THIRD CENTURY BANCORP
Form 10QSB
November 15, 2004

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark one)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2004 OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM TO

Commission file number: 000-50828

THIRD CENTURY BANCORP
(Exact name of small business issuer as specified in its charter)

Indiana	20-0857725
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

80 East Jefferson Street
Franklin, Indiana 46131
(Address of principal executive offices)

(317) 736-7151
(Issuer's telephone number)

APPLICABLE ONLY TO CORPORATE ISSUERS

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: October 31, 2004 - 1,653,125 common shares

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

THIRD CENTURY BANCORP
FORM 10-QSB

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

THIRD CENTURY BANCORP
Consolidated Condensed Balance Sheets

	September 30, 2004 (Unaudited)	December 31, 2003
	(in thousands)	
Assets		
Cash and due from banks	$ 4,278	$ 780
Interest-bearing demand deposits	10,558	3,959
Cash and cash equivalents	14,836	4,739
Interest-bearing time deposits	200	0
Held to maturity securities	5,692	689
Loans, net of allowance for loan losses of $1,024 and $1,055	96,583	96,955
Premises and equipment	2,105	2,082
Federal Home Loan Bank stock	1,009	975
Interest receivable	502	463

Other assets	764	658
Total assets	$ 121,691	$ 106,561
Liabilities		
Deposits		
Demand	$ 8,044	$ 6,989
Savings, NOW and money market	37,879	35,779
Time	35,424	35,940
Total deposits	81,347	78,708
Federal Home Loan Bank Advances	17,000	19,500
Other liabilities	591	313
Total liabilities	98,938	98,521
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, without par value, authorized and unissued 2,000,000 shares	-	-
Common stock, without par value		
Authorized - 20,000,000 shares		
Issued and outstanding - 1,653,125 shares	15,741	-
Retained earnings	8,479	8,040
Unearned ESOP	(1,467)	-
Total stockholders' equity	22,753	8,040
Total liabilities and stockholders' equity	$ 121,691	$ 106,561

See notes to consolidated condensed financial statements.

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THIRD CENTURY BANCORP
Consolidated Condensed Statements of Income
(Unaudited)

	Nine Months Ended September 30, (in tho	
	2004	2003
Interest income		
Loans receivable	$ 4,333	$ 4,408
Investment securities	22	60
Federal Home Loan Bank stock	37	26

Interest-bearing deposits	79	29
Total interest income	4,471	4,523
Interest expense		
Deposits	865	1,047
Federal Home Loan Bank advances	530	427
Total interest expense	1,395	1,474
Net interest income	3,076	3,049
Provision for loan losses	36	-
Net interest income after provision for loan losses	3,040	3,049
Other income		
Service charges on deposit accounts	164	141
Other service charges and fees	153	168
Net gains on loan sales	174	56
Other income	186	163
Total other income	677	528
Other expenses		
Salaries and employee benefits	1,688	1,553
Net occupancy and equipment expenses	331	304
Data processing fees	303	277
Service bureau conversion expense	-	89
Other expenses	555	565
Total other expenses	2,877	2,788
Income before income tax	840	789
Income tax expense	335	308
Net income	$ 505	$ 481
Weighted average common shares		
Earnings per share		

See notes to consolidated condensed financial statements.

THIRD CENTURY BANCORP
Consolidated Condensed Statement of Stockholders' Equity
(Unaudited)
(Dollar amounts in thousands)

	Common Stock Shares Outstanding	Common Stock Amount	Retained Earnings	Unearned ESOP
Balances, January 1, 2004	-	-	8,040	-
Net and comprehensive income	-	-	505	-
Cash dividends declared but not paid	-	-	(66)	-
Proceeds from stock issued in conversion, net of costs	1,653,125	15,741	-	-
Contribution to ESOP	-	-	-	(1,467)
Balances, September 30, 2004	$1,653,125	$15,741	$ 8,479	$(1,467)

See notes to consolidated condensed financial statements.

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THIRD CENTURY BANCORP
Consolidated Condensed Statements of Cash Flows
(Unaudited)

	Nine Months Ended Se
	2004
	(in thousands
Operating Activities	
Net income	$505
Adjustments to reconcile net income to net cash provided by operating activities	
Provision for loan losses	36
Depreciation	137
Investment securities (accretion) amortization, net	(11)
Gain on sale of loans	(174)
Loans originated for sale in the secondary market	(6,646)

Proceeds from sale of loans in the secondary market	6,820	
FHLB stock dividend	(34)	
Net change in		
Interest receivable	(39)	
Other assets	(106)	
Other liabilities	212	
Net cash provided by operating activities	700	
Investing Activities		
Purchases of FHLB stock	--	
Purchases of interest-bearing time deposits	(200)	
Purchases of securities held to maturity	(6,977)	
Proceeds from maturities of securities held to maturity	1985	
Net changes in loans	336	(
Purchases of premises and equipment	(160)	
Net cash used by investing activities	(5,016)	(
Financing Activities		
Net change in		
Demand and savings deposits	3,155	
Certificate of deposits	(516)	
Net proceeds from stock conversion	15,741	
Purchase of ESOP shares	(1,467)	
Proceeds from FHLB advances	1,500	
Payments on FHLB advances	(4,000)	
Net cash provided by financing activities	14,413	
Net Change in Cash and Equivalents	10,097	
Cash and Cash Equivalents, Beginning of Period	4,739	
Cash and Cash Equivalents, End of Period	$14,836	
Additional Cash Flows Information		
Interest paid	$1,401	
Income tax paid	258	

See notes to consolidated condensed financial statements.

THIRD CENTURY BANCORP

Notes to Unaudited Consolidated Condensed Financial Statements

Third Century Bancorp (Third Century) is an Indiana corporation that was formed on March 15, 2004 for the purpose of owning all of the capital stock of Mutual Savings Bank following the completion of Mutual Savings Bank's mutual-to-stock conversion. Third Century offered for sale 1,653,125 shares of its common stock at $10.00 per share in a public offering to eligible depositors that was completed on June 29, 2004. On that date, Third Century purchased all of the capital stock issued by Mutual Savings Bank. Prior to that date, Third Century had no assets or liabilities.

The activities of Third Century are primarily limited to holding the stock of Mutual Savings Bank. Mutual Savings Bank conducts business primarily in Johnson County and surrounding counties. Mutual Savings Bank attracts deposits from the general public and originates loans for consumer, residential and commercial purposes. Mutual Savings Bank's profitability is significantly dependent on net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) and the interest expense paid on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest paid or received by Mutual Savings Bank can be significantly influenced by a number of factors, such as governmental monetary policy, competition within our market area and the performance of the national and local economies.

Mutual Savings Bank also owns one subsidiary, Mutual Financial Services, Inc. (Financial), which is engaged primarily in mortgage life insurance sales and servicing.

Note 1: Basis of Presentation

The accompanying unaudited consolidated condensed financial statements were prepared in accordance with instructions for Form 10-QSB and, therefore, do not include information or footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America. Accordingly, these financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Mutual Savings Bank for the fiscal year ended December 31, 2003 included in Third Century's Registration Statement on Form SB-2 which was declared effective by the Securities and Exchange Commission on May 13, 2004 (SEC File No. 333-113691). However, in the opinion of management, all adjustments (consisting of only normal recurring accruals) which are necessary for a fair representation of the financial statements have been included. The results of operations for the nine- and three-month periods ended September 30, 2004, are not necessarily indicative of the results which may be expected for the entire year.

The consolidated condensed balance sheet of Third Century as of December 31, 2003 has been derived from the audited consolidated balance sheet of Third Century as of that date.

Note 2: Principles of Consolidation

The consolidated financial statements include the accounts of Third Century, Mutual Savings Bank and Financial. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements.

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Note 3: Earnings Per Share

Earnings per share is computed based upon the weighted average common shares outstanding during the period subsequent to Mutual Savings Bank's conversion to a stock savings bank on June 29th 2004. Net income per share for the periods prior to the conversion is not meaningful. Unearned ESOP shares are not considered outstanding for the earnings per share calculation and Third Century has no potentially dilutive shares. The factors used in the earnings per share computation for the three months ending September 30, 2004 were as follows:

	Three Months Ended September 30, 2004
Basic:	
Net income	$ 134
Weighted average common shares	1,522
Basic earnings per common share	$ .09

Item 2. Management's Discussion and Analysis or Plan of Operation

Forward Looking Statements

This Quarterly Report on Form 10-QSB ("Form 10-QSB") contains statements which constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Form 10-QSB and include statements regarding the intent, belief, outlook, estimate or expectations of Third Century (as defined in the notes to the consolidated condensed financial statements), its directors or its officers primarily with respect to future events and the future financial performance of Third Century. Readers of the Form 10-QSB are cautioned that any such forward looking statements are not guarantees of future events or performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. The accompanying information contained in this Form 10-QSB identifies important factors that could cause such differences. These factors include changes in interest rates; loss of deposits and loan demand to other financial institutions; substantial changes in financial markets; changes in real estate values and the real estate market; or regulatory changes.

Critical Accounting Policies

Generally accepted accounting principles are complex and require management to apply significant judgments to various accounting, reporting and disclosure matters. Management of Third Century must use assumptions and estimates to apply these principles where actual measurement is not possible or practical. For a complete discussion of Third Century's significant accounting policies, see Note 1 to the Consolidated Financial Statements as of December 31, 2003. Certain policies are considered critical because they are highly dependent upon subjective or complex judgments, assumptions and estimates. Changes in such estimates may have a significant impact on the financial statements. Management has reviewed the application of these policies with the Audit Committee of Third Century's Board of Directors. Those policies include the following:

Allowance for Loan Losses

The allowance for loan losses represents management's estimate of probable losses inherent in Mutual Savings Bank's loan portfolios. In determining the appropriate amount of the allowance for loan losses, management makes numerous assumptions, estimates and assessments.

The strategy also emphasizes diversification on an industry and customer level, regular credit quality reviews and quarterly management reviews of large credit exposures and loans experiencing deterioration of credit quality.

Mutual Savings Bank's allowance consists of three components: probable losses estimated from individual reviews of specific loans, probable losses estimated from historical loss rates, and probable losses resulting from economic or other deterioration above and beyond what is reflected in the first two components of the allowance.

Larger commercial loans that exhibit probable or observed credit weaknesses are subject to individual review. Where appropriate, reserves are allocated to individual loans based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flow and legal options available to Mutual Savings Bank. Included in the review of individual loans are those that are impaired as provided in SFAS No. 114, Accounting by Creditors for Impairment of a Loan. Any allowances for impaired loans are determined by the present value of expected future cash flows discounted at the loan's effective interest rate or fair value of the underlying collateral. Mutual Savings Bank evaluates the collectibility of both principal and interest when assessing the need for a loss accrual. Historical loss rates are applied to other commercial loans not subject to specific reserve allocations.

Homogenous smaller balance loans, such as consumer installment and residential mortgage loans are not individually risk graded. Reserves are established for each pool of loans based on the expected net charge-offs for one year. Loss rates are based on the average net charge-off history by loan category.

Historical loss rates for commercial and consumer loans may be adjusted for significant factors that, in management's judgment, reflect the impact of any current conditions on loss recognition. Factors which management considers in the analysis include the effects of the national and local economies, trends in the nature and volume of loans (delinquencies, charge-offs and nonaccrual loans), changes in mix, asset quality trends, risk management and loan administration, changes in the internal lending policies and credit standards, collection practices and examination results from bank regulatory agencies and Mutual Savings Bank's internal loan review.

An unallocated reserve is maintained to recognize the imprecision in estimating and measuring loss when evaluating reserves for individual loans or pools of loans. Allowances on individual loans are reviewed quarterly and historical loss rates are reviewed annually and adjusted as necessary based on changing borrower and/or collateral conditions and actual collection and charge-off experience.

Mutual Savings Bank's primary market area for lending is Johnson County, Indiana. When evaluating the adequacy of allowance, consideration is given to this regional geographic concentration and the closely associated effect changing economic conditions have on Mutual Savings Bank's customers.

Mortgage Servicing Rights

Mortgage servicing rights (MSRs) associated with loans originated and sold, where servicing is retained, are capitalized and included in other intangible assets in the consolidated balance sheet. The value of the capitalized servicing rights represents the present value of the future servicing fees arising from the right to service loans in the portfolio. Critical accounting policies for MSRs relate to the initial valuation and subsequent impairment tests. The methodology used to determine the valuation of MSRs requires the development and use of a number of estimates, including anticipated principal amortization and prepayments of that principal balance. Events that may significantly affect the estimates used are changes in interest rates, mortgage loan prepayment speeds and the payment performance of the underlying loans. The carrying value of the MSRs is periodically reviewed for impairment based on a determination of fair value. For purposes of measuring impairment, the servicing rights are compared to a valuation prepared based on a discounted cash flow methodology, utilizing current prepayment speeds and discount rates. Impairment, if any, is recognized through a valuation allowance and is recorded as amortization of intangible assets.

Comparison of Financial Condition at September 30, 2004 and December 31, 2003

Total assets increased $15.1 million or 14.20% to $121.7 million at September 30, 2004 from $106.6 million at December 31, 2003. The growth in total assets was due to an increase in our cash and cash equivalents by $10.1 million, or 213.06%, and securities held to maturity by $5.2 million, or 755.15%. The increase in both categories was a direct result of the capital raised through the initial offering of Third Century Bancorp stock which was completed on June 29, 2004. Third Century Bancorp infused the majority of this capital into Mutual Savings Bank. Mutual Savings Bank invested $5.6 million of this excess cash in federal agency securities and $200,000 in certificates of deposit during the third quarter of 2004. The federal agency notes will mature over the next six months and the certificates of deposit will mature in fifteen months. Mutual Savings Bank plans to continue investing its excess cash in either loans to customers or short-term investments.

Total equity at September 30, 2004 increased to $22.8 million as compared to $8.0 million at December 31, 2003. The change in equity primarily resulted from the sale of common stock in Third Century Bancorp for net proceeds of $15.7 million. The book value per share as of September 2004 was $13.76 based on 1,653,125 shares outstanding.

Third Century has loaned the ESOP $1,497,000 and the ESOP has purchased 132,250 shares at an average price of $11.32. Mutual Savings Bank started to release shares of the ESOP during the third quarter of 2004. The total shares released were 2,676 at an average price of $11.32 per share for total ESOP expense of $30,292. In addition, the Board of Third Century Bancorp declared a $66,125 cash dividend to the shareholders of record as of September 22, 2004 payable on October 5, 2004.

Comparison of Operating Results for the Three Months Ended September 30, 2004 and 2003

General. Net income for the quarter ended September 30, 2004 was $134,000 compared to net income of $147,000 for the quarter ended September 30, 2003. The decrease of $13,000 was primarily the result of increased salaries and employee benefits. This category increased $35,000 from $555,000 for the quarter ended September 30, 2003 to $590,000 for the quarter ended September 30, 2004, or 6.31%. In July, Third Century started to record the monthly release of shares from its ESOP trust, which resulted in expense of $30,292 for the quarter ended September 30, 2004.

Interest Income. Interest income for the quarters ended September 30, 2004 and 2003 totaled $1.5 million when compared to interest income for the quarter ended September 30, 2003. The change between these reporting periods was a decrease of $7,000, which consisted primarily of a decrease in loan interest income by $60,000. Investment income increased by $8,000, dividend income on Federal Home Loan Bank stock increased $3,000, and interest income on interest-bearing deposits increased $42,000 during the quarter. Average interest-bearing assets for the quarter ended September 30, 2004 was $113 million, which represented an increase of $14.7 million or 14.94%, from the quarter ended September 30, 2003, while the yield on those assets declined from 6.16% at September 30, 2003 to 5.34% at September 30, 2004. The average yield on loans declined by 39 basis points while the average balances on loans increased $2.1 million to $96.1 million at September 30, 2004.

Interest Expense. Interest expense for the quarter ended September 30, 2004 was $467,000 compared to $481,000 for the quarter ended September 30, 2003, a decrease of $14,000 or 2.91%. Average interest-bearing liabilities increased to $90,248 from $89,792, with the average interest rate declining by 7 basis points from 2.14% at the quarter ended September 30, 2003 to 2.07% at the quarter ended September 30, 2004.

Net Interest Income. Net interest income of $1.0 million for the quarter ended September 30, 2004 reflects an increase of $7,000 or 0.67% from the net interest income for the quarter ended September 30, 2003.

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Provision for Loan Losses. Mutual Savings Bank's allocation to its provision for loan losses for the quarter ended September 30, 2004 totaled $12,000 while no provision was made during the quarter ended September 30, 2003. In evaluating the adequacy of loan loss allowances, management considers factors such as delinquency trends, portfolio composition, past loss experience and other factors such as general economic conditions. During the past year, Mutual Savings Bank's level of nonperforming assets decreased from $70,000 at September 30, 2003, to $25,000 at September 30, 2004 and the percentage of nonperforming assets to total assets decreased from 0.07% to 0.02% for the same respective time periods. At September 30, 2004, the allowance for loan losses to nonperforming loans was 4096.00% as compared to 1220.00% at September 30, 2003. For the quarter ended September 30, 2004, Mutual Savings Bank had net of recoveries of $4,500 compared to net charge off of $7,799 for September 30, 2003.

Other Income. Other income was $190,000 for the quarters ended September 30, 2004 and September 30, 2003, which represented no change between the reporting periods.

Other Expense. Other expense for the quarter ended September 30, 2004 was $999,000 compared to $979,000 for the same period last year, an increase of $20,000 or 2.04%. Salaries and employee benefits increased during this period by $35,000, or 6.31%, which was offset by the decrease in service bureau conversion expense of $33,000, or 100%. Mutual Savings Bank completed its conversion of service bureaus in October 2003.

Income Taxes. Mutual Savings Bank recognized income tax expense of $91,000 for the quarter ended September 30, 2004, as compared to $103,000 for the quarter ended September 30, 2003, which represents a decrease in the effective tax rate from 41.20% to 40.44%.

Comparison of Operating Results for the Nine Months Ended September 30, 2004 and 2003

General. Net income for the nine months ended September 30, 2004 was $505,000 compared to net income of $481,000 for the nine months ended September 30, 2003. The increase of $24,000 was primarily the result of gains recognized on the capitalization of servicing rights of mortgages for $118,000, which is included in the net gains on loan sales. An increase of $89,000 in total other expense offset the increase in net gains on loan sales.

Interest Income. Interest income for the nine months ended September 30, 2004 was at $4.5 million as it was for the nine months ended September 30, 2003. The change between these reporting periods was a decrease of $52,000, which consisted of a decrease in loan interest income by $75,000 and investment income by $38,000. The reduction in investment income was due to the maturity of Mutual Savings Bank's investments yielding an average rate of 1.83% at September 30, 2003 versus the reinvestment of those funds at an average rate of 1.55% at September 30, 2004. Average interest-bearing assets for the nine months ended September 30, 2004 was $106 million which represented an increase of $9.9 million, or 10.27%, from the nine months ended September 30, 2003, while the yield on those assets declined from 6.26% at September 30, 2003 to 5.61% at September 30, 2004. The average yield on loans declined by 62 basis points while the average balances on loans increased $7.3 million to $95.6 million at September 30, 2004.

Interest Expense. Interest expense for the nine months ended September 30, 2004 was $1.4 million compared to $1.5 million for the nine months ended September 30, 2003, a decrease of $79,000 or 5.36%. Average interest-bearing liabilities increased to $91.9 million from $88.3 million, with the average interest rate declining by 20 basis points from 2.23% at the nine months ended September 30, 2003 to 2.02% at the nine months ended September 30, 2004.

Net Interest Income. Net interest income of $3.0 million for the nine months ended September 30, 2004 reflects an increase of $27,000 or 0.89% from the net interest income for the nine months ended September 30, 2003.

Provision for Loan Losses. Mutual Savings Bank's provision for loan losses for the nine months ended September 30, 2004 totaled $36,000 while no provision was made during the nine months ended September 30, 2003. In evaluating the adequacy of loan loss allowances, management considers factors such as delinquency trends, portfolio composition, past loss experience and other factors such as general economic conditions. During the past year, Mutual Savings Bank's level of nonperforming assets decreased from $70,000 at September 30, 2003, to $25,000 at September 30, 2004 and the percentage of nonperforming assets to total assets decreased from 0.07% to 0.02% for the same respective time periods. At September 30, 2004, the allowance for loan losses to nonperforming loans was 4096.00% as compared to 1220.00% at September 30, 2003. For the nine months ended September 30, 2004, Mutual Savings Bank charged off loans net of recoveries of $67,227 which represents an increase of $37,808 from the nine months ended September 30, 2003.

Other Income. Other income for the nine months ended September 30, 2004 was $677,000 compared to $528,000 for the nine months ended September 30, 2003, an increase of $149,000 or 28.22%. The increase in other income was primarily the result of the $118,000 increase in net gains on loan sales as a result of Mutual Savings Bank capitalizing servicing assets on loans sold.

During the first quarter of 2004, Mutual Savings Bank, through its Asset Liability Committee, made the decision to sell all newly originated fixed-rate loans secured by 1-4 family real estate which are eligible for sale to the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Those loans originated with maturities of 15 years and longer which did not qualify for sale to "Freddie Mac" were to be placed into adjustable rate mortgage products offered by Mutual Savings Bank. Mutual Savings Bank was not in compliance with its interest rate policy at December 31, 2003, and March 31, 2004. Mutual Savings Bank is now in compliance with its interest rate policy. Mutual Savings Bank aggressively sold such loans originated and booked in 2003 during the first quarter of 2004 due to Mutual Savings Bank's efforts to reduce its interest rate risk exposure to within tolerable rate limits established by its interest rate policy. The favorable interest rate environment in the first quarter resulted in higher fee income associated with the sale of these loans.

At December 31, 2003, Mutual Savings Bank's asset liability model indicated its net portfolio value would decrease by 2.69% of assets in the event of an immediate 300 basis point increase in interest rates and decrease 0.31% in the event of an immediate 75 basis point decrease in interest rates. The efforts described in the above paragraph improved these measurements at March 31, 2004 and June 30, 2004.

At March 31, 2004, the asset liability model indicated the net portfolio value would decrease by 2.16% of assets in the event of an immediate 300 basis point increase in interest rates while at June 30, 2004 the net portfolio value would decrease by 1.31%. In an immediate 75 basis point decrease in interest rates, the net portfolio value would decrease at March 31, 2004 by 0.35% and would increase by 0.32% at June 30, 2004. Mutual Savings Bank reduced its interest rate risk exposure to within its tolerable rate limit of a decrease of 2.00% of assets in both the rising rate and declining rate cases as of June 30, 2004.

Looking ahead, Mutual Savings Bank intends to continue to sell all newly originated fixed-rate loans secured by 1-4 family real estate with maturities of 15 years or longer. In addition, the Board of Directors approved an increase in the tolerable rate limit for interest rate risk to a decrease of 2.50% of assets in the event of an immediate 300 basis point increase or an immediate 75 basis point decrease in interest rates. The adjustment to the tolerable rate limit became effective August 18, 2004.

Other Expense. Other expense for the nine months ended September 30, 2004 was $2.9 million compared to $2.8 million for the same period last year, an increase of $89,000 or 3.19%. During this period, salaries and employee benefits, net occupancy and equipment expenses, and data processing fees increased by $135,000, $27,000 and $26,000, respectively, which was offset by the $89,000, or 100%, decrease of service bureau conversion expense. Mutual Savings Bank completed its conversion of service bureaus in October 2003.

Income Taxes. Mutual Savings Bank recognized income tax expense of $335,000 for the nine months ended September 30, 2004, as compared to $308,000 for the nine months ended September 30, 2003, which represents an increase in the effective tax rate from 39.04% to 39.88%.

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Other

The Securities and Exchange Commission maintains a Web site that contains reports, proxy information statements, and other information regarding registrants that file electronically with the Commission, including Third

Century. The address is http://www.sec.gov.

Item 3. Controls and Procedures

A. Evaluation of disclosure controls and procedures. Third Century's chief executive officer and chief financial officer, after evaluating the effectiveness of Third Century's disclosure controls and procedures (as defined in Sections 13a-15(e) and 15d-15(e) of regulations promulgated under the Securities Exchange Act of 1934, as amended), as of the end of the most recent fiscal quarter covered by this quarterly report (the "Evaluation Date"), have concluded that as of the Evaluation Date, Third Century's disclosure controls and procedures were adequate and are designed to ensure that material information relating to Third Century would be made known to such officers by others within Third Century on a timely basis.

B. Changes in internal controls. There were no significant changes in Third Century's internal control over financial reporting identified in connection with Third Century's evaluation of controls that occurred during Third Century's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, Third Century's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Third Century, from time to time, is a party to routine litigation, which arises in the normal course of business, such as claims to enforce liens, condemnation proceedings on properties in which Mutual Savings Bank holds security interests, claims involving the making and servicing of real property loans, and other issues incident to the business of Third Century. There were no lawsuits pending or known to be contemplated against Third Century at September 30, 2004 that would have a material effect on Third Century's operations or income.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

On and effective November 11, 2004, the Third Century Board of Directors amended Third Century's Code of By-laws to change the time of the Annual Meeting of Shareholders specified in Section 2 of Article III of the By-laws from 1:30 P.M. to 9:00 A.M.

Item 6. Exhibits

The exhibits filed as part of this Form 10-QSB are listed in the Exhibit Index, which is incorporated by reference.

SIGNATURES

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

THIRD CENTURY BANCORP

Date: November 11, 2004

By: /s/ Robert D. Heuchan

Robert D. Heuchan
President and Chief Executive Officer

Date: November 11, 2004

By: /s/ Debra K. Harlow

Debra K. Harlow
Chief Financial Officer

Exhibit Index

Exhibit No.	Description	Location
3.1	Amended and Restated Code of By-Laws	Attached
31.1	Rule 13a-14(a) Certification of Robert D. Heuchan, President and Chief Executive Officer	Attached
31.2	Rule 13a-14(a) Certification of Debra K. Harlow, Vice President and Chief Financial Officer	Attached
32.1	Section 1350 Certification of Robert D. Heuchan	Attached
32.2	Section 1350 Certification of Debra K. Harlow	Attached

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