Century Bancorp, Inc.

ANNUAL REPORT 2006

FAMILY-FOCUSED

IT IS WHAT SETS US APART

A WORD FROM MARSHALL SLOANE

2006 has been a busy year at Century Bank. In April, I proudly turned over the CEO position to my sons, Barry and Jonathan. As Co-CEOs, they have assumed these responsibilities during one of the most challenging periods for bank fundamentals since the early 1990s. With their leadership and our strong financial position, I am confident they will strive to carry on the family tradition of a strong work ethic and sound values.

Although these challenging times have lowered net earnings, our balance sheet is rock solid. Additionally, increased loan outstandings, sizable branch deposit growth, and stable overhead point toward a recovery in 2007.

While I have abdicated my CEO responsibilities, I expect to continue my tenure as Chairman of the Board well into the future. I wish to commend my two colleagues who have also enjoyed a long and successful tenure with Century Bank: Paul V. Cusick, Jr. who retires as Century's CFO after 18 years of service; and John C. Lavallee, the 33-year veteran head of our Institutional Services Group, who is working part-time in retirement as a senior consultant for Century.

I am grateful to them, our loyal shareholders, associates, and clients, who have all played a strong role in the growth of Century. I look forward to prospering together in 2007 and the years ahead.

Sincerely,
Marshall M. Sloane
Founder and Chairman

DEAR FELLOW SHAREHOLDERS,

Family. Spouses. Parents. Children. Grandchildren. For most of us, family defines our life, motivates our work, inspires our legacy, and sets the tone for the way we live. Family values are the Century difference.

As one of the 16 remaining family controlled banks (over $1 billion in assets) in the US, and the last one in Massachusetts; family is our defining competitive differentiator. We passionately believe that the closely controlled nature of our enterprise has important benefits to all four of our core constituencies now and in the years to come:

- For our shareholders, the economic interest of senior management through its "B" shares is fully aligned with our public "A" shareholders. Our family's ownership stake is of such significant size there is no doubt we are focused on the strategic issues facing our company with the long-term view of all equity owners.

- For our clients, it means that we take a personal interest in their relationship, making client contact a constant theme of our management style. Our focus on serving the total needs of our clients is more than a slogan; it is how we run our business. It also means that superior product and service execution is a way of life for us.

- For our associates, it is the assurance that we will not announce a round of layoffs just to meet analyst expectations. While we function from a lean and proven expense base, officer and staff can make a career at Century, and not use their time with us as a professional interlude en route to another job. Century's low level of staff turnover and historically high job satisfaction is testimony to the success of our human resource policy.

- For the 17 communities in Massachusetts where we operate 22 offices, it is the banking, lending, and philanthropic dedication to these cities and towns that distinguish our commitment from all four of Massachusetts' "giant" banks, which are owned and controlled from outside the state.

Our financial performance was below our plans and expectations in 2006. Our balance sheet, however, in terms of both loans and securities, remains strong. Century is profitable, though like our competitors, our earnings have been adversely affected by the following elements:

- The flat to inverted yield curve that has plagued the bond market has consumed over 1.6% of our historical net interest margin. We have managed our asset/liability process more closely than ever, resulting in the planned contraction of our total assets by some $84 million. All bankers have experienced the depression of margins to record low levels. We will not attempt to predict when the yield curve will "rationalize," but we will stay the course in what is admittedly a cyclical business.

Barry and Jonathan Sloane

- Our securities portfolio has proven to be of a shorter duration, at 1.7 years, than we would have optimally wanted. To improve earnings in 2007, we are allowing our securities portfolio to shrink through scheduled maturities, and redeploying the resources in loans and short-term investments.

- The intensity of retail branch competition in Greater Boston has continued its escalation. In response, we repositioned our 22-branch network and consolidated our Atlantic Avenue location into our new and highly efficient State Street office.

With all of 2006's challenges, we are proud of the following achievements:

- Our loan portfolio grew 6.8%, including the addition of some 430 new small business loans, representing over $37 million of our $110 million of total loan growth.

- The deposits of our branch system grew by 14.8%, nearly $119 million. We attribute much of this growth to the premier level of service provided by our branch managers and their associates; and the consistent "best in class" programs of our marketing department, despite a flat non-interest expense base.

- We have undertaken a significant project to analyze and improve the margins in our Institutional Services Group. Comprised of government banking, lockbox, and cash management services, the Group processes more than 43 million items annually. We have installed new management and believe we can improve the earnings of our Institutional Services business, which is now the third largest lockbox provider in New England.

- We have increased our fee income by nearly $1 million, a significant portion of which is due to our expanded products and services for money service businesses throughout New England.

- We continued our long tradition of "best practices" in client related technology by introducing Century Remote Deposit. This enables commercial clients to deposit electronically from their facilities, discontinuing the need to use deposit couriers, often at our expense.

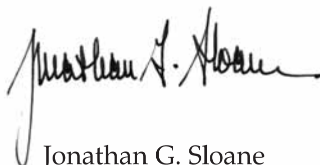
- In the area of energy conservation, Century shined, receiving the Osram Sylvania Ecologic and Energy Saver Certificates, and the National Grid Environmental Protection Award. Additionally, Medford Mayor McGlynn proclaimed January 31, 2007, "Century Bank Energy Efficiency Day" in the city.

- Finally, we continue to be proud of our A– Quality Ranking by Standard and Poor's (1/07) on our Class A shares.

There is no question that these are complex and difficult times for financial institutions, but our outlook is positive and the state of Century and our management partnership is strong and upbeat. We believe the marketplace recognizes and will reward us for our client centricity and family business values.

We are grateful for your business, your loyalty, and your faith in our franchise.

Sincerely,



Barry R. Sloane
Co-CEO and Co-President
Century Bancorp, Inc. and Century Bank

Jonathan G. Sloane
Co-CEO and Co-President
Century Bancorp, Inc. and Century Bank

Management Committee members, from left: David B. Woonton, Brian J. Feeney, Paul A. Evangelista, and Paul V. Cusick, Jr.

Adopt-A-Student Foundation Allston-Brighton Community Development Corporation American Cancer Society American Heart Association American Ireland Fund American Lung Association of Massachusetts American Red Cross American Skin Association Anna Jacques Community Health Foundation of Newburyport Anti-Defamation League of New England Art Street Association for Retarded Citizens of Eastern Middlesex Bay State Chapter Freedoms Foundation Beth Israel Deaconess Medical Center Big Brothers Big Sisters Bishop Fenwick High School Boston Area Reform Jewish Day School Boston Inner-City Scholarship Fund Boston Police Athletic League Boston University Boston Ward 7 Improvement Committee Boy Scouts of America Brendan M. Curtin Memorial Fund Brian D. Silber Memorial Fund Brookline Music School Brookline Summer Concert Series Burlington Dollars for Scholars Burlington High School Scholarship Fund Cambridge and Somerville Program for Alcoholism and Drug Abuse Rehabilitation Cambridge Family and Children's Services Caritas Holy Family Hospital Caritas Por Cristo Caritas St. Elizabeth's Hospital Catholic Charities of Greater Boston Catholic Foundation of the Archdiocese of Boston Children's Hospital Trust Community Action Agency of Somerville Congregation of the Holy Cross Dana Farber Marathon Challenge Dimock Community Health Center Dreams for Youth Foundation Easter Seals of Massachusetts Economic Education Foundation for Massachusetts Elizabeth Peabody House of Somerville Everett Chamber of Commerce Everett High School Everett Kiwanis Club Everett Lions Club Everett Mayor's Art & Entertainment Concert Fisher Center for Alzheimer's Research Foundation Foundation for Racial, Ethnic and Religious Harmony Fourth Presbyterian Church of South Boston Gann Academy Girl Scouts of the USA Greater Boston Chamber of Commerce Greater Medford Visiting Nurses Association Hallmark Health Visiting Nurses Association Hebrew College Hebrew Senior Life Home for Little Wanderers India Association of Greater Boston J. F. Kennedy School of Government, Harvard University Jewish Big Brothers Big Sisters Jewish Cemetery Association of Massachusetts Jewish Family Services of the North Shore Jimmy Fund Jules Sabatinelli Fund Justice Louis Brandeis Film Documentary Lawrence Boys and Girls Club Little Sisters of the Poor

CENTURY BANK CONTINUED OUR PROUD FAMILY TRADITION OF COMMUNITY SERVICE BY PROVIDING FINANCIAL AND LEADERSHIP SUPPORT TO THESE CHARITABLE AND CIVIC ORGANIZATIONS IN 2006

Lowell General Hospital Lupus Foundation of America Lynn Housing Authority & Neighborhood Development Lynn Rotary Club Maimonides School Malden Beautification Program Malden Bread of Life Malden Chamber of Commerce Malden Lions Club Malden Pop Warner Malden Rotary Club Malden Summer Concert Series Malden YMCA Massachusetts Affordable Housing Alliance Massachusetts Bankers Association Charitable Foundation Massachusetts General Hospital Massachusetts MainSpring Coalition for the Homeless Massachusetts Society of CPAs Medford Chamber of Commerce Medford Police Patrolman's Association Medford Police Relief Association Medford Public Library Medford Senior Football Association MetroWest Jewish Day School Milton Hospital Muscular Dystrophy Association Mystic River Watershed Association National Center for Family Homelessness New England Aquarium New England Baptist Hospital Newburyport Maritime Society Newton – Needham Chamber of Commerce North Cambridge Little League Baseball North End Against Drugs North End Music & Performing Arts North Shore Women in Business Northeast Health Foundation Officer Harold L. Vitale Memorial Fund One Family Scholars of Boston Our Lady of Nazareth Academy Outdoor Explorations Pan Mass Challenge Partners Health Care System Peabody Brooksby Farm Peabody Chamber of Commerce Peabody High School Hockey Boosters Perkins School for the Blind Perry S. Levy Fellow Fund at Dana Farber Cancer Institute Pine Street Inn Regis College Rental Housing Association of Boston Ribbie Millis Memorial Fund Rivers School Rodman Ride for Kids Run for Wednesday's Child Sacred Heart School of Lynn Salem 4th of July Celebration Salem Chamber of Commerce Salem New Main Streets Downtown Initiative Salem State College Salem Street Business Association Shakespeare & Co. Small Business Association of New England Solomon Schechter Day School of Greater Boston Somerville Chamber of Commerce Somerville Community Youth Program Somerville Council on Aging Somerville High School Hockey Somerville Historic Preservation Commission Somerville Housing Authority Somerville Little League Somerville Police Relief Association Somerville Pop Warner Somerville Veteran's Services Springstep St. Clement Elementary School of Medford St. John's School of Boston St. Joseph's of Medford St. Leonard Parish of Boston St. Mary's Parish of Lynn St. Peter School of Cambridge Storer Trust Synagogue Council of Massachusetts Taste of the North End Temple Beth Elohim of Wellesley Temple Israel Boston Temple Ohabei Shalom of Brookline Temple Shalom of West Newton Temple Tifereth Israel of Malden Tufts University United Way of Massachusetts Bay US Marines' Toys for Tots USS Intrepid Museum Foundation USS Massachusetts Memorial Foundation Visiting Nurses Association of Massachusetts Weymouth Annual Fund Raiser Woburn Council for Social Concern Work, Inc. of Massachusetts World Unity YMCA of Greater Boston Young Israel of Brookline Youth Education in the Arts

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Attorney

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Century Bank and Trust Company

Jonathan G. Sloane[4,5,6,7]
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Century Bank and Trust Company

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Chairman of the Board
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Paula A. Grimaldi
Assistant Clerk

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Executive Vice President

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Christina Welch-Matthews

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Bruce A. Priestley
Judith A. Shannon
Elizabeth A. Theriault
Jason H. Truong

[1] Audit Committee, [2] Compensation Committee, [3] Nominating Committee, [4] Executive Committee, [5] Asset Liability Committee, [6] Non-deposit Investment and Insurance Products Committee, [7] Trust Committee, * Committee Chairperson, ** Vice Chairperson

FINANCIAL STATEMENTS

1 Financial Highlights

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

16 Consolidated Balance Sheets

17 Consolidated Statements of Income

18 Consolidated Statements of Changes of Stockholders' Equity

19 Consolidated Statements of Cash Flows

20 Notes to Consolidated Financial Statements

37 Report of Independent Registered Public Accounting Firm

39 Management's Report on Internal Control over Financial Reporting

	2006	2005	2004	2003	2002
(dollars in thousands, except share data)					
FOR THE YEAR					
Interest income	$ 80,707	$ 72,811	$ 65,033	$ 69,298	$ 71,124
Interest expense	43,944	32,820	23,646	23,942	24,718
Net interest income	36,763	39,991	41,387	45,356	46,406
Provision for loan losses	825	600	300	450	1,200
Net interest income after provision for loan losses	35,938	39,391	41,087	44,906	45,206
Other operating income	11,365	10,973	10,431	10,009	10,266
Operating expenses	40,196	40,318	37,663	34,272	34,089
Income before income taxes	7,107	10,046	13,855	20,643	21,383
Provision for income taxes	2,419	3,166	4,974	8,963	7,879
Net income	$ 4,688	$ 6,880	$ 8,881	$ 11,680	$ 13,504
Average shares outstanding, basic	5,540,966	5,535,202	5,526,202	5,519,800	5,516,590
Average shares outstanding, diluted	5,550,722	5,553,009	5,553,197	5,548,615	5,534,059
Shares outstanding at year-end	5,541,188	5,535,442	5,534,088	5,524,438	5,517,425
Earnings per share:					
Basic	$ 0.85	$ 1.24	$ 1.61	$ 2.12	$ 2.45
Diluted	$ 0.84	$ 1.24	$ 1.60	$ 2.11	$ 2.44
Dividend payout ratio	46.2 %	31.3 %	24.2 %	17.2 %	13.9 %
AT YEAR-END					
Assets	$ 1,644,290	$ 1,728,769	$ 1,833,701	$ 1,688,911	$ 1,557,201
Loans	736,773	689,645	580,003	512,314	514,249
Deposits	1,268,965	1,217,040	1,394,010	1,338,853	1,146,284
Stockholders' equity	106,818	103,201	104,773	103,728	100,256
Book value per share	$ 19.28	$ 18.64	$ 18.93	$ 18.78	$ 18.17
SELECTED FINANCIAL PERCENTAGES					
Return on average assets	.28 %	.41 %	.55 %	.74 %	1.02 %
Return on average stockholders' equity	4.45 %	6.57 %	8.61 %	11.57 %	14.64 %
Net interest margin, taxable equivalent	2.40 %	2.58 %	2.75 %	3.08 %	3.77 %
Net (recoveries) charge-offs as a percent of average loans	0.06 %	0.04 %	0.01 %	0.04 %	(0.04)%
Average stockholders' equity to average assets	6.39 %	6.31 %	6.38 %	6.40 %	6.98 %
Efficiency ratio	83.5 %	79.1 %	72.7 %	61.9 %	60.1 %

Per Share Data

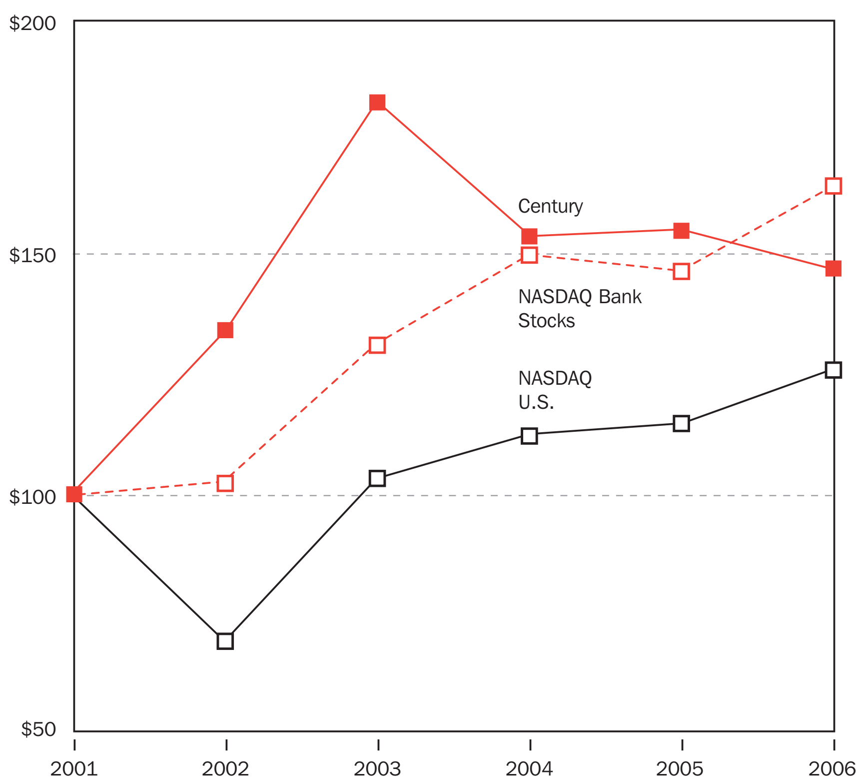
2006, Quarter Ended	**December 31,**	**September 30,**	**June 30,**	**March 31,**
Market price range (Class A)				
High	**$ 29.48**	**$ 27.24**	**$ 29.10**	**$ 30.00**
Low	**25.77**	**24.05**	**24.01**	**27.29**
Dividends Class A	**0.12**	**0.12**	**0.12**	**0.12**
Dividends Class B	**0.06**	**0.06**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

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

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

Comparison of Five-Year

Cumulative Total Return*



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

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

FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

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

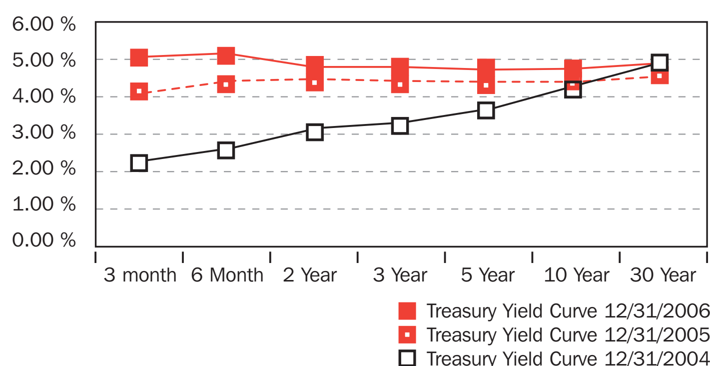
The Company's results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans, deposits, as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

The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium-sized businesses and retail customers in its market area. The Company makes commercial loans, real estate and construction loans, and consumer loans, and accepts savings, time and demand deposits. In addition, the Company offers to its corporate and institutional customers automated lockbox collection services, cash management services and account reconciliation services, and actively promotes the marketing of these services to the municipal market. Also, the Company provides full service securities brokerage services through a program called Investment Services at Century Bank supported by Independent Financial Marketing Group, Inc. (IFMG), a full service securities brokerage business.

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

The Company had net income of $4,688,000 for the year ended December 31, 2006, compared with net income of $6,880,000 for year ended December 31, 2005 and net income of $8,881,000 for the year ended December 31, 2004. Basic earnings per share were $0.85 in 2006, compared to $1.24 in 2005 and $1.61 in 2004. Diluted earnings per share were $0.84 in 2006, compared to $1.24 in 2005 and $1.60 in 2004. The Company's earnings in 2006 were negatively impacted mainly by a decrease in net interest income. The Company believes that the net interest margin will continue to be challenged in this current inverted yield curve environment. This is mainly the result of deposit and borrowing pricing that has the potential to increase faster than corresponding asset categories. During 2005, the Company's earnings were also negatively impacted by a decrease in net interest income, increases in salary expense as well as costs associated with the Company's new addition to its corporate headquarters building and the addition of a lockbox imaging system.

Historical U.S. Treasury Yield Curve



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

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

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

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

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

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

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

Also during the fourth quarter of 2004, the Company consummated the sale of a trust preferred securities offering, in which it issued $36,083,000 of subordinated debt securities due 2034 to its newly formed unconsolidated subsidiary Century Bancorp Capital Trust II. Century Bancorp Capital Trust II issued 35,000 shares of Cumulative Trust Preferred Securities with a liquidation value of $1,000 per share. These securities pay dividends at an annualized rate of 6.65% for the first ten years and then convert to the three-month LIBOR rate plus 1.87% for the remaining twenty years. The total amount of this issuance was $36,083,000. The Company is using the proceeds primarily for general business purposes. Also, the Company, through its subsidiary, Century Bancorp Capital Trust, announced the redemption of its 8.30% Trust Preferred Securities, with a redemption date of January 10, 2005. The total amount of this redemption was $29,639,000.

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

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan Losses

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

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

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

The unallocated allowance recognizes the model and estimation risk associated with the formula allowance and specific allowances, as well as management's evaluation of various conditions, including business and economic conditions, delinquency trends, charge-off experience and other quality factors, the effects of which are not directly measured in the determination of the formula and specific allowances. The evaluation of the inherent loss with respect to these conditions is subject to a higher degree of uncertainty because they are not identified with specific problem credits.

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

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

Impaired Investment Securities

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

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

FINANCIAL CONDITION

Investment Securities

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

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

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

Securities which management intends to hold until maturity consist of U.S. Government Sponsored Enterprises and mortgage-backed securities. Securities held-to-maturity as of December 31, 2006 are carried at their amortized cost of $265,712,000 and exclude gross unrealized gains of $76,000 and gross unrealized losses of $7,368,000. A year earlier, securities held to maturity totaled $286,578,000 excluding gross unrealized gains of $109,000 and gross unrealized losses of $8,918,000.

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

Fair Value of Securities Available-for-Sale

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

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

Amortized Cost of Securities Held-to-Maturity

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

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

Fair Value of Securities Available-for-Sale
Amounts Maturing

	Within One Year	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield	Non-Maturing	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
(dollars in thousands)															
U.S. Treasury and U.S. Government Sponsored Enterprises	$ 110,925	26.7 %	2.68 %	$ 112,103	27.0 %	3.43 %	$ —	0.0 %	0.0 %	$ —	0.0 %	0.0 %	$ 223,028	53.7 %	3.06 %
Mortgage-backed securities	10,354	2.5 %	3.59 %	145,771	35.1 %	3.91 %	22,952	5.5 %	4.21 %	—	0.0 %	0.0 %	179,076	43.1 %	3.93 %
Obligations of state and political subdivisions and other	50	0.0 %	5.3 %	739	0.2 %	4.84 %	—	0.0 %	0.0 %	12,588	3.0 %	5.25 %	13,377	3.2 %	5.23 %
Total	$ 121,329	29.2 %	2.76 %	$ 258,612	62.3 %	3.70 %	$ 22,952	5.5 %	4.21 %	$ 12,588	3.0 %	5.25 %	$ 415,481	100.0 %	3.5 %

Amortized Cost of Securities Held-to-Maturity
Amounts Maturing

	Within One Year	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield	Over Ten Years	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
(dollars in thousands)															
U.S. Government Sponsored Enterprises	$ 64,998	24.5 %	2.99 %	$ 94,971	35.7 %	3.47 %	$ —	0.0 %	—	—	0.0 %	0.0 %	$ 159,969	60.2 %	3.27 %
Mortgage-backed securities	115	0.0 %	6.01 %	103,049	38.8 %	4.17 %	2,579	1.0 %	4.62 %	—	0.0 %	0.0 %	105,743	39.8 %	4.18 %
Total	$ 65,113	24.5 %	3.0 %	$ 198,020	74.5 %	3.83 %	$ 2,579	1.0 %	4.62 %	$ —	0.0 %	0.0 %	$ 265,712	100.0 %	3.63 %

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

Loans

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

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

December 31,	2006		2005		2004		2003		2002	
	Amount	**Percent of Total**	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Construction and land development	**$ 49,709**	**6.7 %**	$ 58,846	8.5 %	$ 51,918	9.0 %	$ 34,121	6.7 %	$ 33,155	6.4 %
Commercial and industrial	**117,497**	**16.0 %**	94,139	13.7 %	71,962	12.4 %	39,742	7.8 %	46,044	9.0 %
Revenue bonds	**3,340**	**0.5 %**	—	0.0 %	—	0.0 %	—	0.0 %	—	0.0 %
Commercial real estate	**323,700**	**44.0 %**	302,279	43.8 %	258,524	44.6 %	293,781	57.3 %	291,598	56.7 %
Residential real estate	**167,946**	**22.8 %**	146,355	21.2 %	118,223	20.4 %	86,780	16.9 %	92,291	17.9 %
Consumer	**9,881**	**1.3 %**	9,977	1.5 %	8,607	1.5 %	8,025	1.6 %	8,169	1.6 %
Home Equity	**63,380**	**8.5 %**	76,710	11.1 %	69,957	12.0 %	49,382	9.6 %	41,527	8.1 %
Overdrafts	**1,320**	**0.2 %**	1,339	0.2 %	812	0.1 %	483	0.1 %	1,465	0.3 %
Total	**$ 736,773**	**100.0 %**	$ 689,645	100.0 %	$ 580,003	100.0 %	$ 512,314	100.0 %	$ 514,249	100.0 %

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

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

Remaining Maturities of Selected Loans at December 31, 2006

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

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

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

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

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

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

loans shares similar risk characteristics with the C&I loans, notwithstanding the collateral position.

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

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

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

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

The composition of nonperforming assets is as follows:

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

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

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

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

The Company was servicing mortgage loans sold to others without recourse of approximately $798,000, $1,078,000, $1,538,000, $2,397,000 and $4,444,000 at December 31, 2006, 2005, 2004, 2003 and at December 31, 2002 respectively. Additionally, the Company was servicing mortgage loans sold to others with limited recourse. The outstanding balance of these loans with limited recourse was approximately $72,000, $80,000, $86,000, $183,000 and $194,000 at December 31, 2006, 2005, 2004, 2003 and at December 31, 2002 respectively.

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

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

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

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

Allowance for Loan Losses

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

Year Ended December 31,	**2006**	2005	2004	2003	2002
(dollars in thousands)					
Year-end loans outstanding (net of unearned discount and deferred loan fees)	**$ 736,773**	$ 689,645	$ 580,003	$ 512,314	$ 514,249
Average loans outstanding (net of unearned discount and deferred loan fees)	**$ 723,825**	$ 641,103	$ 546,147	$ 500,723	$ 488,465
Balance of allowance for loan losses at the beginning of year	**$ 9,340**	$ 9,001	$ 8,769	$ 8,506	$ 7,112
Loans charged-off:					
Commercial	**$ 386**	$ 366	$ 1	$ 240	$ —
Commercial real estate	**—**	—	—	—	58
Residential real estate	**—**	—	194	—	—
Consumer	**322**	324	113	125	87
Total loans charged-off	**708**	690	308	365	145
Recovery of loans previously charged-off:					
Commercial	**96**	75	117	127	276
Real estate	**49**	235	103	29	—
Consumer	**112**	119	20	22	63
Total recoveries of loans previously charged off:	**256**	429	240	178	339
Net loan charge-offs (recoveries)	**452**	261	68	187	(194)
Additions to allowance charged to operating expense	**825**	600	300	450	1,200
Balance at end of year	**$ 9,713**	$ 9,340	$ 9,001	$ 8,769	$ 8,506
Ratio of net charge-offs during the year to average loans outstanding	**0.06 %**	0.04 %	0.01 %	0.04 %	(0.04) %
Ratio of allowance for loan losses to loans outstanding	**1.32 %**	1.35 %	1.55 %	1.71 %	1.65 %

These provisions are the result of management's evaluation of the quality of the loan portfolio considering such factors as loan status, collateral values, financial condition of the borrower, the state of the economy and other relevant information. The pace of the charge-offs depends on many factors including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels.

The allowance for loan losses is an estimate of the amount needed for an adequate reserve to absorb losses in the existing loan portfolio. This amount is determined by an evaluation of the loan portfolio including input from an independent organization engaged to review selected larger loans, a review of loan loss experience and current economic conditions. At December 31 of each year listed below, the allowance was comprised of the following:

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

Deposits

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

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

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

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

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

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

Borrowings

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

Subordinated Debentures

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

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

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

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

Securities Sold Under Agreements to Repurchase

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

RESULTS OF OPERATIONS

Net Interest Income

The Company's operating results depend primarily on net interest income and fees received for providing services. Net interest income on a fully taxable equivalent basis decreased 8.1% in 2006 to $36,763,000, compared with $39,991,000 in 2005. The decrease in net interest income for 2006 was mainly due to a 7.0% or a eighteen basis point decrease in the net interest margin. The level of interest rates, the ability of the Company's earning assets and liabilities to adjust to changes in interest rates and the mix of the Company's earning assets and liabilities affect net interest income. The net interest margin on a fully taxable equivalent basis decreased to 2.40% in 2006 from 2.58% in 2005, which had decreased from 2.75% in 2004. The Company believes that the net interest margin will continue to be challenged in this current inverted yield curve environment. This is mainly the result of deposit and borrowing pricing that has the potential to increase faster than corresponding asset categories.

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

Year Ended December 31,	2006			2005			2004		
	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]	$ 723,825	$ 51,437	7.11 %	$ 641,103	$ 41,274	6.44 %	$ 546,147	$ 33,384	6.11 %
Securities available-for-sale:[3]									
Taxable	497,113	17,182	3.46	580,129	19,518	3.36	570,935	18,528	3.25
Tax-exempt	354	12	5.02	878	22	3.85	61	1	3.04
Securities held-to-maturity:									
Taxable	275,897	10,112	3.67	311,738	11,635	3.73	319,860	12,296	3.84
Federal funds sold	37,511	1,955	5.21	15,847	362	2.28	69,461	824	1.19
Interest-bearing deposits in other banks	217	9	4.15	50	—	0.64	251	—	0.13
Total interest-earning assets	1,534,917	80,707	5.26 %	1,549,745	72,811	4.70 %	1,506,715	65,033	4.32
Non interest-earning assets	123,601			118,325			120,306		
Allowance for loan losses	(9,608)			(9,353)			(8,813)		
Total assets	$ 1,648,910			$ 1,658,717			$ 1,618,208		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing deposits:									
NOW accounts	$ 205,645	$ 3,936	1.91 %	$ 237,016	$ 3,265	1.38 %	$ 250,224	$ 1,966	0.79 %
Savings accounts	84,527	1,013	1.20	76,130	287	0.38	79,037	302	0.38
Money market accounts	327,203	9,804	3.00	366,623	7,018	1.91	412,220	5,010	1.22
Time deposits	359,045	16,026	4.46	265,310	8,835	3.33	242,791	6,833	2.81
Total interest-bearing deposits	976,420	30,779	3.15	945,079	19,405	2.05	984,272	14,111	1.43
Securities sold under agreements to repurchase	70,862	2,681	3.78	39,746	813	2.05	40,937	331	0.81
Other borrowed funds and subordinated debentures	192,143	10,484	5.46	268,878	12,602	4.69	194,932	9,204	4.72
Total interest-bearing liabilities	1,239,425	43,944	3.55 %	1,253,703	32,820	2.62 %	1,220,141	23,646	1.94 %
Non interest-bearing liabilities									
Demand deposits	284,295			283,876			279,361		
Other liabilities	19,801			16,463			15,511		
Total liabilities	1,543,521			1,554,042			1,515,013		
Stockholders' equity	105,389			104,675			103,195		
Total liabilities & stockholders' equity	$ 1,648,910			$ 1,658,717			$ 1,618,208		
Net interest income[1]		$ 36,763			$ 39,991			$ 41,387	
Net interest spread			1.71 %			2.08 %			2.38 %
Net interest margin			2.40 %			2.58 %			2.75 %

[1] On a fully taxable equivalent basis calculated using a federal tax rate of 34%.
[2] Nonaccrual loans are included in average amounts outstanding.
[3] At amortized cost.

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

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

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

The Company's sources of funds include deposits and borrowed funds. On average, deposits showed an increase of 2.60% or $31,760,000 in 2006 after decreasing by 2.7% or $34,678,000 in 2005. Deposits increased in 2006 primarily as a result of an increase in time deposits, which increased by 35.3% or $93,734,000. Borrowed funds and subordinated debentures decreased by 14.8% in 2006 following an increase of 30.8% in 2005. The majority of the Company's borrowed funds are borrowings from the FHLB and retail repurchase agreements. Borrowings from the FHLB decreased by approximately $76,445,000 and retail repurchase agreements increased by $31,116,000. Interest expense totaled $43,944,000 in 2006, an increase of $11,124,000 or 33.9% from 2005 when interest expense increased 38.8% from 2004. The increase in interest expense is mainly due to increases in interest rates.

Provision for Loan Loss

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

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

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

Other Operating Income

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

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

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

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

Operating Expenses

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

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

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

Provision for Income Taxes

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

Market Risk and Asset Liability Management

Market risk is the risk of loss from adverse changes in market prices and rates. The Company's market risk arises primarily from interest rate risk inherent in its lending and deposit taking activities, and to that end, management actively monitors and manages its interest rate risk exposure.

The Company's profitability is affected by fluctuations in interest rates. A sudden and substantial increase in interest rates may adversely impact the Company's earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company monitors the impact of changes in interest rates on its net interest income using several tools. One measure of the Company's exposures to differential changes in interest rates between assets and liabilities 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 as set forth in the following table:

Change in Interest Rates (in Basis Points)	Percentage Change in Net Interest Income[1]
+300	(14.4)%
+200	(9.6)%
+100	(4.9)%
–100	0.2 %
–200	2.0 %

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

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

Liquidity and Capital Resources

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

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

Capital Adequacy

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

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

Contractual Obligations, Commitments, and Contingencies

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

Contractual Obligations and Commitments by Maturity
(dollars in thousands)

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

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

Financial Instruments With Off-Balance Sheet Risk

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

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

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

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

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

Recent Accounting Developments

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

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

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

December 31,	2006	2005
(dollars in thousands except share data)		
ASSETS		
Cash and due from banks (note 2)	$ 60,465	$ 47,626
Federal funds sold and interest-bearing deposits in other banks	99,203	105,053
Total cash and cash equivalents	159,668	152,679
Securities available-for-sale, amortized cost $423,707 in 2006 and $546,524 in 2005 (note 3)	415,481	532,982
Securities held-to-maturity, fair value $258,420 in 2006 and $277,769 in 2005 (notes 4 and 9)	265,712	286,578
Loans, net (note 5)	736,773	689,645
Less: allowance for loan losses (note 6)	9,713	9,340
Net loans	727,060	680,305
Bank premises and equipment (note 7)	22,955	25,228
Accrued interest receivable	7,372	7,127
Other assets (note 12)	46,042	43,870
Total assets	$ 1,644,290	$ 1,728,769
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	$ 283,449	$ 296,696
Savings and NOW deposits	274,231	239,326
Money market accounts	301,188	279,245
Time deposits (note 8)	410,097	401,773
Total deposits	1,268,965	1,217,040
Securities sold under agreements to repurchase (note 9)	86,960	50,010
Other borrowed funds (note 10)	123,023	304,722
Subordinated debentures (note 10)	36,083	36,083
Other liabilities	22,441	17,713
Total liabilities	1,537,472	1,625,568
Commitments and contingencies (notes 7, 14 and 15)		
Stockholders' equity (note 11):		
Common stock, Class A, $1.00 par value per share; authorized 10,000,000 shares; issued 3,498,738 shares in 2006 and 3,453,202 shares in 2005	3,499	3,453
Common stock, Class B, $1.00 par value per share; authorized 5,000,000 shares; issued 2,042,450 shares in 2006 and 2,082,240 shares in 2005	2,042	2,082
Additional paid-in-capital	11,505	11,416
Retained earnings	99,859	97,338
	116,905	114,289
Unrealized loses on securities available-for-sale, net of taxes	(5,111)	(8,270)
Additional pension liability, net of taxes	(4,976)	(2,818)
Total accumulated other comprehensive loss, net of taxes (note 3)	(10,087)	(11,088)
Total stockholders' equity	106,818	103,201
Total liabilities and stockholders' equity	$ 1,644,290	$ 1,728,769

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Year Ended December 31,	2006	2005	2004
(dollars in thousands except share data)			
INTEREST INCOME			
Loans	$ 51,437	$ 41,274	$ 33,384
Securities available-for-sale	17,194	19,540	18,529
Securities held-to-maturity	10,112	11,635	12,296
Federal funds sold and interest-bearing deposits in other banks	1,964	362	824
Total interest income	80,707	72,811	65,033
INTEREST EXPENSE			
Savings and NOW deposits	4,950	3,552	2,268
Money market accounts	9,804	7,018	5,010
Time deposits (note 8)	16,026	8,835	6,833
Securities sold under agreements to repurchase	2,681	813	331
Other borrowed funds and long term debt	10,483	12,602	9,204
Total interest expense	43,944	32,820	23,646
Net interest income	36,763	39,991	41,387
Provision for loan losses (note 6)	825	600	300
Net interest income after provision for loan losses	35,938	39,391	41,087
OTHER OPERATING INCOME			
Service charges on deposit accounts	6,702	5,846	5,271
Lockbox fees	2,772	2,807	2,950
Brokerage commissions	149	462	670
Net (losses) gains on sales of securities	—	—	(91)
Other income	1,742	1,858	1,631
Total other operating income	11,365	10,973	10,431
OPERATING EXPENSES			
Salaries and employee benefits (note 13)	23,815	24,197	23,266
Occupancy	3,907	3,798	2,997
Equipment	3,043	2,987	2,380
Other (note 16)	9,431	9,336	9,020
Total operating expenses	40,196	40,318	37,663
Income before income taxes	7,107	10,046	13,855
Provision for income taxes (note 12)	2,419	3,166	4,974
Net income	$ 4,688	$ 6,880	$ 8,881
SHARE DATA (NOTE 11)			
Weighted average number of shares outstanding, basic	5,540,966	5,535,202	5,526,202
Weighted average number of shares outstanding, diluted	5,550,722	5,553,009	5,553,197
Net income per share, basic	$ 0.85	$ 1.24	$ 1.61
Net income per share, diluted	0.84	1.24	1.60

See accompanying Notes to Consolidated Financial Statements.

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock Class A	Treasury Stock Class B	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
(dollars in thousands except share data)								
BALANCE, DECEMBER 31, 2003	$ 3,793	$ 2,163	$ 11,227	$ 91,427	($ 5,941)	($ 41)	$ 1,100	$ 103,728
Net income	—	—	—	8,881	—	—	—	8,881
Other comprehensive income, net of tax:								
Unrealized holding losses arising during period, net of $2,741 in taxes	—	—	—	—	—	—	(4,164)	(4,164)
Less: reclassification adjustment for gains included in net income, net of $36 in taxes	—	—	—	—	—	—	55	55
Minimum pension liability adjustment, net of tax	—	—	—	—	—	—	(1,757)	(1,757)
Comprehensive income								3,015
Conversion of Class B Common Stock to Class A Common Stock, 15,460 shares	16	(16)	—	—	—	—	—	—
Stock options exercised, 9,650 shares	9	—	168	—	—	—	—	177
Cash dividends, Class A Common Stock, $0.48 per share	—	—	—	(1,642)	—	—	—	(1,642)
Cash dividends, Class B Common Stock, $0.24 per share	—	—	—	(505)	—	—	—	(505)
Elimination of treasury stock due to change in Massachusetts law (note 1)	(384)	(48)	—	(5,550)	5,941	41	—	—
BALANCE, DECEMBER 31, 2004	3,434	2,099	11,395	92,611	—	—	(4,766)	104,773
Net income	—	—	—	6,880	—	—	—	6,880
Other comprehensive income, net of tax:								
Unrealized holding losses arising during period, net of $3,357 in taxes	—	—	—	—	—	—	(5,261)	(5,261)
Minimum pension liability adjustment, net of tax	—	—	—	—	—	—	(1,061)	(1,061)
Comprehensive income								558
Conversion of Class B Common Stock to Class A Common Stock, 17,400 shares	17	(17)	—	—	—	—	—	—
Stock options exercised, 1,354 shares	2	—	21	—	—	—	—	23
Cash dividends, Class A Common Stock, $0.48 per share	—	—	—	(1,649)	—	—	—	(1,649)
Cash dividends, Class B Common Stock, $0.24 per share	—	—	—	(504)	—	—	—	(504)
BALANCE, DECEMBER 31, 2005	$ 3,453	$ 2,082	$ 11,416	$ 97,338	—	—	$ (11,088)	$ 103,201
Net income	**—**	**—**	**—**	**4,688**	**—**	**—**	**—**	**4,688**
Other comprehensive income, net of tax:								
Unrealized holding gains arising during period, net of $2,156 in taxes	**—**	**—**	**—**	**—**	**—**	**—**	**3,159**	**3,159**
Comprehensive income								**7,847**
Adjustment to initially apply SFAS 158, net of tax	**—**	**—**	**—**	**—**	**—**	**—**	**(2,158)**	**(2,158)**
Conversion of Class B Common Stock to Class A Common Stock, 39,790 shares	**40**	**(40)**	**—**	**—**	**—**	**—**	**—**	**—**
Stock options exercised, 5,746 shares	**6**	**—**	**89**	**—**	**—**	**—**	**—**	**95**
Cash dividends, Class A Common Stock, $0.48 per share	**—**	**—**	**—**	**(1,674)**	**—**	**—**	**—**	**(1,674)**
Cash dividends, Class B Common Stock, $0.24 per share	**—**	**—**	**—**	**(493)**	**—**	**—**	**—**	**(493)**
BALANCE, DECEMBER 31, 2006	**$ 3,499**	**$ 2,042**	**$ 11,505**	**$ 99,859**	**—**	**—**	**$ (10,087)**	**$ 106,818**

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	2006	2005	2004
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,688	$ 6,880	$ 8,881
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	825	600	300
Deferred income taxes	(713)	128	470
Net depreciation and amortization	3,595	3,348	1,848
(Increase) decrease in accrued interest receivable	(245)	(327)	1,650
Increase in other assets	(2,644)	(3,646)	(4,368)
Loss on sales of securities available-for-sale	—	—	91
Increase in other liabilities	1,202	299	1,699
Net cash provided by operating activities	6,708	7,282	10,571
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from calls/maturities of securities available-for-sale	123,013	180,317	389,172
Proceeds from sales of securities available-for-sale	—	—	88,198
Purchase of securities available-for-sale	(498)	(112,235)	(390,398)
Proceeds from calls/maturities of securities held-to-maturity	20,965	60,950	56,930
Purchase of securities held-to-maturity	—	(2,022)	(204,309)
Decrease in investments purchased payable	—	—	(29,330)
Net increase in loans	(47,580)	(110,369)	(67,639)
Capital expenditures	(723)	(1,916)	(6,728)
Net cash provided by (used in) investing activities	95,177	14,725	(164,104)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in time deposit accounts	8,324	41,957	199
Net increase (decrease) in demand, savings, money market and NOW deposits	43,601	(218,927)	54,958
Net proceeds from the exercise of stock options	95	23	177
Cash dividends	(2,167)	(2,153)	(2,147)
Net increase (decrease) in securities sold under agreements to repurchase	36,950	11,360	(1,400)
Net (decrease) increase in other borrowed funds	(181,699)	89,816	78,577
(Retirement) issuance of subordinated debentures	—	(29,639)	36,083
Net cash (used in) provided by financing activities	(94,896)	(107,563)	166,447
Net increase (decrease) in cash and cash equivalents	6,989	(85,556)	12,914
Cash and cash equivalents at beginning of year	152,679	238,235	225,321
Cash and cash equivalents at end of year	$ 159,668	$ 152,679	$ 238,235
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	$ 42,887	$ 33,369	$ 23,165
Income taxes	2,713	3,050	4,600
Change in unrealized gains on securities available-for-sale, net of taxes	$ 3,159	$ (5,261)	$ (4,109)
Change in additional pension liability, net of taxes	(2,158)	(1,061)	(1,757)

See accompanying Notes to Consolidated Financial Statements.

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 general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

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

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

INVESTMENT SECURITIES

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost; debt and equity securities that are bought and held principally for the purpose of selling are classified as trading and reported at fair value, with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of estimated related income taxes. The Company has no securities held for trading.

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

LOANS

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

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

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

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

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

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

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

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

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

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

In December 2004, the FASB issued a revised Statement No. 123, (revised 2004) (SFAS 123R) , "Share-Based Payment." This Statement replaces SFAS No. 123, Accounting for Stock-Based Compensation, and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. SFAS 123R establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. SFAS 123R requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost will be recognized over the period during which an employee is required to provide service in exchange for the award period which is usually the vesting period. SFAS 123R is effective as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company accelerated the vesting of certain unvested "out-of-the-money" stock options awarded to Bank employees pursuant to the Option Plans so that they immediately vested as of December 30, 2005. In connection with this acceleration the Board of Directors approved a technical amendment to each of the Option Plans to eliminate the possibility that the terms of any outstanding or future stock option would require a cash settlement on the occurrence of any circumstance outside the control of the Company. Effective as of January 1, 2006 the Company adopted SFAS 123R for all share based payments.

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

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

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

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

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

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

INCOME TAXES

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

TREASURY STOCK

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

PENSION

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

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

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

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

RECENT ACCOUNTING DEVELOPMENTS

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

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

2. Cash and Due From Banks

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

3. Securities Available-for-Sale

	December 31, 2006				December 31, 2005			
	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 and U.S. Government Sponsored Enterprises	$ 226,960	—	$ 3,932	$ 223,028	$ 301,914	—	$ 7,782	$ 294,132
Mortgage-backed securities	183,458	56	4,438	179,076	224,256	24	5,728	218,552
Obligations of states and political subdivisions	800	—	11	789	807	—	—	807
FHLB stock	9,823	—	—	9,823	16,312	—	—	16,312
Other	2,666	165	66	2,765	3,235	46	102	3,179
Total	$ 423,707	$ 221	$ 8,447	$ 415,481	$ 546,524	$ 70	$ 13,612	$ 532,982

Included in U.S. Government and U.S. Government Sponsored Enterprises securities are securities pledged to secure public deposits and repurchase agreements amounting to $91,510,000 and $53,774,000 at December 31, 2006 and 2005, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank amounting to $190,961,000 and $262,051,000 at December 31, 2006 and 2005, respectively. Also included in U.S. Government and U.S. Government Sponsored Enterprises is one U.S. Government security totaling $2,000,000 for both 2006 and 2005. The Company did not realize any gains or losses in 2006 and 2005. The Company realized gross gains of $693,000 and gross losses of $784,000 in 2004.

The following table shows the maturity distribution of the Company's securities available-for-sale at December 31, 2006.

	December 31, 2006	
	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	$ 122,551	$ 121,329
After one but within five years	265,356	258,612
After five but within ten years	23,311	22,952
More than ten years	—	—
Non-maturing	12,489	12,588
Total	$ 423,707	$415,481

The weighted average remaining life of investment securities available-for-sale at December 31, 2006 and 2005 was 2.1and 2.3 years, respectively. The weighted average life of mortgage-backed securities was computed based on contracted maturities. Included in the weighted average remaining life calculation at December 31, 2006 and 2005 were $10,000,000 and $15,000,000 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 actual maturities, which were used in the table above, of mortgage-backed securities will differ from the contractual maturities, due to the ability of the issuers to prepay underlying obligations.

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2006. 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 2 and 101 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively out of a total of 161 holdings at December 31, 2006. The Company believes that the investments are temporarily impaired.

Temporarily Impaired Investments*	December 31, 2006					
	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 U.S. Government Sponsored Enterprises	$ —	$ —	$ 218,028	$ 3,932	$ 218,028	$ 3,932
Mortgage-backed securities	—	—	170,828	4,438	170,828	4,438
Other	82	1	2,037	76	2,119	77
Total temporarily impaired securities	$ 82	$ 1	$ 390,893	$ 8,446	$ 390,975	$ 8,447

* 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, 2006.

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 U.S. Government Sponsored Enterprises	$ 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	$ 89,554	$ 1,670	$ 423,873	$ 11,942	$ 513,427	$ 13,612

* 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.

4. Investment Securities Held-to-Maturity

	December 31, 2006				December 31, 2005			
	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 Sponsored Enterprises	$ 159,969	$ —	$ 3,406	$ 156,563	$ 159,952	$ —	$ 4,770	$ 155,182
Mortgage-backed securities	105,743	76	3,962	101,857	126,626	109	4,148	122,587
Total	$ 265,712	$ 76	$ 7,368	$ 258,420	$ 286,578	$ 109	$ 8,918	$ 277,769

Included in U.S. Government and Agency securities are securities pledged to secure public deposits amounting to $130,949,000 and $6,000,000 at December 31, 2006 and 2005, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank amounting to $103,971,000 and $124,632,000 at December 31, 2006 and 2005, respectively.

The following table shows the maturity distribution of the Company's securities held-to-maturity at December 31, 2006.

	December 31, 2006	
	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	$ 65,113	$63,894
After one but within five years	198,020	192,031
After five but within ten years	2,579	2,495
Total	$ 265,712	$258,420

The weighted average remaining life of investment securities held-to-maturity at December 31, 2006 and 2005 was 2.3 and 3.0 years, respectively. Included in the weighted average remaining life calculation at December 31, 2006 and 2005 were $0 and $5,000,000 respectively of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life. The actual maturities, which were used in the table above, of mortgage-backed securities will differ from the contractual maturities, due to the ability of the issuers to prepay underlying obligations.

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2006. 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 0 and 84 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, 2006. The Company believes that the investments are temporarily impaired.

Temporarily Impaired Investments*	December 31, 2006					
	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 Sponsored Enterprises	$ —	$ —	$ 156,563	$ 3,406	$ 156,563	$ 3,406
Mortgage-backed securities	—	—	98,937	3,962	98,937	3,962
Total temporarily impaired securities	$ —	$ —	$ 255,500	$ 7,368	$ 255,500	$ 7,368

* 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, 2006.

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 Sponsored Enterprises	$ 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.

5. Loans

The majority of the Bank's lending activities are conducted in the Commonwealth of Massachusetts. The Bank originates construction, commercial and residential real estate loans, commercial and industrial loans, consumer, home equity and other loans for its portfolio.

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

December 31,	**2006 Amount**	2005 Amount
(dollars in thousands)		
Construction and land development	**$ 49,709**	$ 58,846
Commercial and industrial	**117,497**	94,139
Revenue bonds	**3,340**	—
Commercial real estate	**323,700**	302,279
Residential real estate	**167,946**	146,355
Consumer	**9,881**	9,977
Home equity	**63,380**	76,710
Overdrafts	**1,320**	1,339
Total	**$736,773**	$ 689,645

Net deferred fees included in loans at December 31, 2006 and December 31, 2005 were $183,000 and $482,000, respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately $798,000 and $1,078,000 at December 31, 2006 and December 31, 2005, respectively. Additionally, the Company was servicing mortgage loans sold to others with limited recourse. The outstanding balance of these loans with limited recourse was approximately $72,000 and $80,000 at December 31, 2006,and at December 31, 2005, respectively.

As of December 31, 2006 and 2005 the bank recorded investment in impaired loans was $16,000 and $886,000, respectively.

There were no impaired loans with specific reserves on December 31, 2006 and December 31, 2005.

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

December 31,	**2006**	2005	2004
(dollars in thousands)			
Loans on non-accrual	**$ 135**	$ 949	$ 628
Impaired loans on non-accrual included above	**$ 16**	$ 886	$ 452
Total recorded investment in impaired loans	**$ 16**	$ 886	$ 964
Average recorded value of impaired loans	**$ 278**	$ 1,384	$ 1,156
Interest income on non-accrual loans according to their original terms	**$ 3**	$ 77	$ 67
Interest income on non-accrual loans actually recorded	**$ —**	$ —	$ —
Interest income recognized on impaired loans	**$ 31**	$ 202	$ 105

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 2006.

Balance at December 31, 2005	Additions	Repayments and Deletions	**Balance at December 31, 2006**
(dollars in thousands)			
$ 1,936	$ 1,059	$ 1,052	**$ 1,943**

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.

An analysis of the total allowances for loan losses for each of the three years ending December 31, 2006, 2005, and 2004 are as follows:

	2006	2005	2004
(dollars in thousands)			
Allowance for loan losses, beginning of year	**$ 9,340**	$ 9,001	$ 8,769
Loans charged off	**(708)**	(690)	(308)
Recoveries on loans previously charged-off	**256**	429	240
Net charge-offs	**(452)**	(261)	(68)
Provision charged to expense	**825**	600	300
Allowance for loan losses, end of year	**$ 9,713**	$ 9,340	$ 9,001

7. Bank Premises and Equipment

December 31,	**2006**	2005	Estimated Useful Life
(dollars in thousands)			
Land	**$ 3,650**	$ 3,650	—
Bank premises	**17,146**	16,916	30-39 years
Furniture and equipment	**22,952**	22,726	3-10 years
Leasehold improvements	**5,310**	5,102	30-39 years or lease term
	49,058	48,394	
Accumulated depreciation and amortization	**(26,103)**	(23,166)	
Total	**$ 22,955**	$ 25,228	

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 $1,113,000, $1,076,000 and $1,084,000 for the years ended December 31, 2006, 2005 and 2004, respectively. Rental income approximated $69,000, $61,000 and $69,000 in 2006, 2005 and 2004, respectively.

Future minimum rental commitments for noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2006 were as follows:

	Year	Amount
(dollars in thousands)		
	2007	$ 1,197
	2008	1,100
	2009	899
	2010	755
	2011	561
	Thereafter	461
		$ 4,973

8. Deposits

The following is a summary of original maturities or repricing of time deposits as of December 31,

	2006	Percent	2005	Percent
(dollars in thousands)				
Within 1 year	$361,825	88%	$ 312,797	78%
Over 1 year to 2 years	37,719	9%	74,291	18%
Over 2 years to 3 years	9,109	2%	3,053	1%
Over 3 years to 5 years	1,444	1%	11,632	3%
Over 5 years	—	0%	—	0%
Total	$410,097	100%	$ 401,773	100%

Time deposits of $100,000 or more totaled $229,576,000 and $259,301,000 in 2006 and 2005, respectively.

9. Securities Sold Under Agreements to Repurchase

	2006	2005	2004
(dollars in thousands)			
Amount outstanding at December 31,	$ 86,960	$ 50,010	$ 38,650
Weighted average rate at December 31,	3.71 %	3.05 %	0.97 %
Maximum amount outstanding at any month end	$139,460	$ 52,680	$ 49,700
Daily average balance outstanding during the year	$ 70,862	$ 39,746	$ 40,937
Weighted average rate during the year	3.78 %	2.05 %	0.81 %

Amounts outstanding at December 31, 2006, 2005, and 2004 carried maturity dates of the next business day. U.S. Government Sponsored Enterprises securities with a total book value of $89,114,000, $52,009,000, and $39,460,000 were pledged as collateral and held by custodians to secure the agreements at December 31, 2006, 2005, and 2004, respectively. The approximate market value of the collateral at those dates was $87,249,000, $50,328,000, and $38,989,000, respectively.

10. Other Borrowed Funds and Subordinated Debentures

	2006	2005	2004
(dollars in thousands)			
Amount outstanding at December 31,	$159,106	$ 340,805	$ 280,628
Weighted average rate at December 31,	5.54 %	4.79 %	4.62 %
Maximum amount outstanding at any month end	$339,858	$393,734	$280,628
Daily average balance outstanding during the year	$192,143	$268,878	$194,932
Weighted average rate during the year	5.46 %	4.69 %	4.72 %

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 FHLB and residential mortgages held in the Bank's portfolios. The Bank's borrowing capacity at the FHLB at December 31, 2006 was approximately $142,435,000 based on levels of FHLB stock held and mix of overnight and term advances on that date. In addition, the Bank has a $14,500,000 line of credit with the FHLB. A schedule of the maturity distribution of FHLB advances with the weighted average interest rates is as follows:

December 31,	2006		2005		2004	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(dollars in thousands)						
Within 1 year	$ 2,750	3.80 %	$ 197,156	4.15 %	$ 105,000	2.22 %
Over 1 year to 2 years	19,500	5.38 %	2,500	3.66 %	1,120	7.20 %
Over 2 years to 3 years	32,000	5.17 %	19,500	5.38 %	—	0.00 %
Over 3 years to 5 years	40,500	5.80 %	63,500	5.72 %	51,500	5.25 %
Over 5 years	27,000	4.44 %	16,000	4.43 %	55,500	5.32 %
Total	$ 121,750	5.22 %	$ 298,656	4.58 %	$ 213,120	3.79 %

SUBORDINATED DEBENTURES

Subordinated debentures totaled $36,083,000 at December 31, 2006 and 2005. In May 1998, the Company consummated the sale of a trust preferred securities offering, in which it issued $29,639,000 of subordinated debt securities due 2029 to its newly formed unconsolidated subsidiary Century Bancorp Capital Trust.

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

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

Century Bancorp Capital Trust II then issued 35,000 shares of Cumulative Trust Preferred Securities with a liquidation value of $1,000 per share. These securities pay dividends at an annualized rate of 6.65% for the first ten years and then convert to the three-month LIBOR rate plus 1.87% for the remaining 20 years. The Company is using the proceeds primarily for general business purposes.

OTHER BORROWED FUNDS

The Bank had $270,000 and $4,500,000 of overnight federal funds purchased on December 31, 2006 and 2005, respectively. The borrowings carried interest rates of 5.00% and 4.00% for 2006 and 2005, respectively.

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 $856,000 and $1,418,000 at December 31, 2006 and 2005, respectively.

The Bank also has an outstanding loan in the amount of $147,000 and $148,000 at December 31, 2006 and 2005, respectively, 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 common stock 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 2006, 2005 and 2004 was an increase of 9,756, 17,807 and 26,995 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 122,737 options exercisable at December 31, 2006.

Stock option activity under the plan is as follows:

	December 31, 2006		December 31, 2005		December 31, 2004	
	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	130,133	$ 26.74	131,787	$ 26.65	95,062	$ 22.84
Granted	—		—	—	47,050	32.64
Cancelled	(1,650)	28.05	(300)	28.56	(675)	26.68
Exercised	(5,746)	16.54	(1,354)	16.82	(9,650)	18.31
Outstanding at end of year	122,737	$ 27.20	130,133	$ 26.74	131,787	$ 26.65
Exercisable at end of year	122,737	$ 27.20	130,133	$ 26.74	67,486	$ 22.22
Available to be granted at end of year	151,425		149,775		149,475	
Weighted average fair value of options granted during the year	NA		NA		$ 10.69	

At December 31, 2006, 2005 and 2004 the options outstanding have exercise prices between $15.063 and $35.010, and a weighted average remaining contractual life of five years for 2006, six years 2005 and seven years for 2004. The weighted average intrinsic value of options exercised for the period ended December 31, 2006, 2005 and 2004 was $10.76, $12.45 and $11.19 per share with an aggregate value of $61,805, $16,857 and $107,984, respectively. The average intrinsic value of options exercisable at December 31, 2006, 2005 and 2004 had an aggregate value of $271,511, $487,075 and $491,179, respectively.

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 affect on the Bank and Company's financial statements. Under capital adequacy guidelines and regulatory framework for prompt corrective action, the Bank and Company must meet specific capital guidelines that involve quantitative measures of the Bank and Company's assets and liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank and Company's capital amounts and classification are also subject to qualitative judgements 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, 2006, that the Bank and the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2006 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		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital (to Risk-Weighted Assets)	**$ 123,173**	**13.62 %**	**$ 72,352**	**8.00 %**	**$ 90,440**	**10.00 %**
Tier 1 Capital (to Risk-Weighted Assets)	**113,460**	**12.55 %**	**36,176**	**4.00 %**	**54,264**	**6.00 %**
Tier 1 Capital (to 4th Qtr. Average Assets)	**113,460**	**6.76 %**	**67,174**	**4.00 %**	**83,968**	**5.00 %**
As of December 31, 2005						
Total Capital (to Risk-Weighted Assets)	119,838	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 %

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2006						
Total Capital (to Risk-Weighted Assets)	**$ 154,027**	**17.00 %**	**$ 72,488**	**8.00 %**	**$ 90,609**	**10.00 %**
Tier 1 Capital (to Risk-Weighted Assets)	**144,314**	**15.93 %**	**36,244**	**4.00 %**	**54,366**	**6.00 %**
Tier 1 Capital (to 4th Qtr. Average Assets)	**144,314**	**8.58 %**	**67,282**	**4.00 %**	**84,103**	**5.00 %**
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 %	36,544	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 %

12. Income Taxes

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

	2006	2005	2004
(dollars in thousands)			
Current expense:			
Federal	**$ 2,968**	$ 2,842	$ 4,277
State	**164**	196	227
Total current expense	**3,132**	3,038	4,504
Deferred expense (benefit):			
Federal	**(592)**	117	427
State	**(121)**	11	43
Total deferred expense (benefit)	**(713)**	128	470
Provision for income taxes	**$ 2,419**	$ 3,166	$ 4,974

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

(dollars in thousands)	2006	2005
Currently receivable	$ 67	$ 486
Deferred income tax asset, net	12,487	12,509
Total	$ 12,554	$ 12,995

(dollars in thousands)	2006	2005	2004
Federal income tax expense at statutory rates	$ 2,417	$ 3,516	$ 4,849
State income tax, net of federal income tax benefit	108	135	176
Insurance gains	(109)	(356)	(260)
Effect of tax-exempt interest	(4)	(8)	—
Other	7	(121)	209
Total	$ 2,419	$ 3,166	$ 4,974
Effective tax rate	34.0 %	31.5 %	35.9 %

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

(dollars in thousands)	2006	2005
Deferred income tax assets:		
Allowance for loan losses	$ 3,975	$ 3,907
Deferred compensation	4,141	4,136
Unrealized loss on securities available-for-sale	3,115	5,271
Pension and SERP liability	3,447	2,026
Acquisition premium	502	380
Investments writedown	27	33
Deferred gain	132	156
Other	33	1
Gross deferred income tax asset	15,372	15,910
Deferred income tax liabilities:		
Accrued dividends	—	(70)
Depreciation	(733)	(1,191)
Limited partnerships	(2,048)	(2,048)
Other	(104)	(92)
Gross deferred income tax liability	(2,885)	(3,401)
Deferred income tax asset net	$ 12,487	$ 12,509

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, 2006. 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 had been offered to all employees reaching minimum age and service requirements. In 2006 the bank became a member of the Savings Bank Employees Retirement Association ("SBERA") within which it maintains a Defined Benefit pension plan. SBERA offers a common and collective trust as the underlying investment structure for pension plans participating in SBERA. The Trustees of SBERA, through SBERA's Investment Committee, select investment managers for the common and collective trust portfolio. A professional advisory firm is retained by the Investment committee to provide allocation analysis, performance measurement and to assist with manager searches. The overall investment objective is to diversify equity investments across a spectrum of investment types (e.g. small cap, large cap, international, etc.) and styles (e.g., growth, value, etc.) The Company closed the plan to employees hired after March 31, 2006.

The measurement date for the Plan is September 30 for each year. The benefits expected to be paid in each year from 2007-2011 are $589,000, $602,000, $665,000, $732,000 and $784,000. The aggregate benefits expected to be paid in the five years from 2012-2016 are $5,269,000. The Company plans to contribute $1,560,000 to the Plan in 2007.

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

Asset Category	2006	2005
Fixed income	36 %	73 %
Domestic equity	49 %	14 %
International equity	15 %	—
Other	—	13 %
Total	100 %	100 %

The Company has a Supplemental Executive Insurance/Retirement Plan (the Supplemental Plan), which is limited to certain officers and employees of the Company. The Supplemental Plan is 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. An increase in recognized net losses resulted in an increase in the cost of the Supplemental Plan in 2006. Effective December 31, 2006, the Company adopted SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—An Amendment of FASB Statements No. 87, 88, 106 and 132(R)." The Company recorded an additional $2,158,000 net pension liability adjustment, through stockholders' equity, as a result of this adoption.

The measurement date for the Supplemental Plan is September 30 for each year. The benefits expected to be paid in each year from 2007-2011 are $1,030,000, $1,027,000, $1,023,000, $1,025,000 and $1,037,000. The aggregate benefits expected to be paid in the five years from 2012-2016 are $5,355,000.

	Defined Benefit Pension Plan		Supplemental Insurance/ Retirement Plan	
	2006	2005	**2006**	2005
(dollars in thousands)				
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 18,339**	$ 14,076	**$ 14,130**	$ 11,857
Service cost	**882**	760	**106**	128
Interest cost	**997**	914	**766**	746
Actuarial (gain)/loss	**(1,039)**	2,869	**(613)**	1,676
Benefits paid	**(384)**	(280)	**(649)**	(277)
Benefit obligation at end of year	**$ 18,795**	$ 18,339	**$ 13,740**	$ 14,130
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 12,194**	$ 10,803		
Actual return on plan assets	**645**	282		
Employer contributions	**1,418**	1,389		
Benefits paid	**(384)**	(280)		
Fair value of plan assets at end of year	**$ 13,873**	$ 12,194		
(Unfunded) Funded status	**$ (4,922)**	$ (6,145)	**$ (13,740)**	$ (14,130)
Unrecognized prior service cost	**—**	1,420	**—**	(1,091)
Unrecognized net actuarial loss	**—**	(7,401)	**—**	(3,062)
(Accrued) benefit cost	**$ (4,922)**	$ (164)	**$ (13,740)**	$ (9,977)
Accumulated benefit obligation	**$ NA**	$ 16,680	**$ NA**	$ 13,291
Additional minimum pension liability	**$ NA**	$ 3,135	**$ NA**	$ 1,708
Weighted-average assumptions as of December 31				
Discount rate—Liability	**5.75 %**	5.50 %	**5.75 %**	5.50 %
Discount rate—Expense	**5.50 %**	6.00 %	**5.50 %**	6.00 %
Expected return on plan assets	**8.00 %**	8.00 %	**NA**	NA
Rate of compensation increase	**4.00 %**	4.00 %	**4.00 %**	4.00 %
Components of net periodic benefit cost				
Service cost	**$ 882**	$ 760	**$ 106**	$ 128
Interest cost	**997**	914	**766**	746
Expected return on plan assets	**(1,015)**	(854)	**—**	—
Recognized prior service cost	**(116)**	(20)	**64**	64
Recognized net losses	**371**	256	**110**	51
Net periodic cost	**$ 1,119**	$ 1,056	**$ 1,046**	$ 989

Effective December 31, 2006 the Company adopted SFAS 158. The incremental effect of applying this Statement on individual line items in the consolidated Balance Sheet at December 31, 2006 follows:

	Before Adoption of SFAS 158	Adjustments	After Adoption of SFAS 158
Deferred tax assets, net	$ 11,066	$ 1,421	$ 12,487
Total assets	$ 1,642,869	$ 1,421	$ 1,644,290
Liability for plan benefits	$ 3,000	$ 1,922	$ 4,922
Liability for supplemental plan benefits	12,083	1,657	13,740
Total liabilities	$ 1,533,893	$ 3,579	$ 1,537,472
Accumulated other comprehensive loss	$ (7,929)	$ (2,158)	$ (10,087)
Total stockholders' equity	$ 108,976	$ (2,158)	$ 106,818

Amounts recognized in Accumulated Other Comprehensive Loss, which have not yet been recognized as components of net periodic benefit cost as of December 31, 2006:

	Plan	Supplemental Plan	Total
Prior service cost	$ 771	$ (607)	$ 164
Net actuarial loss	(3,759)	(1,381)	(5,140)
Total	$ (2,988)	$ (1,988)	$ (4,976)

The following table summarizes the amounts included in accumulated other comprehensive income (loss) at December 31, 2006 expected to be recognized as components of net periodic benefit cost in the next year.

	Plan	Supplemental Plan
Amortization of prior service cost to be recognized in 2007	$(116)	$64
Amortization of loss to be recognized in 2007	398	81

Assumptions for the 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 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 $210,000 for 2006 $217,000 for 2005 and $211,000 for 2004. 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, 2006. 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

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

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

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

16. Other Operating Expenses

Year ended December 31,	2006	2005	2004
(dollars in thousands)			
Marketing	$ 1,515	$ 1,478	$ 1,403
Processing services	1,326	1,281	1,379
Legal and audit	894	881	812
Postage and delivery	849	820	826
Software maintenance/amortization	717	876	653
Supplies	684	605	728
Consulting	642	616	316
Telephone	524	489	583
Core deposit tangible amortization	388	388	388
Insurance	368	370	316
Director's fees	219	200	258
FDIC assessment	154	186	198
Capital expense amortization	12	9	—
Other	1,139	1,137	1,160
Total	$ 9,431	$ 9,336	$ 9,020

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 nonperforming loans has been considered.

ACCRUED INTEREST RECEIVABLE AND PAYABLE

The carrying amounts for accrued interest receivable and payable approximate fair values because of the short-term nature of these financial instruments.

DEPOSITS

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

REPURCHASE AGREEMENTS AND OTHER BORROWED FUNDS

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

SUBORDINATED DEBENTURES

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

OFF-BALANCE SHEET INSTRUMENTS

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

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

	2006		2005	
	Carrying Amounts	**Fair Value**	Carrying Amounts	Fair Value
(dollars in thousands)				
Financial assets:				
Cash and cash equivalents	**$ 159,668**	**$ 159,668**	$ 152,679	$ 152,679
Securities available-for-sale	**415,481**	**415,481**	532,982	532,982
Securities held-to-maturity	**265,712**	**258,420**	286,578	277,769
Net loans	**727,060**	**713,889**	680,305	665,515
Accrued interest receivable	**7,372**	**7,372**	7,127	7,127
Financial liabilities:				
Deposits	**1,268,965**	**1,268,500**	1,217,040	1,216,610
Repurchase agreement and other borrowed funds	**209,983**	**211,931**	354,732	358,263
Subordinated debentures	**36,083**	**34,948**	36,083	35,769
Accrued interest payable	**2,947**	**2,947**	1,891	1,891
Standby letters of credit	**—**	**96**	—	118

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)

2006 Quarters	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	$ 21,246	$ 20,541	$ 19,733	$ 19,187
Interest expense	12,258	11,170	10,656	9,860
Net interest income	8,988	9,371	9,077	9,327
Provision for loan losses	225	225	225	150
Net interest income after provision for loan losses	8,763	9,146	8,852	9,177
Other operating income	2,736	2,729	2,773	3,127
Operating expenses	9,850	10,056	10,125	10,165
Income before income taxes	1,649	1,819	1,500	2,139
Provision for income taxes	561	622	527	709
Net income	$ 1,088	$ 1,197	$ 973	$ 1,430
Share data:				
Average shares outstanding, basic	5,541,156	5,541,088	5,541,088	5,540,523
Average shares outstanding, diluted	5,550,796	5,548,842	5,550,784	5,553,351
Earnings per share, basic	$ 0.20	$ 0.22	$ 0.18	$ 0.26
Earnings per share, diluted	$ 0.20	$ 0.22	$ 0.18	$ 0.26

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	5,553,751	5,548,674	5,550,263
Earnings per share, basic	$ 0.23	$ 0.28	$ 0.37	$ 0.37
Earnings per share, diluted	$ 0.23	$ 0.28	$ 0.37	$ 0.37

19. Parent Company Financial Statements

The balance sheets of Century Bancorp, Inc. ("Parent Company") as of December 31, 2006 and 2005 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2006 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,	**2006**	2005
(dollars in thousands)		
ASSETS:		
Cash	**$ 30,103**	$ 30,458
Investment in subsidiary, at equity	**110,915**	107,388
Other assets	**2,029**	1,550
Total assets	**$ 143,047**	$ 139,396
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities	**$ 146**	$ 112
Subordinated debentures	**36,083**	36,083
Stockholders' equity	**106,818**	103,201
Total liabilities and stockholders' equity	**$ 143,047**	$ 139,396

STATEMENTS OF INCOME

Year Ended December 31,	**2006**	2005	2004
(dollars in thousands)			
Income:			
Dividends from subsidiary	**$ 2,891**	$ 4,505	$ 5,786
Interest income from deposits in bank	**1,381**	798	313
Other income	**72**	72	80
Total Income	**4,344**	5,375	6,179
Interest expense	**2,400**	2,468	2,653
Operating expenses	**158**	186	216
Income before income taxes and equity in undistributed income of subsidiary	**1,786**	2,721	3,310
Benefit from income taxes	**(375)**	(638)	(873)
Income before equity in undistributed income of subsidiary	**2,161**	3,359	4,183
Equity in undistributed income of subsidiary	**2,527**	3,521	4,698
Net income	**$ 4,688**	$ 6,880	$ 8,881

STATEMENTS OF CASH FLOWS

December 31,	**2006**	2005	2004
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	**$ 4,688**	$ 6,880	$ 8,881
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income of subsidiary	**(2,527)**	(3,521)	(4,698)
Depreciation and amortization	**12**	9	—
Decrease (increase) in other assets	**(490)**	906	(1,098)
(Decrease) increase in liabilities	**34**	(751)	444
Net cash provided by operating activities	**1,717**	3,523	3,529
CASH FLOWS FROM FINANCING ACTIVITIES:			
Subordinated debt issuance (retirement)	**—**	(29,639)	36,083
Stock options exercised	**95**	23	177
Cash dividends paid	**(2,167)**	(2,153)	(2,147)
Net cash (used in) provided by financing activities	**(2,072)**	(31,769)	34,113
Net (decrease) increase in cash	**(355)**	(28,246)	37,642
Cash at beginning of year	**30,458**	58,704	21,062
Cash at end of year	**$ 30,103**	$ 30,458	$ 58,704

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, 2006 and 2005, 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, 2006. 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, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, 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, 2006, 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 28, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Boston, Massachusetts
February 28, 2007

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, 2006, 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, 2006, 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, 2006, 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, 2006 and 2005, 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, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated financial statements.

Boston, Massachusetts
February 28, 2007

CENTURY BANCORP, INC.

400 Mystic Avenue
Medford, Massachusetts 02155

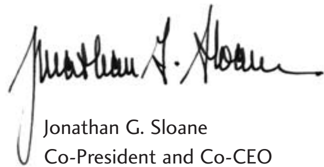
We, together with the other members of Century Bancorp, Inc. and subsidiary (the "Company"), are responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management 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, 2006. 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, 2006, the Company's internal control over financial reporting is effective based on those criteria.

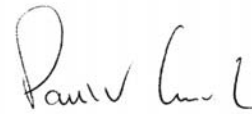
The Company's independent registered public accounting firm has issued an audit report on our assessment of the Company's internal control over financial reporting. Their report appears on page 38.

Marshall M. Sloane
Chairman



Jonathan G. Sloane
Co-President and Co-CEO

Barry R. Sloane
Co-President and Co-CEO



Paul V. Cusick, Jr.
Vice President and Treasurer

February 28, 2007

Notes

Stockholder Information

CORPORATE HEADQUARTERS
Century Bank
400 Mystic Avenue
Medford, MA 02155-6316
TEL (866) 823.6887
century-bank.com

TRANSFER AGENT AND REGISTRAR
Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078
TEL (781) 575.3400
computershare.com

ANNUAL MEETING
The annual meeting of stockholders will be held on Tuesday, April 10, 2007, 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 CentBcp A 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	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

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	Sloane Square, 110 Medford Street, Medford, MA 02155
Weston	College Hall, Regis College, 235 Wellesley Street, Weston, MA 02493

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Century
Bancorp, Inc.

Equal Housing Lender / Member FDIC