CENTURY BANCORP INC
Form 10-K
March 15, 2007

Table of Contents

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

Form 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2006

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

Commission file number 0-15752

CENTURY BANCORP, INC.
(Exact name of registrant as specified in its charter)

COMMONWEALTH OF MASSACHUSETTS	**04-2498617**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification number)*
400 MYSTIC AVENUE, MEDFORD, MA	**02155**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number including area code:
(781) 391-4000

Securities registered pursuant to Section 12(g) of the Act:

Class A Common Stock, $1.00 par value
(Title of class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

State the aggregate market value of the registrant s voting and nonvoting stock held by nonaffiliates, computed using the closing price as reported on Nasdaq as of June 30, 2006 was $85,644,234.

Indicate the number of shares outstanding of each of the registrant s classes of common stock as of February 28, 2007:

Class A Common Stock, $1.00 par value 3,498,738 Shares

Class B Common Stock, $1.00 par value 2,042,450 Shares

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

(1) Portions of the Registrant s Annual Report to Stockholders for the fiscal year ended December 31, 2006 are incorporated into Part II, Items 5-8 of this Form 10-K.

CENTURY BANCORP INC.

FORM 10-K

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. *BUSINESS*

The Company

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company, formed in 1969. The Company had total assets of approximately $1.6 billion on December 31, 2006. The Company presently operates 22 banking offices in 16 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank s customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

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/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. The Company makes commercial loans, real estate and construction loans, consumer loans, and accepts savings, time and demand deposits. In addition, the Company offers to its corporate and institutional customers automated lockbox 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 supported by Independent Financial Marketing Group, Inc. (IFMG), a full service securities brokerage business.

The Company is also a provider of financial services, including cash management, transaction processing and short term financing, to municipalities in Massachusetts and Rhode Island. The Company has deposit relationships with approximately 30% of the 351 cities and towns in Massachusetts.

On February 7, 2006 the Company announced that it had renewed its contract with NOVA Information Systems, a wholly owned subsidiary of U.S. Bancorp, and had also sold its rights to future royalty payments for a portion of its Merchant Credit Card customer base for $600,000.

During the third quarter of 2006, the Company announced plans to continue its stock repurchase plan. Under the program, the Company is authorized to repurchase up to 300,000 shares, or less than 9% of the Century Bancorp Class A Common Stock issued and outstanding as of December 31, 2006. The program expires on July 12, 2007.

In 2005, the Company opened a new branch location on State Street in Boston, Massachusetts. In 2004, the Company opened one branch on Albany Street in Boston, Massachusetts.

During the fourth quarter of 2004, the Company announced that it entered into an Investment Management Agreement with Blackrock Financial Management, Inc. for the Company s Available-For-Sale securities portfolio. During 2005 the Company began experiencing strong loan growth, and believes that reinvesting the investment cash flows in loans will help to achieve improvements in its yield. The expense related to this contract ended June 30, 2005 and the contract terminated January 31, 2006.

Also during the fourth quarter of 2004, the Company consummated the sale of a trust preferred securities offering, in which it issued $36,083,000 of subordinated debt securities due in 2034 to its newly formed unconsolidated subsidiary Century Bancorp Capital Trust II. Century Bancorp Capital Trust II issued 35,000 shares of its Cumulative Trust Preferred Securities with a liquidation value of $1,000 per share. These securities pay dividends at an annualized rate of 6.65% for the first ten years and then convert to the three-month LIBOR rate plus 1.87% for the remaining twenty years. The total amount of this issuance was $36,083,000. The Company is using

1

the proceeds primarily for general business purposes. Also, the Company, through its subsidiary, Century Bancorp Capital Trust, announced the redemption of 8.30% Trust Preferred Securities issued by Century Bancorp Capital Trust, with a redemption date of January 10, 2005. The total amount of this redemption was $29,639,000.

During February 2003 the Company began construction of an addition to its corporate headquarters building. The property is located adjacent to its current headquarters in Medford, Massachusetts and provides additional corporate office space and an expanded banking floor. The building was substantially complete during the fourth quarter of 2004 and $14,500,000 has been expended in connection with this expansion. The capital expenditure has provided a five-story addition containing approximately 50,000 square feet of office and branch banking space. Occupancy costs have increased by approximately $1,010,000 for 2006 and $960,000 for 2005 as a result of the addition.

Availability of Company Filings

Under the Securities Exchange Act of 1934, Sections 13 and 15(d), periodic and current reports must be filed with the Securities and Exchange Commission (the SEC). The public may read and copy any materials filed with the SEC at the SEC s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0030. The Company electronically files with the SEC its periodic and current reports, as well as other filings it makes with the SEC from time to time. The SEC maintains an Internet site that contains reports and other information regarding issuers, including the Company, that file electronically with the SEC, at www.sec.gov, in which all forms filed electronically may be accessed. Additionally, our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and additional shareholder information are available free of charge on the Company s website: www.century-bank.com.

Employees

As of December 31, 2006, the Company had 281 full-time and 92 part-time employees. The Company s employees are not represented by any collective bargaining unit. The Company believes that its employee relations are good.

Financial Services Modernization

On November 12, 1999, President Clinton signed into law The Gramm-Leach-Bliley Act (Gramm-Leach) which significantly altered banking laws in the United States. Gramm Leach enables combinations among banks, securities firms and insurance companies beginning March 11, 2000. As a result of Gramm Leach, many of the depression-era laws that restricted these affiliations and other activities that may be engaged in by banks and bank holding companies were repealed. Under Gramm-Leach, bank holding companies are permitted to offer their customers virtually any type of financial service that is financial in nature or incidental thereto, including banking, securities underwriting, insurance (both underwriting and agency) and merchant banking.

In order to engage in these financial activities, a bank holding company must qualify and register with the Federal Reserve Board as a financial holding company by demonstrating that each of its bank subsidiaries is well capitalized, well managed, and has at least a satisfactory rating under the Community Reinvestment Act of 1977 (the CRA). The Company has not elected to become a financial holding company under Gramm-Leach.

These new financial activities authorized by Gramm-Leach may also be engaged in by a financial subsidiary of a national or state bank, except for insurance or annuity underwriting, insurance company portfolio investments, real estate investment and development and merchant banking, which must be conducted in a financial holding company. In order for the new financial activities to be engaged in by a financial subsidiary of a national or state bank, Gramm-Leach requires each of the parent bank (and any bank affiliates) to be well capitalized and well managed; the aggregate consolidated assets of all of that bank s financial subsidiaries may not exceed the lesser of 45% of its consolidated total assets or $50 billion; the bank must have at least a satisfactory CRA rating; and, if the bank is one of the 100 largest banks, it must meet certain financial rating or other comparable requirements.

Gramm-Leach establishes a system of functional regulation, under which the federal banking agencies will regulate the banking activities of financial holding companies and banks financial subsidiaries, the SEC will regulate their securities activities, and state insurance regulators will regulate their insurance activities. Gramm-Leach also provides new protections against the transfer and use by financial institutions of consumers nonpublic, personal information.

Holding Company Regulation

The Company is a bank holding company as defined by the Bank Holding Company Act of 1956, as amended (the Holding Company Act), and is registered as such with the Board of Governors of the Federal Reserve Bank (the FRB), which is responsible for administration of the Holding Company Act. Although the Company may meet the qualifications for electing to become a financial holding company under Gramm-Leach, the Company has elected to retain its pre-Gramm-Leach status for the present time under the Holding Company Act. As required by the Holding Company Act, the Company files with the FRB an annual report regarding its financial condition and operations, management and intercompany relationships of the Company and the Bank. It is also subject to examination by the FRB and must obtain FRB approval before (i) acquiring direct or indirect ownership or control of more than 5% of the voting stock of any bank, unless it already owns or controls a majority of the voting stock of that bank, (ii) acquiring all or substantially all of the assets of a bank, except through a subsidiary which is a bank, or (iii) merging or consolidating with any other bank holding company. A bank holding company must also give the FRB prior written notice before purchasing or redeeming its equity securities, if the gross consideration for the purchase or redemption, when aggregated with the net consideration paid by the company for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the Company s consolidated net worth.

The Holding Company Act prohibits a bank holding company, with certain exceptions, from (i) acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any company which is not a bank or a bank holding company, or (ii) engaging in any activity other than managing or controlling banks, or furnishing services to or performing services for its subsidiaries. A bank holding company may own, however, shares of a company engaged in activities which the FRB has determined are so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Company and its subsidiaries are examined by federal and state regulators. The FRB has responsibility for holding company activities and performed a review of the Company and its subsidiaries as of November 2006.

Federal Deposit Insurance Corporation Improvement Act of 1991

On December 19, 1991, the FDIC Improvement Act of 1991 (the 1991 Act) was enacted. This legislation provides for, among other things: enhanced federal supervision of depository institutions, including greater authority for the appointment of a conservator or receiver for undercapitalized institutions; the establishment of risk-based deposit insurance premiums; a requirement that the federal banking agencies amend their risk-based capital requirements to include components for interest-rate risk, concentration of credit risk, and the risk of nontraditional activities; expanded authority for cross-industry mergers and acquisitions; mandated consumer protection disclosures with respect to deposit accounts; and imposed restrictions on the activities of state-chartered banks, including the Bank.

Provisions of the 1991 Act relating to the activities of state-chartered banks significantly impact the way the Company conducts its business. In this regard, the 1991 Act provides that insured state banks, such as the Bank, may not engage as principal in any activity that is not permissible for a national bank, unless the FDIC has determined that the activity would pose no significant risk to the Bank Insurance Fund (BIF) and the state bank is in compliance with applicable capital standards. Activities of subsidiaries of insured state banks are similarly restricted to those activities permissible for subsidiaries of national banks, unless the FDIC has determined that the activity would pose no significant risk to the BIF and the state bank is in compliance with applicable capital standards.

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended (the Interstate Banking Act), generally permits bank holding companies to acquire banks in any state and preempts all state laws restricting the ownership by a bank holding company of banks in more than one state. The Interstate Banking Act also permits a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank if both states have not opted out of interstate branching; permits a bank to acquire branches from an out-of-state bank if the law of the state where the branches are located permits the interstate branch acquisition; and operated de novo interstate branches whenever the host state opts-in to de novo branching. Bank holding companies and banks seeking to engage in transactions authorized by the Interstate Banking Act must be adequately capitalized and managed.

USA PATRIOT Act

Under Title III of the USA PATRIOT Act, also known as the International Money Laundering Abatement and Anti-Terrorism Act of 2001 , all financial institutions are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. Additional information-sharing among financial institutions, regulators, and law enforcement authorities is encouraged by the presence of an exemption from the privacy provisions of the Gramm-Leach Act for financial institutions that comply with this provision and the authorization of the Secretary of the Treasurer to adopt rules to further encourage cooperation and information-sharing. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act, signed into law July 30, 2002, addresses, among other issues, corporate governance, auditor independence and accounting standards, executive compensation, insider loans, whistleblower protection and enhanced and timely disclosure of corporate information. The SEC has adopted a substantial number of implementing rules and the National Association of Securities Dealers, Inc. has adopted corporate governance rules that have been approved by the SEC and are applicable to the Company. The proposed changes are intended to allow stockholders to monitor more effectively the performance of companies and management. As directed by Section 302(a) of the Sarbanes-Oxley Act, the Company s Chief Executive Officer and Chief Financial Officer are each required to certify that the Company s quarterly and annual reports do not contain any untrue statement of a material fact. This requirement has several parts, including certification that these officers are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company s disclosure controls and procedures and internal controls over financial reporting; that they have made certain disclosures to the Company s auditors and the Board of Directors about the Company s disclosure controls and procedures and internal control over financial reporting, and that they have included information in the Company s quarterly and annual reports about their evaluation of the Company s disclosure controls and procedures and internal control over financial reporting, and whether there have been significant changes in the Company s internal disclosure controls and procedures or in other factors that could significantly affect such controls and procedures subsequent to the evaluation and whether there have been any significant changes in the Company s internal control over financial reporting that have materially affected or reasonably likely to materially affect the Company s internal control over financial reporting, and compliance with certain other disclosure objectives. Section 906 of the Sarbanes-Oxley Act requires an additional certification that each periodic report containing financial statements fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934 and that the information in the report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Deposit Insurance Premiums

The Bank currently pays deposit insurance premiums to the FDIC based on a single, uniform assessment rate established by the FDIC for all BIF member institutions. The assessment rates range from 0 to 27 basis points. Under the FDIC s risk-based assessment system, institutions are assigned to one of three capital groups which assignment is based solely on the level of an institution s capital well capitalized, adequately capitalized, and undercapitalized which are defined in the same manner as the regulations establishing the prompt corrective action system under the Federal Deposit Insurance Act (FDIA). The Bank is presently well capitalized and as a result, the Bank is currently not subject to any FDIC premium obligation.

Effective January 1, 2007, the FDIC approved new deposit insurance assessment rates that will be determined based upon a contribution of financial ratios and supervisory factors. There are four established risk categories under the new assessment rules. The Bank anticipates that it will qualify as a Risk Category I institution with an assessment rates range from 5 to 7 basis points of the deposit assessment base, as defined by the FDIC. Based upon an analytic tool provided by the FDIC, the Bank anticipates that its projected calculated assessment rate will be at the lower end of that range. The Federal Deposit Insurance Reform Act of 2005 allows eligible insured depository institutions to share in a one-time assessment credit pool of approximately $4.7 billion, effectively reducing the amount these institutions will be required to submit as an overall assessment. As indicated in the final rule regarding this credit published in October 2006, the FDIC provided the Bank with a preliminary Statement of One-Time Credit. The Bank s one-time assessment credit as indicated on that statement is approximately $850,000 to be received in 2007.

Competition

The Company experiences substantial competition in attracting deposits and making loans from commercial banks, thrift institutions and other enterprises such as insurance companies and mutual funds. These competitors include several major commercial banks whose greater resources may afford them a competitive advantage by enabling them to maintain numerous branch offices and mount extensive advertising campaigns. A number of these competitors are not subject to the regulatory oversight that the Company is subject to, which increases these competitors flexibility.

Forward-Looking Statements

Certain statements contained herein are not based on historical facts and are forward-looking statements within the meaning of Section 21A of the Securities Exchange Act of 1934. Forward-looking statements, which are based on various assumptions (some of which are beyond the Company s control), may be identified by a reference to a future period or periods, or by the use of forward-looking terminology, such as may, will, believe, expect, estimate, anticipate continue or similar terms or variations on those terms, or the negative of these terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, the financial and securities market and the availability of and costs associated with sources of liquidity.

The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

ITEM 1A. ***RISK FACTORS***

The risk factors that may affect the Company s performance and results of operations include the following:

(i) the Company s business is dependent upon general economic conditions in Massachusetts;

(ii) the Company s earnings depend to a great extent upon the level of net interest income generated by the Company, and therefore the Company s results of operations may be adversely affected by increases or decreases in interest rates or by the shape of the yield curve;

(iii) the banking business is highly competitive and the profitability of the Company depends upon the Company s ability to attract loans and deposits in Massachusetts, where the Company competes with a variety

Table of Contents

of traditional banking companies, some of which have vastly greater resources, and nontraditional institutions such as credit unions and finance companies;

(iv) at December 31, 2006, approximately 60.4% of the Company s loan portfolio was comprised of commercial and commercial real estate loans, exposing the Company to the risks inherent in financings 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;

(v) at December 31, 2006, approximately 31.4% of the Company s loan portfolio was comprised of residential real estate loans, exposing the Company to the risks inherent in financings based upon analyses of credit risk and the value of underlying collateral. Accordingly, the Company profitability may be negatively impacted by errors in risk analyses, by loan defaults and the ability of certain borrowers to repay such loans may be adversely affected by any downturn in general economic conditions;

(vi) acts or threats of terrorism and actions taken by the United States or other governments as a result of such acts or threats, including possible military action, could further adversely affect business and economic conditions in the United States of America generally and in the Company s markets, which could adversely affect the Company s financial performance and that of the Company s borrowers and on the financial markets and the price of the Company s Class A common stock;

(vii) changes in the extensive laws, regulations and policies governing bank holding companies and their subsidiaries could alter the Company s business environment or affect the Company s operations; and

(viii) the potential need to adapt to industry changes in information technology systems, on which the Company is highly dependent to secure bank and customer financial information, could present operational issues, require significant capital spending or impact the Company s reputation.

These factors, as well as general economic and market conditions in the United States of America, may materially and adversely affect the Company s performance, results of operations and the market price of shares of the Company s Class A common stock.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

No written comments received by the Company from the SEC regarding the Company s periodic or current reports remain unresolved.

ITEM 2. ***PROPERTIES***

The Company owns its main banking office, headquarters, and operations center in Medford, Massachusetts, which were expanded in 2004, and 12 of the 21 other facilities in which its branch offices are located. The remaining offices are occupied under leases expiring on various dates from 2007 to 2026. The Company believes that its banking offices are in good condition.

ITEM 3. ***LEGAL PROCEEDINGS***

The Company and its subsidiaries are parties to various claims and lawsuits arising in the course of their normal business activities. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that none of these matters, even if it resolved adversely to the Company, will have a material adverse effect on the Company s consolidated financial position.

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

No matters were submitted to a vote of the Company s Stockholders during the fourth quarter of the fiscal year ended December 31, 2006.

PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

(a) The Class A Common Stock of the Company is traded on the NASDAQ National Global Market under the symbol CNBKA. The price range of the Company s Class A common stock since January 1, 2005 is shown on page 10. The Company s Class B Common Stock is not traded on any national securities exchange or other public trading market. The Company did not repurchase any stock during 2006 and the stock repurchase plan is described on page 12.

The shares of Class A Common Stock are generally not entitled to vote on any matter, including in the election of Company Directors, but, in limited circumstances, may be entitled to vote as a class on certain extraordinary transactions, including any merger or consolidation (other than one in which the Company is the surviving corporation or one which by law may be approved by the directors without any stockholder vote) or the sale, lease, or exchange of all or substantially all of the property and assets of the Company. Since the vote of a majority of the shares of the Company s Class B Common Stock, voting as a separate class, is required to approve certain extraordinary corporate transactions, the holders of Class B Common Stock have the power to prevent any takeover of the Company not approved by them.

(b) Approximate number of equity security holders as of December 31, 2006:

Title of Class	**Approximate Number of Record Holders**
Class A Common Stock	1,325
Class B Common Stock	100

(c) 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.

The following table shows the dividends paid by the Company on the Class A and Class B Common Stock for the periods indicated.

	Dividends per Share	
	Class A	**Class B**
2005		
First quarter	$ .12	$ .06
Second quarter	.12	.06
Third quarter	.12	.06
Fourth quarter	.12	.06
2006		
First quarter	$ .12	$ .06

Second quarter	.12	.06
Third quarter	.12	.06
Fourth quarter	.12	.06

As a bank holding company, the Company s ability to pay dividends is dependent in part upon the receipt of dividends from the Bank, which is subject to certain restrictions on the payment of dividends. A Massachusetts trust company may pay dividends out of net profits from time to time, provided that either (i) the trust company s capital stock and surplus account equal an aggregate of at least 10% of its deposit liabilities, or (ii) the amount of its surplus account is equal to at least the amount of its capital account.

Table of Contents

(d) The following schedule provides information with respect to the Company s equity compensation plans under which shares of Class A Common Stock are authorized for issuance as of December 31, 2006:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	122,737	$ 27.20	151,425
Equity compensation plans not approved by security holders			
Total	122,737	$ 27.20	151,425

(e) The performance graph information required herein is shown on page 10.

ITEM 6. ***SELECTED FINANCIAL DATA***

The information required herein is shown on page 9 and 10.

ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION***

The information required herein is shown on pages 11 through 29.

ITEM 7a. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

The information required herein is shown on page 25 and 26.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

The information required herein is shown on pages 30 through 59.

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

The Company s principal executive officers and principal financial officer have evaluated the Company s disclosure controls and procedures as of December 31, 2006. Based on this evaluation, the principal executive officer and principal financial officer have concluded that the Company s disclosure controls and procedures effectively ensure that information required to be disclosed in the Company s filings and submissions with the Securities and Exchange Commission under the Exchange Act is accumulated and reported to Company management (including the principal executive officer and principal financial officer) and is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. In addition, the Company has reviewed its internal control over financial reporting and there have been no significant changes in its internal control over financial reporting or in other factors that could significantly affect its internal control over financial reporting. Management s report on internal control over financial reporting is shown on page 62. The attestation report of the registered public accounting firm is shown on page 61.

ITEM 9B. ***OTHER INFORMATION***

None.

Table of Contents

Financial Highlights

	2006	2005	2004	2003	2002
	(Dollars in thousands, except share data)				
FOR THE YEAR					
Interest income	**$ 80,707**	$ 72,811	$ 65,033	$ 69,298	$ 71,124
Interest expense	**43,944**	32,820	23,646	23,942	24,718
Net interest income	**36,763**	39,991	41,387	45,356	46,406
Provision for loan losses	**825**	600	300	450	1,200
Net interest income after provision for loan losses	**35,938**	39,391	41,087	44,906	45,206
Other operating income	**11,365**	10,973	10,431	10,009	10,266
Operating expenses	**40,196**	40,318	37,663	34,272	34,089
Income before income taxes	**7,107**	10,046	13,855	20,643	21,383
Provision for income taxes	**2,419**	3,166	4,974	8,963	7,879
Net income	**$ 4,688**	$ 6,880	$ 8,881	$ 11,680	$ 13,504
Average shares outstanding, basic	**5,540,966**	5,535,202	5,526,202	5,519,800	5,516,590
Average shares outstanding, diluted	**5,550,722**	5,553,009	5,553,197	5,548,615	5,534,059
Shares outstanding at year-end	**5,541,188**	5,535,442	5,534,088	5,524,438	5,517,425
Earnings per share:					
Basic	**$ 0.85**	$ 1.24	$ 1.61	$ 2.12	$ 2.45
Diluted	**$ 0.84**	$ 1.24	$ 1.60	$ 2.11	$ 2.44
Dividend payout ratio	**46.2%**	31.3%	24.2%	17.2%	13.9%
AT YEAR-END					
Assets	**$ 1,644,290**	$ 1,728,769	$ 1,833,701	$ 1,688,911	$ 1,557,201
Loans	**736,773**	689,645	580,003	512,314	514,249
Deposits	**1,268,965**	1,217,040	1,394,010	1,338,853	1,146,284
Stockholders equity	**106,818**	103,201	104,773	103,728	100,256
Book value per share	**$ 19.28**	$ 18.64	$ 18.93	$ 18.78	$ 18.17
SELECTED FINANCIAL PERCENTAGES					
Return on average assets	**.28%**	.41%	.55%	.74%	1.02%
Return on average stockholders equity	**4.45%**	6.57%	8.61%	11.57%	14.64%
Net interest margin, taxable equivalent	**2.40%**	2.58%	2.75%	3.08%	3.77%
Net (recoveries) charge-offs as a percent of average loans	**0.06%**	0.04%	0.01%	0.04%	(0.04)%

Average stockholders equity to average assets	**6.39%**	6.31%	6.38%	6.40%	6.98%
Efficiency ratio	**83.5%**	79.1%	72.7%	61.9%	60.1%

Table of Contents

Financial Highlights

	2006, Quarter Ended			
Per Share Data	**December 31,**	**September 30,**	**June 30,**	**March 31,**
Market price range (Class A)				
High	**$ 29.48**	**$ 27.24**	**$ 29.10**	**$ 30.00**
Low	**25.77**	**24.05**	**24.01**	**27.29**
Dividends Class A	**0.12**	**0.12**	**0.12**	**0.12**
Dividends Class B	**0.06**	**0.06**	**0.06**	**0.06**

	2005, Quarter Ended			
	December 31,	**September 30,**	**June 30,**	**March 31,**
Market price range (Class A)				
High	$ 32.00	$ 35.19	$ 31.55	$ 30.35
Low	27.00	30.31	26.00	27.75
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.06	0.06	0.06	0.06

The stock performance graph below compares the cumulative total shareholder return of the Company s Common Stock from December 31, 2001 to December 31, 2006 with the cumulative total return of the NASDAQ Market Index (U.S. Companies) and the NASDAQ Bank Stock index. The lines in the table below represent monthly index levels derived from compounded daily returns that include all dividends. If the monthly interval, based on the fiscal year end was not a trading day, the preceding trading day was used.

Comparison of Five-Year
Cumulative Total Return*

Value of $100 Invested on December 31, 2001 at:	**2002**	**2003**	**2004**	**2005**	**2006**
Century	$ 134.77	$ 182.81	$ 154.40	$ 155.67	$ 147.83
Nasdaq Banks	102.37	131.69	150.71	147.23	165.21
Nasdaq U.S.	69.13	103.36	112.49	114.88	126.21

* Assumes that the value of the investment in the Company s Common Stock and each index was $100 on December 31, 2001 and that all dividends were reinvested.

Table of Contents

Management s Discussion and Analysis of Results of Operations and Financial Condition

FORWARD-LOOKING STATEMENTS

Certain statements contained herein are not based on historical facts and are forward-looking statements within the meaning of Section 21A of the Securities Exchange Act of 1934. Forward-looking statements, which are based on various assumptions (some of which are beyond the Company s control), may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as may, will, believe, expect, estimate, anticipate, continue or similar terms or variations on those terms, or the negative of these terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary polices of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

The Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

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 had total assets of $1.6 operates 22 banking office Braintree in the south to Beverly in the north. The Bank s customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

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/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. The Company makes commercial loans, real estate and construction loans, and consumer loans, and accepts savings, time and demand deposits. In addition, the Company offers to its corporate and institutional customers automated lockbox 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 supported by Independent Financial Marketing Group, Inc. (IFMG), a full service securities brokerage business.

The Company is also a provider of financial services including cash management, transaction processing and short term financing, to municipalities in Massachusetts and Rhode Island. The Company has deposit relationships with approximately 30% of the 351 cities and towns in Massachusetts.

The Company had net income of $4,688,000 for the year ended December 31, 2006, compared with net income of $6,880,000 for year ended December 31, 2005 and net income of $8,881,000 for the year ended December 31, 2004.

Basic earnings per share were $0.85 in 2006, compared to $1.24 in 2005 and $1.61 in 2004. Diluted earnings per share were $0.84 in 2006, compared to $1.24 in 2005 and $1.60 in 2004. The Company s earnings in 2006 were negatively impacted mainly by a decrease in net interest income. The Company believes that the net interest margin will continue to be challenged in this current inverted yield curve environment. This is mainly the result of deposit and borrowing pricing that has the potential to increase faster than corresponding asset categories. During 2005, the Company s earnings were also negatively impacted by a decrease in net interest income, increases in salary expense as well as costs associated with the Company s new addition to its corporate headquarters building and the addition of a lockbox imaging system.

Historical U.S. Treasury Yield Curve

A yield curve is a line that typically plots the interest rates of U.S. Treasury Debt, which have different maturity dates, but the same credit quality, at a specific point in time. The three main types of yield curve shapes are normal, inverted and flat. Over the past three years, the U.S. economy has experienced a flattening and subsequent inversion of the yield curve, which means that the spread between the long-term and short-term yields has decreased or inverted.

Total assets were $1,644,290,000 at December 31, 2006, a decrease of 4.9% from total assets of $1,728,769,000 on December 31, 2005.

On December 31, 2006, stockholders equity totaled $106,818,000, compared with $103,201,000 on December 31, 2005, Book value per share increased to $19.28 at December 31, 2006 from $18.64 on December 31, 2005.

On February 7, 2006 the Company announced that it had renewed its contract with NOVA Information Systems, a wholly owned subsidiary of U.S. Bancorp, and had also sold its rights to future royalty payments for a portion of its Merchant Credit Card customer base for $600,000, which the Bank has included as other income.

During the third quarter of 2006, the Company announced plans to continue its stock repurchase plan. Under the program, the Company is authorized to repurchase up to 300,000 shares, or less than 9%, of Century Bancorp Class A Common Stock. The program expires on July 12, 2007.

In 2005, the Company opened a new branch location on State Street in Boston, Massachusetts. In 2004, the Company opened one branch on Albany Street in Boston, Massachusetts.

During the fourth quarter of 2004, the Company announced that it entered into an Investment Management Agreement with BlackRock Financial Management, Inc. for the Company s Available-For-Sale securities portfolio. During 2005 the Company began experiencing strong loan growth, and believes that reinvesting the investment cash flows in loans will help to achieve improvements in its yield. The expense related to this contract ended on June 30, 2005 and the contract terminated January 31, 2006.

Also during the fourth quarter of 2004, the Company consummated the sale of a trust preferred securities offering, in which it issued $36,083,000 of subordinated debt securities due 2034 to its newly formed unconsolidated subsidiary Century Bancorp Capital Trust II. Century Bancorp Capital Trust II issued 35,000 shares of

Cumulative Trust Preferred Securities with a liquidation value of $1,000 per share. These securities pay dividends at an annualized rate of 6.65% for the first ten years and then convert to the three-month LIBOR rate plus 1.87% for the remaining twenty years. The total amount of this issuance was $36,083,000. The Company is using the proceeds primarily for general business purposes. Also, the Company, through its subsidiary, Century Bancorp Capital Trust, announced the redemption of its 8.30% Trust Preferred Securities, with a redemption date of January 10, 2005. The total amount of this redemption was $29,639,000.

During February 2003, the Company began construction of an addition to its corporate headquarters building. The property is located adjacent to its current headquarters in Medford, Massachusetts and provides additional corporate office space and an expanded banking floor. The building was substantially completed during the fourth quarter of 2004 and $14,500,000 has been expended in connection with this expansion. The capital expenditure has provided a five-story addition containing approximately 50,000 square feet of office and branch banking space. Occupancy costs have increased by approximately $1,010,000 for 2006 and $960,000 for 2005 as a result of the addition.

CRITICAL ACCOUNTING POLICIES

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact income, are considered critical accounting policies. The Company considers the following to be its critical accounting policies: allowance for loan losses and impairment of investment securities. There have been no significant changes in the methods or assumptions used in the accounting policies that require material estimates and assumptions.

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. Management maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on assessments of the probable estimated losses inherent in the loan portfolio. Management s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances for identified problem loans and the unallocated allowance.

The formula allowance evaluates groups of loans to determine the allocation appropriate within each portfolio segment. Individual loans within the commercial and industrial, commercial real estate and real estate construction loan portfolio segments are assigned internal risk ratings to group them with other loans possessing similar risk characteristics. Changes in risk grades affect the amount of the formula allowance. Risk grades are determined by reviewing current collateral value, financial information, cash flow, payment history and other relevant facts surrounding the particular credit. Provisions for losses on the remaining commercial and commercial real estate loans are based on pools of similar loans using a combination of historical loss experience and qualitative adjustments. For the residential real estate and consumer loan portfolios, the reserves are calculated by applying historical charge-off and recovery experience and qualitative adjustments to the current outstanding balance in each loan category. Loss factors are based on the Company s historical loss experience, as well as regulatory guidelines.

Specific allowances for loan losses entails the assignment of allowance amounts to individual loans on the basis of loan impairment. Certain loans are evaluated individually and are judged to be impaired when management believes it is probable that the Company will not collect all the contractual interest and principle payments as scheduled in the loan agreement. Under this method, loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification or non-accrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of a probable loss is able to be estimated on the basis of: (a.) present value of anticipated future cash flows, (b.) the loan s observable fair market price or (c.) fair value of collateral, if the loan is collateral dependent.

The unallocated allowance recognizes the model and estimation risk associated with the formula allowance and specific allowances, as well as management s evaluation of various conditions, including business and economic conditions, delinquency trends, charge-off experience and other quality factors, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the

13

Table of Contents

inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits.

Management has identified certain risk factors, which could impact the degree of loss sustained within the portfolio. These include: (a.) market risk factors, such as the effects of economic variability on the entire portfolio, and (b.) unique portfolio risk factors that are inherent characteristics of the Company s loan portfolio. Market risk factors may consist of changes to general economic and business conditions that may impact the Company s loan portfolio customer base in terms of ability to repay and that may result in changes in value of underlying collateral. Unique portfolio risk factors may include industry concentrations and geographic concentrations or trends that may exacerbate losses resulting from economic events which the Company may not be able to fully diversify out its portfolio.

Management believes that the allowance for loan losses is adequate. In addition, various regulatory agencies, as part of the examination process, periodically review the Company s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Impaired Investment Securities

If a material decline in fair value below the amortized cost basis of an investment security is judged to be other-than-temporary, the cost basis of the investment is written down to fair value. The amount of the write down is included as a charge to earnings. An other-than-temporary impairment exists for debt securities if it is probable that the Company will be unable to collect all amounts due according to contractual terms of the security. Some factors considered for other than temporary impairment related to a debt security include an analysis of yield which results in a decrease in expected cash flows, whether an unrealized loss is issuer specific, whether the issuer has defaulted on scheduled interest and principal payments, whether the issuer s current financial condition hinder its ability to make future scheduled interest and principal payments on a timely basis or whether there was downgrade in ratings by rating agencies.

The Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity.

FINANCIAL CONDITION

Investment Securities

The Company s securities portfolio consists of securities available-for-sale and securities held-to-maturity.

Securities available-for-sale consist of certain U.S. Treasury and U.S. Government Sponsored Enterprises, mortgage-backed securities, state, county, municipal securities, foreign debt securities, other marketable equities and Federal Home Loan Bank (FHLB) stock.

These securities are carried at fair value and unrealized gains and losses, net of applicable income taxes, are recognized as a separate component of stockholders equity. The fair value of securities available-for-sale at December 31, 2006 totaled $415,481,000 and include gross unrealized gains of $221,000 and gross unrealized losses of $8,447,000. A year earlier, securities available for sale were $532,982,000 including gross unrealized gains of $70,000 and unrealized losses of $13,612,000. In 2006 and 2005, the Company recognized no net gains or losses on the sale of available-for-sale securities.

Securities which management intends to hold until maturity consist of U.S. Government Sponsored Enterprises and mortgage-backed securities. Securities held-to-maturity as of December 31, 2006 are carried at their amortized cost of

$265,712,000 and exclude gross unrealized gains of $76,000 and gross unrealized losses of $7,368,000. A year earlier, securities held to maturity totaled $286,578,000 excluding gross unrealized gains of $109,000 and gross unrealized losses of $8,918,000.

Table of Contents

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

Fair Value of Securities Available-for-Sale

At December 31,	2006 Amount	2006 Percent	2005 Amount	2005 Percent	2004 Amount	2004 Percent
			(Dollars in thousands)			
U.S. Treasury and U.S. Government Sponsored Enterprises	**$ 223,028**	**53.7%**	$ 294,132	55.1%	$ 380,862	62.4%
Mortgage-backed securities	**179,076**	**43.1%**	218,552	41.0%	185,758	30.4%
Obligations of states and political subdivisions		**0%**	807	0.2%	499	0.1%
FHLB Stock	**9,823**	**2.4%**	16,312	3.1%	13,895	2.3%
Other	**3,554**	**0.8%**	3,179	0.6%	28,792	4.8%
Total	**$ 415,481**	**100.0%**	$ 532,982	100.0%	$ 609,806	100.0%

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

Amortized Cost of Securities Held-to-Maturity

At December 31,	2006 Amount	2006 Percent	2005 Amount	2005 Percent	2004 Amount	2004 Percent
			(Dollars in thousands)			
U.S. Government and U.S. Government Sponsored Enterprises	**$ 159,969**	**60.2%**	$ 159,952	55.8%	$ 186,324	53.9%
Mortgage-backed securities	**105,743**	**39.8%**	126,626	44.2%	159,045	46.1%
Total	**$ 265,712**	**100.0%**	$ 286,578	100.0%	$ 345,369	100.0%

The following two tables set forth contractual maturities of the Bank s securities portfolio at December 31, 2006. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fair Value of Securities Available-for-Sale
Amounts Maturing

hin ne ar	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield	Non-Maturing	% of Total	Weighted Average Yield
						(Dollars in thousands)					
,925	26.7%	2.68%	$ 112,103	27.0%	3.43%	$	0.0%	0.0%	$	0.0%	0.0%
,354	2.5%	3.59%	145,771	35.1%	3.91%	22,952	5.5%	4.21%		0.0%	0.0%
50	0.0%	5.3%	739	0.2%	4.84%		0.0%	0.0%	12,588	3.0%	5.25%
,329	29.2%	2.76%	$ 258,612	62.3%	3.70%	$ 22,952	5.5%	4.21%	$ 12,588	3.0%	5.25%

Amortized Cost of Securities Held-to-Maturity
Amounts Maturing

(Dollars in thousands)

Within One Year	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield	Over Ten Years	% of Total	Weighted Average Yield	T
64,998	**24.5%**	**2.99%**	**$ 94,971**	**35.7%**	**3.47%**	**$**	**0.0%**			**0.0%**	**0.0%**	**$**
115	**0.0%**	**6.01%**	**103,049**	**38.8%**	**4.17%**	**2,579**	**1.0%**	**4.62%**		**0.0%**	**0.0%**	
65,113	**24.5%**	**3.0%**	**$ 198,020**	**74.5%**	**3.83%**	**$ 2,579**	**1.0%**	**4.62%**	**$**	**0.0%**	**0.0%**	**$**

At December 31, 2006 and 2005, the Bank had no investments in obligations of individual states, counties or municipalities which exceeded 10% of stockholders equity. In addition, there were no sales of state, county or municipal securities in 2006 or 2005.

Loans

The Company s lending activities are conducted principally in Massachusetts. The Company grants single and multi-family residential loans, commercial and commercial real estate loans, and a variety of consumer loans. To a lesser extent, the Company grants loans for the construction of residential homes, multi-family properties, commercial real estate properties, and land development. Most loans granted by the Company are secured by real estate collateral. The ability and willingness of commercial real estate, commercial, construction, residential and consumer loan borrowers to honor their repayment commitments is generally dependent on the health of the real estate market in the borrowers geographic areas and the general economy.

The following summary shows the composition of the loan portfolio at the dates indicated.

	2006		2005		2004		2003		2002	
ber 31,	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Perc o To
uction nd pment	**$ 49,709**	**6.7%**	$ 58,846	8.5%	$ 51,918	9.0%	$ 34,121	6.7%	$ 33,155	
ercial and ial	**117,497**	**16.0%**	94,139	13.7%	71,962	12.4%	39,742	7.8%	46,044	
ue bonds	**3,340**	**0.5%**		0.0%		0.0%		0.0%		
ercial tate	**323,700**	**44.0%**	302,279	43.8%	258,524	44.6%	293,781	57.3%	291,598	
ntial real	**167,946**	**22.8%**	146,355	21.2%	118,223	20.4%	86,780	16.9%	92,291	

mer	**9,881**	**1.3%**	9,977	1.5%	8,607	1.5%	8,025	1.6%	8,169	
Equity	**63,380**	**8.5%**	76,710	11.1%	69,957	12.0%	49,382	9.6%	41,527	
afts	**1,320**	**0.2%**	1,339	0.2%	812	0.1%	483	0.1%	1,465	
	$ 736,773	**100.0%**	$ 689,645	100.0%	$ 580,003	100.0%	$ 512,314	100.0%	$ 514,249	10

At December 31, 2006, 2005, 2004, 2003 and 2002 loans were carried net of discounts of $3,000, $4,000, $20,000, $138,000 and $492,000 respectively. Included in these amounts at December 31, 2006, 2005, 2004, 2003 and 2002, residential real estate loans were carried net of discounts of $0, $0, $16,000, $133,000 and $487,000 respectively, associated with the acquisition of loans from another financial institution. Net deferred loan fees of $183,000, $482,000, $485,000, $389,000 and $315,000 were carried in 2006, 2005, 2004, 2003 and 2002 respectively.

16

Table of Contents

The following table summarizes the remaining maturity distribution of certain components of the Company s loan portfolio on December 31, 2006. The table excludes loans secured by one-to-four family residential real estate and loans for household and family personal expenditures. Maturities are presented as if scheduled principal amortization payments are due on the last contractual payment date.

Remaining Maturities of Selected Loans at December 31, 2006

	One Year or Less	One to Five Years	Over Five Years	Total
		(Dollars in thousands)		
Construction and land development	**$ 34,040**	**$ 13,838**	**$ 1,831**	**$ 49,709**
Commercial and industrial	**66,797**	**43,074**	**7,626**	**117,497**
Commercial real estate	**34,760**	**116,634**	**172,306**	**323,700**
Total	**$ 135,597**	**$ 173,546**	**$ 181,763**	**$ 490,906**

The following table indicates the rate variability of the above loans due after one year.

December 31, 2006	One to Five Years	Over Five Years	Total
	(Dollars in thousands)		
Predetermined interest rates	**$ 112,571**	**$ 31,570**	**$ 144,141**
Floating or adjustable interest rates	**60,975**	**150,193**	**211,168**
Total	**$ 173,546**	**$ 181,763**	**$ 355,309**

The Company s commercial and industrial (C&I) loan customers represent various small and middle market established businesses involved in manufacturing, distribution, retailing and services. Most clients are privately owned with markets that range from local to national in scope. Many of the loans to this segment are secured by liens on corporate assets and the personal guarantees of the principals. The Bank is placing greater emphasis on building its C&I base in the future. The regional economic strength or weakness impacts the relative risks in this loan category. There is little concentration to any one business sector and loan risks are generally diversified among many borrowers.

Commercial real estate loans are extended to finance various manufacturing, warehouse, light industrial, office, retail and residential properties in the Bank s market area, which generally includes Eastern Massachusetts and Southern New Hampshire. Loans are normally extended in amounts up to a maximum of 80% of appraised value and normally for terms between three to five years. Amortization schedules are long-term and thus a balloon payment is due at maturity. Under most circumstances, the Bank will offer to re-write or otherwise extend the loan at prevailing interest rates. During recent years, the Bank has emphasized non-residential type owner-occupied properties. This compliments our C&I emphasis placed on the operating business entities and will continue. The regional economic environment affects the risk of both non-residential and residential mortgages.

Residential real estate (1-4 family) includes two categories of loans. Approximately $10,993,000 of loans are classified as Commercial and Industrial type loans secured by 1-4 family real estate. Primarily, these are small businesses with modest capital or shorter operating histories where the collateral mitigates some risk. This category of loans shares similar risk characteristics with the C&I loans, notwithstanding the collateral position.

The other category of residential real estate loans are mostly 1-4 family residential properties located in the Bank s market area. General underwriting criteria are largely the same as those used by Fannie Mae but normally only one or three year adjustable interest rates are used. The Bank utilizes mortgage insurance to provide lower down payment products and has provided a First Time Homebuyer product to encourage new home ownership. Residential real estate loan volume has increased and remains a core consumer product. The economic environment impacts the risks associated with this category.

Home equity loans are extended as both first and second mortgages on owner occupied residential properties in the Bank s market area. Loans are underwritten to a maximum loan to property value of 75%.

Table of Contents

The Bank intends to maintain a market for construction loans, principally for smaller local residential projects or an owner occupied commercial project. Individual consumer residential home construction loans are also extended on a similar basis.

Bank officers evaluate the feasibility of construction projects, based on independent appraisals of the project, architects or engineers evaluations of the cost of construction, and other relevant data. As of December 31, 2006, the Company was obligated to advance a total of $16,793,000 to complete projects under construction.

The composition of nonperforming assets is as follows:

December 31,	**2006**	**2005**	**2004**	**2003**	**2002**
			(Dollars in thousands)		
Loans past due 90 and still accruing	**$ 789**	$	$ 160	$	$
Loans on non-accrual	**135**	949	628	1,175	511
Total nonperforming loans	**$ 924**	$ 949	$ 788	$ 1,175	$ 511
Other real estate owned					
Total nonperforming assets	**$ 924**	$ 949	$ 788	$ 1,175	$ 511
Restructured loans		$	$	$	$
Nonperforming loans as a percent of gross loans	**0.13%**	0.14%	0.14%	0.23%	0.10%
Nonperforming assets as a percent of total assets	**0.06%**	0.05%	0.04%	0.07%	0.03%

The composition of impaired loans at December 31, is as follows:

	2006	**2005**	**2004**	**2003**	**2002**
Residential real estate, multi-family	**$**	$	$ 512	$ 541	$ 629
Construction and land development		675			
Commercial real estate					487
Commercial and industrial	**16**	211	452	1,077	
Total impaired loans	**$ 16**	$ 886	$ 964	$ 1,618	$ 1,116

There were no impaired loans with specific reserves from December 31, 2002 through December 31, 2006 and in the opinion of management, none of the above listed impaired loans required a specific reserve.

The Company was servicing mortgage loans sold to others without recourse of approximately $798,000, $1,078,000, $1,538,000, $2,397,000 and $4,444,000 at December 31, 2006, 2005, 2004, 2003 and at December 31, 2002 respectively. Additionally, the Company was servicing mortgage loans sold to others with limited recourse. The outstanding balance of these loans with limited recourse was approximately $72,000, $80,000, $86,000, $183,000 and

$194,000 at December 31, 2006, 2005, 2004, 2003 and at December 31, 2002 respectively.

Directors and officers of the Company and their associates are customers of, and have other transactions with, the Company in the normal course of business. All loans and commitments included in such transactions were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and do not involve more than normal risk of collection or present other unfavorable features.

Loans are placed on non-accrual status when any payment of principal and/or interest is 90 days or more past due, unless the collateral is sufficient to cover both principal and interest and the loan is in the process of collection. The Company monitors closely the performance of its loan portfolio. In addition to internal loan review, the Company has contracted with an independent organization to review the Company s commercial and commercial real estate loan portfolios. This independent review was performed in each of the past five years. The status of delinquent loans, as well as situations identified as potential problems, are reviewed on a regular basis by senior management and monthly by the Board of Directors of the Company.

The relatively low level of nonperforming assets of $924,000 in 2006 and $949,000 in 2005 resulted from fewer additions to nonperforming assets during the year combined with an improvement in the resolution of nonperforming assets including payments on nonperforming loans.

In addition to the above, the Company continues to monitor closely $20,779,000 and $14,077,000 at December 31, 2006 and 2005, respectively, of loans for which management has concerns regarding the ability of the borrowers to perform. The majority of the loans are secured by real estate and are considered to have adequate collateral value to cover the loan balances at December 31, 2006, although such values can fluctuate with changes in the economy and the real estate market.

Allowance for Loan Losses

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

Year Ended December 31,	**2006**	**2005**	**2004**	**2003**	**2002**
			(Dollars in thousands)		
Year-end loans outstanding (net of unearned discount and deferred loan fees)	**$ 736,773**	$ 689,645	$ 580,003	$ 512,314	$ 514,249
Average loans outstanding (net of unearned discount and deferred loan fees)	**$ 723,825**	$ 641,103	$ 546,147	$ 500,723	$ 488,465
Balance of allowance for loan losses at the beginning of year	**$ 9,340**	$ 9,001	$ 8,769	$ 8,506	$ 7,112
Loans charged-off:					
Commercial	**$ 386**	$ 366	$ 1	$ 240	$
Commercial real estate					58
Residential real estate			194		
Consumer	**322**	324	113	125	87
Total loans charged-off	**708**	690	308	365	145
Recovery of loans previously charged-off:					
Commercial	**96**	75	117	127	276
Real estate	**49**	235	103	29	
Consumer	**112**	119	20	22	63
Total recoveries of loans previously charged off:	**256**	429	240	178	339

Net loan charge-offs (recoveries)		**452**		261		68		187		(194)
Additions to allowance charged to operating expense		**825**		600		300		450		1,200
Balance at end of year	**$**	**9,713**	$	9,340	$	9,001	$	8,769	$	8,506
Ratio of net charge-offs during the year to average loans outstanding		**0.06%**		0.04%		0.01%		0.04%		(0.04)%
Ratio of allowance for loan losses to loans outstanding		**1.32%**		1.35%		1.55%		1.71%		1.65%

These provisions are the result of management s evaluation of the quality of the loan portfolio considering such factors as loan status, collateral values, financial condition of the borrower, the state of the economy and other

19

Table of Contents

relevant information. The pace of the charge-offs depends on many factors including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels.

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. At December 31, of each year listed below, the allowance was comprised of the following:

	2006		2005		2004		2003		2002	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
					(Dollars in thousands)					
Construction and land development	**$ 849**	**6.8%**	$ 1,014	8.5%	$ 806	9.0%	$ 563	6.7%	$ 303	6.4%
Commercial and industrial	**1,916**	**15.9**	1,575	13.7	1,232	12.4	895	7.8	832	9.0
Commercial real estate	**4,460**	**43.9**	4,131	43.8	3,626	44.6	4,182	57.3	3,131	56.7
Residential real estate	**512**	**22.8**	778	21.2	628	20.4	551	16.9	556	17.9
Consumer and other	**220**	**2.0**	173	1.7	144	1.6	130	1.7	147	1.9
Home equity	**176**	**8.6**	600	11.1	546	12.0	385	9.6	321	8.1
Unallocated	**1,580**		1,069		2,019		2,063		3,216	
Total	**$ 9,713**	**100.0%**	$ 9,340	100.0%	$ 9,001	100.0%	$ 8,769	100.0%	$ 8,506	100.0%

Deposits

The Company offers savings accounts, NOW accounts, demand deposits, time deposits and money market accounts. The Company offers cash management accounts which provide either automatic transfer of funds above a specified level from the customer s checking account to a money market account or short-term borrowings. Also, an account reconciliation service is offered whereby the Company provides a computerized report balancing the customer s checking account. As of December 31, 2006, deposits of $1,269,000,000 were $52,000,000, or 4.3%, higher than the prior year end.

Interest rates on deposits are set bi-monthly by the Bank s rate-setting committee, based on factors including loan demand, maturities and a review of competing interest rates offered. Interest rate policies are reviewed periodically by the Executive Management Committee.

The following table sets forth the average balances of the Bank s deposits for the periods indicated.

	2006		2005		2004	
	Amount	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
			(Dollars in thousands)			
Demand deposits	**$ 284,295**	**22.6%**	$ 283,876	23.1%	$ 279,361	22.1%
Savings and interest checking	**290,172**	**23.0%**	313,146	25.5%	329,261	26.1%
Money market	**327,203**	**26.0%**	366,623	29.8%	412,220	32.6%
Time certificates of deposit	**359,045**	**28.4%**	265,310	21.6%	242,791	19.2%
Total	**$ 1,260,715**	**100.0%**	$ 1,228,955	100.0%	$ 1,263,633	100.0%

Table of Contents

Time Deposits of $100,000 or more as of December 31, are as follows:

	2006 (Dollars in thousands)
Three months or less	$ 104,759
Three months through six months	78,659
Six months through twelve months	28,317
Over twelve months	17,841
	$ 229,576

Borrowings

The Bank s borrowings consisted primarily of FHLB borrowings collateralized by a blanket pledge agreement on the Bank s FHLB stock, certain qualified investment securities, deposits at the FHLB and residential mortgages held in the Bank s portfolios. The Bank s borrowing totaled $121,750,000 a decrease of $176,906,000 from the prior year. The Bank s borrowing capacity at the FHLB at December 31, 2006 was approximately $142,435,000 based on levels of FHLB stock held and mix of overnight and term advances on that date. In addition, the Bank has a $14,500,000 line of credit with the FHLB. See note 10 Other Borrowed Funds and Subordinated Debentures for a schedule, their interest rates and other information.

Subordinated Debentures

In May 1998, the Company consummated the sale of a trust preferred securities offering, in which it issued $29,639,000 of subordinated debt securities due 2029 to its newly formed unconsolidated subsidiary Century Bancorp Capital Trust.

Century Bancorp Capital Trust then issued 2,875,000 shares of Cumulative Trust Preferred with a liquidation value of $10 per share. These securities pay dividends at an annualized rate of 8.30%, The Company redeemed through its subsidiary, Century Bancorp Capital Trust, its 8.30% Trust Preferred Securities, January 10, 2005.

In December 2004, the Company consummated the sale of a trust preferred securities offering, in which it issued $36,083,000 of subordinated debt securities due 2034 to its newly formed unconsolidated subsidiary Century Bancorp Trust II.

Century Bancorp Capital Trust II then issued 35,000 shares of Cumulative Trust Preferred Securities with a liquidation value of $1,000 per share. These securities pay dividends at an annualized rate of 6.65% for the first ten years and then convert to the three-month LIBOR rate plus 1.87% for the remaining twenty years. The Company is using the proceeds primarily for general business purposes.

Securities Sold Under Agreements to Repurchase

The Bank s remaining borrowings consist primarily of securities sold under agreements to repurchase. Securities sold under agreements to repurchase totaled $86,960,000, an increase of $36,950,000 from the prior year. See note 9 Securities sold under agreements to repurchase for a schedule, their interest rates and other information.

RESULTS OF OPERATIONS

Net Interest Income

The Company s operating results depend primarily on net interest income and fees received for providing services. Net interest income on a fully taxable equivalent basis decreased 8.1% in 2006 to $36,763,000, compared with $39,991,000 in 2005. The decrease in net interest income for 2006 was mainly due to a 7.0% or a eighteen basis point decrease in the net interest margin. The level of interest rates, the ability of the Company s earning assets and liabilities to adjust to changes in interest rates and the mix of the Company s earning assets and liabilities affect net interest income. The net interest margin on a fully taxable equivalent basis decreased to 2.40% in 2006 from 2.58%

Table of Contents

in 2005, which had decreased from 2.75% in 2004. The Company believes that the net interest margin will continue to be challenged in this current inverted yield curve environment. This is mainly the result of deposit and borrowing pricing that has the potential to increase faster than corresponding asset categories.

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 years indicated.

Ended December 31,	**2006** Average Balance	**2006** Interest Income/ Expense(1)	**2006** Rate Earned/ Paid(1)	**2005** Average Balance	**2005** Interest Income/ Expense(1)	**2005** Rate Earned/ Paid(1)	**2004** Average Balance	**2004** Interest Income/ Expense(1)
				(Dollars in thousands)				
				ASSETS				
earning assets:								
	$ 723,825	**$ 51,437**	**7.11%**	$ 641,103	$ 41,274	6.44%	$ 546,147	$ 33,384
s available-for-sale:(3)								
	497,113	**17,182**	**3.46**	580,129	19,518	3.36	570,935	18,528
npt	**354**	**12**	**5.02**	878	22	3.85	61	1
s held-to-maturity:								
	275,897	**10,112**	**3.67**	311,738	11,635	3.73	319,860	12,296
unds sold	**37,511**	**1,955**	**5.21**	15,847	362	2.28	69,461	824
bearing deposits in other								
	217	**9**	**4.15**	50		0.64	251	
erest-earning assets	**1,534,917**	**80,707**	**5.26%**	1,549,745	72,811	4.70%	1,506,715	65,033
rest-earning assets	**123,601**			118,325			120,306	
ce for loan losses	**(9,608)**			(9,353)			(8,813)	
ets	**$ 1,648,910**			$ 1,658,717			$ 1,618,208	
				LIABILITIES AND STOCKHOLDERS EQUITY				
bearing deposits:								
counts	**$ 205,645**	**$ 3,936**	**1.91%**	$ 237,016	$ 3,265	1.38%	$ 250,224	$ 1,966
accounts	**84,527**	**1,013**	**1.20**	76,130	287	0.38	79,037	302
narket accounts	**327,203**	**9,804**	**3.00**	366,623	7,018	1.91	412,220	5,010
posits	**359,045**	**16,026**	**4.46**	265,310	8,835	3.33	242,791	6,833
erest-bearing deposits	**976,420**	**30,779**	**3.15**	945,079	19,405	2.05	984,272	14,111
s sold under agreements								
hase	**70,862**	**2,681**	**3.78**	39,746	813	2.05	40,937	331
rrowed funds and								
ated debentures	**192,143**	**10,484**	**5.46**	268,878	12,602	4.69	194,932	9,204
erest-bearing liabilities	**1,239,425**	**43,944**	**3.55%**	1,253,703	32,820	2.62%	1,220,141	23,646
rest-bearing liabilities								
deposits	**284,295**			283,876			279,361	

bilities	**19,801**			16,463			15,511	
bilities	**1,543,521**			1,554,042			1,515,013	
ders equity	**105,389**			104,675			103,195	
bilities & stockholders	**$ 1,648,910**			$ 1,658,717			$ 1,618,208	
est income(1)		**$ 36,763**			$ 39,991			$ 41,387
est spread			**1.71%**			2.08%		
est margin			**2.40%**			2.58%		

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

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

(3) At amortized cost.

Table of Contents

The following table summarizes the year to year changes in the Company s net interest income resulting from fluctuations in interest rates and volume changes in earning assets and interest-bearing liabilities. Changes due to rate are computed by multiplying the change in rate by the prior year s volume. Changes due to volume are computed by multiplying the change in volume by the prior year s rate. Changes in volume and rate that cannot be separately identified have been allocated in proportion to the relationship of the absolute dollar amounts of each change.

	Year Ended December 31,					
	2006 Compared with 2005 Increase/(Decrease) Due to Change in			2005 Compared with 2004 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest income:						
Loans	**$ 5,632**	**$ 4,531**	**$ 10,163**	$ 6,041	$ 1,849	$ 7,890
Securities available-for-sale:						
Taxable	**(2,857)**	**521**	**(2,336)**	302	688	990
Tax-exempt	**(16)**	**6**	**(10)**	20	1	21
Securities held-to-maturity:						
Taxable	**(1,317)**	**(206)**	**(1,523)**	(308)	(353)	(661)
Federal funds sold	**822**	**771**	**1,593**	(903)	441	(462)
Interest-bearing deposits in other banks	**3**	**6**	**9**			
Total interest income	**2,267**	**5,629**	**7,896**	5,152	2,626	7,778
Interest expense:						
Deposits:						
NOW accounts	**(475)**	**1,146**	**671**	(109)	1,408	1,299
Savings accounts	**35**	**691**	**726**	(11)	(4)	(15)
Money market accounts	**(823)**	**3,609**	**2,786**	(606)	2,614	2,008
Time deposits	**3,663**	**3,528**	**7,191**	673	1,329	2,002
Total interest-bearing deposits	**2,400**	**8,974**	**11,374**	(53)	5,347	5,294
Securities sold under agreements to repurchase	**896**	**972**	**1,868**	(10)	492	482
Other borrowed funds and subordinated debentures	**(3,971)**	**1,853**	**(2,118)**	3,466	(68)	3,398
Total interest expense	**(675)**	**11,799**	**11,124**	3,403	5,771	9,174
Change in net interest income	**$ 2,942**	**$ (6,170)**	**$ (3,228)**	$ 1,749	$ (3,145)	$ (1,396)

Average earning assets were $1,534,917,000 in 2006, a decrease of $14,828,000 or 1.0% from the average in 2005, which was 2.9% higher than the average in 2004. Total average securities, including securities available-for-sale and securities held-to-maturity were $773,364,000, a decrease of 13.4% from the average in 2005. The decrease in securities volume was mainly attributable to a continued shift in asset concentration to loans. A decrease in securities rates resulted in lower securities income, which decreased 12.4% to $27,306,000. Total average loans increased 12.9% to $723,825,000 after increasing $94,956,000 in 2005. The primary reason for the increase in loans was due in large part to an increase in residential and small business lending. The increase in loan volume and increases in loan rates resulted in higher loan income, which increased by 24.6% or $10,163,000 to $51,437,000. Total loan income was $41,274,000 in 2004.

The Company s sources of funds include deposits and borrowed funds. On average, deposits showed an increase of 2.60% or $31,760,000 in 2006 after decreasing by 2.7% or $34,678,000 in 2005. Deposits increased in 2006 primarily as a result of an increase in time deposits, which increased by 35.3% or $93,734,000. Borrowed funds and subordinated debentures decreased by 14.8% in 2006 following an increase of 30.8% in 2005. The majority of the Company s borrowed funds are borrowings from the FHLB and retail repurchase agreements.

Borrowings from the FHLB decreased by approximately $76,445,000 and retail repurchase agreements increased by $31,116,000. Interest expense totaled $43,944,000 in 2006, an increase of $11,124,000 or 33.9%. from 2005 when interest expense increased 38.8% from 2004. The increase in interest expense is mainly due to increases in interest rates.

Provision for loan loss

The provision for loan losses was $825,000 in 2006, compared with $600,000 in 2005 and $300,000 in 2004. These provisions are the result of management s evaluation of the amounts and quality of the loan portfolio considering such factors as loan status, collateral values, financial condition of the borrower, the state of the economy and other relevant information. Additional provisions have been made due to growth in the loan portfolio.

The allowance for loan losses was $9,713,000 at December 31, 2006, compared with $9,340,000 at December 31, 2005. Expressed as a percentage of outstanding loans at year-end, the allowance was 1.32% in 2006 and 1.35% in 2005. The coverage ratio decreased mainly as a result of the continued low levels of problem assets.

Non performing loans, which include all non-accruing loans and certain restructured, accruing loans, totaled $924,000 on December 31, 2006, compared with $949,000 on December 31, 2005.

Other Operating Income

During 2006, the Company continued to experience positive results in its fee-based services including fees derived from traditional banking activities such as deposit related services, its automated lockbox collection system and full service securities brokerage offered through IFMG, an unaffiliated registered securities broker-dealer and investment adviser.

Under the lockbox program, which is not tied to extensions of credit by the Company, the Company s customer arranges for payments of its accounts receivable to be made directly to the Company. The Company records the amounts paid to its customers, deposits the funds to the customer s account and provides automated records of the transactions to customers. Typical customers for the lockbox service are municipalities who use it to automate tax collections, cable TV companies and other commercial enterprises.

Through a program called Investment Services at Century Bank, the Bank provides full service securities brokerage services supported by IFMG, a full service securities brokerage business. Registered representatives employed by IFMG offer limited investment advice, execute transactions and assist customers in financial and retirement planning. IFMG provides research to and supervises its representatives. The Bank receives a share in the commission revenues.

Total other operating income in 2006 was $11,365,000, an increase of $392,000 or 3.6% compared to 2005. This increase followed an increase of $542,000 or 5.2% in 2005, compared to 2004. Service charge income, which continues to be a major area of other operating income with $6,702,000 in 2006, saw an increase of $856,000 compared to 2005. This follows an increase of $575,000 compared to 2004. Service charges on deposit accounts increased mainly because of increases in fees and an increase in overdraft charges associated with an overdraft protection program. Lockbox revenues totaled $2,772,000, down $35,000 in 2006 and a decrease of $143,000 in 2005. This decrease was mainly attributable to competitive pricing pressures. Through IFMG, brokerage commissions decreased to $149,000 in 2006, from $462,000 in 2005, primarily as a result of decreased transaction volume. Brokerage commissions decreased in 2005 by $208,000 mainly as a result of decreased transaction volume. Other income totaled $1,742,000, down $116,000 in 2006 and an increase of $227,000 in 2005. The decrease in 2006 was mainly attributable to a decrease in the growth of cash surrender values by $697,000 offset by a pre-tax gain of $600,000 from the sale of rights to future royalty payments for a portion of the Company s Merchant Credit Card customer base. The decrease in the growth of cash surrender values was mainly attributable to lower returns on life insurance policies. The increase in 2005 was mainly attributable to an increase in the growth of cash surrender values that was attributable to higher returns on life insurance policies.

Operating Expenses

Total operating expenses were $40,196,000 in 2006, compared to $40,318,000 in 2005 and $37,663,000 in 2004.

Salaries and employee benefits expenses decreased by $382,000 or 1.6% in 2006, after increasing by 4.0% in 2005. The decrease in 2006 was mainly attributable to the retirement of the Chief Executive Officer offset somewhat by an increase in pension expense and health insurance costs. The increase in 2005 was mainly attributable to an increase in staff levels and merit increases in salaries.

Occupancy expense increased by $109,000 or 2.9% in 2006, this followed an increase of $801,000 or 26.7% in 2005. The increase in 2006 was mainly attributable to an increase in utility rates. The increase in 2005 was mainly attributable to depreciation and real estate taxes associated with the addition to the corporate headquarters as well as full-year costs associated with the opening of one new branch in 2004 and partial year costs associated with the opening of one new branch in 2005. Equipment expense increased by $56,000 or 1.9% in 2006, this followed an increase of $607,000 or 25.5% in 2005. The increase in 2006 was mainly attributable to depreciation associated with the addition of capital expenditures. The increase in 2005 was mainly attributable to full-year costs of depreciation and service contract expense associated with the addition of the lockbox image system, as well as depreciation associated with the addition to the corporate headquarters. Other operating expenses increased by $95,000 in 2006, which followed a $316,000 increase in 2005. The increase in 2006 was mainly attributable to an increase in contributions. The increase for 2005 was primarily the result of increased consulting costs associated with the BlackRock contract. The expense related to this contract ended on June 30, 2005 and the contract terminated on January 31, 2006.

Provision for income Taxes

Income tax expense was $2,419,000 in 2006, $3,166,000 in 2005 and $4,974,000 in 2004. The effective tax rate was 34.0% in 2006, 31.5% in 2005 and 35.9% in 2004. The increase in the effective tax rate for 2006 was mainly the result of a decrease in the growth of the cash surrender values. The decrease in the effective tax rate for 2005 was mainly attributable to a higher proportion of non-taxable income. The federal tax rate was 34% in 2006 and 2005 and 35% in 2004.

Market Risk and Asset Liability Management

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, and 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 in interest rates may adversely impact the Company s earnings to the extent that the interest rates borne by 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. One measure of the Company s exposures to differential changes in interest rates between assets and liabilities an interest rate risk management test.

This test measures the impact on net interest income of an immediate change in interest rates in 100 basis point increments as set forth in the following table:

Change in Interest Rates	Percentage Change in

(in Basis Points)	Net Interest Income(1)
+300	(14.4)%
+200	(9.6)%
+100	(4.9)%
100	0.2%
200	2.0%

(1) The percentage change in this column represents net interest income for 12 months in various rate scenarios versus the net interest income in a stable interest rate environment.

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. The Company relies primarily on its asset-liability structure to control interest rate risk.

Liquidity and Capital Resources

Liquidity is provided by maintaining an adequate level of liquid assets that include cash and due from banks, federal funds sold and other temporary investments. Liquid assets totaled $159,668,000 on December 31, 2006, compared with $152,679,000 on December 31, 2005. In each of these two years, deposit and borrowing activity has generally been adequate to support asset activity.

The source of funds for dividends paid by the Company is dividends received from the Bank. The Company and the Bank are regulated enterprises and their abilities to pay dividends are subject to regulatory review and restriction. Certain regulatory and statutory restrictions exist regarding dividends, loans and advances from the Bank to the Company. Generally, the Bank has the ability to pay dividends to the Company subject to minimum regulatory capital requirements.

Capital Adequacy

Total stockholders equity was $106,818,000 at December 31, 2006, compared with $103,201,000 at December 31, 2005. The increase in 2006 was primarily the result of earnings less dividends paid plus a decrease in accumulated other comprehensive loss. The decrease in accumulated other comprehensive loss was mainly attributable to an improvement of $3,159,000 in the net unrealized loss on the Company s available-for-sale portfolio, partially offset by a $2,158,000 net pension liability adjustment from the previously announced adoption of SFAS 158. The decrease in 2005 was primarily the result of an increase in accumulated other comprehensive loss somewhat offset by earnings less dividends paid.

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance sheet items. The current guidelines require a Tier 1 capital-to-risk assets ratio of at least 4.00% and a total capital-to-risk assets ratio of at least 8.00%. The Company and the Bank exceeded these requirements with a Tier 1 capital-to-risk assets ratio of 15.93% and 12.55%, respectively, and total capital-to-risk assets ratio of 17.00% and 13.62%, respectively, at December 31, 2006. Additionally, federal banking regulators have issued leverage ratio guidelines, which supplement the risk-based capital guidelines. The minimum leverage ratio requirement applicable to the Company is 4.00% and at December 31, 2006, the Company and the Bank exceeded this requirement with leverage ratios of 8.58% and 6.76%, respectively.

Table of Contents

Contractual Obligations, Commitments, and Contingencies

The Company has entered into contractual obligations and commitments. The following tables summarize the Company s contractual cash obligations and other commitments at December 31, 2006.

Contractual Obligations and Commitments by Maturity

		Payments Due by Period			
Contractual Obligations	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
		(Dollars in thousands)			
FHLB advances	$ 121,750	$ 2,750	$ 51,500	$ 40,500	$ 27,000
Subordinated debentures	36,083				36,083
Retirement benefit obligations	19,138	1,619	3,317	3,578	10,624
Lease obligations	4,973	1,197	1,999	1,316	461
Other					
Treasury, tax and loan	856	856			
Customer repurchase agreements and federal funds purchased	87,230	87,230			
Total contractual cash obligations	$ 270,030	$ 93,652	$ 56,816	$ 45,394	$ 74,168

		Amount of Commitment Expiring by Period			
Other Commitments	Total	Less than One Year	One to Three Years	Three to Five Years	After Five Years
Lines of credit	$ 168,289	$ 55,847	$ 12,576	$ 1,276	$ 98,590
Standby and commercial letters of credit	10,397	9,626	521		250
Other commitments	25,073	11,270	5,952	2,054	5,797
Total commitments	$ 203,759	$ 76,743	$ 19,049	$ 3,330	$ 104,637

Table of Contents

Financial Instruments With Off-Balance Sheet Risk

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily include commitments to originate and sell loans, standby letters of credit, unused lines of credit and unadvanced portions of construction loans. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notational amounts of those instruments reflect the extent of involvement the Company has in these particular classes of financial instruments.

The Company s exposure to credit loss in the event of non-performance by the other party to the financial instrument for loan commitments, standby letters of credit and unadvanced portions of construction loans is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Financial instruments with off-balance sheet risk at December 31, are as follows:

Contract or Notational Amount	**2006**	**2005**
	(Dollars in thousands)	
Financial instruments whose contract amount represents credit risk:		
Commitments to originate 1-4 family mortgages	**$ 2,305**	$ 1,814
Standby and commercial letters of credit	**10,397**	10,272
Unused lines of credit	**168,290**	143,533
Unadvanced portions of construction loans	**16,793**	52,469
Unadvanced portions of other loans	**5,975**	7,934

Commitments to originate loans, unadvanced portions of construction loans and unused letters of credit are generally agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer s credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation of the borrower.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

Recent Accounting Developments

In July, 2006 the Financial Accounting Standards Board (FASB) issued Financial Accounting Standards Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company s financial position.

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158 (SFAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, SFAS 158 requires the net amount by which the defined-benefit-postretirement obligation is over or under funded to be reported on the balance sheet. The Company recorded an additional $2,158,000 net pension liability adjustment, through stockholders equity, as a result of the adoption of SFAS 158.

Table of Contents

On September 13, 2006, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements, expressing the SEC staff s views regarding the process of quantifying financial statement misstatements. This SAB is addressing diversity in practice in quantifying financial statement misstatements and the build up of amounts on the balance sheet. The cumulative amounts, while not considered material in the individual years in which the build up occurred may be considered material in a subsequent year if a Company were to correct those amounts through current period earnings. Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year, and the offsetting adjustment, net of tax, should be made to the opening balance of equity for that year. The adoption of SAB No. 108 did not have a material impact on the Company s financial position.

Table of Contents

CENTURY BANCORP, INC.

Consolidated Balance Sheets

	December 31, 2006	December 31, 2005
	(Dollars in thousands except share data)	
ASSETS		
Cash and due from banks (note 2)	**$ 60,465**	$ 47,626
Federal funds sold and interest-bearing deposits in other banks	**99,203**	105,053
Total cash and cash equivalents	**159,668**	152,679
Securities available-for-sale, amortized cost $423,707 in 2006 and $546,524 in 2005 (note 3)	**415,481**	532,982
Securities held-to-maturity, fair value $258,420 in 2006 and $277,769 in 2005 (notes 4 and 9)	**265,712**	286,578
Loans, net (note 5)	**736,773**	689,645
Less: allowance for loan losses (note 6)	**9,713**	9,340
Net loans	**727,060**	680,305
Bank premises and equipment (note 7)	**22,955**	25,228
Accrued interest receivable	**7,372**	7,127
Other assets (note 12)	**46,042**	43,870
Total assets	**$ 1,644,290**	$ 1,728,769
LIABILITIES AND STOCKHOLDERS EQUITY		
Demand deposits	**$ 283,449**	$ 296,696
Savings and NOW deposits	**274,231**	239,326
Money market accounts	**301,188**	279,245
Time deposits (note 8)	**410,097**	401,773
Total deposits	**1,268,965**	1,217,040
Securities sold under agreements to repurchase (note 9)	**86,960**	50,010
Other borrowed funds (note 10)	**123,023**	304,722
Subordinated debentures (note 10)	**36,083**	36,083
Other liabilities	**22,441**	17,713
Total liabilities	**1,537,472**	1,625,568
Commitments and contingencies (notes 7, 14 and 15)		
Stockholders equity (note 11):		
Common stock, Class A, $1.00 par value per share; authorized 10,000,000 shares; issued 3,498,738 shares in 2006 and 3,453,202 shares in 2005	**3,499**	3,453
Common stock, Class B,		
	2,042	2,082

$1.00 par value per share; authorized 5,000,000 shares; issued 2,042,450 shares in 2006 and 2,082,240 shares in 2005		
Additional paid-in-capital	**11,505**	11,416
Retained earnings	**99,859**	97,338
	116,905	114,289
Unrealized losses on securities available-for-sale, net of taxes	**(5,111)**	(8,270)
Additional pension liability, net of taxes	**(4,976)**	(2,818)
Total accumulated other comprehensive loss, net of taxes (note 3)	**(10,087)**	(11,088)
Total stockholders equity	**106,818**	103,201
Total liabilities and stockholders equity	**$ 1,644,290**	$ 1,728,769

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CENTURY BANCORP, INC.

Consolidated Statements of Income

	Year Ended December 31, 2006	2005	2004
	(Dollars in thousands except share data)		
INTEREST INCOME			
Loans	**$ 51,437**	$ 41,274	$ 33,384
Securities available-for-sale	**17,194**	19,540	18,529
Securities held-to-maturity	**10,112**	11,635	12,296
Federal funds sold and interest-bearing deposits in other banks	**1,964**	362	824
Total interest income	**80,707**	72,811	65,033
INTEREST EXPENSE			
Savings and NOW deposits	**4,950**	3,552	2,268
Money market accounts	**9,804**	7,018	5,010
Time deposits (note 8)	**16,026**	8,835	6,833
Securities sold under agreements to repurchase	**2,681**	813	331
Other borrowed funds and long term debt	**10,483**	12,602	9,204
Total interest expense	**43,944**	32,820	23,646
Net Interest income	**36,763**	39,991	41,387
Provision for loan losses (note 6)	**825**	600	300
Net interest income after provision for loan losses	**35,938**	39,391	41,087
OTHER OPERATING INCOME			
Service charges on deposit accounts	**6,702**	5,846	5,271
Lockbox fees	**2,772**	2,807	2,950
Brokerage commissions	**149**	462	670
Net (losses) gains on sales of securities			(91)
Other income	**1,742**	1,858	1,631
Total other operating income	**11,365**	10,973	10,431
OPERATING EXPENSES			
Salaries and employee benefits (note 13)	**23,815**	24,197	23,266
Occupancy	**3,907**	3,798	2,997
Equipment	**3,043**	2,987	2,380
Other (note 16)	**9,431**	9,336	9,020
Total operating expenses	**40,196**	40,318	37,663
Income before income taxes	**7,107**	10,046	13,855
Provision for income taxes (note 12)	**2,419**	3,166	4,974
Net income	**$ 4,688**	$ 6,880	$ 8,881

SHARE DATA (NOTE 11)						
Weighted average number of shares outstanding, basic		**5,540,966**		5,535,202		5,526,202
Weighted average number of shares outstanding, diluted		**5,550,722**		5,553,009		5,553,197
Net income per share, basic	**$**	**0.85**	$	1.24	$	1.61
Net income per share, diluted		**0.84**		1.24		1.60

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CENTURY BANCORP, INC.

Consolidated Statements of Changes of Stockholders Equity

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock Class A	Treasury Stock Class B	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
	(Dollars in thousands except share data)							
BALANCE, DECEMBER 31, 2003	$ 3,793	$ 2,163	$ 11,227	$ 91,427	$ (5,941)	$ (41)	$ 1,100	$ 103,728
Net income				8,881				8,881
Other comprehensive income, net of tax:								
Unrealized holding losses arising during period, net of $2,741 in taxes							(4,164)	(4,164)
Less: reclassification adjustment for gains included in net income, net of $36 in taxes							55	55
Minimum pension liability adjustment, net of tax							(1,757)	(1,757)
Comprehensive income								3,015
Conversion of Class B Common Stock to Class A Common Stock, 15,460 shares	16	(16)						
Stock options exercised, 9,650 shares	9		168					177
Cash dividends, Class A Common Stock, $0.48 per share				(1,642)				(1,642)
Cash dividends, Class B Common Stock, $0.24 per share				(505)				(505)
Elimination of treasury stock due to change in Massachusetts law (note 1)	(384)	(48)		(5,550)	5,941	41		
BALANCE, DECEMBER 31, 2004	3,434	2,099	11,395	92,611			(4,766)	104,773

Net income				6,880		6,880
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of $3,357 in taxes					(5,261)	(5,261)
Minimum pension liability adjustment, net of tax					(1,061)	(1,061)
Comprehensive income						558
Conversion of Class B Common Stock to Class A Common Stock, 17,400 shares	17	(17)				
Stock options exercised, 1,354 shares	2		21			23
Cash dividends, Class A Common Stock, $0.48 per share				(1,649)		(1,649)
Cash dividends, Class B Common Stock, $0.24 per share				(504)		(504)
BALANCE, DECEMBER 31, 2005	$ 3,453	$ 2,082	$ 11,416	$ 97,338	$ (11,088)	$ 103,201
Net income				**4,688**		**4,688**
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $2,156 in taxes					**3,159**	**3,159**
Comprehensive income						**7,847**
Adjustment to initially apply SFAS 158, net of tax					**(2,158)**	**(2,158)**
Conversion of Class B Common Stock to Class A Common Stock, 39,790 shares	**40**	**(40)**				
Stock options exercised, 5,746 shares	**6**		**89**			**95**
Cash dividends, Class A Common Stock, $0.48 per share				**(1,674)**		**(1,674)**
Cash dividends, Class B Common Stock, $0.24 per share				**(493)**		**(493)**

BALANCE, DECEMBER 31, 2006	**$ 3,499**	**$ 2,042**	**$ 11,505**	**$ 99,859**		**$ (10,087)**	**$ 106,818**

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CENTURY BANCORP, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31, 2006	2005	2004
	(Dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 4,688**	$ 6,880	$ 8,881
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	**825**	600	300
Deferred income taxes	**(713)**	128	470
Net depreciation and amortization	**3,595**	3,348	1,848
(Increase) decrease in accrued interest receivable	**(245)**	(327)	1,650
Increase in other assets	**(2,644)**	(3,646)	(4,368)
Loss on sales of securities available-for-sale			91
Increase in other liabilities	**1,202**	299	1,699
Net cash provided by operating activities	**6,708**	7,282	10,571
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from calls/maturities of securities available-for-sale	**123,013**	180,317	389,172
Proceeds from sales of securities available-for-sale			88,198
Purchase of securities available-for-sale	**(498)**	(112,235)	(390,398)
Proceeds from calls/maturities of securities held-to-maturity	**20,965**	60,950	56,930
Purchase of securities held-to-maturity		(2,022)	(204,309)
Decrease in investments purchased payable			(29,330)
Net increase in loans	**(47,580)**	(110,369)	(67,639)
Capital expenditures	**(723)**	(1,916)	(6,728)
Net cash provided by (used in) investing activities	**95,177**	14,725	(164,104)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in time deposit accounts	**8,324**	41,957	199
Net increase (decrease) in demand, savings, money market and NOW deposits	**43,601**	(218,927)	54,958
Net proceeds from the exercise of stock options	**95**	23	177
Cash dividends	**(2,167)**	(2,153)	(2,147)
Net increase (decrease) in securities sold under agreements to repurchase	**36,950**	11,360	(1,400)
Net (decrease) increase in other borrowed funds	**(181,699)**	89,816	78,577
(Retirement) issuance of subordinated debentures		(29,639)	36,083
Net cash (used in) provided by financing activities	**(94,896)**	(107,563)	166,447
Net increase (decrease) in cash and cash equivalents	**6,989**	(85,556)	12,914
Cash and cash equivalents at beginning of year	**152,679**	238,235	225,321

Cash and cash equivalents at end of year	**$**	**159,668**	$	152,679	$	238,235
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:						
Cash paid during the year for:						
Interest	**$**	**42,887**	$	33,369	$	23,165
Income taxes		**2,713**		3,050		4,600
Change in unrealized gains on securities available-for-sale, net of taxes	**$**	**3,159**	$	(5,261)	$	(4,109)
Change in additional pension liability, net of taxes		**(2,158)**		(1,061)		(1,757)

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CENTURY BANCORP, INC.

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

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. Ill (CSII III) and Century Financial Services Inc. (CFSI). CSII, CSII II, CSII III are engaged in buying, selling and holding investment securities. CFSI has the power to engage in financial agency, securities brokerage and investment and financial advisory services and related securities credit.

The Company also owns 100% of Century Bancorp Capital Trust II (CBCT II). The entity is an unconsolidated subsidiary of the Company.

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

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

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

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

INVESTMENT SECURITIES

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost; debt and equity securities that are bought and held principally for the purpose of selling are classified as trading and reported at fair value, with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held-to-maturity or trading are classified as

Table of Contents

CENTURY BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders equity, net of estimated related income taxes. The Company has no securities held for trading.

Premiums and discounts on investment securities are amortized or accreted into income by use of the level-yield method. If a decline in fair value below the amortized cost basis of an investment is judged to be other-than-temporary, the cost basis of the investment is written down to fair value. The amount of the write down is included as a charge to earnings. Gains and losses on the sale of investment securities are recognized at the time of sale on a specific identification basis.

LOANS

Interest on loans is recognized based on the daily principal amount outstanding. Accrual of interest is discontinued when loans become 90 days delinquent unless the collateral is sufficient to cover both principal and interest and the loan is in the process of collection. Loans, including impaired loans, on which the accrual of interest has been discontinued are designated non-accrual loans. When a loan is placed on non-accrual, all income which has been accrued but remains unpaid is reversed against current period income and all amortization of deferred loan fees is discontinued. Non-accrual loans may be returned to an accrual status when principal and interest payments are not delinquent or the risk characteristics of the loan have improved to the extent that there no longer exists a concern as to the collectibility of principal and income. Income received on non-accrual loans is either recorded in income or applied to the principal balance of the loan depending on management s evaluation as to the collectibility of principal.

Loan origination fees and related direct loan origination costs are offset and the resulting net amount is deferred and amortized over the life of the related loans using the level-yield method.

The Bank accounts for impaired loans, except those loans that are accounted for at fair value or at lower of cost or fair value, by either the present value of the expected future cash flows discounted at the loan s effective interest rate or the fair value of the collateral if the loan is collateral dependent. This method applies to all loans, uncollateralized, as well as collateralized, except large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment and loans that are measured at fair value. Management considers the payment status, net worth and earnings potential of the borrower, and the value and cash flow of the collateral as factors to determine if a loan will be paid in accordance with its contractual terms. Management does not set any minimum delay of payments as a factor in reviewing for impaired classification. Loans are charged-off when management believes that the collectibility of the loan s principal is not probable. In addition, criteria for classification of a loan as in-substance foreclosure has been modified so that such classification need be made only when a lender is in possession of the collateral. The Bank measures the impairment of troubled debt restructurings using the pre-modification rate of interest.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is based on management s evaluation of the quality of the loan portfolio and is used to provide for losses resulting from loans which ultimately prove uncollectible. In determining the level of the allowance, periodic evaluations are made of the loan portfolio which take into account such factors as the character of the loans, loan status, financial posture of the borrowers, value of collateral securing the loans and other relevant information sufficient to reach an informed judgment. The allowance is increased by provisions charged to income and reduced by loan charge-offs, net of recoveries. Management maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on assessments of the probable estimated losses inherent in the loan portfolio. Management s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances, if appropriate, for identified problem loans and the unallocated allowance.

CENTURY BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

While management uses available information in establishing the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. Loans are charged-off in whole or in part when, in management s opinion, collectibility is not probable.

BANK PREMISES AND EQUIPMENT

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the terms of leases, if shorter. It is general practice to charge the cost of maintenance and repairs to operations when incurred; major expenditures for improvements are capitalized and depreciated.

STOCK OPTION ACCOUNTING

Prior to January 1, 2006, the Company accounted for its stock-based plans under the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related Interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). No compensation cost was recognized for stock options in the Consolidated Statement of Income for the periods ended on or prior to December 31, 2005, as options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of the grant.

Effective January 1, 2006 the Company adopted the fair value recognition provisions of SFAS 123R for all share-based payments, using the modified-prospective transition method. In accordance with the modified prospective transition method, the Company s Consolidated Financial Statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R. Upon adoption of SFAS 123R, the Company elected to retain its method of valuation for share-based awards granted using the Black-Scholes option-pricing model which was also previously used for the Company s pro forma information required under SFAS 123. The Company will recognize compensation expense for its awards on a straight-line basis over the requisite service period for the entire award (straight-line attribution method), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date fair value of the award that is vested at that time.

During 2000 and 2004, common stockholders of the Company approved stock option plans (the Option Plans) that provide for granting of options to purchase up to 150,000 shares of Class A common stock per plan. Under the Option Plans, all officers and key employees of the Company are eligible to receive non-qualified or incentive stock options to purchase shares of Class A common stock. The Option Plans are administered by the Compensation Committee of the Board of Directors, whose members are ineligible to participate in the Option Plans. Based on management s recommendations, the Committee submits its recommendations to the Board of Directors as to persons to whom options are to be granted, the number of shares granted to each, the option price (which may not be less than 85% of the fair market value for non-qualified stock options, or the fair market value for incentive stock options, of the shares on the date of grant) and the time period over which the options are exercisable (not more than ten years from the date of grant). There were options to purchase an aggregate of 123,237 shares of Class A common stock exercisable at September 30, 2006.

On December 30, 2005 the Board of Directors approved the acceleration and immediate vesting of all unvested options with an exercise price of $31.60 or greater per share. As a consequence, options to purchase 23,950 shares of

Class A common stock became exercisable immediately. The average of the high and low price at which the Class A common stock traded on December 30, 2005, the date of the acceleration and vesting, was $29.28 per share. The Company estimates that, as a result of this accelerated vesting, approximately $190,000 of 2006 non-cash compensation expense was eliminated that would otherwise have been recognized in the Company s earnings.

In December 2004, the FASB issued a revised Statement No. 123, (revised 2004) (SFAS 123R) , Share-Based Payment. This Statement replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes

Table of Contents

CENTURY BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance.
SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award period which is usually the vesting period. SFAS 123R is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company accelerated the vesting of certain unvested out-of-the-money stock options awarded to Bank employees pursuant to the Option Plans so that they immediately vested as of December 30, 2005. In connection with this acceleration the Board of Directors approved a technical amendment to each of the Option Plans to eliminate the possibility that the terms of any outstanding or future stock option would require a cash settlement on the occurrence of any circumstance outside the control of the Company. Effective as of January 1, 2006 the Company adopted SFAS 123R for all share based payments.

The Company decided to accelerate the vesting of certain stock options primarily to reduce the non-cash compensation expense that would otherwise be expected to be recorded in conjunction with the Company s required adoption of SFAS 123R in 2006. There was no earnings impact for 2006 due to the Company s adoption of SFAS 123R.

Had compensation cost for the Company s stock option plans been determined based on the fair value at the grant date, the Company s net income and earnings per share would have been reduced to the pro forma amounts indicated in the following table:

	December 31, 2005	December 31, 2004
	(Dollars in thousands)	
Net income:		
As reported	$ 6,880	$ 8,881
Less:		
Pro forma stock based compensation cost (net of tax):	$ 282	$ 151
Pro forma net income	$ 6,598	$ 8,730
Basic earning per share		
As reported	$ 1.24	$ 1.61
Pro forma	$ 1.19	$ 1.58
Diluted earnings per share		
As reported	$ 1.24	$ 1.60
Pro forma	$ 1.19	$ 1.57

In determining the pro forma amounts, the fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

Dividend yield	1.59%
Expected life	9 years
Expected volatility	28%
Risk-free interest rate	3.95%

The Company uses the fair value method to account for stock options. All of the Company s stock options are vested and there were no options granted during 2006.

CENTURY BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

INCOME TAXES

The Company uses the asset and liability method in accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Under this method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

TREASURY STOCK

Effective July 1, 2004, companies incorporated in Massachusetts became subject to Chapter 156D of the Massachusetts Business Corporation Act, provisions of which eliminate the concept of treasury stock and provide that shares reacquired by a company are to be treated as authorized but unissued shares. As a result of this change in law, the Company has reclassified, for the balance sheets presented, shares previously classified as treasury shares as a reduction to issued shares of common stock, and, accordingly, adjusted the stated value of common stock and paid in capital. At December 31, 2004 the Company had 431,150 shares at a cost of $5,982,000 previously classified as treasury stock.

PENSION

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

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

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

Effective December 31, 2006, the Company adopted SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106, and 132(R), which requires the Company to recognize the overfunded or underfunded status of a single employer defined benefit pension or postretirement plan as an asset or liability on its balance sheet and to recognize changes in the funded status in comprehensive income in the year in which the change occurred. However, gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in net periodic benefit cost as of the end of 2006, the fiscal year in which the Statement is initially applied are to be recognized as components of the ending balance of accumulated other comprehensive income, net of tax. The Company recorded an additional $2,158,000 pension liability adjustment, net of tax, through stockholders equity, as a result of the adoption of SFAS 158. SFAS 158 also requires the Company to measure plan assets and benefit obligations as of the date of the Company s fiscal year end effective for fiscal years ending after December 15, 2008.

RECENT ACCOUNTING DEVELOPMENTS

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

CENTURY BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of FIN 48 did not have a material impact on the Company s financial position.

On September 13, 2006, the Securities and Exchange Commission (the SEC) issued Staff Accounting Bulletin (SAB) No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year Financial Statements, expressing the SEC staff s views regarding the process of quantifying financial statement misstatements. This SAB is addressing diversity in practice in quantifying financial statement misstatements and the build up of amounts on the balance sheet. The cumulative amounts, while not considered material in the individual years in which the build up occurred may be considered material in a subsequent year if a Company were to correct those amounts through current period earnings. Initial application of SAB No. 108 allows registrants to elect not to restate prior periods but to reflect the initial application in their annual financial statements covering the first fiscal year ending November 15, 2006. The cumulative effect of the initial application should be reported in the carrying amounts of assets and liabilities as of the beginning of that fiscal year, and the offsetting adjustment, net of tax, should be made to the opening balance of equity for that year. The adoption of SAB No. 108 did not have a material impact on the Company s financial position.

2. Cash and Due From Banks

The Company is required to maintain a portion of its cash and due from banks as a reserve balance under the Federal Reserve Act. Such reserve is calculated based upon deposit levels and amounted to $805,000 at December 31, 2006 and $746,000 at December 31, 2005.

3. Securities Available-for-Sale