

CENTURY BANCORP INC  
Form 10-Q  
November 08, 2018  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2018.**

**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**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**04-2498617**  
**(I.R.S. Employer**  
**Identification No.)**

**400 MYSTIC AVENUE, MEDFORD, MA**  
**(Address of principal executive offices)**  
**(781) 391-4000**

**02155**  
**(Zip Code)**

**(Registrant's telephone number, including area code)**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).      Yes      No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

(Check one):

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 31, 2018, the Registrant had outstanding:

Class A Common Stock, \$1.00 par value	3,608,329 Shares
Class B Common Stock, \$1.00 par value	1,959,580 Shares



**Table of Contents****Century Bancorp, Inc.****Index**

	<b>Page Number</b>
<b>Part I</b>	
Financial Information	
<u>Forward Looking Statements</u>	3
Item 1. <u>Financial Statements (unaudited)</u>	
Consolidated Balance Sheets:	
<u>September 30, 2018 and December 31, 2017</u>	4
Consolidated Statements of Income:	
<u>Three Months and Nine Months Ended September 30, 2018 and 2017</u>	5
Consolidated Statements of Comprehensive Income:	
<u>Three Months and Nine Months Ended September 30, 2018 and 2017</u>	6
Consolidated Statements of Changes in Stockholders' Equity:	
<u>Nine Months Ended September 30, 2018 and 2017</u>	7
Consolidated Statements of Cash Flows:	
<u>Nine Months Ended September 30, 2018 and 2017</u>	8
<u>Notes to Consolidated Financial Statements</u>	9-33
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34-45
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	45
Item 4. <u>Controls and Procedures</u>	45
<b>Part II.</b>	
Other Information	
Item 1. <u>Legal Proceedings</u>	46
Item 1A. <u>Risk Factors</u>	46
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	46
Item 3. <u>Defaults Upon Senior Securities</u>	46
Item 4. <u>Mine Safety Disclosures</u>	46
Item 5. <u>Other Information</u>	46
Item 6. <u>Exhibits</u>	47
<u>Signatures</u>	48
<u>Exhibits</u>	
Ex-31.1	
Ex-31.2	
Ex-32.1	
Ex-32.2	
Ex-101 Instance Document	
Ex-101 Schema Document	
Ex-101 Calculation Linkbase Document	
Ex-101 Labels Linkbase Document	
Ex-101 Presentation Linkbase Document	
Ex-101 Definition Linkbase Document	

**Table of Contents**

**Forward Looking Statements**

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

**Table of Contents****PART I Item 1****Century Bancorp, Inc.****Consolidated Balance Sheets (unaudited)****(In thousands, except share data)**

<b>Assets</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Cash and due from banks	\$ 68,945	\$ 77,199
Federal funds sold and interest-bearing deposits in other banks	142,345	279,231
<b>Total cash and cash equivalents</b>	<b>211,290</b>	<b>356,430</b>
Securities available-for-sale, amortized cost \$366,385 and \$395,947, respectively	366,503	395,831
Securities held-to-maturity, fair value \$1,795,117 and \$1,668,827, respectively	1,875,752	1,701,233
Federal Home Loan Bank of Boston, stock at cost	22,743	21,779
Equity securities, amortized cost \$1,616 and \$1,616, respectively	1,616	1,663
Loans, net:		
Construction and land development	12,434	18,931
Commercial and industrial	783,960	763,807
Municipal	94,532	106,599
Commercial real estate	730,265	732,491
Residential real estate	335,114	287,731
Consumer	20,677	18,458
Home equity	283,818	247,345
Overdrafts	539	582
<b>Total loans, net</b>	<b>2,261,339</b>	<b>2,175,944</b>
Less: allowance for loan losses	28,545	26,255
<b>Net loans</b>	<b>2,232,794</b>	<b>2,149,689</b>
Bank premises and equipment	24,023	23,527
Accrued interest receivable	12,878	11,179
Goodwill	2,714	2,714
Other assets	120,110	121,527
<b>Total assets</b>	<b>\$ 4,870,423</b>	<b>\$ 4,785,572</b>
<b>Liabilities</b>		
Deposits:		
Demand deposits	\$ 731,095	\$ 736,020
Savings and NOW deposits	1,359,334	1,367,358
Money market accounts	1,294,092	1,188,228
Time deposits	579,886	625,361

Total deposits	<b>3,964,407</b>	3,916,967
Securities sold under agreements to repurchase	<b>140,490</b>	158,990
Other borrowed funds	<b>372,606</b>	347,778
Subordinated debentures	<b>36,083</b>	36,083
Due to broker	<b>897</b>	
Other liabilities	<b>69,063</b>	65,457
<b>Total liabilities</b>	<b>4,583,546</b>	4,525,275
<b>Stockholders Equity</b>		
Preferred Stock \$1.00 par value; 100,000 shares authorized; no shares issued and outstanding		
Common stock, Class A, \$1.00 par value per share; authorized 10,000,000 shares; issued 3,608,329 shares and 3,605,829 shares, respectively	<b>3,608</b>	3,606
Common stock, Class B, \$1.00 par value per share; authorized 5,000,000 shares; issued 1,959,580 shares and 1,962,080 shares respectively	<b>1,960</b>	1,962
Additional paid-in capital	<b>12,292</b>	12,292
Retained earnings	<b>292,114</b>	263,666
	<b>309,974</b>	281,526
Unrealized losses on securities available-for-sale, net of taxes	<b>92</b>	(62)
Unrealized losses on securities transferred to held-to-maturity, net of taxes	<b>(2,779)</b>	(3,050)
Pension liability, net of taxes	<b>(20,410)</b>	(18,117)
Total accumulated other comprehensive loss, net of taxes	<b>(23,097)</b>	(21,229)
<b>Total stockholders equity</b>	<b>286,877</b>	260,297
Total liabilities and stockholders equity	<b>\$ 4,870,423</b>	\$ 4,785,572

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

## Century Bancorp, Inc.

## Consolidated Statements of Income (unaudited)

(In thousands, except share data)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
<b>Interest income</b>				
Loans	\$ 20,167	\$ 16,658	\$ 57,613	\$ 48,668
Securities held-to-maturity	11,507	9,447	32,930	28,806
Securities available-for-sale	2,500	1,809	6,821	5,143
Federal funds sold and interest-bearing deposits in other banks	591	607	2,239	1,349
<b>Total interest income</b>	<b>34,765</b>	<b>28,521</b>	<b>99,603</b>	<b>83,966</b>
<b>Interest expense</b>				
Savings and NOW deposits	2,972	1,727	7,778	4,454
Money market accounts	3,652	1,395	9,039	3,903
Time deposits	2,571	2,095	7,465	5,648
Securities sold under agreements to repurchase	288	129	657	352
Other borrowed funds and subordinated debentures	2,078	1,822	5,793	5,695
<b>Total interest expense</b>	<b>11,561</b>	<b>7,168</b>	<b>30,732</b>	<b>20,052</b>
<b>Net interest income</b>	<b>23,204</b>	<b>21,353</b>	<b>68,871</b>	<b>63,914</b>
Provision for loan losses		450	900	1,340
<b>Net interest income after provision for loan losses</b>	<b>23,204</b>	<b>20,903</b>	<b>67,971</b>	<b>62,574</b>
<b>Other operating income</b>				
Service charges on deposit accounts	2,137	2,089	6,268	6,179
Lockbox fees	892	735	2,304	2,367
Net gains on sales of securities	105	47	302	47
Gains on sales of mortgage loans				370
Other income	1,035	1,071	3,210	3,179
<b>Total other operating income</b>	<b>4,169</b>	<b>3,942</b>	<b>12,084</b>	<b>12,142</b>
<b>Operating expenses</b>				
Salaries and employee benefits	10,570	9,933	32,331	31,097
Occupancy	1,481	1,427	4,579	4,663
Equipment	781	782	2,355	2,245
FDIC assessments	368	340	1,110	1,218
Other	4,148	3,723	12,133	11,904



Total operating expenses	<b>17,348</b>	16,205	<b>52,508</b>	51,127
Income before income taxes	<b>10,025</b>	8,640	<b>27,547</b>	23,589
Provision for income taxes	<b>444</b>	617	<b>1,259</b>	1,313
Net income	<b>\$ 9,581</b>	\$ 8,023	<b>\$ 26,288</b>	\$ 22,276

## Share data:

Weighted average number of shares outstanding, basic				
Class A	<b>3,608,329</b>	3,605,829	<b>3,608,129</b>	3,603,429
Class B	<b>1,959,580</b>	1,962,080	<b>1,959,780</b>	1,964,480
Weighted average number of shares outstanding, diluted				
Class A	<b>5,567,909</b>	5,567,909	<b>5,567,909</b>	5,567,909
Class B	<b>1,959,580</b>	1,962,080	<b>1,959,780</b>	1,964,480
Basic earnings per share:				
Class A	<b>\$ 2.09</b>	\$ 1.75	<b>\$ 5.73</b>	\$ 4.86
Class B	<b>\$ 1.04</b>	\$ 0.87	<b>\$ 2.86</b>	\$ 2.43
Diluted earnings per share				
Class A	<b>\$ 1.72</b>	\$ 1.44	<b>\$ 4.72</b>	\$ 4.00
Class B	<b>\$ 1.04</b>	\$ 0.87	<b>\$ 2.86</b>	\$ 2.43

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

## Century Bancorp, Inc.

## Consolidated Statements of Comprehensive Income (unaudited)

(In thousands)

	Three months ended September 30,	
	2018	2017
Net income	\$ 9,581	\$ 8,023
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized (losses) gains arising during period	(88)	122
Less: reclassification adjustment for gains included in net income	(76)	(28)
Total unrealized (losses) gains on securities	(164)	94
Accretion of net unrealized losses transferred	238	223
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	292	233
Other comprehensive income	366	550
Comprehensive income	\$ 9,947	\$ 8,573

	Nine months ended September 30,	
	2018	2017
Net income	\$ 26,288	\$ 22,276
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities:		
Unrealized (losses) gains arising during period	412	455
Less: reclassification adjustment for gains included in net income	(217)	(28)
Total unrealized (losses) gains on securities	195	427
Accretion of net unrealized losses transferred	872	856
Defined benefit pension plans:		
Amortization of prior service cost and loss included in net periodic benefit cost	877	698
Other comprehensive income	1,944	1,981
Comprehensive income	\$ 28,232	\$ 24,257

See accompanying notes to unaudited consolidated interim financial statements.



Table of Contents

## Century Bancorp, Inc.

## Consolidated Statements of Changes in Stockholders' Equity (unaudited)

For the Nine Months Ended September 30, 2018 and 2017

	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, 2016	\$ 3,601	\$ 1,967	\$ 12,292	\$ 243,565	\$ (21,384)	\$ 240,041
Net income				22,276		22,276
Other comprehensive income, net of tax:						
Unrealized holding (losses) gains arising during period, net of \$282 in taxes and \$47 in realized gains					427	427
Accretion of unrealized losses on securities transferred to held-to-maturity, net of \$1,022 in taxes					856	856
Pension liability adjustment, net of \$465 in taxes					698	698
Conversion of Class B Common Stock to Class A Common Stock, 5,100 shares	5	(5)				
Cash dividends paid, Class A common stock, \$.36 per share				(1,297)		(1,297)
Cash dividends paid, Class B common stock, \$.18 per share				(353)		(353)
Balance at September 30, 2017	\$ 3,606	\$ 1,962	\$ 12,292	\$ 264,191	\$ (19,403)	\$ 262,648
<b>Balance at December 31, 2017</b>	<b>\$ 3,606</b>	<b>\$ 1,962</b>	<b>\$ 12,292</b>	<b>\$ 263,666</b>	<b>\$ (21,229)</b>	<b>\$ 260,297</b>
<b>Net income</b>				<b>26,288</b>		<b>26,288</b>
<b>Other comprehensive income, net of tax:</b>						
<b>Unrealized holding (losses) gains arising during period, net of \$39 in taxes, and \$302 in realized gains</b>					<b>195</b>	<b>195</b>
<b>Accretion of unrealized losses on securities transferred to held-to-maturity, net of \$314 in taxes</b>					<b>872</b>	<b>872</b>

<b>Pension liability adjustment, net of \$342 in taxes</b>						<b>877</b>	<b>877</b>
<b>Adoption of ASU 2018-2, Income Statement Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from AOCI</b>				<b>3,783</b>		<b>(3,783)</b>	
<b>Adoption of ASU 2016-1, Financial Instruments Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities</b>				<b>29</b>		<b>(29)</b>	
<b>Conversion of Class B Common Stock to Class A Common Stock, 2,500 shares</b>	<b>2</b>	<b>(2)</b>					
<b>Cash dividends paid, Class A common stock, \$.36 per share</b>				<b>(1,299)</b>			<b>(1,299)</b>
<b>Cash dividends paid, Class B common stock, \$.18 per share</b>				<b>(353)</b>			<b>(353)</b>
<b>Balance at September 30, 2018</b>	<b>\$ 3,608</b>	<b>\$ 1,960</b>	<b>\$ 12,292</b>	<b>\$ 292,114</b>	<b>\$</b>	<b>(23,097)</b>	<b>\$ 286,877</b>

See accompanying notes to unaudited consolidated interim financial statements.

Table of Contents

## Century Bancorp, Inc.

## Consolidated Statements of Cash Flows (unaudited)

For the Nine Months Ended September 30, 2018 and 2017

	Nine months ended September 30,	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 26,288	\$ 22,276
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sales of mortgage loans		(370)
Net gains on sales of securities	(302)	(47)
Net loss on equity securities	47	
Provision for loan losses	900	1,340
Deferred income taxes	(1,270)	(3,477)
Net depreciation and amortization	1,116	2,444
Increase in accrued interest receivable	(1,699)	(281)
Decrease (increase) in other assets	1,542	(1,478)
Increase in other liabilities	4,825	4,076
Net cash provided by operating activities	31,447	24,483
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from maturities of short-term investments		3,183
Proceeds from redemptions of Federal Home Loan Bank of Boston stock	13,619	7,175
Purchase of Federal Home Loan Bank of Boston stock	(14,583)	(8,070)
Proceeds from calls/maturities of securities available-for-sale	111,922	211,576
Proceeds from sales of securities available-for-sale	27,517	18,133
Purchase of securities available-for-sale	(108,871)	(111,777)
Proceeds from calls/maturities of securities held-to-maturity	187,009	231,953
Purchase of securities held-to-maturity	(358,824)	(230,813)
Proceeds from life insurance policies	375	
Net increase in loans	(83,967)	(215,063)
Proceeds from sales of portfolio loans		26,701
Capital expenditures	(2,900)	(2,881)
Net cash used in investing activities	(228,703)	(69,883)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net (decrease) increase in time deposits	(45,475)	128,920
Net (decrease) increase in demand, savings, money market and NOW deposits	92,915	(176,456)
Cash dividends	(1,652)	(1,650)
Net (decrease) increase in securities sold under agreements to repurchase	(18,500)	46,568
Net increase in other borrowed funds	24,828	65,000

Net cash provided by financing activities	<b>52,116</b>	62,382
Net (decrease) increase in cash and cash equivalents	<b>(145,140)</b>	16,982
Cash and cash equivalents at beginning of period	<b>356,430</b>	236,151
Cash and cash equivalents at end of period	<b>\$ 211,290</b>	\$ 253,133

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest	<b>\$ 30,680</b>	\$ 20,255
Income taxes	<b>590</b>	4,830
Change in unrealized gains (losses) on securities available-for-sale, net of taxes	<b>195</b>	427
Change in unrealized losses on securities transferred to held-to-maturity, net of taxes	<b>872</b>	856
Pension liability adjustment, net of taxes	<b>877</b>	698
Change in due to (from) to broker	<b>897</b>	5,911

See accompanying notes to unaudited consolidated interim financial statements.

---

**Table of Contents**

**Century Bancorp, Inc.**

**Notes to Unaudited Consolidated Interim Financial Statements**

**Nine Months Ended September 30, 2018 and 2017**

**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, New Hampshire, Rhode Island, Connecticut, and New York. 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, 2017, as filed with the Securities and Exchange Commission.

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



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

**Table of Contents****Note 2. Securities Available-for-Sale**

	September 30, 2018				December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	\$ 1,999	\$	\$ 13	\$ 1,986	\$ 1,999	\$	\$ 15	\$ 1,984
U.S. Government Sponsored Enterprises	3,942		53	3,889				
SBA Backed Securities	71,417		293	71,124	81,065	46	161	80,950
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	168,760	666	211	169,215	225,537	556	317	225,776
Privately Issued Residential Mortgage-Backed Securities	720	4	9	715	897	4	9	892
Obligations Issued by States and Political Subdivisions	115,947	62		116,009	82,849		249	82,600
Other Debt Securities	3,600	21	56	3,565	3,600	68	39	3,629
<b>Total</b>	<b>\$ 366,385</b>	<b>\$ 753</b>	<b>\$ 635</b>	<b>\$ 366,503</b>	<b>\$ 395,947</b>	<b>\$ 674</b>	<b>\$ 790</b>	<b>\$ 395,831</b>

Included in SBA Backed Securities, 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 \$210,362,000 and \$216,353,000 at September 30, 2018 and December 31, 2017, respectively. Also included in securities available-for-sale are securities at fair value pledged for borrowing at the Federal Home Loan Bank of Boston amounting to \$35,852,000 and \$67,780,000 at September 30, 2018 and December 31, 2017, respectively. The Company realized gross gains of \$302,000 from the proceeds of \$27,517,000 from the sales of available-for-sale securities for the nine months ended September 30, 2018. The Company realized gross gains of \$47,000 from the proceeds of \$18,133,000 from the sales of available-for-sales securities for the nine months ended September 30, 2017.

Debt securities of U.S. Government Sponsored Enterprises and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities 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, 2018.

	Amortized Cost	Fair Value
Within one year	\$ 115,302	\$ 115,282
After one but within five years	60,862	60,682
After five but within ten years	156,425	156,782

More than 10 years	33,796	33,757
<b>Total</b>	<b>\$ 366,385</b>	<b>\$ 366,503</b>

The weighted average remaining life of investment securities available-for-sale at September 30, 2018 was 4.9 years. Included in the weighted average remaining life calculation at September 30, 2018 were \$3,942,000 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.

**Table of Contents**

As of September 30, 2018 and December 31, 2017, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not more likely than not that it will be required to sell these debt securities before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered that the principal and interest on these securities are from issuers that are investment grade.

The unrealized loss on U.S. Treasury, SBA Backed Securities, U.S. Government Sponsored Enterprises, U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities, Privately Issued Residential Mortgage-Backed Securities, Obligations Issued by States and Political Subdivisions, and Other Debt Securities, related primarily to interest rates and not credit quality, and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired.

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

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at September 30, 2018. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for less than 12 months and a continuous loss position for 12 months or longer. There are 13 and 25 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 195 holdings at September 30, 2018.

Temporarily Impaired Investments	September 30, 2018					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
U.S. Treasury	\$	\$	\$ 1,986	\$ 13	\$ 1,986	\$ 13
U.S. Government Sponsored Enterprises	3,889	53			3,889	53
SBA Backed Securities	25,567	42	45,557	251	71,124	293
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	31,311	60	26,032	151	57,343	211
Privately Issued Residential Mortgage-Backed Securities			524	9	524	9
Obligations Issued by States and Political Subdivisions						
Other Debt Securities			744	56	744	56

**Total temporarily impaired securities**            **\$ 60,767**   **\$ 155**   **\$ 74,843**   **\$ 480**   **\$ 135,610**   **\$ 635**

**Table of Contents**

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2017. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for less than 12 months and a continuous loss position for 12 months or longer. There are 16 and 28 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 249 holdings at December 31, 2017.

Temporarily Impaired Investments	December 31, 2017					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
U.S. Treasury	\$ 1,984	\$ 15	\$	\$	\$ 1,984	\$ 15
U.S. Government Sponsored Enterprises						
SBA Backed Securities	18,378	54	40,911	107	59,289	161
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	40,394	123	59,336	194	99,730	317
Privately Issued Residential Mortgage-Backed Securities			633	9	633	9
Obligations Issued by States and Political Subdivisions			4,458	249	4,458	249
Other Debt Securities	400	1	461	38	861	39
Total temporarily impaired securities	\$ 61,156	\$ 193	\$ 105,799	\$ 597	\$ 166,955	\$ 790

**Note 3. Investment Securities Held-to-Maturity**

	September 30, 2018				December 31, 2017			
	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. Treasury	\$ 9,903	\$	\$ 3	\$ 9,900	\$	\$	\$	\$
U.S. Government Sponsored Enterprises	167,968		2,152	165,816	104,653	341	472	104,522
SBA Backed Securities	53,576		2,759	50,817	57,235	20	1,271	55,984
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	1,644,305	139	75,860	1,568,584	1,539,345	2,261	33,285	1,508,321

Total	<b>\$ 1,875,752</b>	<b>\$ 139</b>	<b>\$ 80,774</b>	<b>\$ 1,795,117</b>	\$ 1,701,233	\$ 2,622	\$ 35,028	\$ 1,668,827
-------	---------------------	---------------	------------------	---------------------	--------------	----------	-----------	--------------

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to \$1,267,793,000 and \$1,262,708,000 at September 30, 2018 and December 31, 2017, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank of Boston at fair value amounting to \$515,979,000 and \$382,120,000 at September 30, 2018 and December 31, 2017, respectively. There were no sales of held-to-maturity securities for the nine months ended September 30, 2018 and September 30, 2017 respectively.

At September 30, 2018 and December 31, 2017, all mortgage-backed securities are obligations of U.S. Government Agencies and Government Sponsored Enterprises. Debt securities of U.S. Government Sponsored Enterprises and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities primarily refer to debt securities of Fannie Mae and Freddie Mac.

**Table of Contents**

The following table shows the maturity distribution of the Company's securities held-to-maturity at September 30, 2018.

	Amortized Cost	Fair Value
	(in thousands)	
<b>Within one year</b>	\$ 39,091	\$ 38,932
<b>After one but within five years</b>	1,210,561	1,163,813
<b>After five but within ten years</b>	622,996	589,508
<b>More than ten years</b>	3,104	2,864
<b>Total</b>	<b>\$ 1,875,752</b>	<b>\$ 1,795,117</b>

The weighted average remaining life of investment securities held-to-maturity at September 30, 2018 was 4.5 years. Included in the weighted average remaining life calculation at September 30, 2018 were \$82,990,000 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, 2018 and December 31, 2017, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not likely that it will be required to sell these debt securities before the anticipated recovery of their remaining amortized costs. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade.

The unrealized loss on U.S. Government Sponsored Enterprises, SBA Backed Securities, and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities related primarily to the rise in 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 September 30, 2018 and December 31, 2017.

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 September 30, 2018. 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 or longer. There are 176 and 232 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 446 holdings at September 30, 2018.

September 30, 2018	Total
12 Months or Longer	



Temporarily Impaired Investments	Less Than 12 Months		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	Fair Value	Unrealized Losses				
			(in thousands)			
U.S. Treasury	\$ 9,900	\$ 3	\$	\$	\$ 9,900	\$ 3
U.S. Government Sponsored Enterprises	135,760	1,171	29,517	981	165,277	2,152
SBA Backed Securities	2,487	75	48,330	2,684	50,817	2,759
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	557,866	13,733	997,268	62,127	1,555,134	75,860
<b>Total temporarily impaired securities</b>	<b>\$ 706,013</b>	<b>\$ 14,982</b>	<b>\$ 1,075,115</b>	<b>\$ 65,792</b>	<b>\$ 1,781,128</b>	<b>\$ 80,774</b>

**Table of Contents**

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2017. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for less than 12 months and a continuous loss position for 12 months or longer. There are 117 and 168 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 404 holdings at December 31, 2017.

Temporarily Impaired Investments	Less Than 12 Months		December 31, 2017 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
U.S. Government Sponsored Enterprises	\$ 15,257	\$ 239	\$ 14,768	\$ 233	\$ 30,025	\$ 472
SBA Backed Securities	19,457	142	33,750	1,129	53,207	1,271
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	519,481	5,920	814,712	27,365	1,334,193	33,285
Total temporarily impaired securities	\$ 554,195	\$ 6,301	\$ 863,230	\$ 28,727	\$ 1,417,425	\$ 35,028

**Note 4. Allowance for Loan Losses**

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

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,	
	2018	2017	2018	2017
	(in thousands)			
Allowance for loan losses, beginning of period	\$ 27,144	\$ 25,289	\$ 26,255	\$ 24,406
Loans charged off	(89)	(95)	(247)	(292)
Recoveries on loans previously charged-off	1,490	54	1,637	244
Net recoveries (charge-offs)	1,401	(41)	1,390	(48)
Provision charged to expense		450	900	1,340
Allowance for loan losses, end of period	\$ 28,545	\$ 25,698	\$ 28,545	\$ 25,698

**Table of Contents**

Further information pertaining to the allowance for loan losses for the three months ending September 30, 2018 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
(in thousands)									
<b>Allowance for loan losses:</b>									
<b>Balance at June 30, 2018</b>	\$ 633	\$ 10,384	\$ 1,704	\$ 10,209	\$ 2,493	\$ 336	\$ 1,078	\$ 307	\$ 27,144
<b>Charge-offs</b>		(11)				(78)			(89)
<b>Recoveries</b>	1,432	16				42			1,490
<b>Provision</b>	(1,155)	895	84	415	(182)	32	(28)	(61)	
<b>Ending balance at September 30, 2018</b>	\$ 910	\$ 11,284	\$ 1,788	\$ 10,624	\$ 2,311	\$ 332	\$ 1,050	\$ 246	\$ 28,545
<b>Amount of allowance for loan losses for loans deemed to be impaired</b>	\$	\$ 93	\$	\$ 95	\$ 350	\$	\$	\$	\$ 538
<b>Amount of allowance for loan losses for loans not deemed to be impaired</b>	\$ 910	\$ 11,191	\$ 1,788	\$ 10,529	\$ 1,961	\$ 332	\$ 1,050	\$ 246	\$ 28,007
<b>Loans:</b>									
<b>Ending balance</b>	\$ 12,434	\$ 783,960	\$ 94,532	\$ 730,265	\$ 335,114	\$ 21,216	\$ 283,818	\$	\$ 2,261,339
<b>Loans deemed to be impaired</b>	\$	\$ 660	\$	\$ 2,680	\$ 2,675	\$	\$	\$	\$ 6,015
<b>Loans not deemed to be impaired</b>	\$ 12,434	\$ 783,300	\$ 94,532	\$ 727,585	\$ 332,439	\$ 21,216	\$ 283,818	\$	\$ 2,255,324

Further information pertaining to the allowance for loan losses for the nine months ending September 30, 2018 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
(in thousands)									
<b>Allowance for loan losses:</b>									
<b>Balance at December 31, 2017</b>	\$ 1,645	\$ 9,651	\$ 1,720	\$ 9,728	\$ 1,873	\$ 373	\$ 989	\$ 276	\$ 26,255
<b>Charge-offs</b>		(16)				(231)			(247)

<b>Recoveries</b>	<b>1,432</b>	<b>49</b>				<b>156</b>				<b>1,637</b>
<b>Provision</b>	<b>(2,167)</b>	<b>1,600</b>	<b>68</b>	<b>896</b>	<b>438</b>	<b>34</b>	<b>61</b>	<b>(30)</b>		<b>900</b>
<b>Ending balance at September 30, 2018</b>	<b>\$ 910</b>	<b>\$ 11,284</b>	<b>\$ 1,788</b>	<b>\$ 10,624</b>	<b>\$ 2,311</b>	<b>\$ 332</b>	<b>\$ 1,050</b>	<b>\$ 246</b>		<b>\$ 28,545</b>
<b>Amount of allowance for loan losses for loans deemed to be impaired</b>	<b>\$</b>	<b>\$ 93</b>	<b>\$</b>	<b>\$ 95</b>	<b>\$ 350</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>		<b>\$ 538</b>
<b>Amount of allowance for loan losses for loans not deemed to be impaired</b>	<b>\$ 910</b>	<b>\$ 11,191</b>	<b>\$ 1,788</b>	<b>\$ 10,529</b>	<b>\$ 1,961</b>	<b>\$ 332</b>	<b>\$ 1,050</b>	<b>\$ 246</b>		<b>\$ 28,007</b>
<b>Loans:</b>										
<b>Ending balance</b>	<b>\$ 12,434</b>	<b>\$ 783,960</b>	<b>\$ 94,532</b>	<b>\$ 730,265</b>	<b>\$ 335,114</b>	<b>\$ 21,216</b>	<b>\$ 283,818</b>	<b>\$</b>		<b>\$ 2,261,339</b>
<b>Loans deemed to be impaired</b>	<b>\$</b>	<b>\$ 660</b>	<b>\$</b>	<b>\$ 2,680</b>	<b>\$ 2,675</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>		<b>\$ 6,015</b>
<b>Loans not deemed to be impaired</b>	<b>\$ 12,434</b>	<b>\$ 783,300</b>	<b>\$ 94,532</b>	<b>\$ 727,585</b>	<b>\$ 332,439</b>	<b>\$ 21,216</b>	<b>\$ 283,818</b>	<b>\$</b>		<b>\$ 2,255,324</b>

During the nine months ending September 30, 2018, the Company's provision was primarily attributable to an increase in residential real estate balances and increased qualitative allocations for commercial and industrial and commercial real estate loans, offset, somewhat by the recovery of a construction loan previously charged-off and a decrease in construction balances. During the three months ending September 30, 2018, the Company did not require a provision mainly as a result of recoveries of a construction loan previously charged-off and a decrease in construction loan balances offset by increased qualitative allocations for commercial and industrial and commercial real estate loans. The Company monitors the outlook for the industries in which our borrowers operate. Healthcare and higher education are two of the primary industries. In particular the Company utilizes outlooks and forecasts from various sources. Overall a general weakening in the outlook was noted resulting in a general increase in the general economic factors. The Company also monitors the volatility of the losses within the historical data.

**Table of Contents**

Further information pertaining to the allowance for loan losses for the three months ending September 30, 2017 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
Allowance for loan losses:	(in thousands)								
Balance at June 30, 2017	\$ 1,137	\$ 7,563	\$ 1,859	\$ 11,028	\$ 2,118	\$ 195	\$ 1,146	\$ 243	\$ 25,289
Charge-offs		(20)				(75)			(95)
Recoveries		9				45			54
Provision	323	1,297	265	(1,491)	(45)	220	(103)	(16)	450
Ending balance at September 30, 2017	\$ 1,460	\$ 8,849	\$ 2,124	\$ 9,537	\$ 2,073	\$ 385	\$ 1,043	\$ 227	\$ 25,698
Amount of allowance for loan losses for loans deemed to be impaired	\$	\$ 8	\$	\$ 111	\$ 67	\$	\$	\$	\$ 186
Amount of allowance for loan losses for loans not deemed to be impaired	\$ 1,460	\$ 8,841	\$ 2,124	\$ 9,426	\$ 2,006	\$ 385	\$ 1,043	\$ 227	\$ 25,512
Loans:									
Ending balance	\$ 16,779	\$ 702,646	\$ 128,412	\$ 735,844	\$ 272,588	\$ 19,284	\$ 237,094	\$	\$ 2,112,647
Loans deemed to be impaired	\$	\$ 366	\$	\$ 2,583	\$ 4,318	\$	\$	\$	\$ 7,267
Loans not deemed to be impaired	\$ 16,779	\$ 702,280	\$ 128,412	\$ 733,261	\$ 268,270	\$ 19,284	\$ 237,094	\$	\$ 2,105,380

Further information pertaining to the allowance for loan losses for the nine months ending September 30, 2017 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
Allowance for loan losses:	(in thousands)								
Balance at December 31, 2016	\$ 1,012	\$ 6,972	\$ 1,612	\$ 11,135	\$ 1,698	\$ 582	\$ 1,102	\$ 293	\$ 24,406
Charge-offs		(49)				(243)			(292)
Recoveries		63			2	179			244
Provision	448	1,863	512	(1,598)	373	(133)	(59)	(66)	1,340
Ending balance at September 30, 2017	\$ 1,460	\$ 8,849	\$ 2,124	\$ 9,537	\$ 2,073	\$ 385	\$ 1,043	\$ 227	\$ 25,698
Amount of allowance for loan losses for loans deemed to be impaired	\$	\$ 8	\$	\$ 111	\$ 67	\$	\$	\$	\$ 186
Amount of allowance for loan losses for loans not deemed to be impaired	\$ 1,460	\$ 8,841	\$ 2,124	\$ 9,426	\$ 2,006	\$ 385	\$ 1,043	\$ 227	\$ 25,512
Loans: Ending balance	\$ 16,779	\$ 702,646	\$ 128,412	\$ 735,844	\$ 272,588	\$ 19,284	\$ 237,094	\$	\$ 2,112,647
Loans deemed to be impaired	\$	\$ 366	\$	\$ 2,583	\$ 4,318	\$	\$	\$	\$ 7,267
Loans not deemed to be impaired	\$ 16,779	\$ 702,280	\$ 128,412	\$ 733,261	\$ 268,270	\$ 19,284	\$ 237,094	\$	\$ 2,105,380

During the nine months ending September 30, 2017, the Company's provision was primarily attributable to an increase in commercial and industrial, construction and land development, and residential real estate balances offset, somewhat, by changes in historical loss rates and qualitative factors. During the three months ending September 30, 2017 the Company's provision was primarily attributable to an increase in commercial and industrial loan balances offset, somewhat, by changes in historical loss rates and qualitative factors.



**Table of Contents**

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, 2018 and December 31, 2017.

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, 2018 and December 31, 2017.

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, 2018 and December 31, 2017 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, 2018.

	<b>Construction and Land Development</b>	<b>Commercial and Industrial</b>	<b>Municipal</b>	<b>Commercial Real Estate</b>
<b>Grade:</b>				
	(in thousands)			
<b>1-3 (Pass)</b>	\$ 12,434	\$ 779,165	\$ 94,532	\$ 703,039
<b>4 (Monitor)</b>		4,135		24,546
<b>5 (Substandard)</b>				
<b>6 (Doubtful)</b>				
<b>Impaired</b>		660		2,680
<b>Total</b>	<b>\$ 12,434</b>	<b>\$ 783,960</b>	<b>\$ 94,532</b>	<b>\$ 730,265</b>

The following table presents the Company's loans by risk rating at December 31, 2017.



Edgar Filing: CENTURY BANCORP INC - Form 10-Q

Grade:	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
	(in thousands)			
1-3 (Pass)	\$ 18,931	\$ 758,093	\$ 106,599	\$ 705,235
4 (Monitor)		5,366		24,702
5 (Substandard)				
6 (Doubtful) Impaired		348		2,554
Total	\$ 18,931	\$ 763,807	\$ 106,599	\$ 732,491

Page 17 of 48

**Table of Contents**

The Company has increased its exposure to larger loans to large institutions with publically available credit ratings beginning in 2015. These ratings are tracked as a credit quality indicator for these loans. Credit ratings issued by national organizations were utilized as credit quality indicators as presented in the following table at September 30, 2018 and are included within the total loan portfolio.

Credit Rating:	Commercial and Industrial	Municipal	Commercial Real Estate	Total
	(in thousands)			
Aaa Aa3	\$ 492,117	\$ 57,958	\$ 43,106	\$ 593,181
A1 A3	194,465	995	110,191	305,651
Baa1 Baa3		26,970	119,409	146,379
Ba2		6,810		6,810
<b>Total</b>	<b>\$ 686,582</b>	<b>\$ 92,733</b>	<b>\$ 272,706</b>	<b>\$ 1,052,021</b>

Credit ratings issued by national organizations were utilized as credit quality indicators as presented in the following table at December 31, 2017.

Credit Rating:	Commercial and Industrial	Municipal	Commercial Real Estate	Total
	(in thousands)			
Aaa Aa3	\$ 478,905	\$ 62,029	\$ 45,066	\$ 586,000
A1 A3	195,599	7,635	128,554	331,788
Baa1 Baa3		26,970	122,000	148,970
Ba2		8,165		8,165
<b>Total</b>	<b>\$ 674,504</b>	<b>\$ 104,799</b>	<b>\$ 295,620</b>	<b>\$ 1,074,923</b>

The Company utilized payment performance as credit quality indicators for the loan types listed below. 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, 2018 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater than 90 Days	Total Past Due	Current Loans	Total
	(in thousands)					
Construction and land development	\$	\$	\$	\$	\$ 12,434	\$ 12,434
Commercial and industrial	322	346		668	783,292	783,960

<b>Municipal</b>					<b>94,532</b>	<b>94,532</b>
<b>Commercial real estate</b>	<b>980</b>	<b>196</b>		<b>1,176</b>	<b>729,089</b>	<b>730,265</b>
<b>Residential real estate</b>	<b>1,668</b>	<b>2,678</b>	<b>372</b>	<b>4,718</b>	<b>330,396</b>	<b>335,114</b>
<b>Consumer and overdrafts</b>	<b>15</b>	<b>10</b>		<b>25</b>	<b>21,191</b>	<b>21,216</b>
<b>Home equity</b>	<b>752</b>	<b>499</b>	<b>99</b>	<b>1,350</b>	<b>282,468</b>	<b>283,818</b>
<b>Total</b>	<b>\$ 3,737</b>	<b>\$ 3,729</b>	<b>\$ 471</b>	<b>\$ 7,937</b>	<b>\$ 2,253,402</b>	<b>\$ 2,261,339</b>

**Table of Contents**

Further information pertaining to the allowance for loan losses at December 31, 2017 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater than 90 Days	Total Past Due	Current Loans	Total
	(in thousands)					
Construction and land development	\$	\$	\$	\$	\$ 18,931	\$ 18,931
Commercial and industrial	65	44		109	763,698	763,807
Municipal					106,599	106,599
Commercial real estate	672	215		887	731,604	732,491
Residential real estate	4,282	724		5,006	282,725	287,731
Consumer and overdrafts	5	6		11	19,029	19,040
Home equity	618	695		1,313	246,032	247,345
Total	\$ 5,642	\$ 1,684	\$	\$ 7,326	\$ 2,168,618	\$ 2,175,944

**Table of Contents****Impaired loans**

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, 2017.

The following is information pertaining to impaired loans for September 30, 2018:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value for 3 Months Ending 9/30/18	Interest Income Recognized for 3 Months Ending 9/30/18	Average Carrying Value for 9 Months Ending 9/30/18	Interest Income Recognized for 9 Months Ending 9/30/18
<b>With no required reserve recorded:</b>							
(in thousands)							
<b>Construction and land development</b>	\$	\$	\$	\$	\$	\$	\$
<b>Commercial and industrial</b>	84	282		56		47	
<b>Municipal</b>							
<b>Commercial real estate</b>	196	219		280		267	
<b>Residential real estate</b>							
<b>Consumer</b>							
<b>Home equity</b>							
<b>Total</b>	\$ 280	\$ 501	\$	\$ 336	\$	\$ 314	\$
<b>With required reserve recorded:</b>							
<b>Construction and land development</b>	\$	\$	\$	\$	\$	\$	\$
<b>Commercial and industrial</b>	576	593	93	589	5	490	14
<b>Municipal</b>							
<b>Commercial real estate</b>	2,484	2,597	95	2,262	24	2,278	71
<b>Residential real estate</b>	2,675	2,675	350	2,675		3,136	80
<b>Consumer</b>							

**Home equity**

<b>Total</b>	<b>\$ 5,735</b>	<b>\$ 5,865</b>	<b>\$ 538</b>	<b>\$ 5,526</b>	<b>\$ 29</b>	<b>\$ 5,904</b>	<b>\$ 165</b>
--------------	-----------------	-----------------	---------------	-----------------	--------------	-----------------	---------------

**Total:****Construction and land development**

	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
--	-----------	-----------	-----------	-----------	-----------	-----------	-----------

<b>Commercial and industrial</b>	<b>660</b>	<b>875</b>	<b>93</b>	<b>645</b>	<b>5</b>	<b>537</b>	<b>14</b>
----------------------------------	------------	------------	-----------	------------	----------	------------	-----------

**Municipal**

<b>Commercial real estate</b>	<b>2,680</b>	<b>2,816</b>	<b>95</b>	<b>2,542</b>	<b>24</b>	<b>2,545</b>	<b>71</b>
-------------------------------	--------------	--------------	-----------	--------------	-----------	--------------	-----------

<b>Residential real estate</b>	<b>2,675</b>	<b>2,675</b>	<b>350</b>	<b>2,675</b>		<b>3,136</b>	<b>80</b>
--------------------------------	--------------	--------------	------------	--------------	--	--------------	-----------

**Consumer****Home equity**

<b>Total</b>	<b>\$ 6,015</b>	<b>\$ 6,366</b>	<b>\$ 538</b>	<b>\$ 5,862</b>	<b>\$ 29</b>	<b>\$ 6,218</b>	<b>\$ 165</b>
--------------	-----------------	-----------------	---------------	-----------------	--------------	-----------------	---------------

**Table of Contents**

The following is information pertaining to impaired loans for September 30, 2017:

	Carrying Value	Unpaid Principal Balance	Required Reserve	Average Carrying Value for 3 Months Ending 9/30/17	Interest Income Recognized for 3 Months Ending 9/30/17	Average Carrying Value for 9 Months Ending 9/30/17	Interest Income Recognized for 9 Months Ending 9/30/17
(in thousands)							
With no required reserve recorded:							
Construction and land development	\$	\$	\$	\$	\$	\$	\$
Commercial and industrial	54	261		60		49	
Municipal							
Commercial real estate	91	109		45		313	
Residential real estate	72	163		75	2	81	5
Consumer							
Home equity							
Total	\$ 217	\$ 533	\$	\$ 180	\$ 2	\$ 443	\$ 5
With required reserve recorded:							
Construction and land development	\$	\$	\$	\$	\$	\$ 56	\$
Commercial and industrial	312	328	8	319	4	328	12
Municipal							
Commercial real estate	2,492	2,599	111	2,547	22	2,542	69
Residential real estate	4,246	4,247	67	4,257	19	1,767	36
Consumer							
Home equity							
Total	\$ 7,050	\$ 7,174	\$ 186	\$ 7,123	\$ 45	\$ 4,693	\$ 117
Total:							
Construction and land development	\$	\$	\$	\$	\$	\$ 56	\$
Commercial and industrial	366	589	8	379	4	377	12
Municipal							
Commercial real estate	2,583	2,708	111	2,592	22	2,855	69
Residential real estate	4,318	4,410	67	4,332	21	1,848	41
Consumer							
Home equity							
Total	\$ 7,267	\$ 7,707	\$ 186	\$ 7,303	\$ 47	\$ 5,136	\$ 122

Troubled debt restructurings are identified as a modification in which a concession was granted to a customer who was having financial difficulties. This concession may be below market rate, longer amortization/term, or 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 was one residential real estate loan and one consumer loan that were modified during the first quarter of 2018. The loans were modified by reducing the interest rates as well as extending the terms on both loans. The pre-modification and post-modification outstanding recorded investment was \$2,675,000 for the residential real estate loan that was not accruing interest and had a specific reserve of \$350,000. The pre-modification and post-modification outstanding recorded investment was \$17,000 for the consumer loan that was accruing and had a specific reserve of \$1,000. The financial impact for the modifications was not material. There was one troubled debt restructuring, for \$2,675,000, which subsequently defaulted during the first nine months of 2018.

There was no troubled debt restructuring that occurred during the nine month period ended September 30, 2017. Also, there were no commitments to lend additional funds to troubled debt restructuring borrowers. There were no troubled debt restructurings that subsequently defaulted during the first nine months of 2017.



**Table of Contents****Note 5. Reclassifications Out of Accumulated Other Comprehensive Income** (a)**Amount Reclassified from Accumulated Other Comprehensive Income**

Details about Accumulated Other Comprehensive Income Components	Three Months Ended		Affected Line Item in the Statement where Net Income is Presented
	September 30, 2018	September 30, 2017	
	(in thousands)		
Unrealized gains and losses on available-for-sale securities	\$ 105	\$ 47	Net gains on sales of investments
Tax (expense) or benefit	(29)	(19)	Provision for income taxes
Net of tax	\$ 76	\$ 28	Net income
Accretion of unrealized losses transferred	\$ (323)	\$ (554)	Interest on securities held-to-maturity
Tax (expense) or benefit	85	331	Provision for income taxes
Net of tax	\$ (238)	\$ (223)	Net income
Amortization of defined benefit pension items			
Prior-service costs	\$ (4)(b)	\$ (3)(b)	Salaries and employee benefits
Actuarial gains (losses)	(402)(b)	(385)(b)	Salaries and employee benefits
Total before tax	(406)	(388)	Income before taxes
Tax (expense) or benefit	114	155	Provision for income taxes
Net of tax	\$ (292)	\$ (233)	Net income
Details about Accumulated Other Comprehensive Income Components	Nine Months Ended		Affected Line Item in the Statement where Net Income is Presented
	September 30, 2018	September 30, 2017	
	(in thousands)		
Unrealized gains and losses on available-for-sale securities	\$ 302	\$ 47	Net gains on sales of investments
Tax (expense) or benefit	(85)	(19)	Provision for income taxes
Net of tax	\$ 217	\$ 28	Net income

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

Accretion of unrealized losses transferred	\$ (1,186)	\$ (1,878)	Interest on securities held-to-maturity
Tax (expense) or benefit	314	1,022	Provision for income taxes
Net of tax	\$ (872)	\$ (856)	Net income
Amortization of defined benefit pension items			
Prior-service costs	\$ (12)(b)	\$ (8)(b)	Salaries and employee benefits
Actuarial gains (losses)	(1,207)(b)	(1,155)(b)	Salaries and employee benefits
Total before tax	(1,219)	(1,163)	Income before taxes
Tax (expense) or benefit	342	465	Provision for income taxes
Net of tax	\$ (877)	\$ (698)	Net income

- (a) Amount in parentheses indicates reductions to net income.
- (b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Employee Benefits footnote (Note 7) for additional details).

**Table of Contents****Note 6. Earnings per Share ( EPS )**

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

Diluted EPS includes the dilutive effect of common stock equivalents; basic EPS excludes all common stock equivalents. The Company had no common stock equivalents outstanding for the periods ended September 30, 2018 and 2017.

The following table is a reconciliation of basic EPS and diluted EPS.

(in thousands except share and per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
<b>Basic EPS Computation:</b>				
Numerator:				
Net income, Class A	\$ 7,535	\$ 6,307	\$ 20,674	\$ 17,505
Net income, Class B	2,046	1,716	5,614	4,771
Denominator:				
Weighted average shares outstanding, Class A	3,608,329	3,605,829	3,608,129	3,603,429
Weighted average shares outstanding, Class B	1,959,580	1,962,080	1,959,780	1,964,480
Basic EPS, Class A	\$ 2.09	\$ 1.75	\$ 5.73	\$ 4.86
Basic EPS, Class B	1.04	0.87	2.86	2.43
<b>Diluted EPS Computation:</b>				
Numerator:				
Net income, Class A	\$ 7,535	\$ 6,307	\$ 20,674	\$ 17,505
Net income, Class B	2,046	1,716	5,614	4,771
Total net income, for diluted EPS, Class A computation				
	9,581	8,023	26,288	22,276
Denominator:				
Weighted average shares outstanding, basic, Class A	3,608,329	3,605,829	3,608,129	3,603,429
Weighted average shares outstanding, Class B	1,959,580	1,962,080	1,959,780	1,964,480
Weighted average shares outstanding diluted, Class A	5,567,909	5,567,909	5,567,909	5,567,909
Weighted average shares outstanding, Class B	1,959,580	1,962,080	1,959,780	1,964,480
Diluted EPS, Class A	\$ 1.72	\$ 1.44	\$ 4.72	\$ 4.00

Diluted EPS, Class B	<b>1.04</b>	0.87	<b>2.86</b>	2.43
----------------------	-------------	------	-------------	------

**Note 7. Employee Benefits**

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

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

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

**Table of Contents****Components of Net Periodic Benefit Cost for the Three Months Ended September 30.**

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2018	2017	2018	2017
	(in thousands)			
Service cost	\$ 353	\$ 310	\$ 277	\$ 395
Interest	371	362	346	345
Expected return on plan assets	(954)	(746)		
Recognized prior service cost (benefit)	(25)	(26)	29	29
Recognized net actuarial losses	226	226	176	159
Net periodic benefit (credit) cost	\$ (29)	\$ 126	\$ 828	\$ 928

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

	Pension Benefits		Supplemental Insurance/ Retirement Plan	
	2018	2017	2018	2017
	(in thousands)			
Service cost	\$ 1,059	\$ 930	\$ 831	\$ 1,184
Interest	1,111	1,087	1,040	1,035
Expected return on plan assets	(2,863)	(2,238)		
Recognized prior service cost (benefit)	(75)	(78)	87	87
Recognized net actuarial losses	680	678	527	477
Net periodic benefit (credit) cost	\$ (88)	\$ 379	\$ 2,485	\$ 2,783

As a result of the adoption of ASU 2017-07, Compensation-Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, the Company reclassified approximately \$508,000 and \$1,047,000 from salaries and employee benefits to other expenses for the nine months ended September 30, 2018 and 2017, respectively. The reclassifications represent costs other than service costs from the table above.

**Contributions**

The Company does not intend to contribute to the Defined Benefit Pension Plan in 2018.

**Note 8. Fair Value Measurements**

The Company follows FASB ASC 820-10, Fair Value Measurements and Disclosures and ASU 2016-1, Financial Instruments-Overall (Subtopic 825-10) *Recognition and Measurement of Financial Assets and Financial Liabilities*, which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. ASC 820-10 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring

financial instruments at fair value. The three broad levels of the hierarchy are as follows:

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

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

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

**Table of Contents**

The results of the fair value hierarchy as of September 30, 2018, are as follows:

**Financial Instruments Measured at Fair Value on a Recurring Basis:**

	<b>Securities AFS Fair Value Measurements Using</b>			
	<b>Quoted Prices</b>			
	<b>In Active</b>			
	<b>Markets</b>			
	<b>for</b>			
	<b>Identical</b>			
	<b>Assets</b>			
	<b>(Level 1)</b>			
	<b>Significant</b>			
	<b>Observable</b>			
	<b>Inputs</b>			
	<b>(Level 2)</b>			
	<b>Significant</b>			
	<b>Other</b>			
	<b>Unobservable</b>			
	<b>Inputs</b>			
	<b>(Level 3)</b>			
	<b>Carrying</b>			
	<b>Value</b>			
	<b>(in thousands)</b>			
<b>U.S. Treasury</b>	<b>\$ 1,986</b>	<b>\$</b>	<b>\$ 1,986</b>	<b>\$</b>
<b>U.S. Government Sponsored Enterprises</b>	<b>3,889</b>		<b>3,889</b>	
<b>SBA Backed Securities</b>	<b>71,124</b>		<b>71,124</b>	
<b>U.S. Government Agency and Sponsored Mortgage-Backed Securities</b>	<b>169,215</b>		<b>169,215</b>	
<b>Privately Issued Residential Mortgage-Backed Securities</b>	<b>715</b>		<b>715</b>	
<b>Obligations Issued by States and Political Subdivisions</b>	<b>116,009</b>		<b>4,775</b>	<b>111,234</b>
<b>Other Debt Securities</b>	<b>3,565</b>		<b>3,565</b>	
<b>Total</b>	<b>\$ 366,503</b>	<b>\$</b>	<b>\$ 255,269</b>	<b>\$ 111,234</b>

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

<b>Impaired Loans</b>	<b>\$ 3,107</b>	<b>\$</b>	<b>\$ 3,107</b>	<b>\$</b>	<b>3,107</b>
-----------------------	-----------------	-----------	-----------------	-----------	--------------

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 observable. The Company discounts the fair values, as appropriate, based on management's observations of the local real estate market for loans in this category.

Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management's estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis, appraisal of collateral or other type of real estate tax assessment. The types of adjustments that are made to specific (credits) provisions relate to impaired loans recognized for the three and nine month periods ended September 30, 2018 amounted to \$(187,000) and \$427,000, respectively.

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.

<b>Asset</b>	<b>Fair Value</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Unobservable Input Value or Range</b>
<b>Securities AFS (4)</b>	<b>\$ 111,234</b>	<b>Discounted cash flow</b>	<b>Discount rate</b>	<b>2.0%-4.5% (3)</b>
<b>Impaired Loans</b>	<b>\$ 3,107</b>	<b>Appraisal of collateral (1)</b>	<b>Appraisal adjustments (2)</b>	<b>0%-30% discount</b>

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated expenses.
- (3) Weighted averages.
- (4) Municipal securities generally have maturities of one year or less and, therefore, the amortized cost equates to the fair value.



**Table of Contents**

The changes in Level 3 securities for the nine month period ended September 30, 2018 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions (in thousands)	Total
<b>Balance at December 31, 2017</b>	<b>\$ 4,459</b>	<b>\$ 78,141</b>	<b>\$ 82,600</b>
<b>Purchases</b>		<b>105,837</b>	<b>105,837</b>
<b>Maturities and calls</b>		<b>(72,640)</b>	<b>(72,640)</b>
<b>Transfer</b>	<b>(4,459)</b>		<b>(4,459)</b>
<b>Amortization</b>		<b>(104)</b>	<b>(104)</b>
<b>Changes in fair value</b>			
<b>Balance at September 30, 2018</b>	<b>\$</b>	<b>\$ 111,234</b>	<b>\$ 111,234</b>

The amortized cost of Level 3 securities was \$111,234,000 at September 30, 2018 with an unrealized loss of \$0. The securities in this category are generally municipal securities with no readily determinable fair value. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity. There was one transfer of a security from level 3 to level 2 for the nine months ended September 30, 2018 as a result of increased trading activity and quoted market prices. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the nine month period ended September 30, 2018.

The changes in Level 3 securities for the nine month period ended September 30, 2017, are shown in the table below:

	Auction Rate Securities	Obligations Issued by States & Political Subdivisions (in thousands)	Total
<b>Balance at December 31, 2016</b>	<b>\$ 4,298</b>	<b>\$ 160,578</b>	<b>\$ 164,876</b>
<b>Purchases</b>		<b>61,393</b>	<b>61,393</b>
<b>Maturities and calls</b>		<b>(146,869)</b>	<b>(146,869)</b>
<b>Amortization</b>		<b>(155)</b>	<b>(155)</b>
<b>Changes in fair value</b>			
<b>Balance at September 30, 2017</b>	<b>\$ 4,298</b>	<b>\$ 74,947</b>	<b>\$ 79,245</b>

The amortized cost of Level 3 securities was \$79,655,000 at September 30, 2017 with an unrealized loss of \$410,000. The securities in this category are generally municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.



**Table of Contents**

The results of the fair value hierarchy as of December 31, 2017, are as follows:

**Financial Instruments Measured at Fair Value on a Recurring Basis:**

	Securities AFS Fair Value Measurements Using			
	Quoted Prices			
	In			
	Active			
	Markets			
	for			
	Identical	Significant	Significant	
	Assets	Observable	Other	
	(Level	Inputs	Unobservable	
	1)	(Level 2)	Inputs	
	Carrying		(Level 3)	
	Value			
			(in thousands)	
U.S. Treasury	\$ 1,984	\$	\$ 1,984	\$
U.S. Government Sponsored Enterprises				
SBA Backed Securities	80,950		80,950	
U.S. Government Agency and Sponsored Mortgage-Backed Securities	225,776		225,776	
Privately Issued Residential Mortgage-Backed Securities	892		892	
Obligations Issued by States and Political Subdivisions	82,600			82,600
Other Debt Securities	3,629		3,629	
Total	\$ 395,831	\$	\$ 313,231	\$ 82,600

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

Impaired Loans	\$ 246	\$	\$	\$ 246
----------------	--------	----	----	--------

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

Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management's estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis, appraisal of collateral or other type of real estate tax assessment. The types of adjustments that are made to specific provisions (credits) relate to impaired loans recognized for 2017 for the

estimated credit loss amounted to \$3,000.

There were no transfers between level 1, 2 and 3 for the year ended December 31, 2017. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the year ended December 31, 2017.

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)	\$ 82,600	Discounted cash flow	Discount rate	1.0%-3.5% (3)
Impaired Loans	\$ 246	Appraisal of collateral (1)	Appraisal adjustments (2)	0%-30% discount

**Table of Contents**

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated expenses.
- (3) Weighted averages.
- (4) Municipal securities generally have maturities of one year or less and, therefore, the amortized cost equates to the fair value. There was one auction rate security whose fair value is based on the evaluation of the underlying issuer, prevailing interest rates and market liquidity.

**Note 9. Fair Values of Financial Instruments**

The following methods 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.

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.

The fair value of loans is estimated using the exit price notion consistent with Topic 820, Fair Value Measurement.

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, 2018 and December 31, 2017. This table excludes financial instruments for which the carrying amount approximates fair value as these assets and liabilities that are due within one year. 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.

September 30, 2018	Carrying Amount	Estimated Fair Value	Fair Value		Level 3 Inputs
			Measurements Level 1 Inputs	Level 2 Inputs	
(in thousands)					
<b>Financial assets:</b>					
Securities held-to-maturity	\$ 1,875,752	\$ 1,795,117	\$	\$ 1,795,117	\$
Loans (1)	2,232,794	2,188,606			2,188,606
<b>Financial liabilities:</b>					
Time deposits	579,886	577,531		577,531	
Other borrowed funds	372,606	371,531		371,531	
Subordinated debentures	36,083	36,083			36,083

December 31, 2017

Financial assets:					
Securities held-to-maturity	\$ 1,701,233	\$ 1,668,827	\$	\$ 1,668,827	\$
Loans (1)	2,149,689	2,094,517			2,094,517
Financial liabilities:					
Time deposits	625,361	627,517		627,517	
Other borrowed funds	347,778	349,364		349,364	
Subordinated debentures	36,083	36,083			36,083

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

---

**Table of Contents**

**Note 10. Recent Accounting Developments**

Recently Adopted Accounting Standards Updates

Effective January 1, 2018, the following new accounting guidance was adopted by the Company:

In March 2018 Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) 2018-05: Income Taxes (Topic 740) Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118 Income Tax Accounting Implications of the Tax Cuts and Jobs Act. This ASU is effective for fiscal years beginning after December 22, 2017. The effect of this update did not have a material impact on the Company's consolidated financial position.

In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in this Update include items brought to the Board's attention by stakeholders. The amendments clarify certain aspects of the guidance issued in Update 2016-1. For public entities, this ASU was effective for the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The effect of this update did not have a material impact on the Company's consolidated financial position.

In February 2018, the FASB issued ASU 2018-02, Income Statement Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments in this ASU allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. However, because the amendments only relate to the reclassification of the income tax effects of the Tax Cuts and Jobs Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in income from continuing operations is not affected. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption of the amendments in this ASU is permitted, including adoption in any interim period, (1) for public business entities for reporting periods for which financial statements have not yet been issued and (2) for all other entities for reporting periods for which financial statements have not yet been made available for issuance. The amendments in this ASU should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company adopted this update in the first quarter of 2018 and applied the effects of the changes in the period of adoption. The effect of the changes is approximately \$3.8 million that increased retained earnings and a corresponding decrease to AOCI.

In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting. FASB issued this Update to address the diversity in practice as well as the cost and complexity when applying the guidance in Topic 718, Compensation Stock Compensation, to a change to the terms or conditions of a share-based payment award. For public entities, this ASU was effective for annual reporting periods beginning after December 15, 2017. The effect of this update did not have a material impact on the Company's consolidated financial position.

In March 2017, the FASB issued ASU 2017-07, Compensation-Retirement Benefits (Topic 715) Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in this ASU require that an employer disaggregate the service cost component from the other components of net benefit cost. The amendments also provide explicit guidance on how to present the service cost component and the other components of

net benefit cost in the income statement and allow only the service cost component of net benefit cost to be eligible for capitalization. The amendments in this ASU were effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. This ASU is for presentation purposes only, accordingly, there was no impact on the Company's consolidated financial position. See Note 7 for a further explanation of this ASU.

In February 2017, the FASB issued ASU 2017-05, Other Income Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20). This ASU was issued to clarify the scope of Subtopic 610-20, and to add guidance for partial sales of nonfinancial assets. For public entities, this ASU was effective for annual reporting periods beginning after December 15, 2017. The effect of this update did not have a material impact on the Company's consolidated financial position.

Effective January 1, 2018, the Company adopted ASU 2014-09 Revenue Recognition (Topic 606): Revenue from Contracts with Customers. ASU 2014-09 supersedes Topic 605 Revenue Recognition and requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services.

The vast majority of the Company's revenue is interest income on loans, investment securities and deposits at other financial institutions which are specifically outside the scope of ASU 2014-09. ASU 2014-09 applies primarily to certain non-interest income items in the Company's financial statements. We adopted Topic 606 as of January 1, 2018 using the cumulative effect transition method. The impact of adopting the new standard was not material. See Note 11 Revenue from Contracts with Customers for further details.



**Table of Contents**

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) *Restricted Cash*. The amendments of this ASU were issued to require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. For public entities, this ASU was effective for the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The effect of this update did not have a material impact on the Company's consolidated financial position.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 326) *Classification of Certain Cash Receipts and Cash Payments*. Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this update were effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The effect of this update required a reclassification of \$375,000 of proceeds from life insurance policies to investing activities from operating activities.

In January 2016, FASB issued ASU 2016-1, Financial Instruments-Overall (Subtopic 825-10) *Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. The Company used exit price notion when measuring the fair value of financial instruments for disclosure purposes (see Note 9 Fair Value of Financial Instruments). This ASU was effective for fiscal years beginning after December 15, 2017, including interim periods therein. The Company adopted this update in the first quarter of 2018 and applied the effects of the changes retrospectively. The effect of the changes is approximately \$29 thousand, which was reclassified from accumulated other comprehensive income to retained earnings.

#### Accounting Standards Issued but not yet Adopted

The following list identifies ASUs applicable to the Company that have been issued by the FASB but are not yet effective:

In August 2018, FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40): *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (a consensus of the FASB Emerging Issues Task Force) The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This ASU is effective for annual reporting periods beginning after December 15, 2019. The Company has not determined the impact, if any, as of September 30, 2018.

In August 2018, FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): *Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans*. The amendments in this ASU remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. This ASU is effective for annual reporting periods beginning after December 15, 2020. The Company has not determined the impact, if any, as of September 30, 2018.

## Edgar Filing: CENTURY BANCORP INC - Form 10-Q

In August 2018, FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value. The amendments in this ASU modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. This ASU is effective for annual reporting periods beginning after December 15, 2019. The Company has not determined the impact, if any, as of September 30, 2018.

In July 2017, FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), Derivatives and Hedging (Topic 815): I. Accounting for Certain Financial Instruments with Down Round Features II. Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Noncontrolling Interest with a Scope Exception. For public entities, this ASU is effective for annual reporting periods beginning after December 15, 2018. The effect of this update is not expected to have a material impact on the Company's consolidated financial position.

In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization of Purchased Callable Debt. The FASB is issuing this ASU to amend the amortization period for certain purchased

---

**Table of Contents**

callable debt securities held at a premium. The FASB is shortening the amortization period for the premium to the earliest call date. Under current generally accepted accounting principles (GAAP), entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. For public business entities, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The effect of this update is not expected to have a material impact on the Company's consolidated financial position.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350). This ASU was issued to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted and application should be on a prospective basis. The effect of this update is not expected to have a material impact on the Company's consolidated financial position.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU was issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is in the process of analyzing this ASU and has purchased a software solution and began to capture information needed to implement this update. The Company has not determined the impact, if any, as of September 30, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU requires lessees to put most leases on their balance sheet but recognize expenses on their income statements in a manner similar to today's accounting. This ASU also eliminates today's real estate-specific provisions for all companies. For lessors, this ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods therein. Early adoption is permitted. The Company has begun analyzing this ASU and is assessing the implementation steps. During the first quarter of 2018, we established a cross-functional implementation team consisting of representatives from areas related to leasing. During the second quarter of 2018, the Company continued to analyze the potential impact of this ASU by identifying and beginning to quantify the financial impact of real estate leases. The Company also began the process during the quarter to review various contracts to determine if they contain embedded leases. The Company began quantifying the financial impact of potential embedded leases during the third quarter of 2018. The Company has not determined the impact, if any, as of September 30, 2018.

In July 2018, ASU 2018-10, Codification Improvements to Topic 842, Leases (ASU 2018-10) was issued to provide more detailed guidance and additional clarification for implementing ASU 2016-02. Also in July 2018, ASU 2018-11, Targeted Improvements (ASU 2018-11) was issued and allows for an optional transition method in which the provisions of Topic 842 would be applied upon the adoption date and would not have to be retroactively applied to the earliest reporting period presented in the consolidated financial statements. The Company intends to use this optional transition method for the adoption of Topic 842.

Securities and Exchange Commission (SEC) ruling:

In August 2018, the SEC issued a final rule that amends certain of the Commission's disclosure requirements that have become redundant, duplicative, overlapping, outdated, or superseded, in light of other Commission disclosure

requirements, U.S. GAAP, or changes in the information environment. The financial reporting implications of the final rule's amendments may vary by company, but the changes are generally expected to reduce or eliminate some of an SEC registrant's disclosure requirements. In limited circumstances, however, the amendments may expand those requirements, including those related to interim disclosures about changes in stockholders' equity. Under the requirements, registrants must now analyze changes in stockholders' equity, in the form of a reconciliation, for the current and comparative year-to-date periods, with subtotals for each interim period. The Company will therefore include a reconciliation for the current quarter and year-to-date interim periods as well as the comparative periods of the prior years (i.e., a reconciliation covering each period for which an income statement is presented). The final rule is effective for all filings submitted on or after November 5, 2018. The final rule excludes the Company's third quarter 2018 10-Q.

**Note 11. Revenue from Contracts with Customers**

Revenue from contracts with customers in the scope of ASC Topic 606 is measured based on the consideration specified in the contract with a customer, and excludes amounts collected on behalf of third parties. The Company recognizes revenue from contracts with customers when it satisfies its performance obligations.

The Company's performance obligations are typically satisfied as services are rendered, and our contracts do not include multiple performance obligations. Payment is generally collected at the time services are rendered, or monthly. Unsatisfied performance obligations at the report date are not material to our consolidated financial statements.

## **Table of Contents**

The Company pays sales commissions to its employees in accordance with certain incentive plans. The Company expenses sales commissions when incurred if we do not expect to recover these costs from the terms of the contract with the customer. Sales commissions are included in compensation expense.

In certain cases, other parties are involved with providing products and services to our customers. If the Company is a principal in the transaction (providing goods or services itself), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Company is an agent in the transaction (arranging for another party to provide goods or services), the Company reports its net fee or commission retained as revenue.

Waivers and reversals are recorded as a reduction of revenue either when the revenue is recognized by the Company or at the time the waiver or reversal is earned by the customer.

### **A. Change in accounting policy**

The Company adopted Topic 606 *Revenue from Contracts with Customers* with a date of initial application of January 1, 2018 and has applied the guidance to all contracts within the scope of Topic 606 as of that date. As a result, the Company has changed its accounting policy for revenue recognition as detailed in this footnote.

The Company applied Topic 606 using the cumulative effect method. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605. There was no cumulative effect adjustment as of January 1, 2018, and there were no material changes to the financial statements at or for the three month and nine months ended September 30, 2018 as a result of adopting Topic 606.

### **B. Practical Expedients**

The Company applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Company applies the practical expedient in paragraph 606-10-32-18 and does not adjust the consideration from customers for the effects of a significant financing component if at contract inception the period between when the entity transfers the goods or services and when the customer pays for that good or service will be one year or less.

### **C. Nature of goods and services**

The vast majority of the Company's revenue is specifically out-of-scope of Topic 606. For the revenue in-scope, the following is a description of principal activities, separated by the timing of revenue recognition, from which the Company generates its revenue from contracts with customers.

- a. Revenue earned at a point in time – Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, NSF fees, credit and debit card interchange fees and foreign exchange transaction fees. Revenue is generally derived from transactional information accumulated by our systems and is recognized as revenue immediately as the transactions occur or upon providing the

service to complete the customer's transaction. The Company is the principal in each of these contracts, with the exception of credit and debit card interchange fees, in which case we are acting as the agent and record revenue net of expenses paid to the principal.

- b. Revenue earned over time The Company earns revenue from contracts with customers in a variety of ways in which the revenue is earned over a period of time generally monthly or quarterly. Examples of this type of revenue are deposit account service fees, lockbox fees, investment management fees, merchant referral services, and safe deposit box fees. Account service charges, management fees and referral fees are recognized on a monthly basis while any transaction based income is recorded as the activity occurs. Revenue is primarily based on the number and type of transactions or assets managed and is generally derived from transactional information accumulated by our systems. Revenue is recorded in the same period as the related transactions occur or services are rendered to the customer.

**Table of Contents**

**D. Disaggregation of revenue**

The following table presents total revenues as presented in the Consolidated Statements of Income and the related amounts which are from contracts with customers within the scope of Topic 606. As illustrated here, the vast majority of our revenues are specifically excluded from the scope of Topic 606.

	<b>Nine Months Ended 9/30/2018</b>	<b>Revenue from Contracts in Scope of Topic 606</b>	<b>Nine Months Ended 9/30/2017</b>	<b>Revenue from Contracts in Scope of Topic 606</b>
	(dollars in thousands)			
Total net interest income	\$ 68,871	\$	\$ 63,914	\$
Noninterest income:				
Service charges on deposit accounts	6,268	6,268	6,179	6,179
Lockbox fees	2,304	2,304	2,367	2,367
Net gains on sales of securities	302		47	
Gains on sales of mortgage loans			370	
Other income	3,210	2,215	3,179	2,048
Total noninterest income	12,084	10,787	12,142	10,594
Total revenues	\$ 80,955	\$ 10,787	\$ 76,056	\$ 10,594

	<b>Three Months Ended 9/30/2018</b>	<b>Revenue from Contracts in Scope of Topic 606</b>	<b>Three Months Ended 9/30/2017</b>	<b>Revenue from Contracts in Scope of Topic 606</b>
	(dollars in thousands)			
Total net interest income	\$ 23,204	\$	\$ 21,353	\$
Noninterest income:				
Service charges on deposit accounts	2,137	2,137	2,089	2,089
Lockbox fees	892	892	735	735
Net gains on sales of securities	105		47	
Gains on sales of mortgage loans				
Other income	1,035	751	1,071	712
Total noninterest income	4,169	3,780	3,942	3,536
Total revenues	\$ 27,373	\$ 3,780	\$ 25,295	\$ 3,536

The following table provides information about receivables with customers.

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

(dollars in thousands)		September 30, 2018	December 31, 2017
Receivables, which are included in	Other		
assets		\$ 1,095	\$ 1,009

Page 33 of 48



Table of ContentsItem 2. Management's Discussion and Analysis of Financial Condition and Results of OperationsExecutive Overview

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state-chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company formed in 1969. At September 30, 2018, the Company had total assets of \$4.9 billion. Currently, the Company operates 27 banking offices in 20 cities and towns in Massachusetts, ranging from Braintree in the south to Andover in the north. The Bank's customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and large healthcare and higher educational institutions primarily throughout Massachusetts, New Hampshire, Rhode Island, Connecticut and New York.

The Company's results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the level of income and fees from loans, deposits, as well as operating expenses, the provision for loan losses, the impact of federal and state income taxes and the relative levels of interest rates and economic activity.

The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium sized businesses and retail customers in its market area. In recent years, the Company has increased business to larger institutions, specifically, healthcare and higher education. The Company makes commercial loans, real estate and construction loans and consumer loans, and accepts savings, time, and demand deposits. In addition, the Company offers its corporate and institutional customers automated lock box collection services, cash management services and account reconciliation services, and actively promotes the marketing of these services to the municipal market. Also, the Company provides full service securities brokerage services through a program called Investment Services at Century Bank, which is supported by LPL Financial, a third party full-service securities brokerage business.

The Company has municipal cash management client engagements in Massachusetts, New Hampshire and Rhode Island comprising of approximately 250 government entities.

Net income for the nine months ended September 30, 2018, was \$26,288,000 or \$4.72 per Class A share diluted, an increase of 18.0% compared to net income of \$22,276,000, or \$4.00 per Class A share diluted, for the same period a year ago.

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

		Three Months Ended September 30,	
		2018	2017
Basic EPS	Class A common	\$ 2.09	\$ 1.75
Basic EPS	Class B common	\$ 1.04	\$ 0.87
Diluted EPS	Class A common	\$ 1.72	\$ 1.44
Diluted EPS	Class B common	\$ 1.04	\$ 0.87

		Nine Months Ended September 30,	
		2018	2017
Basic EPS	Class A common	\$ 5.73	\$ 4.86
Basic EPS	Class B common	\$ 2.86	\$ 2.43
Diluted EPS	Class A common	\$ 4.72	\$ 4.00
Diluted EPS	Class B common	\$ 2.86	\$ 2.43

Net interest income totaled \$68,871,000 for the nine months ended September 30, 2018 compared to \$63,914,000 for the same period in 2017. The 7.8% increase in net interest income for the period is primarily due to an increase in average earning assets. The net interest margin decreased from 2.24% on a fully taxable equivalent basis in 2017 to 2.19% for the same period in 2018. This was primarily the result of a decrease in the federal corporate tax rate from 34% to 21% as well as the higher prepayment penalties collected during the second quarter of 2017. The decrease in the tax rate results in a lower tax equivalent yield on tax-exempt assets.

## **Table of Contents**

The average balances of earning assets increased by 3.8% combined with an average yield increase of 0.24%, resulting in an increase in interest income of \$15,637,000. The average balance of interest bearing liabilities increased 2.7% combined with an average yield increase of 0.36%, resulting in an increase in interest expense of \$10,680,000.

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

The net interest margin decreased during the second, third, and fourth quarters of 2016 primarily as a result of a decrease in rates on earning assets. The margin increased during 2017 primarily as a result of an increase in rates on earning assets. This increase was primarily the result of the yield on floating rate assets increasing as a result of recent increases in short term interest rates as well as an increase in prepayment penalties collected during the second quarter of 2017. Prepayment penalties collected amounted to \$825,000 and contributed approximately seven basis points to the net interest margin for the second quarter of 2017. During 2017, the Company did not see a corresponding increase in short term rates on interest bearing liabilities. The margin decreased for the first, second, and third quarters of 2018 mainly as a result of a decrease in the corporate tax rate from 34% to 21%. This decrease results in a lower tax equivalent yield on tax-exempt assets.

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

The provision for loan losses decreased by \$440,000 from \$1,340,000 for the nine months ended September 30, 2017 to \$900,000 for the same period in 2018, primarily as a result of net recoveries of \$1,390,000 offset by changes in qualitative factors. Refer to the allowance for loan loss section of the management discussion and analysis for additional discussion. Non-performing assets totaled \$3,729,000 at September 30, 2018, compared to \$1,684,000 at December 31, 2017.

For first nine months of 2018, the Company's effective income tax rate was 4.6% compared to 5.6% for the same period in 2017. This was primarily the result of a decrease in the federal tax rate from 34% to 21% as a result of the Tax Cuts and Jobs Act, offset somewhat by an increase in taxable income.

During June 2016, the Company entered into a lease agreement to open a new branch located in Wellesley, Massachusetts. The Company closed its existing Wellesley branch and transferred the accounts to the new Wellesley branch which opened on December 19, 2016. On September 25, 2017 the Company purchased the new Wellesley location.

## **Recent Market Developments**

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the D-F Act) became law. The D-F 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 D-F 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 D-F 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 D-F Act broadened 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.

---

**Table of Contents**

In addition, the D-F Act added a new Section 13 to the Bank Holding Company Act, the so-called Volcker Rule, (the Rule ) which generally restricts certain banking entities such as the Company and its subsidiaries or affiliates, from engaging in proprietary trading activities and owning equity in or sponsoring any private equity or hedge fund. The Rule became effective July 21, 2012. The final implementing regulations for the Rule were issued by various regulatory agencies in December, 2013 and under an extended conformance regulation compliance was required to be achieved by July 21, 2015. The conformance period for investments in and relationships with certain legacy covered funds has been extended to July 21, 2017. Under the Rule, the Company may be restricted from engaging in proprietary trading, investing in third party hedge or private equity funds or sponsoring new funds unless it qualifies for an exemption from the rule. The Company has little involvement in prohibited proprietary trading or investment activities in covered funds and the Company does not expect that complying with the requirements of the Rule will have any material effect on the Company's financial condition or results of operation.

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance-sheet items. Also, the Basel Committee has issued capital standards entitled Basel III: A global regulatory framework for more resilient banks and banking systems ( Basel III ). The Federal Reserve Board has finalized its rule implementing the Basel III regulatory capital framework. The rule that came into effect in January 2015 sets the Basel III minimum regulatory capital requirements for all organizations. It included a new common equity Tier I ratio of 4.5 percent of risk-weighted assets, raised the minimum Tier I capital ratio from 4 percent to 6 percent of risk-weighted assets and would set a new conservation buffer of 2.5 percent of risk-weighted assets. The implementation of the framework did not have a material impact on the Company's financial condition or results of operations.

On December 22, 2017, the Tax Cuts and Jobs Act (the Tax Act ) was enacted, which represents the most comprehensive reform to the U.S. tax code in over thirty years. The majority of the provisions of the Tax Act took effect on January 1, 2018. The Tax Act lowered the Company's federal tax rate from 34% to 21%. Also, for tax years beginning after December 31, 2017, the corporate Alternative Minimum Tax ( AMT ) has been repealed. For 2018 through 2021, the AMT credit carryforward can offset regular tax liability and is refundable in an amount equal to 50% (100% for 2021) of the excess of the minimum tax credit for the tax year over the amount of the credit allowable for the year against regular tax liability. Accordingly, it is anticipated that the full amount of the alternative minimum tax credit carryforward will be recovered in tax years beginning before 2022. The Tax Act also contains other provisions that may affect the Company currently or in future years. Among these are changes to the deductibility of meals and entertainment, the deductibility of executive compensation, the dividend received deduction and net operating loss carryforwards. Tax Act changes for individuals include lower tax rates, mortgage interest and state and local tax limitations as well as an increase in the standard deduction, among others.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act, or the EGRRCPA, became law. This is the most significant financial institution legislation since the D-F Act. The EGRRCPA changes certain of the regulatory requirements of the D-F Act and includes provisions intended to relieve the regulatory burden on community banks. Among other things for qualifying community banks with less than \$10 billion in total consolidated assets the EGRRCPA contains a safe harbor from the D-F Act ability to repay mortgage requirements, an exemption from the Volcker Rule, may permit filing of simplified Call Reports, and potentially will result in some alleviation of the D-F Act and U.S. Basel III capital mandates. The EGRRCPA requires the federal banking agencies to develop a community bank leverage ratio (defined as the ratio of tangible equity capital to average total consolidated assets) for banks and holding companies with total consolidated assets of less than \$10 billion and an appropriate risk profile. The required regulations must specify a minimum community bank leverage ratio of not less than 8% and not more than 10%. Qualifying banks that exceed the minimum community bank leverage ratio will be deemed to be in compliance with all other capital and leverage requirements including the capital ratio requirements that are required to be considered well capitalized under Section 38 of Federal Deposit Insurance Act.

## **Financial Condition**

### **Loans**

On September 30, 2018, total loans outstanding were \$2,261,339,000 up by \$85,395,000 from the total on December 31, 2017. At September 30, 2018, commercial real estate loans accounted for 32.3%, commercial and industrial accounted for 34.7%, and residential real estate loans, including home equity loans, accounted for 27.4% of total loans.

Commercial real estate loans decreased slightly to \$730,265,000 from \$732,491,000 on December 31, 2017 primarily as a result of loan repayments. Commercial and industrial loans increased to \$783,960,000 at September 30, 2018 from \$763,807,000 at December 31, 2017, primarily as a result of loan originations. Construction loans decreased to \$12,434,000 at September 30, 2018 from \$18,931,000 on December 31, 2017, primarily as a result of loan repayments and refinancing of existing loans to other loan categories. Residential real estate loans increased to \$335,114,000 on September 30, 2018 from \$287,731,000 on December 31, 2017, primarily as a result of new loan originations. Home equity loans increased to \$283,818,000 on September 30, 2018 from \$247,345,000 at December 31, 2017, primarily as a result of a home equity loan promotion. Municipal loans decreased to \$94,532,000 from \$106,599,000, primarily as a result of payoffs to existing loans.

**Table of Contents**

In recent years, the Company has increased business to larger institutions, specifically, healthcare, higher education, and municipal organizations. Further discussion relating to changes in portfolio composition is discussed in the allowance for loan loss section of the management discussion and analysis.

**Allowance for Loan Losses**

The allowance for loan loss at September 30, 2018 was \$28,545,000 as compared to \$26,255,000 at December 31, 2017. The level of the allowance for loan losses to total loans was 1.26% at September 30, 2018 and 1.21% at December 31, 2017. The coverage ratio increased by 0.05% mainly as a result of changes in qualitative factors related to general economic factors pertaining to certain industries. The Company monitors the outlook for the industries in which our borrowers operate. Healthcare and higher education are two of the primary industries. In particular the Company utilizes outlooks and forecasts from various sources. Overall a general weakening in the outlook was noted resulting in a general increase in the general economic factors. The Company also monitors the volatility of the losses within the historical data.

By combining the credit rating, the industry outlook and the loss volatility, the Company arrives at the loss factor for each credit grade. For a large loan to large institutions with publically available credit ratings the Company tracks these ratings. These ratings are tracked as a credit quality indicator for these loans. Credit ratings issued by national organizations were utilized as credit quality indicators as presented in the following table at September 30, 2018.

Credit Rating:		Commercial and Industrial	Municipal	Commercial Real Estate	Total
		(in thousands)			
Aaa	Aa3	\$ 492,117	\$ 57,958	\$ 43,106	\$ 593,181
A1	A3	194,465	995	110,191	305,651
Baa1	Baa3		26,970	119,409	146,379
Ba2			6,810		6,810
<b>Total</b>		<b>\$ 686,582</b>	<b>\$ 92,733</b>	<b>\$ 272,706</b>	<b>\$ 1,052,021</b>

Credit ratings issued by national organizations are presented in the following table at December 31, 2017.

Credit Rating:		Commercial and Industrial	Municipal	Commercial Real Estate	Total
		(in thousands)			
Aaa	Aa3	\$ 478,905	\$ 62,029	\$ 45,066	\$ 586,000
A1	A3	195,599	7,635	128,554	331,788
Baa1	Baa3		26,970	122,000	148,970
Ba2			8,165		8,165
<b>Total</b>		<b>\$ 674,504</b>	<b>\$ 104,799</b>	<b>\$ 295,620</b>	<b>\$ 1,074,923</b>

The allowance for loan losses is an estimate of the amount needed for an adequate reserve to absorb losses in the existing loan portfolio. This amount is determined by an evaluation of the loan portfolio, including input from an independent organization engaged to review selected larger loans, a review of loan experience and current economic conditions. Although the allowance is allocated between categories, the entire allowance is available to absorb losses attributable to all loan categories.



Table of Contents

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,	
	2018	2017	2018	2017
	(in thousands)			
Allowance for loan losses, beginning of period	\$ 27,144	\$ 25,289	\$ 26,255	\$ 24,406
Loans charged off	(89)	(95)	(247)	(292)
Recoveries on loans previously charged-off	1,490	54	1,637	244
Net recoveries (charge-offs)	1,401	(41)	1,390	(48)
Provision charged to expense		450	900	1,340
Allowance for loan losses, end of period	\$ 28,545	\$ 25,698	\$ 28,545	\$ 25,698

The Company may experience increased levels of nonaccrual loans if borrowers are negatively impacted by future negative economic conditions. Management continually monitors trends in the loan portfolio to determine the appropriate level of allowance for loan losses. At the current time, management believes that the allowance for loan losses is adequate.

Nonperforming Assets

The following table sets forth information regarding nonperforming assets held by the Bank at the dates indicated:

	September 30, 2018	December 31, 2017
	(dollars in thousands)	
Nonaccruing loans	\$ 3,729	\$ 1,684
Total nonperforming assets	\$ 3,729	\$ 1,684
Loans past due 90 days or more and still accruing	\$ 471	\$
Nonaccruing loans as a percentage of total loans	0.16%	0.08%
Nonperforming assets as a percentage of total assets	0.08%	0.04%
Accruing troubled debt restructures	\$ 2,598	\$ 2,749

The increase in nonperforming assets and loans 90 days past due or more and still accruing is primarily the result of residential loans.

Investments

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

Securities Available-for-Sale (at Fair Value)

The securities available-for-sale portfolio totaled \$366,503,000 at September 30, 2018, a decrease of 7.4% from December 31, 2017. The portfolio decreased mainly as a result of calls, maturities, sales and scheduled principal payments of securities available-for-sale totaling \$139,439,000 for the nine months ended September 30, 2018. They were offset, somewhat, by purchases of \$108,871,000. The portfolio is concentrated in United States Government Sponsored Enterprises, Mortgage-backed Securities and Obligations issued by States and Political Subdivisions and had an estimated weighted average remaining life of 4.9 years.

At September 30, 2018, 69.7% of the Company's securities available-for-sale are classified as Level 2. The fair values of these securities are generally obtained from a pricing service, which provides the Company with a description of the inputs generally utilized for each type of security. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Market indicators and industry and economic events are also monitored.

Securities available-for-sale totaling \$111,234,000 or 30.4% of securities available-for-sale are classified as Level 3. These securities are generally municipal securities with no observable fair value with an average life of one year or less. The securities are carried at cost which approximates fair value. A periodic review of underlying financial statements and credit ratings is performed to assess the appropriateness of these valuations.

**Table of Contents**

During the first nine months of 2018, net unrealized gains on the securities available-for-sale increased to \$118,000 from a net unrealized loss of \$116,000 at December 31, 2017. This was primarily the result of an increase in the value of floating rate securities and the increase in the value of one obligation which was a states and political subdivisions security.

The following table sets forth the fair value of securities available-for-sale at the dates indicated.

	<b>September 30, 2018</b>	December 31, 2017
	(in thousands)	
U.S. Treasury	<b>\$ 1,986</b>	\$ 1,984
U.S. Government Sponsored Enterprises	<b>3,889</b>	
Small Business Administration	<b>71,124</b>	80,950
U.S Government Agency and Sponsored Enterprise Mortgage-backed Securities	<b>169,215</b>	225,776
Privately Issued Residential Mortgage-backed Securities	<b>715</b>	892
Obligations issued by States and Political Subdivisions	<b>116,009</b>	82,600
Other Debt Securities	<b>3,565</b>	3,629
<b>Total Securities Available for-Sale</b>	<b>\$ 366,503</b>	\$ 395,831

The Company realized gross gains of \$302,000 from the proceeds of \$27,517,000 from the sales of available-for-sale securities for the nine months ended September 30, 2018. The Company realized gross gains of \$47,000 from the proceeds of \$18,133,000 from the sales of available-for-sales securities for the nine months ended September 30, 2017.

**Securities Held-to-Maturity (at Amortized Cost)**

The securities held-to-maturity portfolio totaled \$1,875,752,000 on September 30, 2018, an increase of 10.3% from December 31, 2017. Purchases of securities held-to-maturity totaled \$358,824,000 for the nine months ended September 30, 2018. The purchases were offset somewhat, by call, maturities and scheduled principal payments of \$187,009,000. The portfolio is concentrated in United States Government Sponsored Enterprises and Mortgage-backed Securities and had an estimated weighted average remaining life of 4.5 years. Unrealized losses increased during the year primarily as a result of increases in interest rates.

The following table sets forth the amortized cost of securities held-to-maturity at the dates indicated.

	<b>September 30, 2018</b>	December 31, 2017
	(in thousands)	
U.S. Treasury	<b>\$ 9,903</b>	\$ 104,653
U.S. Government Sponsored Enterprises	<b>167,968</b>	

SBA Backed Securities	<b>53,576</b>	57,235
U.S. Government Agency and Sponsored Enterprise Mortgage-backed Securities	<b>1,644,305</b>	1,539,345
<b>Total Securities Held-to-Maturity</b>	<b>\$ 1,875,752</b>	<b>\$ 1,701,233</b>

There were no sales of held-to-maturity securities for the nine months ended September 30, 2018 and September 30, 2017 respectively.

The net unrealized losses on investment securities held-to-maturity was \$80,635,000 or 4.3% of the total and \$32,406,000 or 1.9% of the total at September 30, 2018 and December 31, 2017, respectively. The unrealized loss on securities held-to-maturity related primarily to the rise in 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 September 30, 2018 and December 31, 2017.

At September 30, 2018 and December 31, 2017, all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises. Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.

---

**Table of Contents****Federal Home Loan Bank of Boston Stock**

The Bank, as a member of the Federal Home Loan Bank of Boston ( FHLBB ), is required to maintain an investment in capital stock of the FHLBB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLBB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis in the stock. During the first nine months of 2018, the FHLBB redeemed \$13,619,000 of FHLBB stock and the Company purchased \$14,583,000 of FHLBB stock. As of September 30, 2018, no impairment has been recognized.

**Equity Securities**

At September 30, 2018 equity securities totaled \$1,616,000 compared to \$1,663,000 at December 31, 2017. Equity securities were reclassified from securities available-for-sale during the first quarter of 2018 and December 31, 2017, respectively. The unrealized gain, of \$29,000 on equity securities, at December 31, 2017, was transferred to retained earnings and the change in the unrealized gain for the first nine months of 2018 was classified as other income, in accordance with ASU 2016-1 as previously discussed in Note 10.

**Deposits and Borrowed Funds**

On September 30, 2018, deposits totaled \$3,964,407,000, representing a 1.2% increase from December 31, 2017. Total deposits increased primarily as a result of an increase in money market accounts. This was offset somewhat, by a decrease in savings and NOW, Demand deposits, and Time deposits. Money market accounts increased mainly from municipal deposits. Savings and NOW deposits decreased mainly as a result of decreased municipal deposits. Time deposits decreased primarily as a result of decreased municipal and personal time deposits. Demand deposits decreased mainly as a result of decreased corporate checking balances.

Borrowed funds totaled \$513,096,000 at September 30, 2018 compared to \$506,768,000 at December 31, 2017. Borrowed funds increased mainly as a result of an increase in short-term FHLBB borrowings, offset, somewhat by a decrease in securities sold under agreements to repurchase.

**Stockholders' Equity**

At September 30, 2018, total equity was \$286,877,000 compared to \$260,297,000 on December 31, 2017. The Company's equity increased primarily as a result of earnings, offset, somewhat, by an increase in other comprehensive loss, net of taxes and dividends paid. There were reclassifications between retained earnings and other comprehensive loss as a result of both ASU 2018-2 and ASU 2016-1. The reclassifications amounted to \$3,812,000 that increased retained earnings and decreased other comprehensive loss. Excluding the reclassifications, in aggregate, other comprehensive loss, net of taxes, decreased as a result of a decrease in unrealized losses on securities available-for-sale, unrealized losses on securities transferred from available-for-sale to held-to-maturity and amortization of the pension liability. The Company's leverage ratio stood at 7.03% on September 30, 2018, compared to 6.70% at December 31, 2017. The increase in the leverage ratio was due to an increase in stockholders' equity, offset somewhat by an increase in quarterly average assets. Book value as of September 30, 2018, was \$51.52 as compared to \$46.75 on December 31, 2017.

**Table of Contents****Results of Operations**

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

	Three Months Ended					
	September 30, 2018			September 30, 2017		
	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)
(dollars in thousands)						
<b>ASSETS</b>						
Interest-earning assets:						
Loans (2)						
Loans taxable	\$ 1,111,193	\$ 11,974	4.28%	\$ 996,343	\$ 10,007	3.98%
Loans tax-exempt	1,128,742	10,375	3.65%	1,075,118	10,104	3.73%
Securities available-for-sale (5):						
Taxable	296,315	1,970	2.66%	335,701	1,560	1.86%
Tax-exempt	113,623	647	2.28%	85,642	353	1.65%
Securities held-to-maturity:						
Taxable	1,858,695	11,507	2.48%	1,695,355	9,447	2.23%
Interest-bearing deposits in other banks	117,312	591	2.02%	190,274	607	1.28%
Total interest-earning assets	4,625,880	37,064	3.19%	4,378,433	32,078	2.92%
Non interest-earning assets	227,410			219,310		
Allowance for loan losses	(28,204)			(25,562)		
Total assets	\$ 4,825,086			\$ 4,572,181		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
NOW accounts	\$ 910,975	\$ 1,741	0.76%	\$ 938,137	\$ 1,029	0.44%
Savings accounts	562,133	1,231	0.87%	512,521	698	0.54%
Money market accounts	1,231,693	3,652	1.18%	1,022,148	1,395	0.54%
Time deposits	561,249	2,571	1.82%	594,193	2,095	1.40%
Total interest-bearing deposits	3,266,050	9,195	1.12%	3,066,999	5,217	0.67%
Securities sold under agreements to repurchase	151,605	288	0.75%	183,929	129	0.28%
Other borrowed funds and subordinated debentures	318,829	2,078	2.59%	311,540	1,822	2.32%
Total interest-bearing liabilities	3,736,484	11,561	1.23%	3,562,468	7,168	0.80%
Non-interest-bearing liabilities						

Edgar Filing: CENTURY BANCORP INC - Form 10-Q

Demand deposits	<b>736,622</b>	689,274
Other liabilities	<b>69,724</b>	61,785
Total liabilities	<b>4,542,830</b>	4,313,527
Stockholders' equity	<b>282,256</b>	258,654
Total liabilities & stockholders' equity	<b>\$ 4,825,086</b>	\$ 4,572,181
Net interest income on a fully taxable equivalent basis	<b>25,503</b>	24,910
Less taxable equivalent adjustment	<b>(2,299)</b>	(3,557)
Net interest income	<b>\$ 23,204</b>	\$ 21,353
Net interest spread (3)	<b>1.96%</b>	2.12%
Net interest margin (4)	<b>2.19%</b>	2.26%

- (1) On a fully taxable equivalent basis calculated using a federal tax rate of 21% for 2018 and 34% for 2017.
- (2) Nonaccrual loans are included in average amounts outstanding.
- (3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Net interest margin represents net interest income as a percentage of average interest-earning assets.
- (5) Average balances of securities available-for-sale calculated utilizing amortized cost.

**Table of Contents**

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

	Nine Months Ended					
	September 30, 2018			September 30, 2017		
	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)
(dollars in thousands)						
<b>ASSETS</b>						
Interest-earning assets:						
Loans (2)						
Loans taxable	\$ 1,076,781	\$ 33,902	4.21%	\$ 967,482	\$ 28,782	3.98%
Loans tax-exempt	1,129,413	30,018	3.55%	1,068,716	29,897	3.74%
Securities available-for-sale (5):						
Taxable	317,753	5,719	2.40%	361,400	4,236	1.56%
Tax-exempt	88,269	1,342	2.03%	120,150	1,280	1.42%
Securities held-to-maturity:						
Taxable	1,816,745	32,930	2.42%	1,739,189	28,806	2.21%
Interest-bearing deposits in other banks	171,773	2,239	1.74%	177,233	1,349	1.01%
Total interest-earning assets	4,600,734	106,150	3.08%	4,434,170	94,350	2.84%
Non interest-earning assets	227,185			220,194		
Allowance for loan losses	(27,235)			(25,089)		
Total assets	\$ 4,800,684			\$ 4,629,275		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>						
Interest-bearing deposits:						
NOW accounts	\$ 944,879	\$ 4,669	0.66%	\$ 976,215	\$ 2,610	0.36%
Savings accounts	550,585	3,109	0.75%	503,218	1,844	0.49%
Money market accounts	1,208,547	9,039	1.00%	1,100,304	3,903	0.47%
Time deposits	587,742	7,465	1.70%	550,996	5,648	1.37%
Total interest-bearing deposits	3,291,753	24,282	0.99%	3,130,733	14,005	0.60%
Securities sold under agreements to repurchase	149,970	657	0.59%	193,519	352	0.24%
Other borrowed funds and subordinated debentures	298,480	5,793	2.59%	317,180	5,695	2.40%
Total interest-bearing liabilities	3,740,203	30,732	1.10%	3,641,432	20,052	0.74%
Non-interest-bearing liabilities						
Demand deposits	718,215			676,655		
Other liabilities	69,404			60,274		



Total liabilities	<b>4,527,822</b>	4,378,361
Stockholders equity	<b>272,862</b>	250,914
Total liabilities & stockholders equity	<b>\$ 4,800,684</b>	\$ 4,629,275
Net interest income on a fully taxable equivalent basis	<b>75,418</b>	74,298
Less taxable equivalent adjustment	<b>(6,547)</b>	(10,384)
Net interest income	<b>\$ 68,871</b>	\$ 63,914
Net interest spread (3)	<b>1.99%</b>	2.11%
Net interest margin (4)	<b>2.19%</b>	2.24%

- (1) On a fully taxable equivalent basis calculated using a federal tax rate of 21% for 2018 and 34% for 2017.
- (2) Nonaccrual loans are included in average amounts outstanding.
- (3) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.
- (4) Net interest margin represents net interest income as a percentage of average interest-earning assets.
- (5) Average balances of securities available-for-sale calculated utilizing amortized cost.

**Table of Contents**

The following table presents certain information on a fully-tax equivalent basis regarding changes in the Company's interest income and interest expense for the periods indicated. For each category of interest-earning assets and interest-bearing liabilities, information is provided with respect to changes attributable to changes in rate and changes in volume.

	Three Months Ended September 30, 2018 Compared with Three Months Ended September 30, 2017 Increase/(Decrease)			Nine Months Ended September 30, 2018 Compared with Nine Months Ended September 30, 2017 Increase/(Decrease)		
	Due to Change in Volume	Rate	Total	Due to Change in Volume	Rate	Total
(in thousands)						
<b>Interest income:</b>						
<b>Loans</b>						
Taxable	\$ 1,205	\$ 762	\$ 1,967	\$ 3,358	\$ 1,762	\$ 5,120
Tax-exempt	496	(225)	271	1,637	(1,516)	121
<b>Securities available-for-sale</b>						
Taxable	(200)	610	410	(562)	2,045	1,483
Tax-exempt	136	158	294	(395)	457	62
<b>Securities held-to-maturity</b>						
Taxable	957	1,103	2,060	1,323	2,801	4,124
Interest-bearing deposits in other banks	(286)	270	(16)	(43)	933	890
<b>Total interest income</b>	<b>2,308</b>	<b>2,678</b>	<b>4,986</b>	<b>\$ 5,318</b>	<b>\$ 6,482</b>	<b>\$ 11,800</b>
<b>Interest expense:</b>						
<b>Deposits</b>						
NOW accounts	(31)	743	712	(86)	2,145	2,059
Savings accounts	73	460	533	187	1,078	1,265
Money market accounts	336	1,921	2,257	418	4,718	5,136
Time deposits	(122)	598	476	395	1,422	1,817
<b>Total interest-bearing deposits</b>	<b>256</b>	<b>3,722</b>	<b>3,978</b>	<b>914</b>	<b>9,363</b>	<b>10,277</b>
Securities sold under agreements to repurchase	(26)	185	159	(94)	399	305
Other borrowed funds and subordinated debentures	43	213	256	(349)	447	98
<b>Total interest expense</b>	<b>273</b>	<b>4,120</b>	<b>4,393</b>	<b>471</b>	<b>10,209</b>	<b>10,680</b>
<b>Change in net interest income</b>	<b>\$ 2,035</b>	<b>\$ (1,442)</b>	<b>\$ 593</b>	<b>\$ 4,847</b>	<b>\$ (3,727)</b>	<b>\$ 1,120</b>

**Net Interest Income**

For the three months ended September 30, 2018, net interest income on a fully taxable equivalent basis totaled \$25,503,000 compared to \$24,910,000 for the same period in 2017, an increase of \$593,000 or 2.4%. This increase in

fully tax equivalent net interest income for the period is primarily due to an increase in average earning assets. The net interest margin decreased from 2.26% on a fully taxable equivalent basis in 2017 to 2.19% on the same basis for 2018. This was primarily the result of a decrease in the federal corporate tax rate from 34% to 21%. This decrease results in a lower tax equivalent yield on tax-exempt assets. The average balances of earning assets increased by 5.7% combined with an average yield increase of 0.27%, resulting in an increase in interest income of \$4,986,000 on fully tax equivalent basis. The average balance of interest bearing liabilities increased 4.9% combined with an average yield increase of 0.43%, resulting in an increase in interest expense of \$4,393,000.

For the nine months ended September 30, 2018, net interest income on a fully taxable equivalent basis totaled \$75,418,000 compared to \$74,298,000 for the same period in 2017, an increase of \$1,120,000 or 1.5%. This increase in fully tax equivalent net interest income for the period is primarily due to an increase in average earning assets. The net interest margin decreased from 2.24% on a fully taxable equivalent basis in 2017 to 2.19% on the same basis for 2018. This was primarily the result of a decrease in the federal corporate tax rate from 34% to 21%. This decrease results in a lower tax equivalent yield on tax-exempt assets. The average balances of earning assets increased by 3.8% combined with an average yield increase of 0.24%, resulting in an increase in interest income of \$11,800,000 on a fully tax equivalent basis. The average balance of interest bearing liabilities increased 2.7% combined with an average yield increase of 0.36%, resulting in an increase in interest expense of \$10,680,000.

---

**Table of Contents**

As illustrated in the table above, the main contributors to the increase in net interest income were from loans, securities held-to-maturity, securities available-for-sale, and interest-bearing deposits in other banks. Securities held-to-maturity income increased primarily as a result of an increase in rates. Loan income increased primarily from an increase in volume and an overall increase in rates. Securities available-for-sale income increased from an increase in rates paid on the portfolio. The Company has a sizable floating rate available-for-sale portfolio. These securities reprice as interest rates rise. Interest-bearing deposits income increased primarily from an increase in rates. The increase in interest income was partially offset by an increase in interest expense. This was mainly the result of increased rates paid on money market, saving and NOW accounts, and time deposits. The Company has modestly raised interest rates on these products to remain competitive.

**Provision for Loan Losses**

For the three months ended September 30, 2018, the loan loss provision was \$0 compared to a provision of \$450,000 for the same period last year. For the nine months ended September 30, 2018, the loan loss provision was \$900,000 compared to a provision of \$1,340,000 for the same period last year. The loan loss provision decreased primarily as a result of net recoveries of \$1,390,000 offset by changes in qualitative factors and loan growth. Further discussion relating to changes in portfolio composition is discussed in footnote number four.

**Non-Interest Income and Expense**

Other operating income for the quarter ended September 30, 2018 increased by \$227,000 from the same period last year to \$4,169,000. This was mainly attributable to an increase in lockbox fees of \$157,000, an increase in service charges on deposit accounts of \$48,000, and an increase in gains on sales of investments of \$58,000. Also, other income decreased by \$36,000. Lockbox income increased as a result of an increase in customer accounts. Service charges on deposit accounts increased primarily as a result of an increase in customer activity. Other income decreased primarily as a result of a smaller increase in the cash surrender values of life insurance policies.

Other operating income for the nine months ended September 30, 2018 decreased by \$58,000 from the same period last year to \$12,084,000. This was mainly attributable to a decrease in net gains on sales of loans of \$370,000 and a decrease in lockbox fees of \$63,000. This was partially offset by an increase in net gain on sales of securities of \$255,000, an increase in service charges on deposit accounts of \$89,000, and an increase in other income of \$31,000. Other income increased primarily as a result of an increase in wealth management fees, and merchant charge card fees. Also, service charges on deposit accounts increased primarily as a result of an increase in customer activity. Lockbox income decreased as a result of a decrease in customer accounts during the first six months of the year.

For the quarter ended September 30, 2018, operating expenses increased by \$1,143,000 or 7.1% to \$17,348,000, from the same period last year. This was primarily attributable to an increase in salaries and employee benefits of \$637,000, an increase in other expenses of \$425,000, an increase in occupancy expenses of \$54,000, and an increase in FDIC assessments of \$28,000. Equipment expenses remained relatively stable. The increase in salaries and employee benefits was mainly attributable to an increase in salaries associated with merit increases and increased bonus accruals. Other expenses increased primarily as a result of increases in marketing, postage and delivery, and contributions. FDIC assessments increased primarily as a result of increases in balances. Occupancy costs increased primarily as a result of increases in building maintenance costs.

For the nine months ended September 30, 2018, operating expenses increased by \$1,381,000 or 2.7% to \$52,508,000, from the same period last year. The increase in operating expenses for the period was mainly attributable to an increase of \$1,234,000 in salaries and employee benefits, \$229,000 in other expenses, and \$110,000 in equipment expenses. This was partially offset by decreases in occupancy expense of \$84,000 and FDIC assessments of \$108,000.

Salaries and employee benefits increased mainly as a result of merit increases. Equipment expenses increased mainly as a result of increased depreciation expense. Other expenses increased primarily as a result of increased consulting and software maintenance costs. FDIC assessments decreased primarily as a result of a decrease in the assessment rate. Occupancy costs decreased primarily as a result of decreased rent expense associated with a reduction in rent at certain locations.

#### Income Taxes

For the third quarter of 2018, the Company's income tax expense totaled \$444,000 on pretax income of \$10,025,000 resulting in an effective tax rate of 4.4%. For last year's corresponding quarter, the Company's income tax expense totaled \$617,000 on pretax income of \$8,640,000 resulting in an effective tax rate of 7.1%. The decrease in the effective income tax rate was primarily the result of an increase in tax exempt income, as well as a decrease in the corporate tax rate from 34% to 21% as a result of the Tax Cuts and Jobs Act.

For the first nine months of 2018, the Company's income tax expense totaled \$1,259,000 on pretax income of \$27,547,000 resulting in an effective tax rate of 4.6%. For last year's corresponding quarter, the Company's income tax expense totaled \$1,313,000 on pretax

**Table of Contents**

income of \$23,589,000 resulting in an effective tax rate of 5.6%. The decrease in the effective income tax rate was primarily the result of an increase in tax exempt income, as well as a decrease in the corporate tax rate from 34% to 21% as a result of the Tax Cuts and Jobs Act.

**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities. To that end, management actively monitors and manages its interest rate risk exposure. The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial increase or decrease in interest rates may adversely impact the Company's earnings to the extent that the interest rates tied to specific assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company monitors the impact of changes in interest rates on its net interest income using several tools. The Company's primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Company's net interest income and capital, while structuring the Company's asset-liability structure to obtain the maximum yield-cost spread on that structure. Management believes that there has been no material changes in the interest rate risk reported in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the Securities and Exchange Commission. The information is contained in the Form 10-K within the Market Risk and Asset Liability Management section of Management's Discussion and Analysis of Results of Operations and Financial Condition.

**Item 4. Controls and Procedures**

The Company's management, with participation of the Company's principal executive and financial officers, has evaluated its disclosure controls and procedures as of the end of the period covered by this quarterly report. Based on this evaluation, the Company's management, with participation of its principal executive and financial officers, has concluded that the Company's disclosure controls and procedures are effective. The disclosure controls and procedures also effectively ensure that information required to be disclosed in the Company's filings and submissions with the Securities and Exchange Commission under the Exchange Act is accumulated and reported to Company management (including the principal executive officer and the principal financial officer) as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. In addition, the Company has evaluated its internal control over financial reporting and during the third quarter of 2018 there were no changes that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

---

**Table of Contents**

**Part II Other Information**

**Item 1** A number of legal claims against the Company arising in the normal course of business were outstanding at September 30, 2018. Management, after reviewing these claims with legal counsel, is of the opinion that their resolution will not have a material adverse effect on the Company's consolidated financial position or results of operations.

On September 7, 2017, Crimson Galeria Limited Partnership, Raj & Raj, LLC, Harvard Square Holdings LLC, and Charles River Holdings LLC (collectively, the Plaintiffs) filed suit in the United States District Court for the District of Massachusetts against the Attorney General of the Commonwealth of Massachusetts, the Massachusetts Department of Public Health, the City of Cambridge, the Town of Georgetown, as well as against the Bank, Healthy Pharms, Inc., (Healthy Pharms), Timbuktu Real Estate, LLC, Paul Overgaag, Nathaniel Averill, 4Front Advisors, LLC, 4 Front Holdings LLC, Kristopher T. Krane, 3 Brothers Real Estate, LLC, Red Line Management, LLC, unspecified insurance providers to certain Plaintiffs, and Tomolly, Inc., (collectively, the Defendants).

The Plaintiffs allege that they own property in Cambridge, MA, and claim that the value and use of their property will be impaired by Healthy Pharms decision to open a registered medicinal marijuana dispensary in abutting or nearby situated property. The Plaintiffs further allege that the Bank has a banking relationship with Healthy Pharms and that, by entering into such relationship, the Bank conspired with Healthy Pharms to violate the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. § 1961 et seq. The Plaintiffs seek unspecified treble damages, and attorney's costs and fees, as well as injunctive and declaratory relief.

The Company believes that the claims and allegations against the Bank set forth in the complaint are without merit, and the Company and the Bank intend to vigorously defend against them.

On December 15, 2017, the Company filed a motion to dismiss the complaint; the plaintiffs filed an opposition brief, and the Company filed a reply in further support of its motion.

On August 21, 2018 the Court granted the Plaintiffs leave to file an amended complaint. The Court also granted motions to dismiss as to the Government defendants, while denying the motions to dismiss (without prejudice) from Healthy Pharms (and several associated individuals and entities) and the Company. The Court emphasized that the remaining Defendants are authorized to re-file their motions to dismiss in response to the new allegations in the amended complaint.

The Plaintiffs filed their amended complaint on October 5, 2018, alleging claims under the Racketeer Influenced and Corrupt Organizations Act, 18 U.S.C. § 1961 et seq., as well as a nuisance claim. The Company's response is due on November 9, 2018. The Company believes that the claims and allegations against it in the amended complaint are without merit, and it intends to vigorously defend against them.

**Item 1A** Risk Factors Please read Risk Factors in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. There have been no material changes since this 10-K was filed. These risks are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company's business, financial condition and operating results.

**Item 2** Unregistered Sales of Equity Securities and Use of Proceeds

(a) (b) Not applicable.

(c) None

**Item 3** Defaults Upon Senior Securities None

**Item 4** Mine Safety Disclosures Not applicable

**Item 5** Other Information None



---

**Table of Contents**

**Item 6** Exhibits

- 31.1 Certification of President and Chief Executive Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.
- 31.2 Certification of Chief Financial Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.
- +32.1 Certification of President and Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- +32.2 Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- ++101. INS XBRL Instance Document
- ++101. SCH XBRL Taxonomy Extension Schema
- ++101. CAL XBRL Taxonomy Extension Calculation Linkbase
- ++101. LAB XBRL Taxonomy Extension Label Linkbase
- ++101. PRE XBRL Taxonomy Extension Presentation Linkbase
- ++101. DEF XBRL Taxonomy Definition Linkbase
  
- + This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.
- ++ As provided in Rule 406T of regulation S-T, this information is filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934 and consists of the following materials from Century Bancorp Inc.'s Quarterly Report on 10-Q for the quarter ended September 30 2018, formatted in XBRL: (i) Consolidated Balance Sheets at September 30, 2018 and December 31, 2017; (ii) Consolidated Statements of Income for the nine months ended September 30, 2018 and 2017; (iii) Consolidated Statements of Comprehensive Income for the nine months ended September 30, 2018 and 2017; (iv) Consolidated Statements of Changes in Stockholders' Equity for the nine months ended September 30, 2018 and 2017; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 and 2017; and (vi) Notes to Unaudited Consolidated Interim Financial Statements.

**Table of Contents**

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Date: November 8, 2018**

**Century Bancorp, Inc.**

/s/ Barry R. Sloane

**Barry R. Sloane**

**President and Chief Executive Officer**

/s/ William P. Hornby

**William P. Hornby, CPA**

**Chief Financial Officer and Treasurer**

**(Principal Accounting Officer)**

Page 48 of 48