

| This is our Century.



**Century**  
*Bancorp, Inc.*

| 2004  
ANNUAL  
REPORT

Special thanks to James M. Flynn, Jr., Senior  
Vice President & Chairman, Building Committee,  
for his dedication and diligence in making  
the new Century Bank Headquarters a reality.



PICTURED (from left): Jonathan G. Sloane, President & Co-COO; Linda Sloane Kay, Vice President; Marshall M. Sloane, Chairman of the Board & CEO; Barry R. Sloane, Executive Vice President & Co-COO.

Dear Fellow Shareholders:

2004 was an important year of achievement for Century Bank. Our 35-year tradition of client intimacy and community involvement remains the core of our existence and the central building block of our success. This is why we are a market leader. It indicates our commitment to being one for many years to come.

Our asset growth this year was excellent. However, our earnings were less so and are attributed to the clear and compelling reasons of a historically low interest rate environment and investments we made in our future. We added significant resources in 2004 to our three principal business units, Personal, Business, and Institutional Banking and feel that these investments and changing market conditions have created an attitude of optimism and atmosphere of positive energy and excitement for 2005.

While 2004 was a year of modest performance, it was a period of significant investment that we feel prepares us for both market change and market opportunity. Century Bank's major events of 2004 are comprised of the following:

- Record asset size of \$1.83 billion reached, representing an 8.6% increase of assets from the previous year-end. The Bank's five-year compounded annual growth rate (CAGR) is 14.7%.
- \$8.88 million earned net income, representing a 24% decline from 2003 to \$1.60 per share, resulting from the interest rate environment and our investments in both client relationships and infrastructure.
- Net increase of \$68 million in our loan portfolio or 13% to \$580 million, including \$26 million in a record 402 approved small business loans and 543 new home equity loans totaling over \$65 million. Our credit quality remains, as one auditor has put it, "impeccable."
- 22<sup>nd</sup> branch office opened on Albany Street, Boston.
- Operations upgraded to full-check image capability to maintain our competitive advantage in lockbox processing and in response to the Check 21 clearing environment representing an investment of \$2.2 million.
- Expanded our Business Development Team to include six new, experienced line officers.
- Implemented state-of-the-art technology advancements to enhance our PC office working environment.
- BlackRock Financial Management, the second largest domestic fixed-income manager in the U.S. was retained to manage our "Available-For-Sale" portfolio insuring best practices are utilized in the management of our securities portfolio, thus maximizing its yield.

- Raised an additional \$6.4 million of capital by refinancing our outstanding Trust Preferred securities while lowering the interest rate paid from 8.3% to 6.65%.
- Imposed another layer of financial control reporting, in addition to our existing five supervisory levels of oversight, as a result of the advent of the Sarbanes-Oxley Act. We estimate hundreds of thousands of dollars of new audit expense and thousands of hours of management time elapsed in compliance efforts with this implementation.
- Finally, we completed, and now occupy our new 50,000 square foot Medford Headquarters and new Main Office Branch.

In 2004, the New England banking environment continued its 20-year evolution to where the four largest banks represented 45% of the Massachusetts banking marketplace. Additionally, they are all owned and controlled by out-of-state institutions. With Century Bank being the second largest locally-controlled commercial bank in Massachusetts, competing is both our challenge and our opportunity.

Our instincts and experience tell us that the major global banks will continue to create a significant market opportunity by their missteps, i.e.: branch disruptions, arbitrary officer transfers, thoughtless layoffs, unjustified fee increases, and ethics scandals. The megabanks will drive a meaningful market segment back to the competent independent bank where an officer's personal connection is the bridge to the clients and communities.

Consequently, our ability to recruit and retain quality bankers from our competitors continues to be a significant initiative for us. Our recruiting success in 2004 is a direct result of that initiative. If you examine every major metropolitan area that has experienced such a similar consolidation of assets within that market, in virtually every instance at least one closely controlled, independent, full-service bank has emerged as a superior performer and permanent market presence. As long as we can continue to execute a diversified and superior product offering, we believe Century Bank will be that surviving and thriving success story in Greater Boston. There are few independent banks that can be as proud of the professionalism of their Associates' product delivery as Century Bank.


As 2004 came to a close, so too did the distinguished terms of departing Directors Jonathan B. Kay and Joseph P. Mercurio. Their counsel and diligence was greatly appreciated and their contributions in shaping our Bank will be evident for many years. They will be greatly missed.

Century Bank now competes in the "land of the giants." We cannot change that. Frankly, we welcome the new banking reality and landscape. In it, we will do more than compete, we will excel. We will do more than survive, we will thrive. 2004 was a very busy year of hard work and forward motion towards that goal. We have thoughtfully constructed an institution that well serves its clients, communities, Associates and shareholders. We look forward to 2005 with a sense of optimism and excitement and hope you share our passion.

Sincerely,



Marshall M. Sloane  
Chairman, President and CEO,  
Century Bancorp, Inc.;  
Chairman & CEO,  
Century Bank and Trust Company



Jonathan G. Sloane  
Executive Vice President,  
Century Bancorp, Inc.;  
President & Co-COO,  
Century Bank and Trust Company



Barry R. Sloane  
Executive Vice President,  
Century Bancorp, Inc.;  
Executive Vice President & Co-COO,  
Century Bank and Trust Company



## PEOPLE. BUSINESSES. CITIES. TOWNS. EVERYONE HAS GOALS.

2004 was a year of investment and vision for Century Bank. It was also a year of success and growth, as our Bank continued to perform and grow in the core areas of Business Banking, Personal Banking and Institutional Services.



Across all lines of business, we continue to increase our level of strategic partnership with all our clients and immersion in their business and personal banking needs.

PICTURED (from left): Paul V. Cusick, Jr., Executive Vice President, CFO & Treasurer; Paul A. Evangelista, Executive Vice President; David B. Wootton, Executive Vice President.

1969

Founded by Marshall M. Sloane in Somerville, MA.

- Record first day of deposits (\$1.1M).
- Total first year-end assets (\$17M).
- Year-end net income (\$32,177).

1972

Century Bancorp, Inc. formed.

1973

North Shore Bank & Trust Company acquired.

1975

First of 29 years of uninterrupted dividends paid.

1979

Bank passes \$100 million in assets.

1981

Automated lockbox service introduced.

# BUSINESS BANKING

Century Bank's Business Banking Group had a strong year of performance by continuing to meet the needs of our existing clients and cultivating many new relationships by providing working capital, lines/letters of credit, term loans, construction loans and residential and investor mortgage products. Our focus will continue to be small and mid-sized, closely controlled businesses that flourish within our market area.

In a challenging year for all banks within our region, we increased our volume of outstanding loans to over \$580 million, reflecting a 13% increase. Our traditional corporate emphasis of over-delivering against our business clients' expectations continues to prove that client intimacy will always yield the best results. This mantra is who we are. Our clients' business is our business and we can consistently exceed their needs by knowing the intricacies of their livelihood.

In 2004, we launched a successful Small Business Loan campaign leveraging our Retail Branch Network and Branch Managers. This sales team focused on their local markets and provided local businesses with easy access to needed credit.

We listened to our customers and simplified the process so that through our partnership, we could all enjoy the growth and rewards of their enterprise. This is what banking at Century Bank is all about: finding solutions that work.

1982

Acquired Bank of Massachusetts.

1983

Acquired property in Medford, MA for future site of operations center.

1985

Acquired Massachusetts Teachers Association Credit Union.

1986

Acquired Social Service and St. Michael's Credit Union.

1987

Initial public offering resulted in \$10.5M in new capital under NASDAQ symbol CNBKA.

1988

Bank passes \$500M in assets.

# PERSONAL BANKING

In 2004, Century Bank's personal accounts grew to over 46,000. With a branch network of 22 locations, and an ATM network of 33 sites, our Bank had a solid year of growth, expansion and performance as we met and exceeded the personal needs of our customers.

We opened our 22<sup>nd</sup> branch location in the heart of the Boston University Medical Center Campus. This area has experienced significant growth and change and is now one of the premier areas for Biomedical and Infectious Disease Research. This branch location and sales staff will provide products and services to the professionals, local businesses and residents in the area.

The focus for all Branch Associates in 2004 was on sales and outreach. Branch Managers met with hundreds of local business owners in their respective communities. These meetings resulted into new relationships for the Bank and ultimately played a major role in the organic loan and deposit growth for the Bank.

Our retail banking Associates continue to provide unparalleled service to their consumer and business clients to ensure each is served exceptionally. This is our quality and service commitment and why we will continue to succeed.

1998

- \$29.75M raised through a preferred security offering under NASDQ symbol CNBKP.
- Haymarket Cooperative Bank purchased.

2001

- Headcount exceeds 400.
- Worcester processing center opened.
- Opened branches in Newton and Brookline.

1993

Wollaston Credit Union acquired.

2000

Topped \$1 billion in assets.

# INSTITUTIONAL SERVICES

In 2004, the Century Bank Institutional Banking business continued to thrive and was a major source of revenue, success and pride for the Bank. We grew the business of our current base of clients and added important new client relationships in corporate, government, not-for-profit and the utilities sector.

Century Bank is the second largest lockbox processor in New England with over \$560 million of related client deposits, 25 million transactions and 200 client processing engagements. Our clients range from major utilities and corporations in Connecticut, New York and Massachusetts to world renowned not-for-profits. We also partner with over 40% of the local Massachusetts municipalities, ranging from the largest to the smallest, and assist them to efficiently collect real estate and excise taxes, as well as other necessary payments.

We made significant investments throughout the year and installed an image-based processing technology that fully automated our lockbox and check transit areas. This technology affords us state-of-the-art capabilities to customize payment collection and remittance programs for any corporate, not-for-profit or government banking customer or prospect.

Our capabilities are not limited to simply payment collections. During 2004, we also introduced a sophisticated Positive Pay and Account Reconciliation Program to better assist our largest clients to reconcile their cash flows and prevent exposures to fraud or incorrect payments.

From wire transfers to money markets and Cash Management Services, we realize the potential of our opportunity throughout New England and New York.

## 2003

- Acquired Capital Crossing's Chestnut Hill branch and its retail deposits in downtown Boston.
- Grew to 21 branch locations.
- Broke ground on new five-story Headquarters in Medford.

## 2002

Opened Federal Street branch in Boston's financial district, bringing branch total to 19.

## 2004

- Completed and occupied Headquarters building.
- Opened branch at Boston University Medical Center.
- Assets exceed \$1.83 billion.
- Chosen BEST BANK in Somerville.



## CENTURY BANCORP, INC. DIRECTORS

**George R. Baldwin**<sup>1,4,6</sup>  
President & CEO, Baldwin & Company

**Roger S. Berkowitz**<sup>2,5</sup>  
President & CEO, Legal Sea Foods, Inc.

**Karl E. Case, Ph.D.**<sup>3,5\*</sup>  
Katharine Coman and A. Barton Hepburn  
Professor of Economics  
Wellesley College  
Visiting Scholar,  
Federal Reserve Bank

**Henry L. Foster, D.V.M.**  
Founder & Chairman Emeritus,  
Charles River Laboratories, Inc.

**Marshall I. Goldman, Ph.D.**<sup>3\*,5\*\*</sup>  
Professor Emeritus, Wellesley College;  
Associate Director, Davis Center for  
Russian Studies, Harvard University

**Russell B. Higley, Esquire**<sup>6\*</sup>  
Higley & Higley, Attorneys at Law

**Jonathan B. Kay**<sup>4</sup>  
President, The Kay Companies, Inc.

**Linda Sloane Kay**  
Vice President, Business Development  
Century Bank and Trust Company

**Fraser Lemley**<sup>2,4,5</sup>  
Chairman & CEO, Sentry Ford, Inc.;  
Sentry Lincoln-Mercury, Inc.;  
Sentry South Lincoln-Mercury, Inc.

**Joseph P. Mercurio**<sup>2\*,4\*\*</sup>  
Executive Vice President, Boston University

**Joseph J. Senna, Esquire**<sup>1\*,4</sup>

**Barry R. Sloane**<sup>4,5,6</sup>  
Executive Vice President,  
Century Bancorp, Inc.;  
Executive Vice President & Co-COO,  
Century Bank and Trust Company

**Jonathan G. Sloane**<sup>4,5,6</sup>  
Executive Vice President,  
Century Bancorp, Inc.;  
President & Co-COO,  
Century Bank and Trust Company

**Marshall M. Sloane**<sup>4,5</sup>  
Chairman, President and CEO,  
Century Bancorp, Inc.; Chairman & CEO,  
Century Bank and Trust Company

**Stephanie Sonnabend**<sup>1,5</sup>  
President & CEO, Sonesta International  
Hotels Corporation

**George F. Swansburg**<sup>4\*,5</sup>  
Retired Executive Vice President,  
Century Bancorp, Inc.;  
Retired Vice Chairman, Century Bank  
and Trust Company

**Jon Westling**<sup>1,2\*,3</sup>  
President Emeritus, Boston University

## HONORARY DIRECTORS

**Michael M. Ossoff**

**Philibert L. Pellegrini, Esquire**

## OFFICERS

**Marshall M. Sloane**  
Chairman, President and CEO

**Jonathan G. Sloane**  
Executive Vice President

**Barry R. Sloane**  
Executive Vice President

**Paul V. Cusick, Jr.**  
Vice President and Treasurer

**Rosalie A. Cunio**  
Clerk

**Paula A. Grimaldi**  
Assistant Clerk

## CENTURY BANK AND TRUST COMPANY OFFICERS

### MANAGEMENT COMMITTEE

**Marshall M. Sloane**  
Chairman of the Board & CEO

**Jonathan G. Sloane**  
President & Co-COO

**Barry R. Sloane**  
Executive Vice President & Co-COO

**Paul V. Cusick, Jr.**<sup>5,6</sup>  
Executive Vice President,  
CFO & Treasurer

**Paul A. Evangelista**  
Executive Vice President

**David B. Woonton**  
Executive Vice President

### SENIOR VICE PRESIDENTS

**Gerald S. Algere**  
Senior Vice President, Division Head,  
Not-for-Profit

**Janice A. Brandano**  
Senior Vice President, Items Processing

**Brian J. Feeney**  
Senior Vice President, Institutional  
Services

**James M. Flynn, Jr.**  
Senior Vice President, Commercial Loans

**Philip M. Gannon, Jr.**  
Senior Vice President, Information  
Systems

**Anthony C. LaRosa, CPA**  
Senior Vice President, Accounting

**John C. Lavallee**  
Senior Vice President, Division Head,  
Institutional Services

**John McKenna**  
Senior Vice President, Division Head,  
Small Business

**Jason J. Melius**  
Senior Vice President, Information  
Systems

### FIRST VICE PRESIDENTS

**Diana L. Carito, CIA, CRP**  
First Vice President & Audit Director

**Louise F. Young**  
First Vice President, Credit

### VICE PRESIDENTS

**Robert A. Bennett**  
Vice President & Retail Sales Manager

**Bradford J. Buckley**  
Vice President, Commercial Loans

**Joseph B. Chapman**  
Vice President, Purchasing

**Jennifer L. Conrad**  
Vice President, Institutional Services

**Charles J. Cope, Jr.**  
Vice President, Commercial Loans

**Rosalie A. Cunio**  
Vice President & Corporate Secretary

**Sylvia Daikos**  
Vice President & Somerville Branch  
Manager

**Anthony J. DiGuilio**  
Vice President, Commercial Loans

**Stuart J. Erbstein**  
Vice President, Commercial Loans

**William J. Gambon, Jr.**  
Vice President, Electronic  
Operations & Delivery

**Timothy L. Glynn**  
Vice President, Consumer Loans

**T. Daniel Kausel**  
Vice President, Commercial Loans

**Linda Sloane Kay**  
Vice President, Business Development

**Nancy Lindstrom**  
Vice President, Retail  
Operations & Support

**Karen Martin**  
Vice President, Accounting

<sup>1</sup> Audit Committee, <sup>2</sup> Compensation Committee, <sup>3</sup> Nominating Committee, <sup>4</sup> Executive Committee, <sup>5</sup> Asset Liability Committee, <sup>6</sup> Non-deposit Investment and Insurance Products Committee, \* Committee Chairperson, \*\* Vice Chairperson

**ShIPLEY C. Mason**  
Vice President, Commercial Loans

**Janet McElwee**  
Vice President, Compliance & CRA

**Joanne C. McNamara, CISA**  
Vice President, Audit

**Thomas F. Peltier**  
Vice President, Not-For-Profit Division

**Miguel A. Rosado**  
Vice President, Commercial Loans

**Deborah R. Rush**  
Vice President, Institutional Services

**Kenneth A. Samuelian**  
Vice President & Controller

**Andrew J. Santos, Jr.**  
Vice President, Commercial Loans

**Bernice A. Shuman**  
Vice President, Systems

**Jim Smith**  
Vice President & Albany St. Branch  
Manager

**María L. Spadoni-Merena**  
Vice President, Institutional Services

**Michael W. Sweeney**  
Vice President, Commercial Loans

**Janice D. Taylor**  
Vice President & Malden Branch Manager

**David J. Waryas**  
Vice President, Training

**Yasmin D. Whipple**  
Vice President, Human Resources

#### ASSISTANT VICE PRESIDENTS

**Michael D. Ballard**  
Assistant Vice President, Consumer Loans

**Gerald Bovardi**  
Assistant Vice President, Commercial Loans

**Jennifer R. Carpenito**  
Assistant Vice President & Allston/  
Brighton Branch Manager

**Debra J. Cloutier**  
Assistant Vice President,  
Commercial Loans

**Gracine Copithorne**  
Assistant Vice President,  
Corporate Security/BSA

**Barbara Cunningham**  
Assistant Vice President,  
Deposit Accounting

**Cynthia A. Davidson**  
Assistant Vice President & Braintree  
Branch Manager

**Laura A. DiFava**  
Assistant Vice President & Everett  
Branch Manager

**Ann Marie Ellis-Stetson**  
Assistant Vice President,  
Institutional Services

**Judith A. Fallon**  
Assistant Vice President, Lockbox

**John R. Ferguson**  
Assistant Vice President, Accounting

**Jeanna K. Frawley**  
Assistant Vice President, Loan  
Administration

**Howard N. Gold**  
Assistant Vice President, Systems

**Howard C. Green**  
Assistant Vice President & Newton  
Branch Manager

**Roland E. Harvey**  
Assistant Vice President & Cambridge  
Branch Manager

**Ann J. Hollup**  
Assistant Vice President, Lockbox

**Kristine M. Holopainen**  
Assistant Vice President & Federal Street  
Branch Manager

**James J. Jordan**  
Assistant Vice President & Salem  
Branch Manager

**Ann E. Mannion**  
Assistant Vice President & Lynn  
Branch Manager

**Nancy M. Marsh**  
Assistant Vice President,  
Commercial Loans

**Carl M. Mattos**  
Assistant Vice President, Loan Operations

**Carol A. Melisi**  
Assistant Vice President & Burlington  
Branch Manager

**Karen Roses**  
Assistant Vice President, Credit  
Administration

**William F. Shutt, Jr.**  
Assistant Vice President & Quincy  
Branch Manager

**Suzanne Sumski**  
Assistant Vice President & Beverly  
Branch Manager

**Marcia T. Trenholm, CISA**  
Assistant Vice President, Audit

#### OFFICERS

**Irene A. Lima Butler**  
Atlantic Avenue Branch Manager

**Pasqualina Buttiri**  
North End Branch Manager

**Toni M. Chardo**  
Customer Service Center

**Michael J. Dwyer**  
Mystic Branch Manager

**Sandra C. Gomes**  
Marketing

**Lisa Gosling**  
Kenmore Square Branch Manager

**Paula A. Grimaldi**  
Assistant Corporate Secretary

**Karen Grindrod**  
Institutional Services

**Janice D. Hallinan**  
Peabody Branch Manager

**Amelia N. Iocco**  
Mystic Cash Room Manager

**Malcolm I. Maloon**  
Information Systems

**Maureen E. Matranga**  
Marketing

**Christina Welch-Matthews**  
Retail Operations and Support

**Cornelius C. Prioleau**  
Audit

**Bruce A. Priestley**  
Medford Square Branch Manager

**Ashley G. Taylor**  
Brookline Branch Manager

**Elizabeth Theriault**  
Retail Operations and Support

**Jose I. Umana**  
BU Sherman Union,  
Branch Manager

**John Forest Wallace**  
Information Systems

#### CENTURY FINANCIAL SERVICES

**Kenneth M. Johnson, CFP<sup>®</sup>, President**

**Paul V. Cusick, Treasurer**

**Kenneth A. Samuelian, Clerk**

**Amy E. Cinelli, Operations Officer**

Policy making officer subject to FRB Regulation  
Part 215 - Loans to Executive Officers, Directors  
and Principal Shareholders of Member Banks.  
Non-policy making officers.

# FINANCIAL STATEMENTS

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	2004	2003	2002	2001	2000
(dollars in thousands, except share data)					
FOR THE YEAR					
Interest income	\$ 65,033	\$ 69,298	\$ 71,124	\$ 67,459	\$ 66,554
Interest expense	23,646	23,942	24,718	27,701	31,092
Net interest income	41,387	45,356	46,406	39,758	35,462
Provision for loan losses	300	450	1,200	1,500	1,425
Net interest income after provision for loan losses	41,087	44,906	45,206	38,258	34,037
Other operating income	10,431	10,009	10,266	8,863	7,234
Operating expenses	37,663	34,272	34,089	30,025	25,638
Income before income taxes	13,855	20,643	21,383	17,096	15,633
Provision for income taxes	4,974	8,963	7,879	6,237	5,428
Net income	\$ 8,881	\$ 11,680	\$ 13,504	\$ 10,859	\$ 10,205
Average shares outstanding, basic	5,526,202	5,519,800	5,516,590	5,535,309	5,597,136
Average shares outstanding, diluted	5,553,197	5,548,615	5,534,059	5,541,745	5,597,629
Shares outstanding at year-end	5,534,088	5,524,438	5,517,425	5,515,350	5,550,350
Earnings per share:					
Basic	\$ 1.61	\$ 2.12	\$ 2.45	\$ 1.96	\$ 1.82
Diluted	\$ 1.60	\$ 2.11	\$ 2.44	\$ 1.96	\$ 1.82
Dividend payout ratio	24.2 %	17.2 %	13.9 %	15.2 %	14.5 %
AT YEAR-END					
Assets	\$ 1,833,701	\$ 1,688,911	\$ 1,557,201	\$ 1,271,022	\$ 1,083,830
Loans	580,003	512,314	514,249	462,772	439,563
Deposits	1,394,010	1,338,853	1,146,284	888,408	793,796
Stockholders' equity	104,773	103,728	100,256	84,599	71,506
Book value per share	\$ 18.93	\$ 18.78	\$ 18.17	\$ 15.34	\$ 12.88
SELECTED FINANCIAL PERCENTAGES					
Return on average assets	.55 %	.74 %	1.02 %	1.03 %	1.08 %
Return on average stockholders' equity	8.61 %	11.57 %	14.64 %	13.70 %	16.09 %
Net interest margin, taxable equivalent	2.75 %	3.08 %	3.77 %	4.06 %	4.02 %
Net (recoveries) charge-offs as a percent of average loans	0.01 %	0.04 %	(0.04)%	0.01 %	0.78 %
Average stockholders' equity to average assets	6.38 %	6.40 %	6.98 %	7.49 %	6.68 %
Efficiency Ratio	72.7 %	61.6 %	60.1 %	61.7 %	60.6 %

## Per Share Data

2004, Quarter Ended	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 32.79	\$ 33.62	\$ 33.74	\$ 37.51
Low	28.15	30.38	29.75	32.80
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.060	0.060	0.060	0.060
2003, Quarter Ended				
	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 38.11	\$ 37.30	\$ 31.51	\$ 28.47
Low	32.40	28.55	25.75	26.40
Dividends Class A	0.12	0.11	0.11	0.11
Dividends Class B	0.06	0.055	0.055	0.055

## Overview

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the "Company"), is a Massachusetts state chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the "Bank"): Century Bank and Trust Company formed in 1969. The Company had total assets of \$1.8 billion on December 31, 2004. The Company presently operates 22 banking offices in 16 cities and towns in Massachusetts ranging from Braintree to Peabody. 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 its subsidiary, Century Financial Services, Inc. in conjunction with Commonwealth Equity Services, Inc., 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.

Century Bancorp, Inc. (the "Company") had net income of \$8,881,000 for the year ended December 31, 2004, compared with net income of \$11,680,000 for year ended December 31, 2003 and net income of \$13,504,000 for the year ended December 31, 2002. Basic earnings per share were \$1.61 in 2004, compared to \$2.12 in 2003 and \$2.45 in 2002. Diluted earnings per share were \$1.60 in 2004, compared to \$2.11 in 2003 and \$2.44 in 2002. The Company's earnings in 2004 were negatively affected by the historically low interest rate environment. Assets have continued to reprice at lower interest rates while interest rates paid on deposits have not had a corresponding decrease. The Company believes that the net interest margin will continue to be challenged. During 2003, the Company's earnings were also negatively affected by a net tax charge of \$1,183,000 associated with the Real Estate Investment Trust ("REIT") settlement. This charge was the result of an agreement with the Massachusetts Department of Revenue ("DOR") settling a dispute related to taxes that the DOR claimed were owed from the Company's REIT.

Total assets were \$1,833,701,000 at December 31, 2004, an increase of 8.6% from total assets of \$1,688,911,000 on December 31, 2003, which, in turn, were 8.5% higher than total assets of \$1,557,201,000 on December 31, 2002.

On December 31, 2004, stockholders' equity totaled \$104,773,000, compared with \$103,728,000 on December 31, 2003 and \$100,256,000 on December 31, 2002. Book value per share increased to \$18.93 at December 31, 2004 from \$18.78 on December 31, 2003, which had increased from \$18.17 on December 31, 2002.

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 will provide additional corporate office space and an expanded branch banking floor. The building is scheduled to be occupied during the first quarter of 2005 and the current cost estimate including land costs is \$14.5 million. As of December 31, 2004, \$13.6 million has been expended. The capital expenditure will provide a five-story addition containing approximately 50 thousand square feet of office and branch banking space. Occupancy costs are expected to increase by approximately \$1 million per year when the building is occupied.

On March 21, 2003, the Company completed the acquisition of Capital Crossing Bank's branch office at 1220 Boylston Street, Chestnut Hill, Massachusetts, and substantially all of the retail deposits at Capital Crossing's main office at 101 Summer Street, Boston, Massachusetts. Century closed the Chestnut Hill branch and transferred all customers of the branch to its nearby branch office at 1184 Boylston Street, Brookline, Massachusetts. In addition, Century transferred all of the retail deposits from Capital Crossing's Summer Street branch to its branch at 24 Federal Street, Boston, Massachusetts. The acquisition included \$192.7 million in deposits. The acquisition also included a premium paid to Capital Crossing of approximately \$3.9 million. This premium was subsequently reduced by a gain of \$395 thousand from the sale of the acquired Chestnut Hill branch and a rebate of \$282 thousand for closed accounts at the Boston office.

During the third quarter of 2004, 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 15, 2005.

In July 2004, the Company opened a new branch location on Albany Street in Boston, Massachusetts. In 2003, the Company opened two branches 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. The Company believes that BlackRock will help it achieve improvements in the Company's yield and total return on its investment portfolio.

Also during the fourth quarter, 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 their 8.30% Trust Preferred Securities, with a redemption date of January 10, 2005. The total amount of this redemption is \$29,639,000.

### 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 impaired 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 and lease losses necessarily involves a high degree of judgment. Management maintains an allowance for credit 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 is calculated by applying loss factors to outstanding loans, in each case based on the internal risk grade of such loans. 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 are established in cases where management has identified significant conditions related to a credit that management believes that the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance.

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 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 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.

## Results of Operations and Financial Condition

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.

Year Ended December 31,	2004			2003			2002		
	Average Balance	Interest Income/Expense <sup>(1)</sup>	Rate Earned/Paid <sup>(1)</sup>	Average Balance	Interest Income/Expense <sup>(1)</sup>	Rate Earned/Paid <sup>(1)</sup>	Average Balance	Interest Income/Expense <sup>(1)</sup>	Rate Earned/Paid <sup>(1)</sup>
(dollars in thousands)									
ASSETS									
Interest-earning assets:									
Loans <sup>(2)</sup>	\$ 546,147	\$ 33,384	6.11 %	\$ 500,723	\$ 33,134	6.62 %	\$ 488,465	\$ 35,954	7.36 %
Securities available-for-sale:									
Taxable	570,935	18,528	3.25	782,782	28,736	3.67	570,067	27,285	4.79
Tax-exempt	61	1	1.64	92	3	3.26	960	39	4.06
Securities held-to-maturity:									
Taxable	319,860	12,296	3.84	162,988	7,152	4.39	126,675	7,150	5.64
Federal funds sold	69,461	824	1.19	24,730	274	1.11	45,253	710	1.57
Interest bearing deposits in other banks	251	—	0.13	30	—	0.58	20	—	2.50
Total interest-earning assets	1,506,715	65,033	4.32 %	1,471,345	69,299	4.71 %	1,231,440	71,138	5.78 %
Non Interest-earning assets	120,306			114,919			97,981		
Allowance for loan losses	(8,813)			(8,901)			(7,828)		
Total Assets	\$ 1,618,208			\$ 1,577,363			\$ 1,321,593		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing deposits:									
NOW accounts	\$ 250,224	\$ 1,966	0.79 %	\$ 260,383	\$ 2,267	0.87 %	\$ 202,060	\$ 2,588	1.28 %
Savings accounts	79,037	302	0.38	79,333	319	0.40	72,780	595	0.82
Money market accounts	412,220	5,010	1.22	392,066	5,111	1.30	268,504	4,730	1.76
Time deposits	242,791	6,833	2.81	239,189	7,246	3.03	189,395	6,841	3.61
Total interest-bearing deposits	984,272	14,111	1.43	970,971	14,943	1.54	732,739	14,754	2.01
Securities sold under agreements to repurchase	40,937	331	0.81	51,402	457	0.89	61,718	696	1.13
Other borrowed funds and subordinated debentures	194,932	9,204	4.72	170,344	8,542	5.01	186,531	9,268	4.97
Total interest-bearing liabilities	1,220,141	23,646	1.94 %	1,192,717	23,942	2.01 %	980,988	24,718	2.52 %
Non Interest-bearing liabilities									
Demand deposits	279,361			267,284			232,372		
Other liabilities	15,511			16,429			15,986		
Total liabilities	1,515,013			1,476,430			1,229,346		
Stockholders' equity	103,195			100,933			92,247		
Total liabilities & stockholders' equity	\$ 1,618,208			\$ 1,577,363			\$ 1,321,593		
Net interest income <sup>(1)</sup>		\$ 41,387			\$ 45,357			\$ 46,420	
Net interest spread			2.38 %			2.70 %			3.26 %
Net interest margin			2.75 %			3.08 %			3.77 %

<sup>(1)</sup> On a fully taxable equivalent basis calculated using a federal tax rate of 35%.

<sup>(2)</sup> Nonaccrual loans are included in average amounts outstanding.



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,	2004 Compared with 2003			2003 Compared with 2002		
	Increase/(Decrease) Due to Change in			Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
(dollars in thousands)						
Interest Income:						
Loans	\$ 2,881	\$ (2,631)	\$ 250	\$ 884	\$ (3,704)	\$ (2,820)
Securities available-for-sale:						
Taxable	(7,145)	(3,063)	(10,208)	8,721	(7,270)	1,451
Tax-exempt	(1)	(1)	(2)	(30)	(6)	(36)
Securities held-to-maturity:						
Taxable	6,128	(984)	5,144	1,793	(1,791)	2
Federal funds sold	529	21	550	(265)	(171)	(436)
Interest-bearing deposits in other banks	1	(1)	—	—	—	—
Total interest income	<b>2,393</b>	<b>(6,659)</b>	<b>(4,266)</b>	11,103	(12,942)	(1,839)
Interest expense:						
Deposits:						
NOW accounts	(86)	(215)	(301)	634	(955)	(321)
Savings accounts	(1)	(16)	(17)	49	(325)	(276)
Money market accounts	255	(356)	(101)	1,815	(1,434)	381
Time deposits	108	(521)	(413)	1,619	(1,214)	405
Total interest-bearing deposits	<b>276</b>	<b>(1,108)</b>	<b>(832)</b>	4,117	(3,928)	189
Securities sold under agreements to repurchase	(87)	(39)	(126)	(105)	(134)	(239)
Other borrowed funds and subordinated debentures	1,152	(490)	662	(811)	84	(727)
Total interest expense	<b>1,341</b>	<b>(1,637)</b>	<b>(296)</b>	3,201	(3,978)	(777)
Change in net interest income	<b>\$ 1,052</b>	<b>\$ (5,022)</b>	<b>\$ (3,970)</b>	\$ 7,902	\$ (8,964)	\$ (1,062)

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 8.8% in 2004 to \$41,387,000, compared with \$45,357,000 in 2003. The decrease in net interest income for 2004 was mainly due to an 11% or a thirty-three 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 2.75% in 2004 from 3.08% in 2003, which had decreased from 3.77% in 2002. The decrease in the net interest margin, for both years, was mainly attributable to assets continuing to reprice at historically low levels without a corresponding decrease in rates paid on deposits. The Company believes that the net interest margin will continue to be challenged.

Average earning assets were \$1,506,715,000 in 2004, an increase of \$35,370,000 or 2.4% from the average in 2003, which was 19.5% higher than the average in 2002. Total average securities, including securities available-for-sale and securities held-to-maturity, decreased 5.8% to \$890,856,000. The decrease in securities volume was mainly attributable to a shift in asset concentration to loans and short-term funds. This decrease in securities volume and lower yields resulted in lower securities income, which decreased 14.1% to \$30,825,000. Total average loans increased 9.1% to \$546,147,000 after increasing

\$12,258,000 in 2003. The increase in loans was mainly attributable to an increase in commercial and industrial, home equity credit lines and residential real estate loans, partially offset by a decrease in commercial real estate. Those types of loans increased in part because of a loan campaign that began during the first quarter of 2004. The increase in loan volume was partially offset by a lower level of interest rates resulting in higher loan income, which increased by 0.8% or \$250,000 to \$33,384,000. Total loan income was \$35,954,000 in 2002.

The Company's sources of funds include deposits and borrowed funds. On average, deposits showed an increase of 2.0% or \$25,378,000 in 2004 after increasing by 28.3% or \$273,143,000 in 2003. Deposits increased in 2004 primarily as a result of the internal deposit growth and were mainly concentrated in money market accounts, which increased by \$20,154,000. Borrowed funds and subordinated debentures increased by 6.4% in 2004 following a decrease of 10.7% in 2003. The majority of the Company's borrowed funds are borrowings from the Federal Home Loan Bank (FHLB) and retail repurchase agreements. Borrowings from the FHLB increased by approximately \$20,733,000 and retail repurchase agreements decreased by \$10,465,000. Interest expense totaled \$23,646,000 in 2004, a decrease of \$296,000 or 1.2% from 2003 when interest expense decreased 3.1% from 2002. This decrease in interest expense is due to decreases in deposit rates, partially offset by an increase in the average balance of deposits.

### Provision for Loan Loss

The provision for loan losses was \$300,000 in 2004, compared with \$450,000 in 2003 and \$1,200,000 in 2002. 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.

The allowance for loan losses was \$9,001,000 at December 31, 2004, compared with \$8,769,000 at December 31, 2003. Expressed as a percentage of outstanding loans at year-end, the allowance was 1.55% in 2004, 1.71% in 2003 and 1.65% in 2002.

Non-performing loans, which include all non-accruing loans and certain restructured, accruing loans, totaled \$628,000 on December 31, 2004, compared with \$1,175,000 on December 31, 2003.

### Other Operating Income

During 2004, 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 Commonwealth Equity Services, Inc., 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 Commonwealth Equity Services, Inc., an unaffiliated company, the Bank provides full service securities brokerage services. Registered representatives employed by the Bank offer investment advice, execute transactions and assist customers in financial and retirement planning. Commonwealth Equity Services, Inc. provides research to and supervises representatives in exchange for payment by the Bank for a fixed fee and a share in the commission revenues.

Total other operating income in 2004 was \$10,431,000, an increase of \$422,000 or 4.2% compared to 2003. This increase followed a decrease of \$257,000 or 2.5% in 2003, compared to 2002. Service charge income, which continues to be a major area of other operating income with \$5,271,000 in 2004, saw an increase of \$489,000 compared to 2003. Service charges on deposit accounts increased mainly because of an increase in overdraft charges. Lockbox revenues totaled \$2,950,000, down \$236,000 in 2004. This decrease was mainly attributable to a decrease in volume that was due to increased competition. Through Commonwealth Equity Services, Inc., brokerage commissions increased to \$670,000 in 2004, from \$579,000 in 2003, primarily as a result of increased transaction volume. Also included in other operating income for 2002 is a pretax realized gain of \$359,000 associated with the sale of bank premises.

### Operating Expenses

Total operating expenses were \$37,663,000 in 2004, compared to \$34,272,000 in 2003 and \$34,089,000 in 2002.

Salaries and employee benefits expenses increased by \$1,503,000 or 6.9% in 2004, after increasing by 0.2% in 2003. The increase for 2004 was mainly attributable to an increase in staff levels and merit increases in salaries. The decrease in 2003 was mainly attributable to a decrease in incentive compensation accruals; this was partially offset by increased retirement and healthcare costs.

Occupancy expense increased by \$349,000 or 13.2% in 2004, this followed an increase of \$347,000 or 15.1% in 2003. The increase in 2004 was mainly attributable to full-year costs associated with the opening of two new branches in 2003 and the partial year cost associated with the opening of one new branch in 2004. The increase in 2003 was mainly attributable to full-year costs associated with the opening of a new branch in 2002 and partial year costs associated with opening two new branches in 2003. Equipment expense increased by \$677,000 or 39.8% in 2004; this followed a decrease of \$431,000 or 20.2% in 2003. The increase in 2004 was mainly attributable to increased depreciation and service contract expense associated with the additions of check and lockbox image systems. The decrease in 2003 was mainly the result of a decrease in equipment depreciation expense, as well as a reduction in service contract expense. Service contract expense decreased as a result of decreases in lockbox activity.

Other operating expenses increased by \$862,000 in 2004, which followed a \$213,000 increase in 2003. The increase for 2004 was primarily the result of increased legal, audit, personnel recruitment and marketing expense. The costs increased mainly because of compliance related services. Marketing increased because of an increase in advertising. The increase for 2003 was primarily the result of increased core deposit intangible amortization, telephone and software maintenance expense.

### Provision for Income Taxes

Income tax expense was \$4,974,000 in 2004, \$8,963,000 in 2003 and \$7,879,000 in 2002. The effective tax rate was 35.9% in 2004, 43.4% (37.7%, excluding REIT settlement) in 2003 and 36.8% in 2002. The decrease in the effective tax rate for 2004 was mainly attributable to less earnings at the Bank. The portion of earnings subject to a higher tax rate decreased in 2004. Included in tax expense for 2003 is a net tax charge of \$1,183,000 associated with the REIT settlement. This charge was the result of an agreement with the Massachusetts DOR settling a dispute related to taxes that the DOR claimed were owed from the Company's REIT.

### 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 is 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.

Change in Interest Rates (in Basis Points)	Percentage Change in Net Interest Income <sup>(1)</sup>
+300	(9.5)%
+200	(6.3)%
+100	(3.1)%
-100	(0.8)%

<sup>(1)</sup> 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 \$238,235,000 on December 31, 2004, compared with \$225,321,000 on December 31, 2003 and \$122,205,000 on December 31, 2002. In each of these three years, deposit 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.

### 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, 2004.

#### Contractual Obligations and Commitments by Maturity

(dollars in thousands)

Contractual Obligations	Payments Due - By Period				
	Total	Less than One Year	One To Three Years	Three To Five Years	After Five Years
FHLB advances	\$ 213,120	\$ 105,000	\$ 1,120	\$ 51,500	\$ 55,500
Subordinated debentures	65,722	29,639	—	—	36,083
Retirement benefit obligations	9,568	601	1,381	1,786	5,800
Lease obligations	6,192	1,088	1,952	1,601	1,551
Other					
Treasury, tax and loan	1,660	1,660	—	—	—
Customer repurchase agreements	38,650	38,650	—	—	—
<b>Total contractual cash obligations</b>	<b>\$ 334,912</b>	<b>\$ 176,638</b>	<b>\$ 4,453</b>	<b>\$ 54,887</b>	<b>\$ 98,934</b>

Other Commitments	Amount of Commitment Expiring - By Period				
	Total	Less than One Year	One To Three Years	Three To Five Years	After Five Years
Lines of credit	\$ 128,915	\$ 30,481	\$ 13,676	\$ 515	\$ 84,243
Standby letters of credit	11,195	4,691	128	5,287	1,089
Other commitments	36,265	5,480	22,936	1,250	6,599
<b>Total commitments</b>	<b>\$ 176,375</b>	<b>\$ 40,652</b>	<b>\$ 36,740</b>	<b>\$ 7,052</b>	<b>\$ 91,931</b>

### Capital Adequacy

Total stockholders' equity was \$104,773,000 at December 31, 2004, compared with \$103,728,000 at December 31, 2003 and \$100,256,000 at December 31, 2002. The increase in 2004 was primarily the result of earnings less dividends paid and a decrease in accumulated other comprehensive income. The increase in 2003 was primarily the result of earnings less dividends paid and an increase in accumulated other comprehensive income.

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 15.69% and 12.43%, respectively, and total capital-to-risk assets ratio of 20.14% and 13.47%, respectively at December 31, 2004. 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, 2004, the Company and the Bank exceeded this requirement with leverage ratios of 8.27% and 6.54%, respectively.

### 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	2004	2003
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate		
1-4 family mortgages	\$ 2,511	\$ 600
Standby letters of credit	11,195	4,914
Unused lines of credit	128,915	126,825
Unadvanced portions of construction loans	33,754	15,414

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.

### 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 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 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.

### Recent Accounting Developments

In November 2003 and March 2004, the Financial Accounting Standards Board's (FASB) Emerging Issues Task Force (EITF) issued a consensus on EITF Issue 03-1 which contains guidance on other-than-temporary impairments of investment securities. The EITF provides guidance on when impairment is deemed to exist, provides guidance on determining if impairment is other-than-temporary, and directs how to calculate impairment loss. Issue 03-1 also details expanded annual disclosure rules. In September 2004, the FASB's EITF issued EITF 03-1-1 Effective Date of Paragraphs 10-20 of EITF Issue 03-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments," which delays the effective date of those paragraphs to be concurrent with the final issuance of EITF 03-1-a "Implementation Guidance for the Application of Paragraph 16 of EITF 03-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." EITF 03-1-a is currently being reviewed by the FASB in regards to final guidance and effective date with a comment period that ended October 29, 2004. EITF 03-1, as issued, was originally effective for periods beginning after June 15, 2004. The adoption of the original EITF 03-1 (excluding paragraphs 10-20) did not have a material impact on the Company's financial position or results of operations. The Company also does not anticipate that the adoption of EITF 03-1-1 or EITF 03-1-a will have a material impact on the Company's financial position or results of operations.

In December 2004, the FASB issued a revised Statement No. 123, (revised 2004) (SFAS No. 123R), "Share-Based Payment." This Statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and its related implementation guidance. This Statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. This Statement 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—the requisite service period (usually the vesting period). This Statement is effective as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. The Company estimates that 2005 additional compensation expense (net of tax) will be approximately \$100,000 for the six months of 2005. For the years 2006 and beyond, a full year of compensation expense will be recognized.

December 31,	2004	2003
(dollars in thousands, except share data)		
<b>ASSETS</b>		
Cash and due from banks (note 2)	\$ 36,209	\$ 64,299
Federal funds sold and interest-bearing deposits in other banks	202,026	161,022
Total cash and cash equivalents	238,235	225,321
Securities available-for-sale, amortized cost \$614,729 in 2004 and \$701,444 in 2003 (notes 3 and 9)	609,806	703,335
Securities held-to-maturity, market value \$343,399 in 2004 and \$198,790 in 2003 (notes 4 and 9)	345,369	197,872
Loans, net (note 5)	580,003	512,314
Less: allowance for loan losses (note 6)	9,001	8,769
Net loans	571,002	503,545
Bank premises and equipment (note 7)	26,265	21,589
Accrued interest receivable	6,800	8,450
Other assets (note 12)	36,224	28,799
Total assets	\$ 1,833,701	\$ 1,688,911
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Demand deposits	\$ 280,871	\$ 270,115
Savings and NOW deposits	268,317	291,950
Money market accounts	485,006	417,171
Time deposits (note 8)	359,816	359,617
Total deposits	1,394,010	1,338,853
Securities sold under agreements to repurchase (note 9)	38,650	40,050
Other borrowed funds (note 10)	214,906	136,329
Subordinated debentures (note 10)	65,722	29,639
Investments purchased payable	—	29,330
Other liabilities	15,640	10,982
Total liabilities	1,728,928	1,585,183
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 3,818,048 shares in 2004 and 3,792,938 shares in 2003	3,818	3,793
Common stock, Class B, \$1.00 par value per share; authorized 5,000,000 shares; issued 2,147,190 shares in 2004 and 2,162,650 shares in 2003	2,147	2,163
Additional paid-in-capital	11,395	11,227
Retained earnings	98,161	91,427
Treasury stock, Class A, 383,600 shares in 2004 and 2003, at cost	(5,941)	(5,941)
Treasury stock, Class B, 47,550 shares in 2004 and 2003, at cost	(41)	(41)
Accumulated other comprehensive (loss) income, net of taxes (note 3)	109,539	102,628
	(4,766)	1,100
Total stockholders' equity	104,773	103,728
Total liabilities and stockholders' equity	\$ 1,833,701	\$ 1,688,911

See accompanying Notes to Consolidated Financial Statements.

Year Ended December 31,	2004	2003	2002
(dollars in thousands, except share data)			
<b>INTEREST INCOME</b>			
Loans	\$ 33,384	\$ 33,134	\$ 35,953
Securities available-for-sale	18,529	28,738	27,311
Securities held-to-maturity	12,296	7,152	7,150
Federal funds sold and interest-bearing deposits in other banks	824	274	710
Total interest income	65,033	69,298	71,124
<b>INTEREST EXPENSE</b>			
Savings and NOW deposits	2,268	2,586	3,183
Money market accounts	5,010	5,111	4,730
Time deposits (note 8)	6,833	7,246	6,841
Securities sold under agreements to repurchase	331	457	696
Other borrowed funds and long term debt	9,204	8,542	9,268
Total interest expense	23,646	23,942	24,718
Net interest income	41,387	45,356	46,406
Provision for loan losses (note 6)	300	450	1,200
Net interest income after provision for loan losses	41,087	44,906	45,206
<b>OTHER OPERATING INCOME</b>			
Service charges on deposit accounts	5,271	4,782	4,418
Lockbox fees	2,950	3,186	3,463
Brokerage commissions	670	579	1,038
Net (losses) gains on sales of securities	(91)	1	—
Other income	1,631	1,461	1,347
Total other operating income	10,431	10,009	10,266
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits (note 13)	23,266	21,763	21,709
Occupancy	2,997	2,648	2,301
Equipment	2,380	1,703	2,134
Other (note 16)	9,020	8,158	7,945
Total operating expenses	37,663	34,272	34,089
Income before income taxes	13,855	20,643	21,383
Provision for income taxes (note 12)	4,974	7,780	7,879
Retroactive REIT settlement (note 12)	—	1,183	—
Net income	\$ 8,881	\$ 11,680	\$ 13,504
<b>SHARE DATA (NOTE 11)</b>			
Weighted average number of shares outstanding, basic	5,526,202	5,519,800	5,516,590
Weighted average number of shares outstanding, diluted	5,553,197	5,548,615	5,534,059
Net income per share, basic	\$ 1.61	\$ 2.12	\$ 2.45
Net income per share, diluted	1.60	2.11	2.44

See accompanying Notes to Consolidated Financial Statements.

	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, 2001	\$ 3,761	\$ 2,186	\$ 11,094	\$ 70,122	\$ (5,941)	\$ (41)	\$ 3,418	\$ 84,599
Net income	—	—	—	13,504	—	—	—	13,504
Other comprehensive income, net of tax:								
Unrealized holding gains arising during period, net of \$2,150 in taxes	—	—	—	—	—	—	3,993	3,993
Comprehensive income								17,497
Conversion of Class B Common Stock to Class A Common Stock, 17,820 shares	18	(18)	—	—	—	—	—	—
Stock options exercised, 2,075 shares	2	—	29	—	—	—	—	31
Cash dividends paid, Class A Common Stock, \$0.42 per share	—	—	—	(1,426)	—	—	—	(1,426)
Cash dividends paid, Class B Common Stock, \$0.21 per share	—	—	—	(445)	—	—	—	(445)
BALANCE, DECEMBER 31, 2002	3,781	2,168	11,123	81,755	(5,941)	(41)	7,411	100,256
Net income	—	—	—	11,680	—	—	—	11,680
Other comprehensive income, net of tax:								
Unrealized holding losses arising during period, net of \$3,200 in taxes	—	—	—	—	—	—	(6,311)	(6,311)
Comprehensive income								5,369
Conversion of Class B Common Stock to Class A Common Stock, 5,010 shares	5	(5)	—	—	—	—	—	—
Stock options exercised, 7,013 shares	7	—	104	—	—	—	—	111
Cash dividends paid, Class A Common Stock, \$0.45 per share	—	—	—	(1,532)	—	—	—	(1,532)
Cash dividends paid, Class B Common Stock, \$0.225 per share	—	—	—	(476)	—	—	—	(476)
BALANCE, DECEMBER 31, 2003	3,793	2,163	11,227	91,427	(5,941)	(41)	1,100	103,728
<b>Net income</b>	—	—	—	<b>8,881</b>	—	—	—	<b>8,881</b>
<b>Other comprehensive income (loss), net of tax:</b>								
<b>Unrealized holding losses arising     during period, net of \$2,741 in taxes</b>	—	—	—	—	—	—	<b>(4,164)</b>	<b>(4,164)</b>
<b>Less: reclassification adjustment for gains     included in net income, net of \$36 in taxes</b>	—	—	—	—	—	—	<b>55</b>	<b>55</b>
<b>Minimum pension liability adjustment</b>	—	—	—	—	—	—	<b>(1,757)</b>	<b>(1,757)</b>
<b>Comprehensive income</b>								<b>3,015</b>
<b>Conversion of Class B Common Stock to Class A Common Stock, 15,460 shares</b>	<b>16</b>	<b>(16)</b>	—	—	—	—	—	—
<b>Stock options exercised, 9,650 shares</b>	<b>9</b>	—	<b>168</b>	—	—	—	—	<b>177</b>
<b>Cash dividends paid, Class A Common Stock, \$0.48 per share</b>	—	—	—	<b>(1,642)</b>	—	—	—	<b>(1,642)</b>
<b>Cash dividends paid, Class B Common Stock, \$0.24 per share</b>	—	—	—	<b>(505)</b>	—	—	—	<b>(505)</b>
<b>BALANCE, DECEMBER 31, 2004</b>	<b>\$ 3,818</b>	<b>\$ 2,147</b>	<b>\$ 11,395</b>	<b>\$ 98,161</b>	<b>\$ (5,941)</b>	<b>\$ (41)</b>	<b>\$ (4,766)</b>	<b>\$ 104,773</b>

See accompanying Notes to Consolidated Financial Statements

Year Ended December 31,	2004	2003	2002
(dollars in thousands)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 8,881	\$ 11,680	\$ 13,504
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	300	450	1,200
Deferred income taxes	470	(1,416)	(5,690)
Net depreciation and amortization	1,848	1,754	1,822
Decrease (increase) in accrued interest receivable	1,650	920	(1,809)
Increase in other assets	(4,368)	(6,639)	(4,318)
Loans originated for sale	—	(267)	—
Proceeds from sales of loans	—	270	73
Gain on sales of loans	—	(3)	(1)
Loss (gain) on sales of securities available-for-sale	91	(1)	—
Gain on sale of building	—	—	(359)
Increase (decrease) in other liabilities	1,699	(6,614)	6,702
Net cash provided by operating activities	10,571	134	11,124
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from calls/maturities of securities available-for-sale	389,172	665,635	324,502
Proceeds from sales of securities available-for-sale	88,198	—	—
Purchase of securities available-for-sale	(390,398)	(616,783)	(618,946)
Proceeds from calls/maturities of securities held-to-maturity	56,930	125,254	63,494
Purchase of securities held-to-maturity	(204,309)	(195,991)	(48,113)
(Decrease) increase in investments purchased payable	(29,330)	(13,739)	4,093
Net (increase) decrease in loans	(67,639)	2,102	(50,883)
Proceeds from sale of building	—	—	1,020
Capital expenditures	(6,728)	(10,217)	(2,854)
Net cash used in investing activities	(164,104)	(43,739)	(327,687)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase in time deposit accounts	199	137,292	3,049
Net increase in demand, savings, money market and NOW deposits	54,958	55,277	254,827
Net proceeds from the exercise of stock options	177	112	31
Cash dividends	(2,147)	(2,008)	(1,871)
Net decrease in securities sold under agreements to repurchase	(1,400)	(11,750)	(21,040)
Net increase (decrease) in other borrowed funds	78,577	(33,091)	25,939
Increase in subordinated debentures	36,083	889	—
Net cash provided by financing activities	166,447	146,721	260,935
Net increase (decrease) in cash and cash equivalents	12,914	103,116	(55,628)
Cash and cash equivalents at beginning of year	225,321	122,205	177,833
Cash and cash equivalents at end of year	\$ 238,235	\$ 225,321	\$ 122,205
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest	\$ 23,165	\$ 24,102	\$ 24,668
Income taxes	4,600	15,632	8,367
Net unrealized holding (losses) gains arising during period, net of taxes	\$ (4,109)	\$ (6,311)	\$ 3,993

See accompanying 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. III (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 (CBCT) and CBCT II. The entities are unconsolidated subsidiaries 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 to general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

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

Certain reclassifications were made to prior year amounts 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 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, which approximates the effective 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 and 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 incremental 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, at the present value of the expected future cash flows discounted at the loan's effective interest rate. 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, loans that are measured at fair value and leases. 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. Impaired loans are charged-off when management believes that the collectibility of the loan's principal is remote. 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 judgement. The allowance is increased by provisions charged to income and reduced by loan charge-offs, net of recoveries.

Management maintains an allowance for credit 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 is calculated by applying loss factors to outstanding loans, in each case based on the internal risk grade of such loans. Changes in risk grades affect the amount of the formula allowance. Loss factors are based on the Company's historical loss experience, as well as regulatory guidelines.

Specific allowances are established in cases where management has identified significant conditions related to a credit that management believes that the probability that a loss has been incurred in excess of the amount determined by the application of the formula allowance.

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, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits.

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

The Company currently accounts for employee stock options using the intrinsic value method. Under the intrinsic value method, no compensation cost is recognized related to options if the exercise price of the option is greater than or equal to the fair market value of the underlying stock on the date of grant. Under an alternative method, the fair value method, the "cost" of the option is estimated on the date of grant using an option valuation model and recognized as compensation

expense over the vesting period of the option. Any change from the intrinsic value method to the fair value method of accounting for stock options is required to be applied prospectively for options granted after the date of change in method which must be as of the beginning of a fiscal year. The Company generally awards stock options annually.

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 below:

December 31,	2004	2003	2002
(dollars in thousands, except share data)			
Net income:			
As reported	\$ 8,881	\$ 11,680	\$ 13,504
Less:			
Pro forma stock based compensation cost (net of tax):	\$ 151	\$ 140	\$ 98
Pro forma and diluted	\$ 8,730	\$ 11,540	\$ 13,406
Basic earning per share			
As reported	\$ 1.61	\$ 2.12	\$ 2.45
Pro forma	\$ 1.58	\$ 2.09	\$ 2.43
Diluted earnings per share			
As reported	\$ 1.60	\$ 2.11	\$ 2.44
Pro forma	\$ 1.57	\$ 2.08	\$ 2.42

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

December 31,	2004	2003	2002
Dividend yields	1.59 %	1.69 %	1.91 %
Expected life	9 years	8 years	8 years
Expected volatility	28 %	26 %	19 %
Risk-free interest rate	3.95 %	3.78 %	5.37 %

## INCOME TAXES

The Company uses the asset and liability method of 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.

## 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 \$725,000 at December 31, 2004 and \$650,000 at December 31, 2003.

## 3. Securities Available-for-Sale

	December 31, 2004				December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
(dollars in thousands)								
U.S. Government and Agencies	\$ 384,504	\$ 182	\$ 3,824	\$ 380,862	\$ 674,766	\$ 3,981	\$ 2,253	\$ 676,494
Mortgage-backed securities	187,170	165	1,577	185,758	8,977	209	145	9,041
Obligations of states and political subdivisions	499	—	—	499	—	—	—	—
FHLB stock	13,895	—	—	13,895	13,084	—	—	13,084
Other	28,661	174	43	28,792	4,617	278	179	4,716
	<b>\$ 614,729</b>	<b>\$ 521</b>	<b>\$ 5,444</b>	<b>\$ 609,806</b>	<b>\$ 701,444</b>	<b>\$ 4,468</b>	<b>\$ 2,577</b>	<b>\$ 703,335</b>

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
(dollars in thousands)				
U.S. Government and Agencies	\$ 701,964	\$ 10,631	\$ —	\$ 712,595
Mortgage-backed securities	29,911	907	—	30,818
Obligations of states and political subdivisions	390	—	—	390
FHLB stock	13,084	—	—	13,084
Other	4,780	52	188	4,644
	<b>\$ 750,129</b>	<b>\$ 11,590</b>	<b>\$ 188</b>	<b>\$ 761,531</b>

During the year ended December 31, 2004 a total of \$42,123,000 available-for-sale securities were sold for a gross gain of \$692,000. A total of \$46,075,000 available-for-sale securities were sold for a gross loss of \$783,000.

Included in U.S. Government and Agency securities are securities pledged to secure public deposits and repurchase agreements amounting to \$42,486,000 at December 31, 2004. Also included are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$295,396,000 at December 31, 2004.

The following table shows the temporary impaired securities of the Company's securities available-for-sale portfolio at December 31, 2004. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 93 and 9 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively out of a total of 176 holdings at December 31, 2004. The Company believes that the investments are temporarily impaired.

## Temporarily Impaired Investments\*

	December 31, 2004					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(dollars in thousands)						
U.S. Government and Agencies	\$ 238,849	\$ 3,064	\$ 29,232	\$ 760	\$ 268,081	\$ 3,824
Mortgage-backed securities	161,567	1,436	4,258	141	165,825	1,577
Other	25,990	12	1,519	31	27,509	43
<b>Total temporarily impaired securities</b>	<b>\$ 426,406</b>	<b>\$ 4,512</b>	<b>\$ 35,009</b>	<b>\$ 932</b>	<b>\$ 461,415</b>	<b>\$ 5,444</b>

\* The decline in market value is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2004.

The following table shows the maturity distribution of the Company's securities available-for-sale at December 31, 2004 and the weighted average yields of securities, which are based on the amortized cost, calculated on a fully taxable equivalent basis.

	U.S. Government and Agencies		Mortgage Backed Securities		Obligations of States and Political Subdivisions and Other		Total		Estimated Market Value
	Yield		Yield		Yield		Yield		
(dollars in thousands)									
<b>DECEMBER 31, 2004</b>									
Within one year	\$ 69,637	2.39 %	\$ —	0.00 %	\$ 25,579	2.27 %	\$ 95,216	2.35 %	\$ 95,154
After one but within five years	299,869	2.85	187,170	4.09	700	4.04	487,739	3.33	482,688
After five but within ten years	14,998	4.18	—	0.00	—	0.00	14,998	4.18	15,057
Non-maturing	—	0.00	—	0.00	16,776	2.95	16,776	2.95	16,907
	<b>\$ 384,504</b>	<b>2.82 %</b>	<b>\$ 187,170</b>	<b>4.09 %</b>	<b>\$ 43,055</b>	<b>2.56 %</b>	<b>\$ 614,729</b>	<b>3.19 %</b>	<b>\$ 609,806</b>

The weighted average remaining life of investment securities available-for-sale at December 31, 2004, 2003 and 2002 was 2.7, 3.5 and 2.9 years, respectively. Included in the weighted average remaining life calculation at December 31, 2004 and 2003, there were 134.1 million and 545.8 million, respectively of U.S. agency obligations that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life.

#### 4. Investment Securities Held-to-Maturity

	December 31, 2004				December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
(dollars in thousands)								
U.S. Government and Agencies	\$ 186,324	\$ 175	\$ 1,609	\$ 184,890	\$ 6,400	\$ 278	\$ —	\$ 6,678
Mortgage-backed securities	159,045	589	1,125	158,509	191,447	1,548	908	192,087
Other	—	—	—	—	25	—	—	25
	<b>\$ 345,369</b>	<b>\$ 764</b>	<b>\$ 2,734</b>	<b>\$ 343,399</b>	<b>\$ 197,872</b>	<b>\$ 1,826</b>	<b>\$ 908</b>	<b>\$ 198,790</b>

	December 31, 2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
(dollars in thousands)				
U.S. Government and Agencies	\$ 76,430	\$ 1,442	\$ —	\$ 77,872
Mortgage-backed securities	50,754	1,363	—	52,117
Other	25	—	—	25
	<b>\$ 127,209</b>	<b>\$ 2,805</b>	<b>\$ —</b>	<b>\$ 130,014</b>

Included in U.S. Government and Agency securities are securities pledged to secure public deposits amounting to \$6,000,000 at December 31, 2004. Also included are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$165,445,000 at December 31, 2004.

The following table shows the temporary impaired securities of the Company's securities held-to-maturity portfolio at December 31, 2004. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 50 and 5 securities temporarily impaired for less than 12 months and for 12 months or longer, respectively out of a total of 98 holdings at December 31, 2004. The Company believes that the investments are temporarily impaired.

	December 31, 2004					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(dollars in thousands)						
U.S. Government and Agencies	\$ 133,367	\$ 1,609	\$ —	\$ —	\$ 133,367	\$ 1,609
Mortgage-backed securities	74,165	673	15,678	452	89,843	1,125
<b>Total temporarily impaired securities</b>	<b>\$ 207,532</b>	<b>\$ 2,282</b>	<b>\$ 15,678</b>	<b>\$ 452</b>	<b>\$ 223,210</b>	<b>\$ 2,734</b>

\* The decline in market value is attributable to changes in interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2004.

The following table shows the maturity distribution of the Company's securities held-to-maturity at December 31, 2004 and the weighted average yields of securities, which are based on the amortized cost, calculated on a fully taxable equivalent basis.

	U.S. Government and Agencies	Yield	Mortgage Backed Securities	Yield	Total	Yield	Estimated Market Value
<b>(dollars in thousands)</b>							
<b>DECEMBER 31, 2004</b>							
Within one year	\$ 6,400	5.02 %	\$ —	0.00 %	\$ 6,400	5.13 %	\$ 6,439
After one but within five years	179,924	3.39	159,045	4.18	338,969	3.76	336,960
	<b>\$ 186,324</b>	<b>3.45 %</b>	<b>\$ 159,045</b>	<b>4.18 %</b>	<b>\$ 345,369</b>	<b>3.79 %</b>	<b>\$ 343,399</b>

The weighted average remaining life of investment securities held-to-maturity at December 31, 2004, 2003 and 2002 was 3.3, 3.5 and 3.2 years, respectively. Included in the weighted average remaining life calculation at December 31, 2004 and 2003, were \$139.9 and \$0 million, respectively of U.S. agency obligations that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life.

## 5. 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.

December 31,	2004		2003		2002		2001		2000	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Construction and land development	\$ 51,918	9.0 %	\$ 34,121	6.7 %	\$ 33,155	6.4 %	\$ 39,256	8.5 %	\$ 21,840	5.0 %
Commercial and industrial	71,962	12.4	39,742	7.8	46,044	9.0	59,162	12.8	95,957	21.8
Industrial revenue bonds	—	0.0	—	0.0	—	0.0	48	0.0	119	0.0
Commercial real estate	258,524	44.6	293,781	57.3	291,598	56.7	241,419	52.2	209,233	47.7
Residential real estate	118,223	20.4	86,780	16.9	92,291	17.9	88,450	19.1	81,526	18.5
Consumer	8,607	1.5	8,025	1.6	8,169	1.6	7,701	1.7	9,226	2.1
Home equity	69,957	12.0	49,382	9.6	41,527	8.1	26,016	5.6	21,107	4.8
Overdrafts	812	0.1	483	0.1	1,465	0.3	720	0.1	555	0.1
	<b>\$ 580,003</b>	<b>100.0 %</b>	<b>\$ 512,314</b>	<b>100.0 %</b>	<b>\$ 514,249</b>	<b>100.0 %</b>	<b>\$ 462,772</b>	<b>100.0 %</b>	<b>\$ 439,563</b>	<b>100.0 %</b>

At December 31, 2004, 2003, 2002, 2001 and 2000 loans were carried net of discounts of \$20,000, \$138,000, \$492,000, \$969,000 and \$1,446,000, respectively. Included in these amounts at December 31, 2004, 2003, 2002, 2001 and 2000, residential real estate loans were carried net of discounts of \$16,000, \$133,000, \$487,000, \$959,000 and \$1,431,000, respectively, associated with the acquisition of loans from another financial institution.

The following table summarizes the remaining maturity distribution of certain components of the Company's loan portfolio on December 31, 2004. The table excludes loans secured by one-to-four family residential real estate and loans for household family and other 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, 2004**

	One Year or Less	One to Five Years	Over Five Years	Total
<i>(dollars in thousands)</i>				
Construction and land development	\$ 20,606	\$ 20,609	\$ 10,703	\$ 51,918
Commercial and industrial	39,901	23,593	8,468	71,962
Commercial real estate	22,066	106,654	129,804	258,524
<b>Total</b>	<b>\$ 82,573</b>	<b>\$ 150,856</b>	<b>\$ 148,975</b>	<b>\$ 382,404</b>

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

**December 31, 2004**

	One to Five Years	Over Five Years	Total
<i>(dollars in thousands)</i>			
Predetermined interest rates	\$ 92,610	\$ 22,569	\$ 115,179
Floating or adjustable interest rates	58,246	126,406	184,652
<b>Total</b>	<b>\$ 150,856</b>	<b>\$ 148,975</b>	<b>\$ 299,831</b>

The Company's commercial and industrial (C&I) loan customers represent various small and middle-market established businesses and institutions 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 has placed 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, residential properties and properties of non-profit organizations in the Bank's market area, which generally includes Eastern Massachusetts, Rhode Island 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 be continued. 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 \$6,542,000 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. This year, the economy has deteriorated, and the market has generally been volatile.

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 80%.

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, 2004, the Company was obligated to advance a total of \$33,754,000 to complete projects under construction.

The composition of non-accrual loans, impaired loans & troubled debt restructuring agreements is as follows:

	2004	2003	2002	2001	2000
(dollars in thousands)					
Loans on non-accrual	\$ 628	\$ 1,175	\$ 511	\$ 423	\$ 110
Impaired loans on non-accrual included above	\$ 452	\$ 1,137	\$ 487	\$ 292	\$ 41
Total recorded investment in impaired loans	\$ 964	\$ 1,678	\$ 1,116	\$ 1,118	\$ 1,535
Average recorded value of impaired loans	\$ 1,156	\$ 2,043	\$ 1,273	\$ 2,149	\$ 2,919
Loans 90 days past due and still accruing	\$ 160	\$ —	\$ —	\$ 9	\$ 19
Interest income on non-accrual loans according to their original terms	\$ 66	\$ 100	\$ 50	\$ 43	\$ 19
Interest income on non-accrual loans actually recorded	\$ —	\$ 70	\$ —	\$ 32	\$ 9
Interest income recognized on impaired loans	\$ 105	\$ 116	\$ 60	\$ 116	\$ 160

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

	2004	2003	2002	2001	2000
Residential real estate:					
1-4 family	\$ —	\$ 60	\$ —	\$ 29	\$ 41
Multi-family	512	541	629	656	681
Commercial real estate	—	—	487	433	782
Commercial and industrial	452	1,077	—	—	31
Total	\$ 964	\$ 1,678	\$ 1,116	\$ 1,118	\$ 1,535
Specific valuation allowance	—	—	—	—	—
Total impaired loans	\$ 964	\$ 1,678	\$ 1,116	\$ 1,118	\$ 1,535

There were no impaired loans with specific reserves from December 31, 2000 through December 31, 2004, and in the opinion of management, none of the above listed impaired loans required a specific reserve. All of the impaired loans listed above have been measured using the fair value of the collateral method.

The Company was servicing mortgage loans sold to others without recourse of approximately \$1,538,000, \$2,397,000, \$4,444,000, \$6,888,000 and \$10,199,000 at December 31, 2004, 2003, 2002, 2001 and 2000, 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 \$86,000, \$183,000, \$194,000, \$338,000 and \$479,000 at December 31, 2004, 2003, 2002, 2001 and 2000, 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.

The following table shows the aggregate amount of loans to directors and officers of the Company and their associates during 2004.

Balance at December 31, 2003	Additions	Repayments and Deletions	Balance at December 31, 2004
(dollars in thousands)			
\$ 1,527	\$ 433	\$ 478	\$ 1,482

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 \$628,000 in 2004 and \$1,175,000 in 2003 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, as of December 31, 2004, the Company continues to monitor closely \$7,883,000 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, 2004, although such values can fluctuate with changes in the economy and the real estate market.

Included in residential real estate loans are loans pledged for borrowing at the Federal Home Loan Bank amounting to \$107,957,000.

## 6. Allowance for Loan Losses

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

Year Ended December 31,	2004	2003	2002	2001	2000
(dollars in thousands)					
Year-end loans outstanding (net of unearned discount)	<b>\$ 580,003</b>	\$ 512,314	\$ 514,249	\$ 462,772	\$ 439,563
Average loans outstanding (net of unearned discount)	<b>\$ 546,147</b>	\$ 500,723	\$ 488,465	\$ 443,395	\$ 434,780
Balance of allowance for loan losses at beginning of year	<b>\$ 8,769</b>	\$ 8,506	\$ 7,112	\$ 5,662	\$ 7,646
Loans charged-off:					
Commercial	<b>1</b>	240	—	27	3,522
Commercial real estate	<b>—</b>	—	58	343	—
Residential real estate	<b>194</b>	—	—	12	—
Consumer	<b>113</b>	125	87	55	139
Total loans charged-off:	<b>308</b>	365	145	437	3,661
Recovery of loans previously charged-off:					
Commercial	<b>117</b>	127	276	154	26
Real estate	<b>103</b>	29	—	184	195
Consumer	<b>20</b>	22	63	49	31
Total recoveries of loans previously charged-off:	<b>240</b>	178	339	387	252
Net loan charge-offs (recoveries)	<b>68</b>	187	(194)	50	3,409
Additions to allowance charged to operating expense	<b>300</b>	450	1,200	1,500	1,425
Balance at end of year	<b>\$ 9,001</b>	\$ 8,769	\$ 8,506	\$ 7,112	\$ 5,662
Ratio of net charge-offs during the year to average loans outstanding	<b>0.01 %</b>	0.04 %	(0.04)%	0.01 %	0.78 %
Ratio of allowance for loan losses to loans outstanding	<b>1.55 %</b>	1.71 %	1.65 %	1.54 %	1.29 %

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 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 loss experience and current economic conditions. The unallocated reserve was allocated proportionately among the listed loan categories. At December 31 of each year listed below, the allowance was allocated as follows:

	2004		2003		2002		2001		2000	
	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	<b>\$ 988</b>	<b>9.0%</b>	\$ 701	6.7%	\$ 497	6.4%	\$ 605	8.5%	\$ 285	5.0%
Commercial and industrial	<b>1,480</b>	<b>12.4</b>	1,048	7.8	1,106	9.0	1,257	12.8	1,200	21.8
Commercial real estate	<b>4,518</b>	<b>44.6</b>	5,364	57.3	4,941	56.7	3,786	52.2	1,923	47.6
Residential real estate	<b>1,045</b>	<b>20.4</b>	904	16.9	1,160	17.9	955	19.1	726	18.5
Consumer and other	<b>177</b>	<b>1.6</b>	165	1.7	210	1.9	173	1.8	1,298	2.3
Home equity	<b>793</b>	<b>12.0</b>	587	9.6	592	8.1	336	5.6	230	4.8
	<b>\$ 9,001</b>	<b>100.0%</b>	\$ 8,769	100.0%	\$ 8,506	100.0%	\$ 7,112	100.0%	\$ 5,662	100.0%



## 7. Bank Premises and Equipment

December 31,	2004	2003	2002	Estimated Useful Life
(dollars in thousands)				
Land	\$ 3,650	\$ 3,650	\$ 3,607	—
Bank premises	6,198	6,198	6,198	30-39 years
Construction in progress (note 14)	11,766	7,506	—	
Furniture and equipment	19,740	17,969	16,377	3-10 years
Leasehold improvements	5,083	4,446	3,483	30-39 years or lease term
	<b>46,437</b>	39,769	29,665	
Accumulated depreciation and amortization	<b>(20,172)</b>	(18,180)	(16,737)	
	<b>\$ 26,265</b>	\$ 21,589	\$ 12,928	

The Company and its subsidiaries are obligated under a number of noncancelable operating leases for premises and equipment expiring in various years through 2026. Total lease expense approximated \$1,084,000, \$886,000 and \$711,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

Future minimum rental commitments for noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2004 were as follows:

Year	Amount
(dollars in thousands)	
2005	\$ 1,088
2006	982
2007	970
2008	900
2009	701
Thereafter	1,551
	<b>\$ 6,192</b>

## 8. 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.

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.

Time Deposits as of December 31, are as follows:

	2004	2003	2002
(dollars in thousands)			
Three months or less	\$ 206,518	\$ 207,180	\$ 82,741
Three months through twelve months	72,382	85,651	66,096
Over twelve months	80,916	66,786	73,488
	<b>\$ 359,816</b>	\$ 359,617	\$ 222,325

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

	2004	2003	2002
(dollars in thousands)			
Three months or less	\$ 169,423	\$ 165,198	\$ 43,261
Three months through twelve months	23,442	10,855	7,933
Over twelve months	20,428	3,759	1,079
	<b>\$ 213,293</b>	<b>\$ 179,812</b>	<b>\$ 52,273</b>

#### 9. Securities Sold Under Agreements to Repurchase

	2004	2003	2002
(dollars in thousands)			
Amount outstanding at December 31,	\$ 38,650	\$ 40,050	\$ 51,800
Weighted average rate at December 31,	0.97 %	0.77 %	1.00 %
Maximum amount outstanding at any month end	\$ 49,700	\$ 58,830	\$ 69,190
Daily average balance outstanding during the year	\$ 40,937	\$ 51,402	\$ 61,718
Weighted average rate during the year	0.81 %	0.89 %	1.13 %

Amounts outstanding at December 31, 2004, 2003 and 2002 carried maturity dates of the next business day. U.S. Government and Agency securities with a total book value of \$39,460,000, \$40,560,000 and \$51,176,000 were pledged as collateral and held by custodians to secure the agreements at December 31, 2004, 2003 and 2002, respectively. The approximate market value of the collateral at those dates was \$38,989,000, \$40,638,000 and \$51,994,000, respectively.

#### 10. Other Borrowed Funds and Subordinated Debentures

	2004	2003	2002
(dollars in thousands)			
Amount outstanding at December 31,	\$ 280,628	\$ 165,968	\$ 198,170
Weighted average rate at December 31,	4.62 %	4.86 %	4.97 %
Maximum amount outstanding at any month end	\$ 280,628	\$ 233,600	\$ 199,163
Daily average balance outstanding during the year	\$ 194,932	\$ 170,344	\$ 186,531
Weighted average rate during the year	4.72 %	5.01 %	4.97 %

#### FEDERAL HOME LOAN BANK BORROWINGS

Federal Home Loan Bank ("FHLB") borrowings are collateralized by a blanket pledge agreement on the Bank's FHLB stock, certain qualified investment securities, deposits at the Federal Home Loan Bank and residential mortgages held in the Bank's portfolio. The Bank's borrowing capacity at the Federal Home Loan Bank was approximately \$230,100,000 at December 31, 2004. In addition, the Bank has a \$14,500,000 line of credit with the FHLB. A schedule of the maturity distribution of FHLB advances with the weighted average interest rates is as follows:

December 31,	2004		2003		2002	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(dollars in thousands)						
Within 1 year	\$ 105,000	2.22 %	\$ 35,000	1.55 %	\$ 70,000	2.65 %
Over 1 year to 2 years	1,120	7.20	—	0.00	—	0.00
Over 2 years to 3 years	—	0.00	1,178	7.20	—	0.00
Over 3 years to 5 years	51,500	5.25	19,500	5.38	1,233	7.20
Over 5 years	55,500	5.32	78,500	5.40	95,000	5.45
Total	<b>\$ 213,120</b>	<b>3.79 %</b>	<b>\$ 134,178</b>	<b>4.41 %</b>	<b>\$ 166,233</b>	<b>4.28 %</b>

## SUBORDINATED DEBENTURES

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 Capital 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 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 their 8.30% Trust Preferred Securities, with a redemption date of January 10, 2005. The total amount of this redemption is \$29,639,000.

## 11. Stockholders' Equity

## DIVIDENDS

Holders of the Class A common stock may not vote in the election of directors, but may vote as a class to approve certain extraordinary corporate transactions. Holders of Class B may vote in the election of directors. Class A common stockholders are entitled to receive dividends per share equal to at least 200% per share of that paid, if any, on each share of Class B common stock. Class A common stock is publicly traded. Class B common stock is not publicly traded, however, it can be converted on a share for share basis to Class A common stock at any time at the option of the holder. Dividend payments by the Company are dependent in part on the dividends it receives from the Bank, which are subject to certain regulatory restrictions.

## EARNINGS PER SHARE (EPS)

Diluted EPS includes the dilutive effect of common stock equivalents; basic EPS excludes all common stock equivalents. The only common stock equivalents for the Company are the stock options discussed below. The dilutive effect of these stock options for 2004, 2003 and 2002 was an increase of 26,995, 28,815 and 17,469 shares, respectively.

## OTHER BORROWED FUNDS

The Bank serves as a Treasury Tax and Loan depository under a note option with the Federal Reserve Bank of Boston. This open-ended interest bearing borrowing carries an interest rate equal to the daily Federal funds rate less 0.25%. This amount totaled \$1,638,000 at December 31, 2004.

The Bank also has an outstanding loan in the amount of \$148,000 borrowed against the cash value of a whole life insurance policy for a key executive of the Bank.

## STOCK OPTION PLAN

During 2000 and 2004, common stockholders of the Company approved stock option plans (the "Option Plans") that provides for granting of options for not more than 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 and 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 67,486 options exercisable at December 31, 2004.

Stock option activity under the plan is as follows:

	December 31, 2004		December 31, 2003		December 31, 2002	
	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	95,062	\$ 22.84	67,000	\$ 19.52	36,500	\$ 15.56
Granted	47,050	32.64	35,750	27.58	34,075	23.29
Cancelled	(675)	26.68	(675)	15.49	(1,500)	15.063
Exercised	(9,650)	18.31	(7,013)	15.93	(2,075)	15.063
Outstanding at end of year	131,787	\$ 26.65	95,062	\$ 22.84	67,000	\$ 19.52
Exercisable at end of year	67,486	\$ 22.22	42,399	\$ 18.65	15,900	\$ 15.63
Available to be granted at end of year	149,475		45,850		79,425	
Weighted average fair value of options granted during the year	\$ 10.69		\$ 6.84		\$ 5.99	

At December 31, 2004, the 131,787 options outstanding have exercise prices between \$15.063 and \$35.010, with a weighted average exercise price at \$26.65 and a weighted average remaining contractual life of 7 years.

The Bank is subject to various regulatory requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulation) to risk weighted assets (as defined) and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2004, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2004, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier risk-based, and Tier 1 leverage ratios as set forth in the table. There is no conditions or events since that notification that management believes would cause a change in the Bank's categorization.

The Bank's actual capital amounts and ratios are presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>As of December 31, 2004</b>						
Total capital (to risk-weighted assets)	\$ 116,698	13.47%	\$ 69,312	8.00%	\$ 86,640	10.00%
Tier 1 capital (to risk-weighted assets)	107,697	12.43	34,656	4.00	51,984	6.00
Tier 1 capital (to 4th Qtr. average assets)	107,697	6.54	65,835	4.00	82,294	5.00
As of December 31, 2003						
Total capital (to risk-weighted assets)	\$ 113,236	15.26%	\$ 59,362	8.00%	\$ 74,203	10.00%
Tier 1 capital (to risk-weighted assets)	104,467	14.08	29,681	4.00	44,522	6.00
Tier 1 capital (to 4th Qtr. average assets)	104,467	6.70	62,353	4.00	77,942	5.00

## 12. Income Taxes

The current and deferred components of income tax expense for the years ended December 31 are as follows:

	2004	2003	2002
(dollars in thousands)			
Current expense:			
Federal	\$ 4,277	\$ 5,783	\$ 12,936
State	227	4,596	633
Total current expense	4,504	10,379	13,569
Deferred expense (benefit):			
Federal	427	102	(5,617)
State	43	(1,518)	(73)
Total deferred expense (benefit)	470	(1,416)	(5,690)
Provision for income taxes	\$ 4,974	\$ 8,963	\$ 7,879

Income tax accounts included in other assets and other liabilities at December 31 are as follows:

	2004	2003
(dollars in thousands)		
Currently receivable (payable)	\$ 474	\$ 377
Deferred income tax asset, net	8,518	5,019
	<u>\$ 8,992</u>	<u>\$ 5,396</u>

Income tax expense for the years presented is different from the amounts computed by applying the statutory Federal income tax rate of 35% for 2004, 2003 and 2002 to income before Federal income taxes. The following tabulation reconciles Federal income tax expense based on statutory rates to the actual income tax expense for the years ended December 31:

	2004	2003	2002
(dollars in thousands)			
Federal income tax expense at statutory rates	\$ 4,849	\$ 7,225	\$ 7,484
State income taxes, net of federal income tax benefit	176	2,001	364
Effect of tax-exempt interest	—	(1)	(10)
Other	(51)	(262)	41
	<u>\$ 4,974</u>	<u>\$ 8,963</u>	<u>\$ 7,879</u>
Effective tax rate	35.9 %	43.4 %	36.8 %

The following table sets forth the Company's gross deferred income tax assets and gross deferred income tax liabilities at December 31:

	2004	2003
(dollars in thousands)		
Deferred income tax assets:		
Allowance for loan losses	\$ 3,765	\$ 3,668
Deferred compensation	3,855	3,431
Unrealized loss on securities available-for-sale	1,914	—
Unrecognized SERP liability	1,264	—
Acquisition premium	721	648
Investments writedown	33	61
Deferred gain	176	197
Other	8	48
Gross deferred income tax asset	<u>11,736</u>	<u>8,053</u>
Deferred income tax liabilities:		
Unrealized gain on securities available-for-sale	—	(791)
Accrued dividends	(41)	—
Depreciation	(1,277)	(562)
Limited partnerships	(1,836)	(1,611)
Other	(64)	(70)
Gross deferred income tax liability	<u>(3,218)</u>	<u>(3,034)</u>
Deferred income tax asset net	<u>8,518</u>	<u>5,019</u>

During 2003, the Company incurred a net tax charge of \$1,183,000 associated with the Real Estate Investment Trust ("REIT") settlement. This charge was the result of an agreement with the Massachusetts Department of Revenue ("DOR") settling a dispute related to taxes that the DOR claimed were owed from the Company's REIT.

The Company believes that the net deferred tax asset will be realized in the years in which the temporary differences are expected to be recovered or settled.

### 13. Employee Benefits

The Company has a qualified Defined Benefit Pension Plan (the "Plan"), which is offered to all employees reaching minimum age and service requirements. An increase in the size of the work force and increased compensation expense in 2004 resulted in an increase in pension cost.

The measurement date for the Plan is September 30 for each year. The benefits expected to be paid in each year from 2005-2009 are \$316,000, \$329,000, \$379,000, \$493,000 and \$530,000. The aggregate benefits expected to be paid in the five years from 2010-2014 are \$3,200,000. The Company plans to contribute \$1,232,000 to the Plan in 2005.

The weighted-average asset allocation of pension benefit assets at September 30, were:

Asset Category	2004	2003
Debt securities	66 %	80 %
Equity securities	15 %	16 %
Other	19 %	4 %

The Company has a Supplemental Insurance/Retirement Plan (the Supplemental Plan), which is limited to certain officers and employees of the Company. The Supplemental Plan is voluntary and participants are required to contribute to its cost. Under the Supplemental Plan, each participant will receive a retirement benefit based on compensation and length of service. Individual life insurance policies, which are owned by the Company, are purchased covering the lives of each participant. Increased compensation expense resulted in increased cost for the Supplemental Plan.

The measurement date for the Supplemental Plan is September 30 for each year. The benefits expected to be paid in each year from 2005-2009 are \$285,000, \$337,000, \$336,000, \$340,000 and \$423,000. The aggregate benefits expected to be paid in the five years from 2010-2014 are \$2,600,000.

	Defined Benefit Pension Plan		Supplemental Insurance / Retirement Plan	
	2004	2003	2004	2003
(dollars in thousands)				
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 13,353	\$ 12,634	\$ 13,368	\$ 12,467
Service cost	714	692	12	100
Interest cost	868	821	869	811
Plan Amendment	—	(1,719)	—	968
Actuarial (gain)/loss	(628)	1,131	(2,331)	(962)
Benefits paid	(231)	(206)	(61)	(16)
Benefit obligation at end of year	\$ 14,076	\$ 13,353	\$ 11,857	\$ 13,368
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 9,285	\$ 7,783		
Actual return on plan assets	224	438		
Employer contributions	1,525	1,270		
Benefits paid	(231)	(206)		
Fair value of plan assets at end of year	\$ 10,803	\$ 9,285		
Funded status	\$ (3,273)	\$ (4,068)	\$ (11,857)	\$ (13,368)
Unrecognized prior service cost	1,441	1,446	(1,155)	(1,219)
Unrecognized net actuarial loss	(4,216)	(4,696)	(1,437)	(3,941)
Accrued benefit cost	\$ (498)	\$ (818)	\$ (9,265)	\$ (8,208)
Accumulated benefit obligation	\$ 13,037	\$ 11,876	\$ 11,151	\$ 10,101
Weighted average assumptions as of December 31:				
Discount rate	6.50 %	6.50 %	6.50 %	6.50 %
Expected return on plan assets	8.00 %	8.00 %	N/A	N/A
Rate of compensation increase	4.00 %	4.00 %	4.00 %	4.00 %
Components of net periodic benefit cost:				
Service cost	\$ 714	\$ 692	\$ 12	\$ 100
Interest cost	868	821	869	811
Expected return on plan assets	(597)	(614)	—	—
Recognized prior service cost	(4)	110	64	(1)
Recognized net losses	224	153	174	261
Net periodic cost	\$ 1,205	\$ 1,162	\$ 1,119	\$ 1,171

The Company offers a 401(k) defined contribution plan for all employees reaching minimum age and service requirements. The plan is voluntary and employee contributions are matched by the Company at a rate of 33.3% for the first 6% of compensation contributed by each employee. The Company's match totaled \$210,900 for 2004, \$218,100 for 2003 and \$202,500 for 2002. Administrative costs associated with the plan are absorbed by the Company.

The Company does not offer any post retirement programs other than pensions.

#### 14. Commitments and Contingencies

A number of legal claims against the Company arising in the normal course of business were outstanding at December 31, 2004. Management, after reviewing these claims with legal counsel, is of the opinion that their resolution will not have a material adverse affect on the Company's consolidated financial position or results of operation.

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 will provide additional corporate office space and an expanded branch banking floor. The building is scheduled to be completed during the first quarter of 2005 and the current cost estimate, including land costs, is \$14.5 million. As of December 31, 2004, \$13.6 million has been expended, this includes land costs of \$1.8 million. The capital expenditure will provide a five-story addition containing approximately 50 thousand square feet of office and branch banking space.

### 15. 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	2004	2003
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate		
1-4 family mortgages	\$ 2,511	\$ 600
Standby letters of credit	11,195	4,914
Unused lines of credit	128,915	126,825
Unadvanced portions of construction loans	33,754	15,414

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.

### 16. Other Operating Expenses

Year ended December 31,	2004	2003	2002
(dollars in thousands)			
Marketing	\$ 1,403	\$ 1,265	\$ 1,440
Processing services	1,379	1,292	1,215
Supplies	728	775	664
Telephone	583	511	434
Postage and delivery	826	735	690
Legal and audit	812	478	683
Consulting	316	316	399
Software maintenance/amortization	653	743	723
Insurance	316	248	205
Director's fees	258	270	192
FDIC assessment	198	208	163
Core deposit tangible amortization	388	320	167
Capital expense amortization	—	137	311
Other	1,160	860	659
	<u>\$ 9,020</u>	<u>\$ 8,158</u>	<u>\$ 7,945</u>

### 17. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating fair values of its financial instruments.

Excluded from this disclosure are certain financial instruments for which it is not practical to estimate their value and all nonfinancial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

**CASH AND CASH EQUIVALENTS:** The carrying amounts reported in the balance sheet for cash and cash equivalents approximate the fair values of these assets because of the short-term nature of these financial instruments.

**SECURITIES HELD-TO-MATURITY AND SECURITIES AVAILABLE-FOR-SALE:** The fair value of these securities, excluding certain state and municipal securities whose fair value is estimated at book value because they are not readily marketable, is estimated based on bid prices published in financial newspapers or bid quotations received from securities dealers.

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

ACCRUED INTEREST RECEIVABLE AND PAYABLE: The carrying amounts for accrued interest receivable and payable approximate fair values because of the short-term nature of these financial instruments.

DEPOSITS: The fair value of deposits with no stated maturity is equal to the carrying amount. The fair value of time deposits is based on the discounted value of contractual cash flows, applying interest rates currently being offered on the deposit products of similar maturities. The fair value estimates for deposits do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of alternative forms of funding ("deposit base intangibles").

REPURCHASE AGREEMENTS AND OTHER BORROWED FUNDS: The fair value of repurchase agreements and other borrowed funds is based on the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for other borrowed funds of similar remaining maturities.

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

OFF-BALANCE SHEET INSTRUMENTS: The fair values of the Company's unused lines of credit and unadvanced portions of construction loans, commitments to originate and sell loans and standby letters of credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

The carrying amounts and fair values of the Company's financial instruments at December 31 are as follows:

	2004		2003	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
(dollars in thousands)				
Financial assets:				
Cash and cash equivalents	\$ 238,235	\$ 238,235	\$ 225,321	\$ 225,321
Securities available-for-sale	609,806	609,806	703,335	703,335
Securities held-to-maturity	345,369	343,399	197,872	198,790
Net loans	571,002	565,539	503,545	506,232
Accrued interest receivable	6,800	6,800	8,450	8,450
Financial liabilities:				
Deposits	1,394,010	1,397,901	1,338,853	1,346,713
Repurchase agreement and other borrowed funds	253,556	255,036	176,379	176,557
Subordinated debentures	65,722	65,801	29,639	30,469
Accrued interest payable	2,305	2,305	1,016	1,016
Standby letters of credit	—	136	—	100

#### LIMITATIONS

Fair value estimates are made at a specific point in time, based on relevant market information and information about the type of financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no active market exists for some of the Bank's financial instruments, fair value estimates are based on judgements regarding future expected loss experience, cash flows, current economic conditions, risk characteristics and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions and changes in the loan, debt and interest rate markets could significantly affect the estimates. Further, the income tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered.



## 18. Quarterly Results of Operations (unaudited)

2004 Quarters	Fourth	Third	Second	First
(dollars in thousands, except per share data)				
Interest income	\$ 16,892	\$ 16,077	\$ 16,102	\$ 15,962
Interest expense	6,578	5,561	5,502	6,005
Net interest income	10,314	10,516	10,600	9,957
Provision for loan losses	150	150	—	—
Net interest income after provision for loan losses	10,164	10,366	10,600	9,957
Other operating income	2,432	2,501	2,745	2,753
Operating expenses	9,452	9,587	9,560	9,064
Income before income taxes	3,144	3,280	3,785	3,646
Provision for income taxes	1,117	1,147	1,382	1,328
Net income	\$ 2,027	\$ 2,133	\$ 2,403	\$ 2,318
Share data:				
Average shares outstanding, basic	5,528,008	5,526,438	5,525,665	5,524,659
Average shares outstanding, diluted	5,547,913	5,552,202	5,553,500	5,557,984
Earnings per share, basic	\$ 0.37	\$ 0.39	\$ 0.44	\$ 0.42
Earnings per share, diluted	\$ 0.37	\$ 0.38	\$ 0.43	\$ 0.42
2003 Quarters				
(dollars in thousands, except per share data)				
Interest income	\$ 16,560	\$ 16,889	\$ 18,110	\$ 17,739
Interest expense	5,613	5,807	6,462	6,060
Net interest income	10,947	11,082	11,648	11,679
Provision for loan losses	—	—	225	225
Net interest income after provision for loan losses	10,947	11,082	11,423	11,454
Other operating income	2,518	2,455	2,616	2,420
Operating expenses	8,313	8,401	9,106	8,452
Income before income taxes	5,152	5,136	4,933	5,422
Provision for income taxes	1,953	1,939	(147)	5,218
Net income	\$ 3,199	\$ 3,197	\$ 5,080	\$ 204
Share data:				
Average shares outstanding, basic	5,523,403	5,520,025	5,518,093	5,517,616
Average shares outstanding, diluted	5,560,317	5,553,470	5,517,856	5,537,151
Earnings per share, basic	\$ 0.58	\$ 0.58	\$ 0.92	\$ 0.04
Earnings per share, diluted	\$ 0.58	\$ 0.58	\$ 0.92	\$ 0.04

## 19. Parent Company Financial Statements

The balance sheets of Century Bancorp, Inc. ("Parent Company") as of December 31, 2004 and 2003 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2004 are presented below. The statements of changes in stockholders' equity are identical to the consolidated statements of changes in stockholders' equity and are therefore not presented here.

## BALANCE SHEETS

December 31,	2004	2003
(dollars in thousands)		
ASSETS:		
Cash	\$ 58,704	\$ 21,062
Investment in subsidiary, at equity	110,189	111,356
Other assets	2,465	1,368
Total assets	\$ 171,358	\$ 133,786
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities	\$ 863	\$ 419
Subordinated debentures	65,722	29,639
Stockholders' equity	104,773	103,728
Total liabilities and stockholders' equity	\$ 171,358	\$ 133,786

## STATEMENTS OF INCOME

December 31,	2004	2003	2002
(dollars in thousands)			
Income:			
Dividends from subsidiary	\$ 5,786	\$ 2,825	\$ 4,774
Interest income from deposits in bank	313	377	575
Other income	80	74	74
Total income	6,179	3,276	5,423
Interest expense	2,653	2,460	2,460
Operating expenses	216	250	451
Income before income taxes and equity in undistributed income of subsidiary	3,310	566	2,512
Provision for income taxes	(873)	(790)	(786)
Income before equity in undistributed income of subsidiary	4,183	1,356	3,298
Equity in undistributed income of subsidiary	4,698	10,324	10,206
Net income	\$ 8,881	\$ 11,680	\$ 13,504

## STATEMENTS OF CASH FLOWS

Year Ended December 31,	2004	2003	2002
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 8,881	\$ 11,680	\$ 13,504
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income of subsidiary	(4,698)	(10,324)	(10,206)
Depreciation and amortization	—	138	314
Increase in other assets	(1,098)	(61)	(11)
Increase (decrease) in liabilities	444	(356)	107
Net cash provided by operating activities	3,529	1,077	3,708
CASH FLOWS FROM FINANCING ACTIVITIES:			
Subordinated debt issuance	36,083	—	—
Capital payment to bank subsidiary	—	(13,000)	—
Stock options exercised	177	111	31
Cash dividends paid	(2,147)	(2,008)	(1,871)
Treasury stock repurchases	—	—	—
Net cash provided by (used in) financing activities	34,113	(14,897)	(1,840)
Net increase (decrease) in cash	37,642	(13,820)	1,868
Cash at beginning of year	21,062	34,882	33,014
Cash at end of year	\$ 58,704	\$ 21,062	\$ 34,882

**KPMG LLP**

Certified Public Accountants  
99 High Street  
Boston, Massachusetts 02110

**The Board of Directors and Stockholders  
Century Bancorp, Inc.:**

We have audited the accompanying consolidated balance sheets of Century Bancorp, Inc. and subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Century Bancorp, Inc. and subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 8, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

The image shows the handwritten signature of KPMG LLP in black ink. The letters are bold and stylized, with the 'K' and 'P' being particularly prominent.

Boston, Massachusetts  
March 8, 2005

## KPMG LLP

Certified Public Accountants  
99 High Street  
Boston, Massachusetts 02110

The Board of Directors and Stockholders  
Century Bancorp, Inc.:

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*, that Century Bancorp, Inc. and subsidiary maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Century Bancorp, Inc. and subsidiary maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Century Bancorp, Inc. and subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2004, and our report dated March 8, 2005 expressed an unqualified opinion on those consolidated financial statements.



Boston, Massachusetts

March 8, 2005

**Century Bancorp, Inc.**

400 Mystic Avenue  
Medford, Massachusetts 02155

We, together with the other members of Century Bancorp, Inc. and subsidiary (the "Company"), are responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*. Based on our assessment we believe that, as of December 31, 2004, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on our assessment of the Company's internal control over financial reporting. Their report appears on page 32.



Marshall M. Sloane  
Chairman, President and CEO



Paul V. Cusick, Jr.  
Vice President and Treasurer

March 8, 2005



## SHAREHOLDER INFORMATION

### CORPORATE HEADQUARTERS

Century Bank  
400 Mystic Avenue  
Medford, MA 02155-6316  
TEL 866.8.CENTURY  
century-bank.com

### TRANSFER AGENT AND REGISTRAR

EquiServe Trust Company, N.A.  
P.O. Box 43010  
Providence, RI 02940-3010  
TEL 781.575.3400 (Investor Relations)  
EquiServe.com

### ANNUAL MEETING

The annual meeting of stockholders will be held on Tuesday, April 12, 2005, at 10:00 a.m. The meeting will take place at Century Bank, 400 Mystic Avenue, Medford, MA.

### STOCK LISTING

Century Bancorp, Inc. became a public company in 1987. Century's Class A Common Stock is listed in the NASDAQ national market and is traded under the symbol CNBKA. The stock is listed as CntyBc in *The Boston Globe* and *Boston Herald*, and CentyBcp in *The Wall Street Journal*.

### 10-K REPORT

A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K may be obtained without charge upon written request to: Century Bancorp, Inc., Investor Relations, 400 Mystic Avenue, Medford, MA 02155.

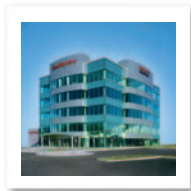
## CENTURY BANK LOCATIONS

### OFFICES

Allston	300 Western Avenue, Allston, MA 02134	617-562-1700
Beverly	428 Rantoul Street, Beverly, MA 01915	978-921-2300
Boston	710 Albany Street, Boston, MA 02118	617-578-9250
Boston	280 Atlantic Avenue, Boston, MA 02110	617-557-0516
Boston	512 Commonwealth Avenue, Boston, MA 02215	617-424-1644
Boston	771 Commonwealth Avenue, Boston, MA 02215	617-424-5211
Boston	275 Hanover Street, Boston, MA 02113	617-557-2950
Boston	24 Federal Street, Boston, MA 02110	617-423-1490
Braintree	703 Granite Street, Braintree, MA 02184	781-356-3400
Brookline	1184-1186 Boylston Street/Rt 9 East, Brookline, MA 02467	617-713-4910
Burlington	134 Cambridge Street/Rt 3A, Burlington, MA 01803	781-238-8700
Cambridge	2309 Massachusetts Avenue, Cambridge, MA 02140	617-349-5300
Everett	1763 Revere Beach Parkway/Rt 16, Everett, MA 02149	617-381-6300
Lynn	2 State Street, Lynn, MA 01901	781-586-8700
Malden	140 Ferry Street at Eastern Avenue, Malden, MA 02148	781-388-2100
Medford	400 Mystic Avenue, Medford, MA 02155	781-393-4160
Medford Square	55 High Street, Medford, MA 02155	781-391-9830
Newton	31 Boylston Street/Route 9 West, Newton, MA 02467	617-582-0920
Peabody	12 Peabody Square, Peabody, MA 01960	978-977-4900
Quincy	651 Hancock Street, Quincy, MA 02170	617-376-8100
Salem	37 Central Street, Salem, MA 01970	978-740-6900
Somerville	102 Fellsway West at Mystic Avenue, Somerville, MA 02145	617-629-0929

### FREE STANDING CASH DISPENSERS

Boston	Agganis Arena, Boston University, 925 Commonwealth Avenue, Boston, MA 02215
Boston	Barnes & Noble, 660 Beacon Street, Boston, MA 02215
Boston	Campus Convenience/Sleeper Hall, Boston University, 275 Babcock Street, Boston, MA 02215
Boston	Dental School, Boston University, 100 East Newton Street, Boston, MA 02118
Boston	The Hotel Commonwealth, 500 Commonwealth Avenue, Boston, MA 02215
Boston	Medical School, Boston University, 715 Albany Street, Boston, MA 02118
Boston	Parking Garage, Boston University, 710 Albany Street, Boston, MA 02118
Boston	Warren Towers, 770 Commonwealth Avenue, Boston, MA 02215
Cambridge	One Kendall Square, Building #100, Cambridge, MA 02139
Medford	Magoun Square, 110 Medford Street, Medford, MA 02155



My Life.  
My Time.  
My Century.

**Century**  
*Bancorp, Inc.*

400 MYSTIC AVENUE, MEDFORD, MA 02155

866.8.CENTURY

[century-bank.com](http://century-bank.com)