**1,907**	**1,270**		**3,177**	**306,114**	**309,291**
Consumer and overdrafts	**7**	**2**		**9**	**8,719**	**8,728**
Home equity	**1,147**	**24**		**1,171**	**125,474**	**126,645**
Total	**$ 6,627**	**$ 3,745**	**$**	**$ 10,372**	**$ 1,220,676**	**$ 1,231,048**

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Further information pertaining to the allowance for loan losses at December 31, 2012 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accrual Greater Than 90 Days	Total Past Due	Current Loans	Total
	(Dollars in thousands)					
Construction and land development	$	$ 1,500	$	$ 1,500	$ 37,118	$ 38,618
Commercial and industrial	1,256	676		1,932	86,543	88,475
Commercial real estate	3,450	674		4,124	572,341	576,465
Residential real estate	864	1,597		2,461	279,396	281,857
Consumer and overdrafts	32	24		56	7,394	7,450
Home equity	1,088			1,088	117,835	118,923
Total	$ 6,690	$ 4,471	$	$ 11,161	$ 1,100,627	$ 1,111,788

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan s effective interest rate, except that as a practical expedient, the Company measures impairment based on a loan s observable market price, or the fair value of the collateral if the loan is collateral dependent. Loans are charged-off when management believes that the collectability of the loan s principal is not probable. The specific factors that management considers in making the determination that the collectability of the loan s principal is not probable include; the delinquency status of the loan, the fair value of the collateral, if secured, and the financial strength of the borrower and/or guarantors. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance amount when such an amount has been identified definitively as uncollectible. The Company s policy for recognizing interest income on impaired loans is contained within Note 1 of the consolidated financial statements contained in the Company s Annual Report for the fiscal year ended December 31, 2012.

The following is information pertaining to impaired loans for September 30, 2013:

	Carrying Value	**Unpaid Principal Balance**	**Required Reserve**	**Average Carrying Value for 3 Months Ending 9/30/13**	**Average Carrying Value for 9 Months Ending 9/30/13**	**Interest Income Recognized For 3 Months Ending 9/30/13**	**Interest Income Recognized For 9 months Ending 9/30/13**
	(Dollars in thousands)						
With no required reserve recorded:							
Construction and land development	**$**	**$**	**$**	**$**	**$**	**$**	**$**

Commercial and industrial	**264**	**294**		**239**	**390**		**1**
Commercial real estate	**218**	**218**		**126**	**133**		
Residential real estate	**254**	**263**		**260**	**145**		
Consumer							
Home equity							
Total	**$ 736**	**$ 775**	**$**	**$ 625**	**$ 668**	**$**	**$ 1**
With required reserve recorded:							
Construction and land development	**$ 1,500**	**$ 3,292**	**$ 1,000**	**$ 1,500**	**$ 1,500**	**$**	**$**
Commercial and industrial	**868**	**1,101**	**90**	**885**	**864**	**12**	**29**
Commercial real estate	**4,470**	**4,558**	**445**	**2,796**	**2,394**	**26**	**72**
Residential real estate	**897**	**979**	**139**	**901**	**853**		
Consumer							
Home equity	**95**	**95**	**95**	**95**	**96**		
Total	**$ 7,830**	**$ 10,025**	**$ 1,769**	**$ 6,177**	**$ 5,707**	**$ 38**	**$ 101**
Total:							
Construction and land development	**$ 1,500**	**$ 3,292**	**$ 1,000**	**$ 1,500**	**$ 1,500**	**$**	**$**
Commercial and industrial	**1,132**	**1,395**	**90**	**1,124**	**1,254**	**12**	**30**
Commercial real estate	**4,688**	**4,776**	**445**	**2,922**	**2,527**	**26**	**72**
Residential real estate	**1,151**	**1,242**	**139**	**1,161**	**998**		
Consumer							
Home equity	**95**	**95**	**95**	**95**	**96**		
Total	**$ 8,566**	**$ 10,800**	**$ 1,769**	**$ 6,802**	**$ 6,375**	**$ 38**	**$ 102**

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

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value for 3 Months Ending 9/30/12	Average Carrying Value for 9 Months Ending 9/30/12	Interest Income Recognized For 3 Months Ending 9/30/12	Interest Income Recognized For 9 months Ending 9/30/12
	(Dollars in thousands)						
With no required reserve recorded:							
Construction and land development	$	$	$	$	$ 450	$	$
Commercial and industrial	635	1,346		473	382		
Commercial real estate	172	200		174	178		
Residential real estate	31	31		218	152		
Consumer							
Home equity							
Total	$ 838	$ 1,577	$	$ 865	$ 1,162	$	$
With required reserve recorded:							
Construction and land development	$ 1,500	$ 3,292	$ 1,000	$ 1,500	$ 1,050	$	$
Commercial and industrial	1,247	1,295	455	1,745	1,492	12	35
Commercial real estate	2,130	2,170	434	2,138	3,027	40	84
Residential real estate	746	746	127	494	610	1	1
Consumer							
Home equity	97	97	97	73	29		
Total	$ 5,720	$ 7,600	$ 2,113	$ 5,950	$ 6,208	$ 53	$ 120
Total							
Construction and land development	$ 1,500	$ 3,292	$ 1,000	$ 1,500	$ 1,500	$	$
Commercial and industrial	1,882	2,641	455	2,218	1,874	12	35
Commercial real estate	2,302	2,370	434	2,312	3,205	40	84
Residential real estate	777	777	127	712	762	1	1
Consumer							
Home equity	97	97	97	73	29		
Total	$ 6,558	$ 9,177	$ 2,113	$ 6,815	$ 7,370	$ 53	$ 120

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

Troubled Debt Restructurings occurring during the three and nine month periods ended September 30, 2013:

	Number of Contracts (Dollars in thousands)	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Construction and land development	1	$ 108	$ 108
Commercial and industrial	1	41	41
Commercial real estate	1	2,247	2,242
Total	3	$ 2,396	$ 2,391

Troubled Debt Restructurings were identified as a modification in which a concession was granted to a customer who is having financial difficulties. This concession may be below market rate, longer amortization/term, and a lower payment amount. The present value calculation of the modification did not result in an increase in the allowance for these loans beyond any previously established allocations. There were no troubled debt restructurings that subsequently defaulted. The loans were modified, for the loans, by reducing interest rates as well as extending term for the commercial and industrial loan. The financial impact of the modifications for performing commercial and industrial loans were $366 reduction in principal and $217 reduction in interest payments for the quarter and year-to-date ended September 30, 2013 The financial impact of the modifications for performing commercial real estate loans were $1,786 increase in principal and $7,907 reduction in interest payments for the quarter and year-to-date ended September 30, 2013. The financial impact of the modifications for performing construction and land development loans were $530 reduction in principal and $415 reduction in interest payments for the quarter and year-to-date ended September 30, 2013.

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

Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**		**Affected line item in the Statement Where Net Income is Presented**
	Three months ended September 30, 2013	Nine months ended September 30, 2013	

Unrealized gains and losses on available-for-sale securities			
	$ 1,001	**$ 2,665**	Net Gains on sales of investments
	(387)	**(1,035)**	Provision for income taxes
	$ 614	**$ 1,630**	Net Income
Accretion of unrealized losses transferred			
	$ 1,485	**$ 1,485**	Securities held-to-maturity
	(575)	**(575)**	Provision for income taxes
	$ 910	**$ 910**	Net Income
Amortization of defined benefit pension items			
Prior-service costs	**$ (3)**	**$ (8)**	Salaries and employee benefits (b)
Actuarial gains (losses)	**(287)**	**(859)**	Salaries and employee benefits (b)
Total before tax	**(290)**	**(867)**	Income before taxes
Tax (expense) or benefit	**117**	**347**	Provision for income taxes
Net of tax	**$ (173)**	**$ (520)**	Net Income
Total reclassifications for the period	**$ 1,351**	**$ 2,020**	Net Income

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

Note 8. Earnings per Share (EPS)

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

Diluted EPS includes the dilutive effect of common stock equivalents; basic EPS excludes all common stock equivalents. The only common stock equivalents for the Company are the stock options discussed below. The dilutive effect of these stock options for the three months ended September 30, 2013 and 2012 was an increase of 1,451 and 1,305 shares, respectively. The dilutive effect of these stock options for the nine months ended September 30, 2013 and 2012 was an increase of 1,261 and 926 shares, respectively.

The following table is a reconciliation of basic EPS and diluted EPS for:

	Three months ended September 30,		Nine months ended September 30,	
	2013	**2012**	**2013**	**2012**
Basic EPS Computation:				
(in thousands except share and per share data)				
Numerator:				
Net income, Class A	**$ 4,324**	$ 4,441	**$ 11,760**	$ 11,142
Net income, Class B	**1,195**	1,241	**3,261**	3,119
Denominator:				
Weighted average shares outstanding, Class A	**3,578,400**	3,559,125	**3,574,109**	3,555,536
Weighted average shares outstanding, Class B	**1,978,180**	1,989,380	**1,982,413**	1,991,671
Basic EPS, Class A	**$ 1.21**	$ 1.25	**$ 3.29**	$ 3.13
Basic EPS, Class B	**0.60**	0.62	**1.64**	1.57
Diluted EPS Computation:				
Numerator:				
Net income, Class A	**$ 4,324**	$ 4,441	**$ 11,760**	$ 11,142
Net income, Class B	**1,195**	1,241	**3,261**	3,119
Total net income, for diluted EPS, Class A computation	**5,519**	5,682	**15,021**	14,261
Denominator:				
Weighted average shares outstanding, basic, Class A	**3,578,400**	3,559,125	**3,574,109**	3,555,536
Weighted average shares outstanding, Class B	**1,978,180**	1,989,380	**1,982,413**	1,991,671
Dilutive effect of Class A stock options	**1,451**	1,305	**1,261**	926
Weighted average shares outstanding diluted, Class A	**5,558,031**	5,549,810	**5,557,783**	5,548,133

Weighted average shares outstanding, Class B	**1,978,180**	1,989,380	**1,982,413**	1,991,671
Diluted EPS, Class A	**$ 0.99**	$ 1.02	**$ 2.70**	$ 2.57
Diluted EPS, Class B	**0.60**	0.62	**1.64**	1.57

Note 9. Employee Benefits

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

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

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Executive officers of the Company and its subsidiaries who have at least one year of service may participate in the Supplemental Plan. The Supplemental Plan is voluntary and participants are required to contribute to its cost. Life insurance policies, which are owned by the Company, are purchased covering the lives of each participant.

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

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2013	**2012**	**2013**	**2012**
	(In thousands)			
Service cost	**$ 299**	$ 274	**$ 381**	$ 355
Interest	**314**	323	**267**	231
Expected return on plan assets	**(470)**	(410)		
Recognized prior service cost (benefit)	**(26)**	(26)	**29**	29
Recognized net actuarial losses	**158**	184	**129**	84
Net periodic benefit cost	**$ 275**	$ 345	**$ 806**	$ 699

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

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2013	**2012**	**2013**	**2012**
	(In thousands)			
Service cost	**$ 897**	$ 822	**$ 1,144**	$ 1,066
Interest	**942**	970	**803**	693
Expected return on plan assets	**(1,410)**	(1,230)		
Recognized prior service cost (benefit)	**(78)**	(78)	**86**	87
Recognized net actuarial losses	**473**	553	**386**	252
Net periodic benefit cost	**$ 824**	$ 1,037	**$ 2,419**	$ 2,098

Contributions

The Company currently intends to contribute $1,800,000 to the Pension Plan in 2013. As of September 30, 2013, $1,350,000 of the contribution had been made. The Company expects to contribute an additional $450,000 by the end of the year. Also, an additional $2,819,000 was contributed to the Pension Plan during the first quarter of 2013 to reduce variable annual premiums payable to Pension Benefit Guarantee Corporation.

Note 10. Fair Value Measurements

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

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

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

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

The results of the fair value hierarchy as of September 30, 2013, are as follows:

Financial Instruments Measured at Fair Value on a Recurring Basis:

	Securities AFS Fair Value Measurements Using			
	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
	(In thousands)			
U.S. Treasury	**$ 1,996**	**$**	**$ 1,996**	**$**
U.S. Government Sponsored Enterprises	**9,998**		**9,998**	
SBA Backed Securities	**7,431**		**7,431**	
U.S. Government Agency and Sponsored Mortgage Backed Securities	**429,309**		**429,309**	
Privately Issued Residential Mortgage Backed Securities	**2,418**		**2,418**	
Obligations Issued by States and Political Subdivisions	**41,013**		**825**	**40,188**
Other Debt Securities	**2,189**		**2,189**	
Equity Securities	**547**	**256**		**291**
Total	**$ 494,901**	**$ 256**	**$ 454,166**	**$ 40,479**

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

Impaired Loans	**2,967**	**2,967**

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

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Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management s estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis or other type of real estate tax assessment. The types of adjustments that are made to specific provisions (credits) relate to impaired loans recognized for the three and nine-month periods ended September 30, 2013 amounted to ($14,000) and ($212,000), respectively.

There were no transfers between level 1 and 2 for the nine months ended September 30, 2013. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the nine month period ended September 30, 2013.

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

Asset	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Securities AFS (4)	$ 40,479	Discounted cash flow (DCF) unless maturity is one year or less	Discount rate	**0%-1% (3)**
Impaired Loans	2,967	Appraisal of collateral/ DCF/assessments (1)	Appraisal adjustments/ DCF assessment Adjustments (2)	**0%-25% discount**

(1) Fair value is generally determined through a review process that includes independent appraisals, discounted cash flows, or other real estate tax assessed value of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

(2) Appraisals, real estate tax assessed values or discounted cash flows may be adjusted by management for qualitative factors such as economic conditions and estimated expenses.

(3) Weighted averages

(4) Municipal securities generally have maturities of one year or less and, therefore, the amortized cost equates to the fair value.

The changes in Level 3 securities for the nine-month period ended September 30, 2013 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total

	(In thousands)			
Balance at December 31, 2012	**$ 3,963**	**$ 49,477**	**$ 342**	**$ 53,782**
Purchases		**43,807**		**43,807**
Maturities and calls		**(57,036)**	**(51)**	**(57,087)**
Amortization		**(23)**		**(23)**
Balance at September 30, 2013	**$ 3,963**	**$ 36,225**	**$ 291**	**$ 40,479**

The amortized cost of Level 3 securities was $41,204,000 at September 30, 2013 with an unrealized loss of $725,000. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

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

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions	Equity Securities	Total
		(In thousands)		
Balance at December 31, 2011	$ 3,725	$ 14,772	$ 417	$ 18,914
Purchases		79,588		79,588
Maturities and calls		(34,333)	(75)	(34,408)
Amortization		(33)		(33)
Balance at September 30, 2012	$ 3,725	$ 59,994	$ 342	$ 64,061

The amortized cost of Level 3 securities was $65,020,000 at September 30, 2012 with an unrealized loss of $960,000. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

Note 11. Fair Values of Financial Instruments

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

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

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

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

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

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

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

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

The following presents (in thousands) the carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company s financial instruments as of September 30, 2013 and December 31, 2012. This table excludes financial instruments for which the carrying amount approximates fair value. Financial assets for which the fair value approximates carrying value include cash and cash equivalents, short-term investments, FHLBB stock and accrued interest receivable. Financial liabilities for which the fair value approximates carrying value include non-maturity deposits, short-term borrowings and accrued interest payable.

			Fair Value Measurements		
(In thousands)	**Carrying Amount**	**Estimated Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
September 30, 2013					
Financial assets:					
Securities held-to-maturity	**$ 1,374,712**	**$ 1,371,118**	**$**	**$ 1,371,118**	**$**
Loans (1)	**1,231,048**	**1,192,233**			**1,192,233**
Financial liabilities:					
Time deposits	**351,550**	**354,472**		**354,472**	
Other borrowed funds	**241,144**	**243,662**		**243,662**	
Subordinated debentures	**36,083**	**40,700**			