



MARSHALL M. SLOANE
Founder and Chairman

Strength in Independence.

“ For 38 years I have set Century’s guiding policies. And the fundamental policy at Century is to be an honorable and ethical company; always doing the right thing for all of our constituencies. ”



INDEPENDENCE. It means the freedom to do what is best for our customers, our community, and our shareholders in such a way as to exceed their expectations. At Century Bank, we've always been independent. It means we can assess risks and rewards according to our standards, not those of a parent company.

It means that we can satisfy the financial needs and wants of our customers with service quality that creates value. Our independence also means we're free to give back generously to our communities. In the end, our independence helps us make both the people and communities we serve more independent themselves.

Who better, then, to discuss strength in independence in our annual report than the man who embodies it for our company—our Founder and Chairman, Marshall Sloane.

How did you get into the community banking business?

My dad had a furniture business in Magoun Square in Somerville. During the depression, a bank across the street from us failed. Subsequently, my dad bought the building. He said, "Someday, we'll have a bank there." He meant as a tenant, but I had higher aspirations. Unfortunately, my father died at the age of 59. I wanted to fulfill his dream. I was in my 20's. I called the Banking Commissioner and asked about a bank charter, he said to me, "Well young fellow, there haven't been any new banks in a long, long while. Why don't you think about a thrift charter?" And that's what I did. My fellow directors and I each had to invest \$5,000 for a guaranty fund. I fulfilled my dad's dream. Little did he think that his son would be the banker.



MARSHALL M. SLOANE
Founder and Chairman

“ In 1969 I opened Century Bank. We’ve been the most successful survivor of banks chartered here during the 60s and 70s because we have paid attention to our clients. We have helped them grow. We know how to do that. We haven’t taken big risks. Our Board has always stayed focused on our customer and community needs. It’s not more complicated than that. ”

Does being independent help keep you more nimble than the bigger, national banks?

We can react faster than the big guys can in many ways. By the same token, don’t discount the giants. They have the marketing ability, dollars to spend, and can quickly research and introduce new products. I would never discount them, but there is a powerful market opportunity for us with the small to medium-sized business community. When we make a loan, we’re in the community. We bring our customers into the bank, or we go out and visit them. We’re involved. We institutionalize the relationships.

Why did people entrust you with \$1.1 million on your opening day?

I knew the community. Our family had been part of the community for 70 years by then. My dad had created a great reputation for confidence, honesty, and integrity. People knew my father, and they knew me. I think the community trusted me. I received Century’s charter in ’68, and we set up the bank in an office trailer in May 1969 on the corner of the Fellsway West and Mystic Avenue as the permanent building was under construction. We were profitable the first month in business. I’m sometimes asked to speak to the students at Somerville High School. I say “Kids, you’re better off than children who grow up in more affluent communities. Do you know why? Because you’ve got to seek opportunity.” I saw an opportunity and made something out of it.

What was the most significant achievement at Century Bank during the last year?

Well, we moved into our new headquarters facility and invested in a tremendous amount of state-of-the-art technology. We also opened several new branches. You have to stay ahead of the times. I just read a book called *From Good To Great*. It talks about the A&P stores. A&P was once the second largest company after General Motors in the United States. They didn’t upgrade their stores. And where are they now? You have to upgrade your stores. That’s what we do with technology. You may think you’re conquering the world, but let me tell you, business success can disappear like the morning dew.



MARSHALL M. SLOANE
Founder and Chairman

“ My family has been in business in Massachusetts for 100 years. My advice to the leaders of the next century is simple. Stay honest. Have integrity. Preserve your integrity. And always be open. My door is always open. I’m always willing to listen to people. To spend time with them. I have people call me at home. I take my business personally. And I’m personally accountable for it. ”

You’ve seen your fair share of both up and down markets. What’s the main thing you’ve learned from both?

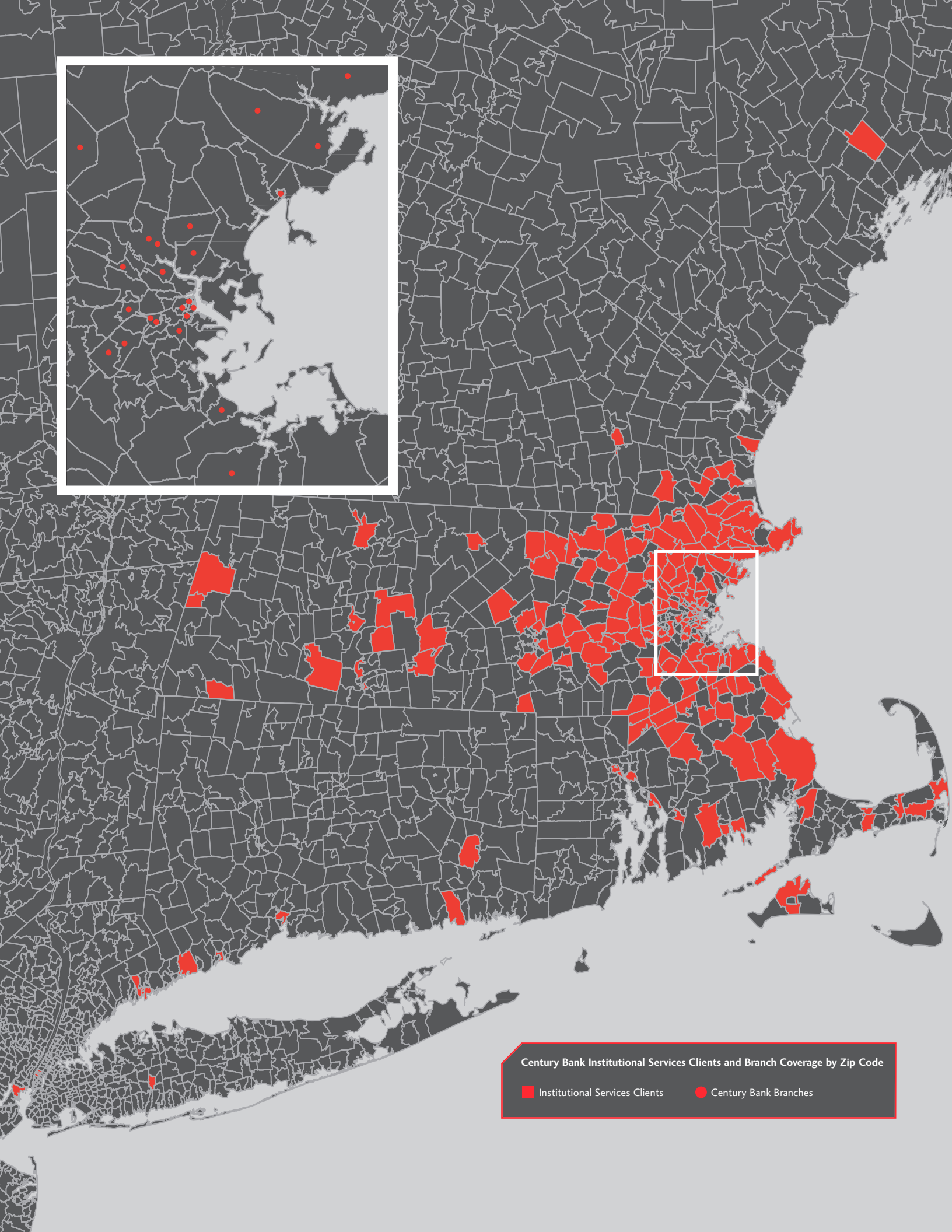
We’ve always run a reasonably conservative ship, and we stayed away from businesses that we didn’t understand. We’re a bread and butter kind of lender. That helps in up and down markets. I began as a thrift banker where we had nothing but real estate, basically one, two, and three-family houses. And so we’ve always had a heavy involvement in real estate. We didn’t have professional appraisers. Three of us would go out and look at a house. We knew our customers, and we knew the real estate values in our area. We made the deals. Knowing your customers is the main thing in any market.

What is the importance of the community and giving back?

It’s absolutely important. A lot of our local clients are in business for the long run, and so are we. It goes back to the community relationships we’ve maintained since our founding. That’s what this business is about. I know the people I’m lending to. I know their character. I know the character of their children. They know that we understand what they need. That’s not just talk. You’ve done your job if you take a company and help build it up. We’ve helped the community. They’ve helped us.

So many local banks have been merged out of existence, did you ever think Century wouldn’t succeed?

Sure. During the 80s and 90s many local banks were forced to merge or close. There was great uncertainty. But I just worked harder. And I expected my employees to work harder. And we did. And I think because we make our own loans, and our Board was and still is very focused, we made smarter loans and smarter business decisions, not affected by larger corporate decisions. This helped us prosper. And we provided the returns on equity and returns on investment that our shareholders expect. There’s an old saying, “When the going gets tough, the tough get going.” And it’s been tough.



Century Bank Institutional Services Clients and Branch Coverage by Zip Code

- Institutional Services Clients
- Century Bank Branches



MARSHALL M. SLOANE
Founder and Chairman

“ Being independent serves our customers and our shareholders well. Our business has been profitable. We provide solid returns because we know our market. We invest in our relationships with clients and we grow their businesses. Otherwise, what do you have? This is a service business. To be profitable in the long run, you have to be dedicated to your community customers in the long run. I’m not sure customers get that with bigger banks. ”

What has been the most significant change to the banking industry?

The business has changed dramatically since I began with handwritten passbooks. Technology has changed the business. People can shop around now. Today’s thrifts can do anything we can do. Wal-Mart can clear your check at the cash register. The competition is fierce. Right now, we can compete through technology with services such as online-banking, ACH, account reconciliation, Positive Pay, Debit Card, and E-Checks; but rapid changes are underway, and we need to remain competitive.

What’s the one thing most people don’t understand about Century Bank?

I think most of our customers do know and understand us. Our mission is to get more people to know about Century Bank and our capabilities. Those who don’t know us probably don’t realize we now have 23 branches in greater Boston and are growing our network in Massachusetts every year.

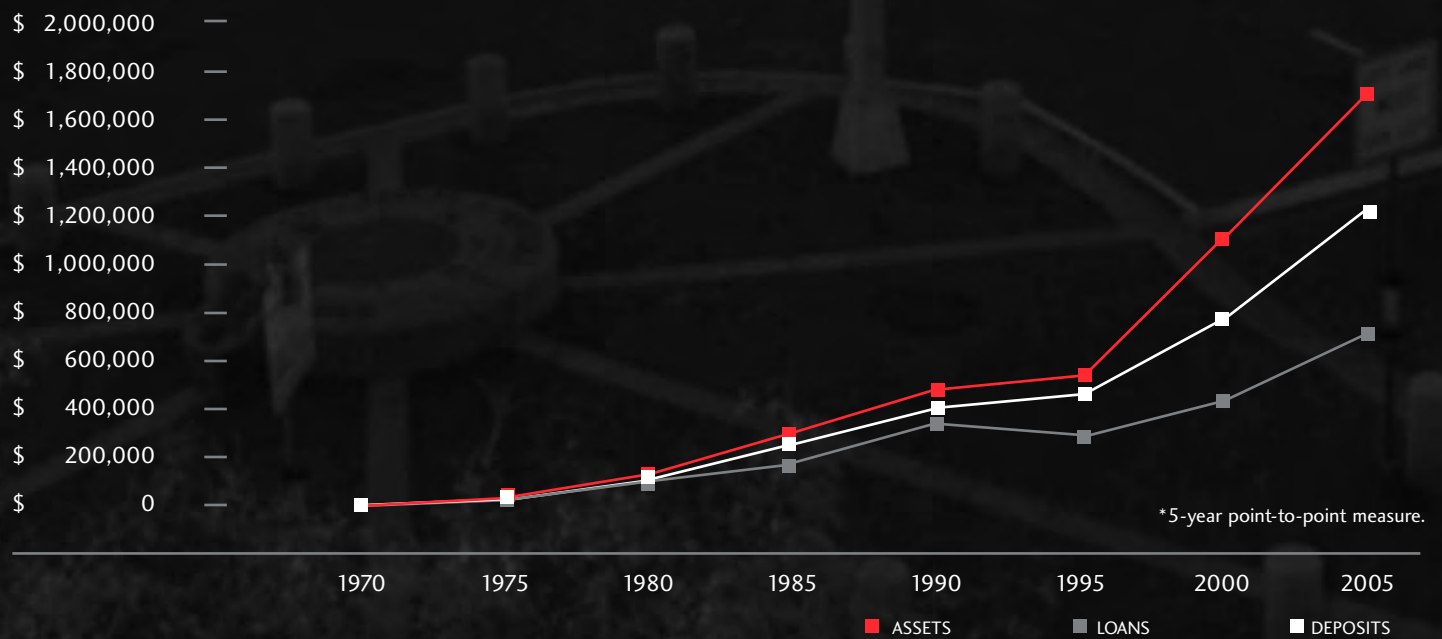
Century associates stay at Century for 15-30 years. What about the culture helps people stay here so long?

We’re a family. We care for one another. If someone’s sick, we take care of them. If someone needs time, we give it to them. I’ve tried to create a company that is a pleasant place to work. In addition to being profitable, I think there’s a sense of accomplishment knowing we’re working to help our community. That’s a value in a bank that’s not on the books.

CUMULATIVE TOTAL RETURN 1987- 2005



CORE GROWTH



Dear Shareholders,

2005 was the first full year of Century's *second generation* management team working together; and what a complex year it was. A year full of challenges and opportunities, one in which we kept our eye on our long-term goal to be the leading independent bank in Massachusetts, while working hard to improve short-term performance. Net Income for the year ending 12/31/05 was \$6,880,000 or \$1.24 per share, diluted, compared to \$1.60 per share in 2004.

Century's balance sheet is sound, with a very strong loan portfolio and the highest quality investment securities. However, we battled all year amidst the vise grip of a flat yield curve and intense deposit competition, resulting in a record-setting low net interest margin. Much has been written about the flat yield curve and how it impacts bank margins. Suffice it to say, the macro-economic environment has created one of the most difficult scenarios for earnings growth in our history. While we remain frustrated by our short-term performance, we are increasingly convinced that the missteps and disconnections of the banking giants in our communities create a viable and attractive future for our franchise.

We are proud of many achievements in 2005. Here are some highlights:

- Our loan portfolio increased by a record \$110 million, or 19% from year-end 2004.
- Our Business Development Officers and branches added 429 new small business loans for a total outstanding of \$37.5 million.
- The Institutional Service team opened 122 new lockbox and cash management accounts.
- We opened our 23rd branch on State Street in Boston and added a number of new ATM's and cash dispensers bringing the total to 42.
- We recruited an experienced commercial banker to begin building a Worcester based business lending center, joining our highly successful Institutional Service presence in Central Massachusetts.
- We organized a new and enhanced securities and insurance sales platform, *Investment Services at Century Bank*, which will debut in February 2006.

All of these accomplishments are revenue enhancing over the short to medium term. Coupled with strong expense controls, they should have an important impact on our 2006 results. We are committed to our three lines of business: Personal Banking, Business Banking and Lending, and Institutional Services. All three are mature, high quality services where clients perceive premium value from our brand of high-touch, relationship-driven service. In 2006 we also expect to finalize our plans for our fourth business line, Fiduciary Services.

Marshall Sloane announced in January that he would ask the Board of Directors at their April meeting to elevate Barry Sloane and Jonathan Sloane to Co-Presidents and Co-CEO's of Century Bancorp, positions they already hold at Century Bank. Marshall Sloane will remain Chairman of both Century Bancorp and Century Bank. This step will complete the *second generation* management succession process first announced two years ago.

Century is blessed with a wonderful team of diligent associates, whose tenure and client knowledge is unrivaled in our peer group. With their help, we look forward to improved financial performance in the years ahead.

Sincerely,



MARSHALL M. SLOANE
Founder, Chairman and Chief Executive Officer
Century Bancorp, Inc.
Chairman
Century Bank



JONATHAN G. SLOANE
Co-President and Co-Chief Operating Officer
Century Bancorp, Inc.
Co-President and Co-Chief Executive Officer
Century Bank



BARRY R. SLOANE
Co-President and Co-Chief Operating Officer
Century Bancorp, Inc.
Co-President and Co-Chief Executive Officer
Century Bank

The Core Strength of Century.



BARRY R. SLOANE

MARSHALL M. SLOANE

JONATHAN G. SLOANE

“ My dream was to have my children in business with me. I want future generations to gain experience elsewhere as my son, Barry, did. He worked with the global banks for 15 years. He broadened his experience and came back with a different dimension. My son, Jonathan, has been instrumental in Century’s success throughout his 26-year career. He has a nearly complete knowledge of our institutional history and enormous depth of experience and involvement with our banking and borrowing communities. They are a powerful team. It just happens that they’re also brothers. They’ll take my dream to the next plateau. After that, it’s up to them and their children. ”

CENTURY BANCORP, INC. DIRECTORS

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President & CEO
Baldwin & Company

Roger S. Berkowitz^{2,5}
President & CEO
Legal Seafoods, Inc

Karl E. Case, Ph.D.^{3,5*}
Katharine Coman & A. Barton Hepburn
Professor of Economics
Wellesley College

Henry L. Foster, D.V.M.
Director Emeritus
Founder & Chairman Emeritus
Charles River Labs, Inc.

Marshall I. Goldman^{3,5**}
Professor Emeritus
Wellesley College

Russell B. Higley, Esq.^{6†}
Attorney
Higley & Higley

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Vice President
Century Bank

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Joseph J. Senna, Esq.^{1,4}
Attorney

Barry R. Sloane^{4,5,6}
Co-President & Co-CEO
Century Bank and Trust Company

Jonathan G. Sloane^{4,5,6}
Co-President & Co-CEO
Century Bank and Trust Company

Marshall M. Sloane^{4,5}
Chairman of the Board
Century Bank and Trust Company

Stephanie Sonnabend^{1,5}
President and CEO
Sonesta International Hotels Corporation

George F. Swansburg^{4,5}

Jon Westling^{1,2,3}
President Emeritus
Boston University

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Philibert L. Pellegrini, Esquire

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Founder, Chairman and CEO

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Co-President & Co-CEO

Barry R. Sloane
Co-President & Co-CEO

Paul V. Cusick, Jr.^{5,6}
Vice President and Treasurer

Rosalie A. Cunio
Clerk

Paula A. Grimaldi
Assistant Clerk

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MANAGEMENT COMMITTEE

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Chairman of the Board

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Co-President & Co-CEO

Barry R. Sloane
Co-President & Co-CEO

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Executive Vice President, CFO & Treasurer

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Executive Vice President

David B. Wootton
Executive Vice President

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Timothy L. Glynn
Nancy Lindstrom
ShIPLEY C. Mason
Deborah R. Rush
Yasmin D. Whipple

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Sandra R. Edey
Stuart J. Erbstein

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Phillip A. Gallagher
Howard N. Gold
Ann J. Hollup
T. Daniel Kausel
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Nancy M. Marsh
Karen Martin
Janet McElwee
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Miguel A. Rosado
Kenneth A. Samuelian
Andrew J. Santos, Jr.
Bernice A. Shuman
Jim Smith
Maria L. Spadoni Merena
Michael W. Sweeney
Janice D. Taylor
David J. Waryas

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Gerald Bovardi
Pasqualina Buttiri
Toni M. Chardo
Bonnie W. Chung
Debra J. Cloutier
Barbara J. Cunningham
Cynthia A. Davidson
Susan B. Delahunt
Laura A. DiFava
John R. Ferguson
Daniel F. Griffin
Roland E. Harvey
Kristine M. Holopainen
James J. Jordan
Kathleen A. Kelly
Ann E. Mannion
Carl M. Mattos
Carol A. Melisi
Cornelius C. Prioleau
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Suzanne Sumski
Marcia T. Trenholm, CISA

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Janice D. Hallinan
Amelia N. Iocco
Aslihan Kendircioglu
Brandon N. Letellier
Irene A. Lima-Butler
Christopher M. Logan, CISSP
Malcolm I. Maloon
Kathleen McGillicuddy
David C. Pennybaker, Jr.
Bruce A. Priestley
Judith A. Shannon
Elizabeth A. Theriault
Lawrence H. Tsoi
Jose I. Umana
Christina Welch-Matthews

¹ Audit Committee, ² Compensation Committee, ³ Nominating Committee, ⁴ Executive Committee,

⁵ Asset Liability Committee, ⁶ Non-deposit Investment and Insurance Products Committee, * Committee Chairperson, ** Vice Chairperson

FINANCIAL STATEMENTS

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	2005	2004	2003	2002	2001
(dollars in thousands, except share data)					
FOR THE YEAR					
Interest income	\$ 72,811	\$ 65,033	\$ 69,298	\$ 71,124	\$ 67,459
Interest expense	32,820	23,646	23,942	24,718	27,701
Net interest income	39,991	41,387	45,356	46,406	39,758
Provision for loan losses	600	300	450	1,200	1,500
Net interest income after provision for loan losses	39,391	41,087	44,906	45,206	38,258
Other operating income	10,973	10,431	10,009	10,266	8,863
Operating expenses	40,318	37,663	34,272	34,089	30,025
Income before income taxes	10,046	13,855	20,643	21,383	17,096
Provision for income taxes	3,166	4,974	8,963	7,879	6,237
Net income	\$ 6,880	\$ 8,881	\$ 11,680	\$ 13,504	\$ 10,859
Average shares outstanding, basic	5,535,202	5,526,202	5,519,800	5,516,590	5,535,309
Average shares outstanding, diluted	5,548,467	5,553,197	5,548,615	5,534,059	5,541,745
Shares outstanding at year-end	5,535,442	5,534,088	5,524,438	5,517,425	5,515,350
Earnings per share:					
Basic	\$ 1.24	\$ 1.61	\$ 2.12	\$ 2.45	\$ 1.96
Diluted	\$ 1.24	\$ 1.60	\$ 2.11	\$ 2.44	\$ 1.96
Dividend payout ratio	31.3 %	24.2 %	17.2 %	13.9 %	15.2 %
AT YEAR-END					
Assets	\$ 1,728,769	\$ 1,833,701	\$ 1,688,911	\$ 1,557,201	\$ 1,271,022
Loans	689,645	580,003	512,314	514,249	462,772
Deposits	1,217,040	1,394,010	1,338,853	1,146,284	888,408
Stockholders' equity	103,201	104,773	103,728	100,256	84,599
Book value per share	\$ 18.64	\$ 18.93	\$ 18.78	\$ 18.17	\$ 15.34
SELECTED FINANCIAL PERCENTAGES					
Return on average assets	.41 %	.55 %	.74 %	1.02 %	1.03 %
Return on average stockholders' equity	6.57 %	8.61 %	11.57 %	14.64 %	13.70 %
Net interest margin, taxable equivalent	2.58 %	2.75 %	3.08 %	3.77 %	4.06 %
Net (recoveries) charge-offs as a percent of average loans	0.04 %	0.01 %	0.04 %	(0.04)%	0.01 %
Average stockholders' equity to average assets	6.31 %	6.38 %	6.40 %	6.98 %	7.49 %
Efficiency Ratio	79.1 %	72.7 %	61.9 %	60.1 %	61.7 %

Per Share Data

2005, Quarter Ended	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 32.00	\$ 35.19	\$ 31.55	\$ 30.35
Low	27.00	30.31	26.00	27.75
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.06	0.06	0.06	0.06
2004, Quarter Ended				
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	0.06	0.06	0.06	0.06

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.

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 \$1.7 billion on December 31, 2005. The Company presently operates 23 banking offices in 16 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank's customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

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

The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium-sized businesses and retail customers in its market area. The Company makes commercial loans, real estate and construction loans, consumer loans, and accepts savings, time and demand deposits. In addition, the Company offers to its corporate and institutional customers automated lockbox collection services, cash management services and account reconciliation services, and actively promotes the marketing of these services to the municipal market. Also, the Company provides full service securities brokerage services through 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 \$6,880,000 for the year ended December 31, 2005, compared with net income of \$8,881,000 for year ended December 31, 2004 and net income of \$11,680,000 for the year ended December 31, 2003. Basic earnings per share were \$1.24 in 2005, compared to \$1.61 in 2004 and \$2.12 in 2003. Diluted earnings per share were \$1.24 in 2005, compared to \$1.60 in 2004 and \$2.11 in 2003. The Company's earnings in 2005 were negatively impacted by a decrease in net interest income, increases in salary expense as well as costs associated with the Company's new addition to its corporate headquarters building and the addition of a lockbox image system. The Company believes that the net interest margin will continue to be challenged as rates continue to rise. This is mainly the result of deposit and borrowing pricing that has the potential to increase faster than corresponding asset categories. 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 \$1,728,769,000 at December 31, 2005, a decrease of 5.7% from total assets of \$1,833,701,000 on December 31, 2004.

On December 31, 2005, stockholders' equity totaled \$103,201,000, compared with \$104,773,000 on December 31, 2004. Book value per share decreased to \$18.64 at December 31, 2005 from \$18.93 on December 31, 2004.

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

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 \$192,700,000 in deposits. The acquisition also included a premium paid to Capital Crossing of approximately \$3,900,000. This premium was subsequently reduced by a gain of \$395,000 from the sale of the acquired Chestnut Hill branch and a rebate of \$282,000 for closed accounts at the Boston office.

During the third quarter of 2005, 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 11, 2006.

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

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

Also during the fourth quarter of 2004, the Company consummated the sale of a trust preferred securities offering, in which it issued \$36,083,000 of subordinated debt securities due 2034 to its newly formed unconsolidated subsidiary Century Bancorp Capital Trust II. Century Bancorp Capital Trust II issued 35,000 shares of Cumulative Trust Preferred Securities with a liquidation value of \$1,000 per share. These securities pay dividends at an annualized rate of 6.65% for the first ten years and then convert to the three-month LIBOR rate plus 1.87% for the remaining twenty years. The total amount of this issuance was \$36,083,000. The Company is using the proceeds primarily for general business purposes. Also, the Company, through its subsidiary, Century Bancorp Capital Trust, announced the redemption of their 8.30% Trust Preferred Securities, with a redemption date of January 10, 2005. The total amount of this redemption was \$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 impairment of investment securities. There have been no significant changes in the methods or assumptions used in the accounting policies that require material estimates and assumptions.

Allowance for Loan Losses

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

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

Specific allowances for loan losses entails the assignment of allowance amounts to individual loans on the basis of loan impairment. Certain loans are evaluated individually and are judged to be impaired when management believes it is

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

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

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

Impaired Investment Securities

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

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

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

Century Bancorp, Inc. AR '05

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,	2005			2004			2003		
	Average Balance	Interest Income/ Expense ⁽¹⁾	Rate Earned/ Paid ⁽¹⁾	Average Balance	Interest Income/ Expense ⁽¹⁾	Rate Earned/ Paid ⁽¹⁾	Average Balance	Interest Income/ Expense ⁽¹⁾	Rate Earned/ Paid ⁽¹⁾
(dollars in thousands)									
ASSETS									
Interest-earning assets:									
Loans ⁽²⁾	\$ 641,103	\$ 41,274	6.44 %	\$ 546,147	\$ 33,384	6.11 %	\$ 500,723	\$ 33,134	6.62 %
Securities available-for-sale:									
Taxable	580,129	19,518	3.36	570,935	18,528	3.25	782,782	28,735	3.67
Tax-exempt	878	22	2.51	61	1	1.64	92	3	3.26
Securities held-to-maturity:									
Taxable	311,738	11,635	3.73	319,860	12,296	3.84	162,988	7,152	4.39
Federal funds sold	15,847	362	2.28	69,461	824	1.19	24,730	274	1.11
Interest-bearing deposits									
in other banks	50	—	0.64	251	—	0.13	30	—	0.58
Total interest-earning assets	1,549,745	72,811	4.70 %	1,506,715	65,033	4.32	1,471,345	69,298	4.71 %
Non interest-earning assets									
Allowance for loan losses	(9,353)			(8,813)			(8,901)		
Total assets	\$ 1,658,717			\$ 1,618,208			\$ 1,577,363		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing deposits:									
NOW accounts	\$ 237,016	\$ 3,265	1.38 %	\$ 250,224	\$ 1,966	0.79 %	\$ 260,383	\$ 2,267	0.87 %
Savings accounts	76,131	287	0.38	79,037	302	0.38	79,333	319	0.40
Money market accounts	366,622	7,018	1.91	412,220	5,010	1.22	392,066	5,111	1.30
Time deposits	265,310	8,835	3.33	242,791	6,833	2.81	239,189	7,246	3.03
Total interest-bearing deposits	945,079	19,405	2.05	984,272	14,111	1.43	970,971	14,943	1.54
Securities sold under agreements to repurchase									
	39,746	813	2.05	40,937	331	0.81	51,402	457	0.89
Other borrowed funds and subordinated debentures									
	268,878	12,602	4.69	194,932	9,204	4.72	170,344	8,542	5.01
Total interest-bearing liabilities	1,253,703	32,820	2.62 %	1,220,141	23,646	1.94 %	1,192,717	23,942	2.01 %
Non interest-bearing liabilities									
Demand deposits	283,876			279,361			267,284		
Other liabilities	16,463			15,511			16,429		
Total liabilities	1,554,042			1,515,013			1,476,430		
Stockholders' equity									
Total liabilities & stockholders' equity	\$ 1,658,717			\$ 1,618,208			\$ 1,577,363		
Net interest income ⁽¹⁾									
		\$ 39,991			\$ 41,387			\$ 45,356	
Net interest spread									
			2.08 %			2.38 %			2.70 %
Net interest margin									
			2.58 %			2.75 %			3.08 %

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

⁽²⁾ 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,	2005 Compared with 2004			2004 Compared with 2003		
	Increase/(Decrease) Due to Change in			Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
(dollars in thousands)						
Interest income:						
Loans	\$ 6,041	\$ 1,849	\$ 7,890	\$ 2,881	\$ (2,631)	\$ 250
Securities available-for-sale:						
Taxable	302	688	990	(7,145)	(3,063)	(10,208)
Tax-exempt	20	1	21	(1)	(1)	(2)
Securities held-to-maturity:						
Taxable	(308)	(353)	(661)	6,128	(984)	5,144
Federal funds sold	(903)	440	(463)	529	21	550
Interest-bearing deposits in other banks	—	—	—	1	(1)	—
Total interest income	<u>5,152</u>	<u>2,625</u>	<u>7,777</u>	<u>2,393</u>	<u>(6,659)</u>	<u>(4,266)</u>
Interest expense:						
Deposits:						
NOW accounts	(109)	1,408	1,299	(86)	(215)	(301)
Savings accounts	(11)	(4)	(15)	(1)	(16)	(17)
Money market accounts	(606)	2,614	2,008	255	(356)	(101)
Time deposits	673	1,329	2,002	108	(521)	(413)
Total interest-bearing deposits	(53)	5,347	5,294	276	(1,108)	(832)
Securities sold under agreements to repurchase	(10)	492	482	(87)	(39)	(126)
Other borrowed funds and subordinated debentures	3,466	(68)	3,398	1,152	(490)	662
Total interest expense	<u>3,403</u>	<u>5,771</u>	<u>9,174</u>	<u>1,341</u>	<u>(1,637)</u>	<u>(296)</u>
Change in net interest income	<u>\$ 1,749</u>	<u>\$ (3,146)</u>	<u>\$ (1,397)</u>	<u>\$ 1,052</u>	<u>\$ (5,022)</u>	<u>\$ (3,970)</u>

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 3.4% in 2005 to \$39,991,000, compared with \$41,387,000 in 2004. The decrease in net interest income for 2005 was mainly due to a 6.2% or a seventeen 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 2.58% in 2005 from 2.75% in 2004, which had decreased from 3.08% in 2003. The Company believes that the net interest margin will continue to be challenged as rates continue to rise. This is mainly the result of deposit and borrowing pricing that has the potential to increase faster than corresponding asset categories.

Average earning assets were \$1,549,745,000 in 2005, an increase of \$43,030,000 or 2.9% from the average in 2004, which was 2.4% higher than the average in 2003. Total average securities, including securities available-for-sale and securities held-to-maturity were \$892,745,000. The stable securities volume was mainly attributable to a continued shift in asset concentration to loans. An increase in securities rates resulted in higher securities income, which increased 1.1% to \$31,175,000. Total average loans increased 17.4% to

\$641,103,000 after increasing \$45,424,000 in 2004. The primary reason for the increase in loans across all of the business lines is due, in large part, to the hiring of additional officers as well as an emphasis on small business loans. The increase in loan volume and increases in loan rates resulted in higher loan income, which increased by 23.6% or \$7,890,000 to \$41,274,000. Total loan income was \$33,134,000 in 2003.

The Company's sources of funds include deposits and borrowed funds. On average, deposits showed an decrease of 2.7% or \$34,678,000 in 2005 after increasing by 2.0% or \$25,378,000 in 2004. Deposits decreased in 2005 primarily as a result of a decrease in money market accounts, which decreased by 11% or \$45,598,000. Borrowed funds and subordinated debentures increased by 37.9% in 2005 following an increase of 14.4% in 2004. 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 \$69,542,000 and retail repurchase agreements decreased by \$1,191,000. Interest expense totaled \$32,820,000 in 2005, an increase of \$9,174,000 or 38.8% from 2004 when interest expense decreased 1.2% from 2003. This increase in interest expense is due to increases in deposit and borrowed funds rates.

Provision for Loan Loss

The provision for loan losses was \$600,000 in 2005, compared with \$300,000 in 2004 and \$450,000 in 2003. These provisions are the result of management's evaluation of the amounts and quality of the loan portfolio considering such factors as loan status, collateral values, financial condition of the borrower, the state of the economy and other relevant information. Additional provisions have been made due to growth in the loan portfolio.

The allowance for loan losses was \$9,340,000 at December 31, 2005, compared with \$9,001,000 at December 31, 2004. Expressed as a percentage of outstanding loans at year-end, the allowance was 1.35% in 2005 and 1.55% in 2004. The coverage ratio decreased mainly as a result of the continued low levels of problem assets.

Non-performing loans, which include all non-accruing loans and certain restructured, accruing loans, totaled \$949,000 on December 31, 2005, compared with \$628,000 on December 31, 2004.

Other Operating Income

During 2005, 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 2005 was \$10,973,000, an increase of \$542,000 or 5.2% compared to 2004. This increase followed an increase of \$422,000 or 4.2% in 2004, compared to 2003. Service charge income, which continues to be a major area of other operating income with \$5,846,000 in 2005, saw an increase of \$575,000 compared to 2004. This follows an increase of \$489,000 compared to 2003. Service charges on deposit accounts increased mainly because of an increase in overdraft charges associated with a new overdraft fee protection program. Lockbox revenues totaled \$2,807,000, down \$143,000 in 2005 and a decrease of \$236,000 in 2004. This decrease was mainly attributable to competitive pricing pressures. Through Commonwealth Equity Services, Inc., brokerage commissions decreased to \$462,000 in 2005, from \$670,000 in 2004, primarily as a result of decreased transaction volume. Brokerage commissions increased in 2004 by \$91,000 mainly as a result of increased transaction volume.

Operating Expenses

Total operating expenses were \$40,318,000 in 2005, compared to \$37,663,000 in 2004 and \$34,272,000 in 2003.

Salaries and employee benefits expenses increased by \$931,000 or 4.0% in 2005, after increasing by 6.9% in 2004. The increases for 2005 and 2004 were mainly attributable to an increase in staff levels and merit increases in salaries.

Occupancy expense increased by \$801,000 or 26.7% in 2005, this followed an increase of \$349,000 or 13.2% in 2004. The increase in 2005 was mainly attributable to depreciation and real estate taxes associated with the addition to the corporate headquarters as well as full-year costs associated with the opening of one new branch in 2004 and partial year costs associated with the opening of one new branch in 2005. 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. Equipment expense increased by \$607,000 or 25.5% in 2005; this followed an increase of \$677,000 or 39.8% in 2004. The increase in 2005 was mainly attributable to full-year costs of depreciation and service contract expense associated with the addition of the lockbox image system, as well as depreciation associated with the addition to the corporate headquarters. The increase in 2004 was mainly attributable to increased depreciation and service contract expense associated with the additions of check and lockbox image systems. Other operating expenses increased by \$316,000 in 2005, which followed a \$862,000 increase in 2004. The increase for 2005 was primarily the result of increased consulting costs associated with the BlackRock contract. The expense related to this contract ended on June 30, 2005 and the contract terminated January 31, 2006. 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.

Provision for Income Taxes

Income tax expense was \$3,166,000 in 2005, \$4,974,000 in 2004 and \$8,963,000 in 2003. The effective tax rate was 31.5% in 2005, 35.9% in 2004 and 43.4% (37.7%, excluding REIT settlement) in 2003. The decrease in the effective tax rate for 2005 and 2004 was mainly attributable to less earnings at the Bank that caused a decrease in both federal and state taxes. The portion of earnings subject to a higher tax rate decreased in 2005 and 2004. The federal tax rate was 34% in 2005 and 35% in 2004. Also, 2005 had a higher proportion of non-taxable income. 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 ⁽¹⁾
+300	(13.1)%
+200	(8.6)%
+100	(4.3)%
-100	1.1 %
-200	1.5 %

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

The Company's primary objective in managing interest rate risk is to minimize the adverse impact of changes in interest rates on the Company's net interest income and capital, while structuring the Company's asset-liability structure to obtain the maximum yield-cost spread on that structure. The Company relies primarily on its asset-liability structure to control interest rate risk.

Liquidity and Capital Resources

Liquidity is provided by maintaining an adequate level of liquid assets that include cash and due from banks, federal funds sold and other temporary investments. Liquid assets totaled \$152,679,000 on December 31, 2005, compared with \$238,235,000 on December 31, 2004. In each of these two years, deposit and borrowing activity has generally been adequate to support asset activity.

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

Capital Adequacy

Total stockholders' equity was \$103,201,000 at December 31, 2005, compared with \$104,773,000 at December 31, 2004. The decrease in 2005 was primarily the result of a decrease in accumulated other comprehensive income somewhat offset by earnings less dividends paid.

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance sheet items. The current guidelines require a Tier 1 capital-to-risk assets ratio of at least 4.00% and a total capital-to-risk assets ratio of at least 8.00%. The Company and the Bank exceeded these requirements with a Tier 1 capital-to-risk assets ratio of 15.46% and 12.11%, respectively, and total capital-to-risk assets ratio of 16.48% and 13.13%, respectively at December 31, 2005. 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, 2005, the Company and the Bank exceeded this requirement with leverage ratios of 8.58% and 6.72%, respectively.

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, 2005.

Contractual Obligations and Commitments by Maturity
(dollars in thousands)

CONTRACTUAL OBLIGATIONS	Total	Payments Due — by Period			
		Less than One Year	One to Three Years	Three to Five Years	After Five Years
FHLB advances	\$ 298,656	\$ 197,156	\$ 22,000	\$ 63,500	\$ 16,000
Subordinated debentures	36,083	—	—	—	36,083
Retirement benefit obligations	16,978	1,457	3,083	3,255	9,183
Lease obligations	5,342	1,081	1,964	1,344	953
Other					
Treasury, tax and loan	1,418	1,418	—	—	—
Customer repurchase agreements	50,010	50,010	—	—	—
Total contractual cash obligations	\$ 408,487	\$ 251,122	\$ 27,047	\$ 68,099	\$ 62,219

OTHER COMMITMENTS	Total	Amount of Commitment Expiring — by Period			
		Less than One Year	One to Three Years	Three to Five Years	After Five Years
Lines of credit	\$ 143,533	\$ 27,407	\$ 26,016	\$ 1,769	\$ 88,341
Standby letters of credit	10,272	3,915	390	5,200	767
Other commitments	62,217	13,369	35,966	2,199	10,863
Total commitments	\$ 216,022	\$ 44,691	\$ 62,372	\$ 9,168	\$ 99,971

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	2005	2004
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate 1-4 family mortgages	\$ 1,814	\$ 2,511
Standby letters of credit	10,272	11,195
Unused lines of credit	143,533	118,008
Unadvanced portions of construction loans	52,469	33,754
Unadvanced portions of other loans	7,934	10,907

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

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

Recent Accounting Developments

FASB Emerging Issues Task Force ("EITF") Issue 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments"

In November 2005, the FASB issued FSP FAS 115-1 and 124-1 "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP nullifies certain requirements of EITF 03-1 and supersedes EITF Topic No. D-44, "Recognition of Other-Than-Temporary Impairment upon the Planned Sale of a Security Whose Cost Exceeds Fair Value". This FSP addresses the determination as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Additionally, the FSP addresses accounting considerations subsequent to the recognition of other-than-temporarily impairment and requires certain disclosures about unrealized losses that have not been recognized as other-than-temporary impairments. Other-than-temporary impairment per FSP FAS 115-1 and

FAS 124-1 require an investor to apply other existing guidance that is pertinent to the determination of whether an impairment is other than temporary rather than the evaluation guidance set forth in EITF 03-1. The guidance does require an impairment charge to be recognized in the current period if it is determined that a security will be sold in a subsequent period where the fair value is not expected to be fully recovered by the time of sale. This FSP is effective for other-than-temporary impairment analysis conducted in periods beginning after December 15, 2005. The adoptions of EITF 03-1 and EITF 03-1-1 did not have a material impact on the Company's financial position or results of operations and the Company does not believe that the adoption of FSP FAS 115-1 and 124-1 will have a material impact on the Company's financial position.

In December 2004, the FASB issued a revised Statement No. 123, (revised 2004) (SFAS 123R), "Share-Based Payment." This Statement replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supercedes 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 annual reporting period that begins after June 15, 2005. The Company voted to accelerate the vesting of certain unvested "out-of-the-money" stock options awarded to Century Bank employees pursuant to the Century Bancorp, Inc. 2000 and 2004 Employee Stock Option Plans so that they immediately vested as of December 30, 2005. The Board also voted a technical amendment to each of the Plans to eliminate the possibility that the terms of any outstanding or future stock option would require a cash settlement on the occurrence of any circumstance outside the control of the Company. These amendments avoid classification of the Company's stock options as liabilities under SFAS 123R.

The Company decided to accelerate the vesting of certain stock options primarily to reduce the non-cash compensation expense that would otherwise be expected to be recorded in conjunction with the Company's required adoption of SFAS 123R in 2006. SFAS 123R, which becomes effective for the Company on January 1, 2006, is an accounting rule that requires companies to record compensation expense over a stock option's vesting period, even if the exercise price of a stock option exceeds the current market value of the company's common stock. There will be no earnings impact in 2006.

On December 30, 2005 the Board vote approved the acceleration and immediate vesting of all unvested options with an exercise price of \$31.60 and \$31.83 or greater per share. As a consequence of the Board vote, options to purchase 23,950 shares of Century Bancorp Class A common stock became exercisable immediately. The average of the high and low price at which the Company's common stock traded on December 30, 2005, the date of the Board vote, was \$29.28 per share. The Company estimates that, as a result of this accelerated vesting, approximately \$190,000 of 2006 non-cash compensation expense will be eliminated that would otherwise have been recognized in the Company's earnings.

December 31,	2005	2004
(dollars in thousands except share data)		
ASSETS		
Cash and due from banks (note 2)	\$ 47,626	\$ 36,209
Federal funds sold and interest-bearing deposits in other banks	105,053	202,026
Total cash and cash equivalents	152,679	238,235
Securities available-for-sale, amortized cost \$546,524 in 2005 and \$614,729 in 2004 (note 3)	532,982	609,806
Securities held-to-maturity, market value \$277,769 in 2005 and \$343,399 in 2004 (notes 4 and 9)	286,578	345,369
Loans, net (note 5)	689,645	580,003
Less: allowance for loan losses (note 6)	9,340	9,001
Net loans	680,305	571,002
Bank premises and equipment (note 7)	25,228	26,265
Accrued interest receivable	7,127	6,800
Other assets (note 12)	43,870	36,224
Total assets	\$ 1,728,769	\$ 1,833,701
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	\$ 296,696	\$ 280,871
Savings and NOW deposits	239,326	268,317
Money market accounts	279,245	485,006
Time deposits (note 8)	401,773	359,816
Total deposits	1,217,040	1,394,010
Securities sold under agreements to repurchase (note 9)	50,010	38,650
Other borrowed funds (note 10)	304,722	214,906
Subordinated debentures (note 10)	36,083	65,722
Other liabilities	17,713	15,640
Total liabilities	1,625,568	1,728,928
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 3,453,202 shares in 2005 and 3,434,448 shares in 2004	3,453	3,434
Common stock, Class B, \$1.00 par value per share; authorized 5,000,000 shares; issued 2,082,240 shares in 2005 and 2,099,640 shares in 2004	2,082	2,099
Additional paid-in-capital	11,416	11,395
Retained earnings	97,338	92,611
	114,289	109,539
Unrealized losses on securities available-for-sale, net of taxes	(8,270)	(3,009)
Additional minimum pension liability, net of taxes	(2,818)	(1,757)
Total accumulated other comprehensive income, net of taxes (note 3)	(11,088)	(4,766)
Total stockholders' equity	103,201	104,773
Total liabilities and stockholders' equity	\$ 1,728,769	\$ 1,833,701

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Century Bancorp, Inc. AR '05

Year Ended December 31,	2005	2004	2003
(dollars in thousands except share data)			
INTEREST INCOME			
Loans	\$ 41,274	\$ 33,384	\$ 33,134
Securities available-for-sale	19,540	18,529	28,738
Securities held-to-maturity	11,635	12,296	7,152
Federal funds sold and interest-bearing deposits in other banks	362	824	274
Total interest income	72,811	65,033	69,298
INTEREST EXPENSE			
Savings and NOW deposits	3,552	2,268	2,586
Money market accounts	7,018	5,010	5,111
Time deposits (note 8)	8,835	6,833	7,246
Securities sold under agreements to repurchase	813	331	457
Other borrowed funds and subordinated debentures	12,602	9,204	8,542
Total interest expense	32,820	23,646	23,942
Net interest income	39,991	41,387	45,356
Provision for loan losses (note 6)	600	300	450
Net interest income after provision for loan losses	39,391	41,087	44,906
OTHER OPERATING INCOME			
Service charges on deposit accounts	5,846	5,271	4,782
Lockbox fees	2,807	2,950	3,186
Brokerage commissions	462	670	579
Net (losses) gains on sales of securities	—	(91)	1
Other income	1,858	1,631	1,461
Total other operating income	10,973	10,431	10,009
OPERATING EXPENSES			
Salaries and employee benefits (note 13)	24,197	23,266	21,763
Occupancy	3,798	2,997	2,648
Equipment	2,987	2,380	1,703
Other (note 16)	9,336	9,020	8,158
Total operating expenses	40,318	37,663	34,272
Income before income taxes	10,046	13,855	20,643
Provision for income taxes (note 12)	3,166	4,974	7,780
Retroactive REIT settlement (note 12)	—	—	1,183
Net income	\$ 6,880	\$ 8,881	\$ 11,680
SHARE DATA (NOTE 11)			
Weighted average number of shares outstanding, basic	5,535,202	5,526,202	5,519,800
Weighted average number of shares outstanding, diluted	5,548,467	5,553,197	5,548,615
Net income per share, basic	\$ 1.24	\$ 1.61	\$ 2.12
Net income per share, diluted	1.24	1.60	2.11

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, 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, Class A Common								
Stock, \$0.45 per share	—	—	—	(1,532)	—	—	—	(1,532)
Cash dividends, 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
Net income	—	—	—	8,881	—	—	—	8,881
Other comprehensive income, net of tax:								
Unrealized holding losses arising during period, net of \$2,741 in taxes	—	—	—	—	—	—	(4,164)	(4,164)
Less: reclassification adjustment for gains included in net income, net of \$36 in taxes	—	—	—	—	—	—	55	55
Minimum pension liability adjustment	—	—	—	—	—	—	(1,757)	(1,757)
Comprehensive income								3,015
Conversion of Class B Common Stock to Class A Common								
Stock, 15,460 shares	16	(16)	—	—	—	—	—	—
Stock options exercised, 9,650 shares	9	—	168	—	—	—	—	177
Cash dividends, Class A Common								
Stock, \$0.48 per share	—	—	—	(1,642)	—	—	—	(1,642)
Cash dividends, Class B Common								
Stock, \$0.24 per share	—	—	—	(505)	—	—	—	(505)
Elimination of treasury stock due to change in Massachusetts law (Note 1)	(384)	(48)	—	(5,550)	5,941	41	—	—
BALANCE, DECEMBER 31, 2004	3,434	2,099	11,395	92,611	—	—	(4,766)	104,773
Net income	—	—	—	6,880	—	—	—	6,880
Other comprehensive income, net of tax:								
Unrealized holding losses arising during period, net of \$3,357 in taxes	—	—	—	—	—	—	(5,261)	(5,261)
Minimum pension liability adjustment	—	—	—	—	—	—	(1,061)	(1,061)
Comprehensive income								558
Conversion of Class B Common Stock to Class A Common								
Stock, 17,400 shares	17	(17)	—	—	—	—	—	—
Stock options exercised, 1,354 shares	2	—	21	—	—	—	—	23
Cash dividends, Class A Common								
Stock, \$0.48 per share	—	—	—	(1,649)	—	—	—	(1,649)
Cash dividends, Class B Common								
Stock, \$0.24 per share	—	—	—	(504)	—	—	—	(504)
BALANCE, DECEMBER 31, 2005	\$ 3,453	\$ 2,082	\$ 11,416	\$ 97,338	—	—	\$ (11,088)	\$ 103,201

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Century Bancorp, Inc. AR '05

Year Ended December 31, (dollars in thousands)	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 6,880	\$ 8,881	\$ 11,680
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	600	300	450
Deferred income taxes	128	470	(1,416)
Net depreciation and amortization	3,348	1,848	1,754
(Increase) decrease in accrued interest receivable	(327)	1,650	920
Increase in other assets	(3,646)	(4,368)	(6,639)
Loans originated for sale	—	—	(267)
Proceeds from sales of loans	—	—	270
Gain on sales of loans	—	—	(3)
Loss (gain) on sales of securities available-for-sale	—	91	(1)
Increase (decrease) in other liabilities	299	1,699	(6,614)
Net cash provided by operating activities	7,282	10,571	134
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from calls/maturities of securities available-for-sale	180,317	389,172	665,635
Proceeds from sales of securities available-for-sale	—	88,198	—
Purchase of securities available-for-sale	(112,235)	(390,398)	(616,783)
Proceeds from calls/maturities of securities held-to-maturity	60,950	56,930	125,254
Purchase of securities held-to-maturity	(2,022)	(204,309)	(195,991)
(Decrease) increase in investments purchased payable	—	(29,330)	(13,739)
Net (increase) decrease in loans	(110,369)	(67,639)	2,102
Capital expenditures	(1,916)	(6,728)	(10,217)
Net cash provided by (used in) investing activities	14,725	(164,104)	(43,739)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in time deposit accounts	41,957	199	137,292
Net (decrease) increase in demand, savings, money market and NOW deposits	(218,927)	54,958	55,277
Net proceeds from the exercise of stock options	23	177	112
Cash dividends	(2,153)	(2,147)	(2,008)
Net increase (decrease) in securities sold under agreements to repurchase	11,360	(1,400)	(11,750)
Net increase (decrease) in other borrowed funds	89,816	78,577	(33,091)
Issuance (retirement) of subordinated debentures	(29,639)	36,083	889
Net cash (used in) provided by financing activities	(107,563)	166,447	146,721
Net (decrease) increase in cash and cash equivalents	(85,556)	12,914	103,116
Cash and cash equivalents at beginning of year	238,235	225,321	122,205
Cash and cash equivalents at end of year	\$ 152,679	\$ 238,235	\$ 225,321
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	\$ 33,369	\$ 23,165	\$ 24,102
Income taxes	3,050	4,600	15,632
Change in unrealized gains on securities available-for-sale, net of taxes	\$ (5,261)	\$ (4,109)	\$ (6,311)

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 II (CBCT II). The entity is an unconsolidated subsidiary of the Company.

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

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and 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 loan losses. Management believes that the allowance for loan losses is adequate based on independent appraisals and review of other factors associated with the loans. While management uses available information to recognize loan losses, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, regulatory agencies periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgements about information available to them at the time of their examination.

Certain reclassifications were made to prior year amounts 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. If a decline in fair value below the amortized cost basis of an investment is judged to be other-than-temporary, the cost basis of the investment is written down to fair value. The amount of the write down is included as a charge to earnings. Gains and losses on the sale of investment securities are recognized at the time of sale on a specific identification basis.

LOANS

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

Loan origination fees and related direct 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. Management considers the payment status, net worth and earnings potential of the borrower, and the value and cash flow of the collateral as factors to determine if a loan will be paid in accordance with its contractual terms. Management does not set any minimum delay of payments as a factor in reviewing for impaired classification. Loans are charged-off when management believes that the collectibility of the loan's principal is 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 loan losses to absorb losses inherent in the loan portfolio. The allowance is based on assessments of the probable estimated losses inherent in the loan portfolio. Management's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances for identified problem loans and the unallocated allowance.

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. 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,	2005	2004	2003
(dollars in thousands, except share data)			
Net income:			
As reported	\$ 6,880	\$ 8,881	\$ 11,680
Less:			
Pro forma stock based compensation cost (net of tax):	\$ 282	\$ 151	\$ 140
Pro forma and diluted	\$ 6,598	\$ 8,730	\$ 11,540
Basic earning per share			
As reported	\$ 1.24	\$ 1.61	\$ 2.12
Pro forma	\$ 1.19	\$ 1.58	\$ 2.09
Diluted earnings per share			
As reported	\$ 1.24	\$ 1.60	\$ 2.11
Pro forma	\$ 1.19	\$ 1.57	\$ 2.08

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
Dividend yields	1.59 %	1.69 %
Expected life	9 years	8 years
Expected volatility	28 %	26 %
Risk-free interest rate	3.95 %	3.78 %

On December 30, 2005 the Board vote approved the acceleration and immediate vesting of all unvested options with an exercise price of \$31.60 and \$31.83 or greater per share. As a consequence of the Board vote, options to purchase 23,950 shares of Century Bancorp Class A common stock became exercisable immediately. The average of the high and low price at which the Company's common stock traded on December 30, 2005, the date of the Board vote, was \$29.28 per share. The Company estimates that, as a result of this accelerated vesting, approximately \$190,000 of 2006 non-cash compensation expense will be eliminated that would otherwise have been recognized in the Company's earnings.

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.

TREASURY STOCK

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

PENSION

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

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 \$746,000 at December 31, 2005 and \$725,000 at December 31, 2004.

3. Securities Available-for-Sale

	December 31, 2005				Amortized Cost	December 31, 2004		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value		Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)								
U.S. Government and Agencies	\$ 301,914	—	\$ 7,782	\$ 294,132	\$ 384,504	\$ 182	\$ 3,824	\$ 380,862
Mortgage Backed Securities	224,256	24	5,728	218,552	187,170	165	1,577	185,758
Obligations of states and political subdivisions	807	—	—	807	499	—	—	499
FHLB Stock	16,312	—	—	16,312	13,895	—	—	13,895
Other	3,235	46	102	3,179	28,661	174	43	28,792
	<u>\$ 546,524</u>	<u>\$ 70</u>	<u>\$ 13,612</u>	<u>\$ 532,982</u>	<u>\$ 614,729</u>	<u>\$ 521</u>	<u>\$ 5,444</u>	<u>\$ 609,806</u>

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)				
U.S. Government and Agencies	\$ 674,766	\$ 3,981	\$ 2,253	\$ 676,494
Mortgage Backed Securities	8,977	209	145	9,041
Obligations of states and political subdivisions	—	—	—	—
FHLB Stock	13,084	—	—	13,084
Other	4,617	278	179	4,716
	<u>\$ 701,444</u>	<u>\$ 4,468</u>	<u>\$ 2,577</u>	<u>\$ 703,335</u>

Included in U.S. Government and Agencies is one U.S. Government security totalling \$2,000,000 with gross unrealized gains (losses) totalling (\$21,000), (\$5,000) and \$6,000 in 2005, 2004 and 2003, respectively. Also included in U.S. Government and Agency securities are securities pledged to secure public deposits and repurchase agreements amounting to \$53,774,000 at December 31, 2005. Also included are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$262,051,000 at December 31, 2005.

The following table shows the temporarily impaired securities of the Company's securities available-for-sale portfolio at December 31, 2005. 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 22 and 99 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively out of a total of 178 holdings at December 31, 2005. The Company believes that the investments are temporarily impaired.

Temporarily Impaired Investments*

	December 31, 2005					
	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	\$ 16,636	\$ 346	\$ 277,496	\$ 7,436	\$ 294,132	\$ 7,782
Mortgage Backed Securities	72,786	1,308	144,913	4,420	217,699	5,728
Other	132	16	1,464	86	1,596	102
Total temporarily impaired securities	<u>\$ 89,554</u>	<u>\$ 1,670</u>	<u>\$ 423,873</u>	<u>\$ 11,942</u>	<u>\$ 513,427</u>	<u>\$ 13,612</u>

* 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, 2005.

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
Total temporarily impaired securities	<u>\$ 426,406</u>	<u>\$ 4,512</u>	<u>\$ 35,009</u>	<u>\$ 932</u>	<u>\$ 461,415</u>	<u>\$ 5,444</u>

* 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 tables show the contractual maturity distribution of the Company's securities available-for-sale at December 31, 2005 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	Yield	Estimated Fair Value
		Yield		Yield		Yield			
(dollars in thousands)									
December 31, 2005									
Within one year	\$ 74,997	2.29 %	\$ —	0.00 %	\$ 907	3.36 %	\$ 75,904	2.30 %	\$ 74,785
After one but within five years	226,917	3.09 %	220,544	3.97 %	600	4.20 %	448,061	3.52 %	435,898
After five but within ten years	—	0.00 %	3,713	3.52 %	—	0.00 %	3,713	3.52 %	3,499
Non-maturing	—	0.00 %	—	0.00 %	18,846	4.30 %	18,846	4.30 %	18,800
	<u>\$ 301,914</u>	<u>2.89 %</u>	<u>\$ 224,257</u>	<u>3.96 %</u>	<u>\$ 20,353</u>	<u>4.25 %</u>	<u>\$ 546,524</u>	<u>3.38 %</u>	<u>\$ 532,982</u>

The actual maturities of mortgage backed securities, collateralized mortgage obligations and corporate debt securities will differ from the contractual maturities due to the ability of the issuers to prepay underlying obligations.

The weighted average remaining life of investment securities available-for-sale at December 31, 2005, 2004 and 2003 was 2.3, 2.7 and 3.5 years, respectively. Included in the weighted average remaining life calculation at December 31, 2005 and 2004 there were \$15,000,000 and \$134,100,000 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. The Bank realized gross gains in 2004 and 2003 of \$693,000 and \$0, respectively. The Bank realized gross losses in 2004 and 2003 of \$784,000 and \$1,000, respectively.

4. Investment Securities Held-to-Maturity

	December 31, 2005				December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)								
U.S. Government Agencies	\$ 159,952	\$ —	\$ 4,770	\$ 155,182	\$ 186,324	\$ 175	\$ 1,609	\$ 184,890
Mortgage Backed Securities	126,626	109	4,148	122,587	159,045	589	1,125	158,509
Other	—	—	—	—	—	—	—	—
	\$ 286,578	\$ 109	\$ 8,918	\$ 277,769	\$ 345,369	\$ 764	\$ 2,734	\$ 343,399

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)				
U.S. Government Agencies	\$ 6,400	\$ 278	—	\$ 6,678
Mortgage Backed Securities	191,447	1,548	908	192,087
Other	25	—	—	25
	\$ 197,872	\$ 1,826	\$ 908	\$ 198,790

Included in U.S. Government Agencies securities are securities pledged to secure public deposits amounting to \$6,000,000 at December 31, 2005. Also included are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$124,632,000 at December 31, 2005.

The following table shows the temporarily impaired securities of the Company's securities held-to-maturity portfolio at December 31, 2005. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 20 and 64 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively out of a total of 91 holdings at December 31, 2005. The Company believes that the investments are temporarily impaired.

Temporarily Impaired Investments*

	December 31, 2005					
	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 Agencies	\$ 19,561	\$ 407	\$ 135,621	\$ 4,363	\$ 155,182	\$ 4,770
Mortgage Backed Securities	29,740	624	89,038	3,524	118,778	4,148
Total temporarily impaired securities	\$ 49,301	\$ 1,031	\$ 224,659	\$ 7,887	\$ 273,960	\$ 8,918

* 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, 2005.

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.

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 Agencies	\$ 133,367	\$ 1,609	\$ —	\$ —	\$ 133,367	\$ 1,609
Mortgage Backed Securities	74,165	673	15,678	452	89,843	1,125
Total temporarily impaired securities	<u>\$ 207,532</u>	<u>\$ 2,282</u>	<u>\$ 15,678</u>	<u>\$ 452</u>	<u>\$ 223,210</u>	<u>\$ 2,734</u>

* 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 tables show the contractual maturity distribution of the Company's securities held-to-maturity at December 31, 2005 and the weighted average yields of securities, which are based on the amortized cost, calculated on a fully taxable equivalent basis.

December 31,

	U.S. Government Agencies	Yield	Mortgage Backed Securities	Yield	Total	Yield	Estimated Market Value
(dollars in thousands)							
Within one year	\$ —	0.00 %	\$ 297	6.52 %	\$ 297	6.52 %	\$ 302
After one but within five years	159,952	3.27 %	117,230	4.20 %	277,182	3.67 %	268,793
After five but within ten years	—	0.00 %	9,099	4.04 %	9,099	4.04 %	8,674
	<u>\$ 159,952</u>	<u>3.27 %</u>	<u>\$ 126,626</u>	<u>4.20 %</u>	<u>\$ 286,578</u>	<u>3.68 %</u>	<u>\$ 277,769</u>

The actual maturities of mortgage backed securities, collateralized mortgage obligations and corporate debt securities will differ from the contractual maturities due to the ability of the issuers to prepay underlying obligations.

The weighted average remaining life of investment securities held-to-maturity at December 31, 2005, 2004 and 2003 was 3.0, 3.3 and 3.5 years, respectively. Included in the weighted average remaining life calculation at December 31, 2005 and 2004 there were \$5,000,000 and \$139,900,000 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,	2005		2004		2003		2002		2001	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Construction and land development	\$ 58,846	8.5 %	\$ 51,918	9.0 %	\$ 34,121	6.7 %	\$ 33,155	6.4 %	\$ 39,256	8.5 %
Commercial and industrial	94,139	13.7 %	71,962	12.4 %	39,742	7.8 %	46,044	9.0 %	59,162	12.8 %
Industrial revenue bonds	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %	48	0.0 %
Commercial real estate	302,279	43.8 %	258,524	44.6 %	293,781	57.3 %	291,598	56.7 %	241,419	52.2 %
Residential real estate	146,355	21.2 %	118,223	20.4 %	86,780	16.9 %	92,291	17.9 %	88,450	19.1 %
Consumer	9,977	1.5 %	8,607	1.5 %	8,025	1.6 %	8,169	1.6 %	7,701	1.7 %
Home Equity	76,710	11.1 %	69,957	12.0 %	49,382	9.6 %	41,527	8.1 %	26,016	5.6 %
Overdrafts	1,339	0.2 %	812	0.1 %	483	0.1 %	1,465	0.3 %	720	0.1 %
	\$ 689,645	100.0 %	\$ 580,003	100.0 %	\$ 512,314	100.0 %	\$ 514,249	100.0 %	\$ 462,772	100.0 %

At December 31, 2005, 2004, 2003, 2002 and 2001 loans were carried net of discounts of \$4,000, \$20,000, \$138,000, \$492,000, and \$969,000 respectively. Included in these amounts at December 31, 2005, 2004, 2003, 2002 and 2001, residential real estate loans were carried net of discounts of \$0, \$16,000, \$133,000, \$487,000 and \$959,000 respectively, associated with the acquisition of loans from another financial institution. Net deferred loan fees of \$482,000, \$485,000, \$389,000, \$315,000, and \$389,000 were carried in 2005, 2004, 2003, 2002 and 2001 respectively.

The following table summarizes the remaining maturity distribution of certain components of the Company's loan portfolio on December 31, 2005. The table excludes loans secured by one-to-four family residential real estate and loans for household and family personal expenditures. Maturities are presented as if scheduled principal amortization payments are due on the last contractual payment date.

Remaining Maturities of Selected Loans at December 31, 2005

	One Year or Less	One to Five Years	Over Five Years	Total
(dollars in thousands)				
Construction and land development	\$ 19,973	\$ 31,270	\$ 7,603	\$ 58,846
Commercial and industrial	39,999	46,011	8,129	94,139
Commercial real estate	34,762	107,441	160,076	302,279
Total	\$ 94,734	\$ 184,722	\$ 175,808	\$ 455,264

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

December 31, 2005	One to Five Years	Over Five Years	Total
(dollars in thousands)			
Predetermined interest rates	\$ 111,403	\$ 26,869	\$ 138,272
Floating or adjustable interest rates	73,319	148,939	222,258
Total	\$ 184,722	\$ 175,808	\$ 360,530

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

Commercial real estate loans are extended to finance various manufacturing, warehouse, light industrial, office, retail and residential properties in the Bank's market area, which generally includes Eastern Massachusetts and Southern New Hampshire. Loans are normally extended in amounts up to a maximum of 80% of appraised value and normally for terms between three to five years. Amortization schedules are long-term and thus a balloon payment is due at maturity. Under most circumstances, the Bank will offer to re-write or otherwise extend the loan at prevailing interest rates. During recent years, the Bank has emphasized non-residential type owner-occupied properties. This compliments our C&I emphasis placed on the operating business entities and will 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 \$10,322,000 of loans are classified as "Commercial and Industrial" type loans secured by 1-4 family real estate. Primarily, these are small businesses with modest capital or shorter operating histories where the collateral mitigates some risk. This category of loans shares similar risk characteristics with the C&I loans, notwithstanding the collateral position.

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

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

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, 2005, the Company was obligated to advance a total of \$52,469,000 to complete projects under construction.

The composition of non-accrual loans and impaired loan agreements is as follows:

December 31,	2005	2004	2003	2002	2001
(dollars in thousands)					
Loans on non-accrual	\$ 949	\$ 628	\$ 1,175	\$ 511	\$ 423
Impaired loans on non-accrual included above	\$ 886	\$ 452	\$ 1,137	\$ 487	\$ 292
Total recorded investment in impaired loans	\$ 886	\$ 964	\$ 1,618	\$ 1,116	\$ 1,089
Average recorded value of impaired loans	\$ 1,384	\$ 1,156	\$ 2,043	\$ 1,273	\$ 2,149
Loans 90 days past due and still accruing	\$ —	\$ 160	\$ —	\$ —	\$ 9
Interest income on non-accrual loans according to their original terms	\$ 75	\$ 66	\$ 100	\$ 50	\$ 43
Interest income on non-accrual loans actually recorded	\$ —	\$ —	\$ 70	\$ —	\$ 32
Interest income recognized on impaired loans	\$ 202	\$ 105	\$ 116	\$ 60	\$ 116

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

	2005	2004	2003	2002	2001
Residential real estate, multi-family	\$ —	\$ 512	\$ 541	\$ 629	\$ 656
Construction and land development	675	—	—	—	—
Commercial real estate	—	—	—	487	433
Commercial and industrial	211	452	1,077	—	—
Total impaired loans	\$ 886	\$ 964	\$ 1,618	\$ 1,116	\$ 1,089

There were no impaired loans with specific reserves from December 31, 2000 through December 31, 2005 and in the opinion of management, none of the above listed impaired loans required a specific reserve.

The Company was servicing mortgage loans sold to others without recourse of approximately \$1,078,000, \$1,538,000, \$2,397,000, \$4,444,000 and \$6,888,000 at December 31, 2005, 2004, 2003, 2002 and at December 31, 2001 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 \$80,000, \$86,000, \$183,000, \$194,000, and \$338,000 at December 31, 2005, 2004, 2003, 2002 and at December 31, 2001 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 2005.

Balance at December 31, 2004	Additions	Repayments and Deletions	Balance at December 31, 2005
(dollars in thousands)			
\$ 1,482	\$ 743	\$ 289	\$ 1,936

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 \$949,000 in 2005 and \$628,000 in 2004 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, 2005, the Company continues to monitor closely \$14,077,000 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, 2005, although such values can fluctuate with changes in the economy and the real estate market.

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,	2005	2004	2003	2002	2001
(dollars in thousands)					
Year-end loans outstanding (net of unearned discount)	\$ 689,645	\$ 580,003	\$ 512,314	\$ 514,249	\$ 462,772
Average loans outstanding (net of unearned discount)	\$ 641,103	\$ 546,147	\$ 500,723	\$ 488,465	\$ 443,395
Balance of allowance for loan losses at the beginning of year	\$ 9,001	\$ 8,769	\$ 8,506	\$ 7,112	\$ 5,662
Loans charged-off:					
Commercial	\$ 366	\$ 1	\$ 240	\$ —	\$ 27
Commercial real estate	—	—	—	58	343
Residential real estate	—	194	—	—	12
Consumer	324	113	125	87	55
Total loans charged-off	690	308	365	145	437
Recovery of loans previously charged-off:					
Commercial	75	117	127	276	154
Real estate	235	103	29	-	184
Consumer	119	20	22	63	49
Total recoveries of loans previously charged off:	429	240	178	339	387
Net loan charge-offs (recoveries)	261	68	187	(194)	50
Additions to allowance charged to operating expense	600	300	450	1,200	1,500
Balance at end of year	\$ 9,340	\$ 9,001	\$ 8,769	\$ 8,506	\$ 7,112
Ratio of net charge-offs during the year to average loans outstanding	0.04 %	0.01 %	0.04 %	(0.04) %	0.01 %
Ratio of allowance for loan losses to loans outstanding	1.35 %	1.55 %	1.71 %	1.65 %	1.54 %

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 related to the inherent risk of loss. 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. At December 31 of each year the allowance was comprised of the following:

	2005		2004		2003		2002		2001	
	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	\$ 1,014	8.5 %	\$ 806	9.0 %	\$ 563	6.7 %	\$ 303	6.4 %	\$ 402	8.5 %
Commercial and industrial	1,575	13.7	1,232	12.4	895	7.8	832	9.0	971	12.8
Commercial real estate	4,131	43.8	3,626	44.6	4,182	57.3	3,131	56.7	2,554	52.2
Residential real estate	778	21.2	628	20.4	551	16.9	556	17.9	498	19.1
Consumer and other	173	1.7	144	1.6	130	1.7	147	1.9	130	1.8
Home equity	600	11.1	546	12.0	385	9.6	321	8.1	203	5.6
Unallocated	1,069		2,019		2,063		3,216		2,354	
	\$ 9,340	100.0 %	\$ 9,001	100.0 %	\$ 8,769	100.0 %	\$ 8,506	100.0 %	\$ 7,112	100.0 %

7. Bank Premises and Equipment

December 31,	2005	2004	2003	Estimated Useful Life
(dollars in thousands)				
Land	\$ 3,650	\$ 3,650	\$ 3,650	—
Bank premises	16,916	6,198	6,198	30-39 years
Construction in progress (note 14)	—	11,766	7,506	
Furniture and equipment	22,726	19,740	17,969	3-10 years
Leasehold improvements	5,102	5,083	4,446	30-39 years or lease term
	<u>48,394</u>	<u>46,437</u>	<u>39,769</u>	
Accumulated depreciation and amortization	(23,166)	(20,172)	(18,180)	
	<u>\$ 25,228</u>	<u>\$ 26,265</u>	<u>\$ 21,589</u>	

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 \$1,076,000, \$1,084,000 and \$886,000 for the years ended December 31, 2005, 2004 and 2003, respectively.

Future minimum rental commitments for noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2005 were as follows:

Year	Amount
(dollars in thousands)	
2006	\$ 1,081
2007	1,017
2008	947
2009	743
2010	601
Thereafter	953
	<u>\$ 5,342</u>

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:

	2005	2004	2003
(dollars in thousands)			
Three months or less	\$ 205,722	\$ 206,518	\$ 207,180
Three months through six months	46,398	36,323	33,011
Six months through twelve months	60,677	36,059	52,640
Over twelve months	88,976	80,916	66,786
	<u>\$ 401,773</u>	<u>\$ 359,816</u>	<u>\$ 359,617</u>

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

	2005	2004	2003
(dollars in thousands)			
Three months or less	\$ 181,146	\$ 169,423	\$ 165,198
Three months through six months	27,455	15,576	2,852
Six months through twelve months	20,317	7,866	8,003
Over twelve months	30,383	20,428	3,759
	<u>\$ 259,301</u>	<u>\$ 213,293</u>	<u>\$ 179,812</u>

9. Securities Sold Under Agreements to Repurchase

	2005	2004	2003
(dollars in thousands)			
Amount outstanding at December 31,	\$ 50,010	\$ 38,650	\$ 40,500
Weighted average rate at December 31,	3.05 %	0.97 %	0.77 %
Maximum amount outstanding at any month end	\$ 52,680	\$ 49,700	\$ 58,830
Daily average balance outstanding during the year	\$ 39,746	\$ 40,937	\$ 51,402
Weighted average rate during the year	2.05 %	0.81 %	0.89 %

Amounts outstanding at December 31, 2005, 2004, and 2003 carried maturity dates of the next business day. U.S. Government and Agency securities with a total book value of \$52,009,000, \$39,460,000, and \$40,560,000 were pledged as collateral and held by custodians to secure the agreements at December 31, 2005, 2004, and 2003, respectively. The approximate market value of the collateral at those dates was \$50,328,000, \$38,989,000, and \$40,638,000, respectively.

10. Other Borrowed Funds and Subordinated Debentures

	2005	2004	2003
(dollars in thousands)			
Amount outstanding at December 31,	\$ 340,805	\$ 280,628	\$ 165,968
Weighted average rate at December 31,	4.79 %	4.62 %	4.86 %
Maximum amount outstanding at any month end	\$ 393,734	\$ 280,628	\$ 233,600
Daily average balance outstanding during the year	\$ 268,878	\$ 194,932	\$ 170,344
Weighted average rate during the year	4.69 %	4.72 %	5.01 %

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 at December 31, 2005 was approximately \$320,256,000 based on levels of FHLB stock held and mix of overnight and term advances on that date. In addition, the Bank has a \$14,500,000 line of credit with the FHLB. A schedule of the maturity distribution of FHLB advances with the weighted average interest rates is as follows:

December 31,	2005		2004		2003	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(dollars in thousands)						
Within 1 year	\$ 197,156	4.15 %	\$ 105,000	2.22 %	\$ 35,000	1.55 %
Over 1 year to 2 years	2,500	3.66 %	1,120	7.20 %	—	0.00 %
Over 2 years to 3 years	19,500	5.38 %	—	0.00 %	1,178	7.20 %
Over 3 years to 5 years	63,500	5.72 %	51,500	5.25 %	19,500	5.38 %
Over 5 years	16,000	4.43 %	55,500	5.32 %	78,500	5.40 %
Total	<u>\$ 298,656</u>	<u>4.58 %</u>	<u>\$ 213,120</u>	<u>3.79 %</u>	<u>\$ 134,178</u>	<u>4.41 %</u>

SUBORDINATED DEBENTURES

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

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

In December 2004, the Company consummated the sale of a trust preferred securities offering, in which it issued \$36,083,000 of subordinated debt securities due 2034 to its newly formed unconsolidated subsidiary Century Bancorp 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 Company is using the proceeds primarily for general business purposes.

OTHER BORROWED FUNDS

The Bank had \$4,500,000 of overnight federal funds purchased on December 31, 2005. This borrowing carried an interest rate at 4.00%.

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 \$1,418,000 and \$1,638,000 at December 31, 2005 and 2004, respectively.

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.

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 2005, 2004 and 2003 was an increase of 13,265, 26,995 and 28,815 shares, respectively.

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 130,133 options exercisable at December 31, 2005.

Stock option activity under the plan is as follows:

	December 31, 2005		December 31, 2004		December 31, 2003	
	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	\$ 131,787	\$ 26.65	95,062	\$ 22.84	67,000	\$ 19.52
Granted	—	—	47,050	32.64	35,750	27.58
Cancelled	(300)	28.56	(675)	26.68	(675)	15.49
Exercised	(1,354)	16.82	(9,650)	18.31	(7,013)	15.93
Outstanding at end of year	130,133	\$ 26.74	131,787	\$ 26.65	95,062	\$ 22.84
Exercisable at end of year	130,133	\$ 26.74	67,486	\$ 22.22	42,399	\$ 18.65
Available to be granted at end of year	149,775		149,475		45,850	
Weighted average fair value of options granted during the year	NA		\$ 10.69		\$ 6.84	

At December 31, 2005, the 130,133 options outstanding have exercise prices between \$15.063 and \$35.010, with a weighted average exercise price at \$26.74 and a weighted average remaining contractual life of 6 years.

The Bank and the Company are 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 Bank and the Company's financial statements. Under capital adequacy guidelines and regulatory framework for prompt corrective action, the Bank and the Company must meet specific capital guidelines that involve quantitative measures of the Bank and the Company's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank and the Company'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 and the Company 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, 2005, that the Bank and the Company meet all capital adequacy requirements to which it is subject.

As of December 31, 2005, 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 are 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 Amount	Ratio	For Capital Adequacy Purposes		To Be Well Capitalized Action Provisions	
			Amount	Ratio	Amount	Ratio
As of December 31, 2005						
Total Capital (to risk-weighted assets)	\$ 119,839	13.13 %	\$ 73,001	8.00 %	\$ 91,251	10.00 %
Tier 1 capital (to risk-weighted assets)	110,499	12.11 %	36,500	4.00 %	54,751	6.00 %
Tier 1 capital (to 4th Qtr. average assets)	110,499	6.72 %	65,729	4.00 %	82,162	5.00 %
As of December 31, 2004						
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 %

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

	Actual Amount	Ratio	For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
			Amount	Ratio	Amount	Ratio
As of December 31, 2005						
Total Capital (to risk-weighted assets)	\$ 150,603	16.48 %	\$ 73,108	8.00 %	\$ 91,385	10.00 %
Tier 1 capital (to risk-weighted assets)	141,263	15.46 %	36,554	4.00 %	54,831	6.00 %
Tier 1 capital (to 4th Qtr. average assets)	141,263	8.58 %	65,821	4.00 %	82,276	5.00 %
As of December 31, 2004						
Total Capital (to risk-weighted assets)	174,984	20.14 %	69,503	8.00 %	86,879	10.00 %
Tier 1 capital (to risk-weighted assets)	136,311	15.69 %	34,752	4.00 %	52,127	6.00 %
Tier 1 capital (to 4th Qtr. average assets)	136,311	8.27 %	65,940	4.00 %	82,425	5.00 %

12. Income Taxes

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

	2005	2004	2003
(dollars in thousands)			
Current expense:			
Federal	\$ 2,842	\$ 4,277	\$ 5,783
State	196	227	4,596
Total current expense	3,038	4,504	10,379
Deferred expense (benefit):			
Federal	117	427	102
State	11	43	(1,518)
Total deferred expense (benefit)	128	470	(1,416)
Provision for income taxes	\$ 3,166	\$ 4,974	\$ 8,963

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

	2005	2004
(dollars in thousands)		
Currently receivable	\$ 486	\$ 474
Deferred income tax asset, net	<u>12,509</u>	<u>8,518</u>
	<u>\$ 12,995</u>	<u>\$ 8,992</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 2005 and 35% for 2004 and 2003 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:

	2005	2004	2003
(dollars in thousands)			
Federal income tax expense at statutory rates	\$ 3,516	\$ 4,849	\$ 7,225
State income tax, net of federal income tax benefit	135	176	2,001
Insurance gains	(356)	(260)	(159)
Effect of tax-exempt interest	(8)	—	(1)
Other	(121)	209	(103)
	<u>\$ 3,166</u>	<u>\$ 4,974</u>	<u>\$ 8,963</u>
Effective tax rate	31.5 %	35.9 %	43.4 %

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

	2005	2004
(dollars in thousands)		
Deferred income tax assets:		
Allowance for loan losses	\$ 3,907	\$ 3,765
Deferred compensation	4,136	3,855
Unrealized loss on securities available-for-sale	5,271	1,914
Unrecognized SERP liability	2,026	1,264
Acquisition premium	380	721
Investments writedown	33	33
Deferred gain	156	176
Other	1	8
Gross deferred income tax asset	<u>15,910</u>	<u>11,736</u>
Deferred income tax liabilities:		
Accrued dividends	(70)	(41)
Depreciation	(1,191)	(1,277)
Limited partnerships	(2,048)	(1,836)
Other	(92)	(64)
Gross deferred income tax liability	<u>(3,401)</u>	<u>(3,218)</u>
Deferred income tax asset net	<u>\$ 12,509</u>	<u>\$ 8,518</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.

Based on the Company's historical and current pretax earnings, management believes it is more likely than not that the Company will realize the deferred income tax asset existing at December 31, 2005. Management believes that existing net deductible temporary differences which give rise to the deferred tax asset will reverse during periods in which the Company generates net taxable income. In addition, gross deductible temporary differences are expected to reverse in periods during which offsetting gross taxable temporary differences are expected to reverse. Factors beyond management's control, such as the general state of the economy and real estate values, can effect future levels of taxable income, and no assurance can be given that sufficient taxable income will be generated to fully absorb gross deductible temporary differences.

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. Stability in the size of the work force, modest increases in compensation expense offset by lower accruals for those hired after March 31, 2004 resulted in a decrease 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 2006-2010 are \$563,000, \$572,000, \$613,000, \$687,000, and \$754,000. The aggregate benefits expected to be paid in the five years from 2011-2015 are \$4,922,000. The Company plans to contribute \$1,480,000 to the Plan in 2006.

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

Asset Category	2005	2004
Debt Securities	73 %	66 %
Equity Securities	14 %	15 %
Other	13 %	19 %

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. Decreased compensation expense resulted in decreased 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 2006-2010 are \$894,000, \$960,000, \$938,000, \$916,000, and \$898,000. The aggregate benefits expected to be paid in the five years from 2011-2015 are \$4,261,000.

	Defined Benefit Pension Plan		Supplemental Insurance/ Retirement Plan	
	2005	2004	2005	2004
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 14,076	\$ 13,353	\$ 11,857	\$ 13,368
Service cost	760	714	128	12
Interest cost	914	868	746	869
Actuarial (gain)/loss	2,869	(628)	1,676	(2,331)
Benefits paid	(280)	(231)	(277)	(61)
Benefit obligation at end of year	\$ 18,339	\$ 14,076	\$ 14,130	\$ 11,857
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 10,803	\$ 9,285		
Actual return on plan assets	282	224		
Employer contributions	1,389	1,525		
Benefits paid	(280)	(231)		
Fair value of plan assets at end of year	\$ 12,194	\$ 10,803		
(Unfunded) funded status	\$ (6,145)	\$ (3,273)	\$ (14,130)	\$ (11,857)
Unrecognized prior service benefit (cost)	1,421	1,441	(1,091)	(1,155)
Unrecognized net actuarial loss	(7,401)	(4,216)	(3,062)	(1,437)
Accrued benefit cost	\$ (165)	\$ (498)	\$ (9,977)	\$ (9,265)
Accumulated benefit obligation	\$ 16,680	\$ 13,037	\$ 13,291	\$ 11,151
Weighted-average assumptions as of December 31				
Discount rate – Liability	5.50 %	6.50 %	5.50 %	6.50 %
Discount rate – Expense	6.00 %	6.50 %	6.00 %	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	\$ 760	\$ 714	\$ 128	\$ 12
Interest cost	914	868	746	869
Expected return on plan assets	(854)	(597)	—	—
Recognized prior service cost	(20)	(4)	64	64
Recognized net losses	256	224	51	174
Net periodic cost	\$ 1,056	\$ 1,205	\$ 989	\$ 1,119
Additional minimum pension liability	\$ 3,135	\$ 2,201	\$ 1,708	\$ 820

Assumptions for expected return on plan assets and discount rates in the Company's Plan and Supplemental Plan are periodically reviewed. As part of the review, management in consultation with independent consulting actuaries perform an analysis of expected returns based on the plan's asset allocation. This forecast reflects the Company's and actuarial firm's expected return on plan assets for each significant asset class or economic indicator. The range of returns developed relies both on forecasts and on broad-market historical benchmarks for expected return, correlation, and volatility for each asset class. Also, as a part of the review, the Company's management in consultation with independent consulting actuaries perform an analysis of discount rates based on expected returns of high grade fixed income debt securities.

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 \$217,000 for 2005, \$211,000 for 2004 and \$218,000 for 2003. 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, 2005. Management, after reviewing these claims with legal counsel, is of the opinion that their resolution will not have a material adverse effect on the Company's consolidated financial position or results of operation.

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	2005	2004
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate		
1-4 family mortgages	\$ 1,814	\$ 2,511
Standby letters of credit	10,272	11,195
Unused lines of credit	143,533	118,008
Unadvanced portions of construction loans	52,469	33,754
Unadvanced portions of other loans	7,934	10,907

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,	2005	2004	2003
(dollars in thousands)			
Marketing	\$ 1,478	\$ 1,403	\$ 1,265
Processing services	1,281	1,379	1,292
Supplies	605	728	775
Telephone	489	583	511
Postage and delivery	820	826	735
Legal and audit	881	812	478
Consulting	616	316	316
Software maintenance/amortization	876	653	743
Insurance	370	316	248
Director's fees	200	258	270
FDIC assessment	186	198	208
Core deposit tangible amortization	388	388	320
Capital expense amortization	9	—	137
Other	1,137	1,160	860
	<u>\$ 9,336</u>	<u>\$ 9,020</u>	<u>\$ 8,158</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.

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

	2005		2004	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
(dollars in thousands)				
Financial assets:				
Cash and cash equivalents	\$ 152,679	\$ 152,679	\$ 238,235	\$ 238,235
Securities available-for-sale	532,982	532,982	609,806	609,806
Securities held-to-maturity	286,578	277,769	345,369	343,399
Net loans	680,305	665,515	571,002	565,539
Accrued interest receivable	7,127	7,127	6,800	6,800
Financial liabilities:				
Deposits	1,217,040	1,216,610	1,394,010	1,397,901
Repurchase agreement and other borrowed funds	354,732	358,263	253,556	255,036
Subordinated debentures	36,083	35,769	65,722	65,801
Accrued interest payable	1,891	1,891	2,305	2,305
Standby letters of credit	—	118	—	136

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)

2005 Quarters	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	\$ 18,788	\$ 18,289	\$ 18,082	\$ 17,652
Interest expense	9,421	8,533	7,745	7,121
Net interest income	9,367	9,756	10,337	10,531
Provision for loan losses	150	150	150	150
Net interest income after provision for loan losses	9,217	9,606	10,187	10,381
Other operating income	2,633	2,720	2,937	2,683
Operating expenses	10,100	10,067	10,116	10,035
Income before income taxes	1,750	2,259	3,008	3,029
Provision for income taxes	478	727	973	988
Net income	\$ 1,272	\$ 1,532	\$ 2,035	\$ 2,041
Share data:				
Average shares outstanding, basic	5,535,442	5,535,388	5,535,317	5,534,651
Average shares outstanding, diluted	5,548,548	5,559,425	5,540,598	5,543,783
Earnings per share, basic	\$ 0.23	\$ 0.28	\$ 0.37	\$ 0.37
Earnings per share, diluted	\$ 0.23	\$ 0.28	\$ 0.37	\$ 0.37
2004 Quarters				
(in thousands, except 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

19. Parent Company Financial Statements

The balance sheets of Century Bancorp, Inc. ("Parent Company") as of December 31, 2005 and 2004 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2005 and 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,	2005	2004
(dollars in thousands)		
ASSETS:		
Cash	\$ 30,458	\$ 58,704
Investment in subsidiary, at equity	107,388	110,189
Other assets	1,550	2,465
Total assets	<u>\$ 139,396</u>	<u>\$ 171,358</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities	\$ 112	\$ 863
Subordinated debentures	36,083	65,722
Stockholders' equity	103,201	104,773
Total liabilities and stockholders' equity	<u>\$ 139,396</u>	<u>\$ 171,358</u>

STATEMENTS OF INCOME

December 31,	2005	2004	2003
(dollars in thousands)			
Income:			
Dividends from subsidiary	\$ 4,505	\$ 5,786	\$ 2,825
Interest income from deposits in bank	798	313	377
Other income	72	80	74
Total Income	<u>5,375</u>	<u>6,179</u>	<u>3,276</u>
Interest expense	2,468	2,653	2,460
Operating expenses	186	216	250
Income before income taxes and equity in undistributed income of subsidiary	<u>2,721</u>	<u>3,310</u>	<u>566</u>
Provision for income taxes	(638)	(873)	(790)
Income before equity in undistributed income of subsidiary	<u>3,359</u>	<u>4,183</u>	<u>1,356</u>
Equity in undistributed income of subsidiary	<u>3,521</u>	<u>4,698</u>	<u>10,324</u>
Net income	<u>\$ 6,880</u>	<u>\$ 8,881</u>	<u>\$ 11,680</u>

STATEMENTS OF CASH FLOWS

Year Ended December 31,	2005	2004	2003
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 6,880	\$ 8,881	\$ 11,680
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income of subsidiary	(3,521)	(4,698)	(10,324)
Depreciation and amortization	9	—	138
Decrease (increase) in other assets	906	(1,098)	(61)
(Decrease) increase in liabilities	(751)	444	(1,245)
Net cash provided by operating activities	<u>3,523</u>	<u>3,529</u>	<u>188</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Subordinated debt issuance (retirement)	(29,639)	36,083	889
Capital payment to bank subsidiary	—	—	(13,000)
Stock options exercised	23	177	111
Cash dividends paid	(2,153)	(2,147)	(2,008)
Treasury stock repurchases	—	—	—
Net cash (used in) provided by financing activities	<u>(31,769)</u>	<u>34,113</u>	<u>(14,008)</u>
Net (decrease) increase in cash	<u>(28,246)</u>	<u>37,642</u>	<u>(13,820)</u>
Cash at beginning of year	<u>58,704</u>	<u>21,062</u>	<u>34,882</u>
Cash at end of year	<u>\$ 30,458</u>	<u>\$ 58,704</u>	<u>\$ 21,062</u>

KPMG LLP

Independent Registered Public Accounting Firm
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, 2005 and 2004, 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, 2005. 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, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, 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, 2005, 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 February 27, 2006 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

The image shows a handwritten signature in black ink that reads "KPMG LLP". The letters are bold and slightly slanted, with a casual, professional appearance.

Boston, Massachusetts
February 27, 2006

KPMG LLP

Independent Registered Public Accounting Firm
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, 2005, 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, 2005, 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, 2005, 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, 2005 and 2004, 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, 2005, and our report dated February 27, 2006 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Boston, Massachusetts
February 27, 2006

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, 2005. 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, 2005, 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 34.



Marshall M. Sloane
Chairman and CEO
February 27, 2006



Paul V. Cusick, Jr.
Vice President and Treasurer

Stockholder Information

CORPORATE HEADQUARTERS

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

TRANSFER AGENT AND REGISTRAR

Computershare Trust Company, N.A.
P.O. Box 43010
Providence, RI 02940-3010
TEL (781) 575.3400 (Investor Relations)
computershare.com/EquiServe

ANNUAL MEETING

The annual meeting of stockholders will be held on Tuesday, April 11, 2006, 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 CntyBcMA in The Boston Globe and Boston Herald, and CentBcp 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
Boston	136 State Street, Boston, MA 02110	(617) 367.3712
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
Worcester	114 West Boylston Street, Worcester, MA 01606	(508) 854.2209

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

Century
Bancorp, Inc.

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