

Century
Bancorp, Inc.

Annual Report 2007

**Family focused.
It defines our values and
drives our success.**



Marshall M. Sloane

A WORD FROM OUR CHAIRMAN

As a family-run business, the values that define our company are not just part of our company culture. They are the principles that guide our decisions and help us position our company for sustained growth. Our prudent approach and long-term view proved to be the right course in 2007 as we steered clear of the pitfalls faced by so many other financial institutions.

The last major credit crisis I witnessed was in the early nineties, over 15 years ago. Century weathered that storm, while watching scores of peer institutions fail or be compelled to merge. The current credit crisis is again predicated on real estate, but in a different securitized structure. Regardless of the mechanics, we believed then, and we believe now, that banks will lose money when they make the mistake of decentralized credit authority and allow unsupervised geographic lending expansion.

While our loan policies and choice to remain focused within our market area may have appeared overly conservative several years ago, our decisions have served us well. We chose not to get involved in an overheated market of inflated appraisals and aggressive brokers. We have always tightly controlled loan authorities and customer geography because we believe there is no substitute for local market knowledge. Our risk management philosophy has worked for us since our inception, and it is one of the reasons we have consistently paid a dividend on our stock for the last 34 years.

**By staying true to our
own family's values, we continue to
build our franchise value.**

I watch with amazement as the “giants” of our industry replenish their depleted capital, following the sub-prime charge-offs, with huge foreign equity infusions. Little is said about the dramatic dilution of value for existing shareholders in those recapitalizations. We have always been sensitive to maintaining and creating value for our loyal long-term shareholders. This latest crisis is one more example of how being guided by our values and our independent thinking has proven to be in our shareholders’ best interests. Our shareholders are always foremost in our thoughts and plans.

As we approach our 40th anniversary, I am confident that Century’s strategy will hold true for the future.

Sincerely,

Marshall M. Sloane
Founder and Chairman

About Century

Century Bancorp, Inc. is a \$1.7 billion banking and financial services company headquartered in Medford, Massachusetts. The Company operates 21 banking offices in 16 cities and towns in Massachusetts and provides a full range of business, personal and institutional services. The Company’s common stock is listed on the NASDAQ Market under the symbol: CNBKA.



Jonathan and Barry Sloane

DEAR FELLOW SHAREHOLDERS:

2007 was a year of much improved performance for Century Bancorp. Building on our strong foundation, we grew our income, increased deposits and achieved growth across a range of business lines despite challenging economic conditions.

A solid performance.

Net income for the year ended December 31, 2007 rose 68% to \$7,864,000, or \$1.42 per diluted share, compared to \$0.84 per diluted share in 2006. Our book value per share grew 11.2% to \$21.43 at December 31, 2007, compared to \$19.28 at year-end 2006. Total stockholders equity at year-end stood at over \$118 million.

In a year when profitable deposit growth was exceptionally difficult due to a nearly flat, and frequently inverted, yield environment, we attracted new deposits and built on the strength of our customer relationships. We offer a distinct alternative to the “giant” banks as customers turn to us for a personalized relationship from the locally controlled bank they know and trust. In 2007, we grew “core” branch deposits 6.6%, or \$23 million, and we increased total assets 2.2%, year-over-year, to \$1.7 billion.

Our net interest margin improved to 2.65% during 2007, up from 2.40% in 2006. Our efficiency ratio also improved to 77.5% in 2007, down from 83.5% in 2006. While both ratios are still below our goals, we continue to implement strategies to achieve both higher loan yields and lower operating expenses — while striving to attain the optimum level of efficiency in the context of providing the highest service quality and regulatory compliance.

Growing our business.

The competition for quality middle-market business loans continues to be intense, and developing credit relationships remained a focus in 2007. While maintaining credit quality through our disciplined and prudent approach to lending, we held the total portfolio roughly even, year-over-year, at \$726 million. With our local market knowledge and experience, our Business Development Officers and Branch Managers grew our small business loans 7.4% in 2007 through originations of \$28.4 million, expanding the total small business portfolio to \$67 million.

The Institutional Services Group added eight new major lockbox relationships in 2007, growing the total number of items processed to over 23 million, up some 5% from 2006.

This achievement is especially noteworthy as the number of items processed industry-wide continues to decline with the shift to electronic payments. To that end, we grew our electronic payment activity by 14.2% in 2007 to over 3.2 million ACH transactions. The Institutional business made a major contribution to our 23% increase in other operating income, reaching a record level of \$13.9 million.

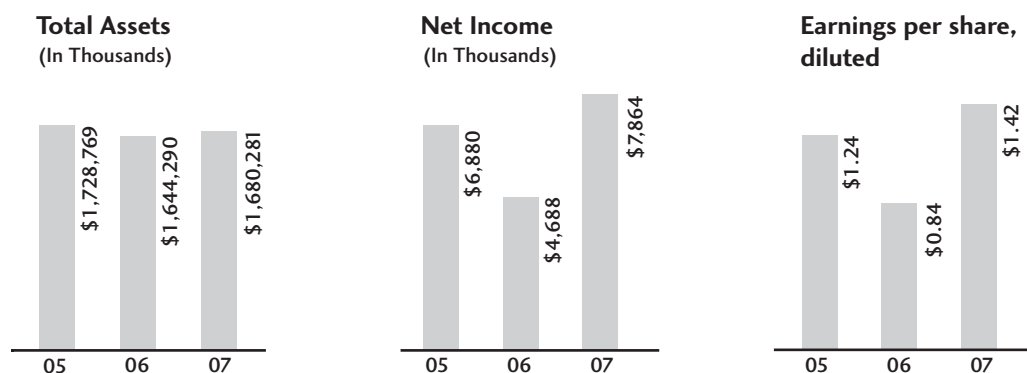
While some banks were shaken to their core in 2007, we stayed true to our values and prospered.

True to our values.

As important as what we did in 2007, is what we did not do; and that was exploit the perceived opportunities in sub-prime lending or investing. Century has avoided the sub-prime mortgage disaster that is shaking the banking industry.

Time and again over the past decade we were approached by the mortgage industry with proposals to join the flood of banks into sub-prime lending, and each time we came to a head-shaking conclusion that, regardless of the potential profits, these transactions were predatory, and largely unsuitable, to our clients. We saw clearly that unsupported and inappropriate levels of debt would ultimately fail the borrowing families and their lending institutions.

We believe that our rejection of sub-prime lending as a profit opportunity is yet another way that the family values that guide our company make a difference for the soundness



of our balance sheet and fiscal safety of our customers. As we review the 2007 performance of our regional bank peer group, it is clear that our commitment to sound principles of risk management and the value of long-term customer relationships has proven itself once again.

Successful community banking is an incremental business of careful execution to achieve consistent earnings and asset growth. We are very comfortable with the business strategy cast by our Founder and Chairman in 1969: the 2007 sub-prime crisis was a clear validation of our continuing shared values.

Challenges and opportunities.

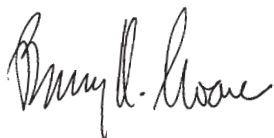
The economic conditions ahead will likely provide earnings challenges, yet may also yield opportunities for client and business acquisitions. Guided by our core values, with the flexibility to nimbly react to changing business and economic conditions, we believe we are well positioned to navigate this latest business cycle.

As always, we remain focused on our core communities and our relationships with both the business and not-for-profit sectors. We will continue to seek ways to improve service, lower costs, and ensure prudent risk management. We will continue to invest in our communities as a valued neighbor and resource. We encourage our officers to devote time and effort to local charitable endeavors, and we financially support their efforts as resources allow.

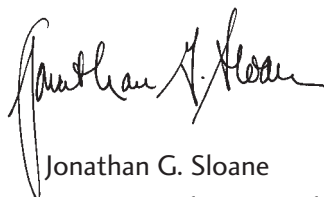
Century Bank is, most of all, a collection of highly skilled professionals whose knowledge of their clients and communities is the core of our franchise. We thank our employees for their hard work and dedication in making our success possible, and we thank you, our shareholders, for your trust.

We are optimistic about the year ahead and look forward to continued success.

Sincerely,



Barry R. Sloane
Co-CEO and Co-President



Jonathan G. Sloane
Co-CEO and Co-President

Management Committee members, from left: William P. Hornby, David B. Woonton, Brian J. Feeney, and Paul A. Evangelista



Continuing our proud family tradition,
we provided financial and leadership
support to these organizations in 2007.

commitment

Adopt-A-Student Foundation
Adrian Colasacco Scholarship Fund
All Care Hospice
Alliance for Lupus Research
American Diabetes Association
American Heart Association
American Lung Association
American Red Cross Angel Fund
Anti-Defamation League
Arlington Visiting Nurse and
Community Health
Association for Retarded Citizens
of Eastern Middlesex
Association for Retarded Citizens
of Greater Boston
Associazione Gizio
Avon Walk for Breast Cancer
Bay State Chapter Freedoms Foundation
Beacon Academy
Beverly Holiday Parade
Beverly Main Streets
Bishop Fenwick School
Boston College Carroll School
of Management
Boston Harbor Association
Boston Minuteman Council, Boy Scouts
of America
Boston Police Athletic League

Chelsea Restoration Corporation
Cheryl Mulhern Benefit Fund
Citizens for Citizens
Digital Credit Union for Kids
Dimock Community Health Centers
Donne 2000 Scholarship Fund
Easter Seals of Massachusetts
Eastern Mystic Watershed Alliance
Edgar P. Benjamin Healthcare Center
Edward J. Sullivan Scholarship Fund
Elizabeth Peabody House
Essex County Sheriff's Department Annual
Women's Empowerment Conference
Everett Chamber of Commerce
Everett Kiwanis Club
Fourth Presbyterian Church of South Boston
Gann Academy
Greater Boston Chamber of Commerce
Greater Medford Visiting Nurse Association
Hallmark Health System
Hallmark Health Visiting Nurse Association
Hebrew Senior Life
Higginbottom Jones College Program
Horace Mann Laboratory School
Housing Families
Irish Chamber of Commerce USA
Italian Home for Children
Jeffrey Arthur Education Fund

Massachusetts General Hospital
Massachusetts Hospital School
Massachusetts Juvenile Police Association
Massachusetts Society of CPAs
Matignon High School
Medford and Somerville Relay for Life
Medford Chamber of Commerce
Medford Community Housing

Rodman Ride for Kids
Sacred Heart Parish of Lynn
Salem 4th of July Celebration
Salem Chamber of Commerce
Salem Partnership
Salem Sound Coastwatch
Salem State College
Salem Street Business Association
Salvation Army
Silent Spring Institute
Social Capital
Societa di San Guiseppe
Solomon Schechter Day School
Somerville Chamber of Commerce
Somerville Community Corporation
Somerville Community Transportation
Somerville Council on Aging
Somerville High School Football Team
Somerville Homeless Coalition
Somerville Housing Authority
Somerville Little League

service

Medford Environmental Alliance
Medford Fire Fighters Union
Medford Jingle Bell Festival
Medford Kiwanis
Medford Police Patrolman's Association
Medford Rotary
Medford War Memorial

involvement

Medical Academic & Scientific Community
Organization
Mental Health Programs, Inc.
Metrowest Jewish Day School
Milton Hospital
Muscular Dystrophy Association
Mystic Learning Centers
Mystic Valley Elder Services
Neurofibromatosis of New England
New England Aquarium
New England Baptist Hospital
New England Center for Children
New England Center for Homeless Veterans
New England Province of Jesuits
North Cambridge Senior Center
North End Action of Boston Community
Development
North End Chamber of Commerce
North End Music Performing Arts Center
North Shore Catholic Charities
North Shore Chamber of Commerce
Ocular Immunology and Uveitis Foundation
Our Lady of Nazareth Academy
Pan Mass Challenge

Somerville Memorial Day Parade
Somerville Pop Warner Football
Somerville Veterans' Services
Somerville-Cambridge Elder Services
South Shore Chamber of Commerce
South Shore Women's Business Network
Springstep
St. Francis House of Boston
St. Clement Parish School of Medford
St. John School of Boston
St. Joseph of Medford
St. Joseph Society of Boston
St. Leonard of Boston
St. Peter School of Cambridge
Synagogue Council of Massachusetts
Temple Israel of Boston
The Women's Congress
Torah Academy
Town of Brookline Recreation Department
US Marine Corps Toys for Tots
Weymouth Annual Senior Picnic
Wheelock College
World Unity
YMCA's of Greater Boston
Young Israel of Brookline
Youth Care
Youville Hospital & Rehabilitation Center

philanthropy

Boston University
Boys & Girls Club of Lynn
Boys & Girls Club of Salem
Brain Tumor Society
Bread of Life
Brendan M. Curtin Sponsorship Fund
Brian D. Silber Memorial Fund
Brookline Community Mental Health Center
Brookline Kids Clothes Club
Burlington Area Chamber of Commerce
Burlington Dollars for Scholars
Burlington Education Foundation
Burlington High School
Burlington Rotary
Cam Neely Foundation for Cancer Care
Cambridge & Somerville Program for
Alcoholism and Drug Abuse Rehabilitation
(CASPAR)
Caritas Carney Hospital Foundation
Catholic Charities of Boston
Charles C. Yancey Book Fair

Jewish Big Brothers and Big Sisters
Jewish Cemetery Association
of Massachusetts
Jewish Community Housing
Jewish Family Services of the North Shore
Jimmy Fund
Justin Graceffa Recovery Fund
Little Sisters of the Poor
Lynn Area Chamber of Commerce
Lynn Housing Authority &
Neighborhood Development
Lynn Rotary Club
Maimonides School

leadership

Malden Beautification Program
Malden Chamber of Commerce
Malden Pop Warner Football Association
Malden Rotary Club
Malden YMCA

Peabody Chamber of Commerce
Peabody High School Hockey Boosters
Rashi School
Regis College
Robbie Mills Memorial Fund

CENTURY BANCORP, INC. DIRECTORS

George R. Baldwin^{1,4,6}
President & CEO
Baldwin & Company

Roger S. Berkowitz^{2,5,7*}
President & CEO
Legal Sea Foods, Inc.

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

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

Russell B. Higley, Esq.^{6,7}
Attorney
Higley & Higley

Jackie Jenkins-Scott^{5,6}
President
Whelock College

Linda Sloane Kay⁷
Vice President
Century Bank

Fraser Lemley^{2,4,5}
Chairman & CEO
Sentry Auto Group

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

Jonathan G. Sloane^{4,5,6,7}
Co-President & Co-CEO
Century Bank and Trust Company

Barry R. Sloane^{4,5,6,7}
Co-President & Co-CEO
Century Bank and Trust Company

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

Stephanie Sonnabend^{1,3,5*}
CEO & President
Sonesta International Hotels Corporation

George F. Swansburg^{4,5}

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

OFFICERS

Marshall M. Sloane
Founder and Chairman

Jonathan G. Sloane
Co-President & Co-CEO

Barry R. Sloane
Co-President & Co-CEO

William P. Hornby, CPA
Chief Financial Officer & Treasurer

Rosalie A. Cunio
Clerk

Paula A. Grimaldi
Assistant Clerk

CENTURY BANK AND TRUST COMPANY OFFICERS

MANAGEMENT COMMITTEE

Marshall M. Sloane
Chairman of the Board

Jonathan G. Sloane
Co-President & Co-CEO

Barry R. Sloane
Co-President & Co-CEO

William P. Hornby, CPA
Chief Financial Officer & Treasurer

Paul A. Evangelista
Executive Vice President

Brian J. Feeney
Executive Vice President

David B. Wootton
Executive Vice President

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Janice A. Brandano
Bradford J. Buckley
Diana L. Carito, CIA, CRP
Peter R. Castiglia
James M. Flynn, Jr.
William J. Gambon, Jr.
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Nancy Lindstrom
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Judith A. Fallon
Jeffrey E. Fox
Howard N. Gold
Ann J. Hollup
T. Daniel Kausel
Linda Sloane Kay
Kathleen A. Kelly
Nancy M. Marsh
Karen M. Martin
Carl M. Mattos
Joanne C. McNamara, CISA
Thomas E. Piemontese

Andrew J. Santos, Jr.
Janice D. Taylor
David J. Waryas

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Pasqualina Buttiri
Toni M. Chardo
Cynthia A. Davidson
Laura A. DiFava
John R. Ferguson
Thatcher L. Freeborn
Lisa Gosling
Daniel F. Griffin
Janice D. Hallinan
Kristine M. Holopainen
Sandy J. Jackson
James J. Jordan
Paul R. Loiselle
Malcolm I. Maloon
Ann E. Mannion
Carol A. Melisi
Richard D. Murray
Sarah A. O'Toole
Karen J. Pessia
Cornelius C. Prioleau
William F. Shutt, Jr.
Richard A. Thimble
Tuesday N. Thomas
Lawrence H. Tsoi
Jose I. Umana
Christina Welch-Matthews

OFFICERS

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Marissa L. Fitzgerald
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Anna M. Gorska
Paula A. Grimaldi
Amelia N. Iocco
Brian Kelly
Brandon N. Letellier
Kathleen McGillicuddy
David C. Pennybaker, Jr.
Judith A. Shannon
Elizabeth A. Theriault
Jeanne A. Wood

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

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Financial Highlights

Century Bancorp, Inc. AR '07

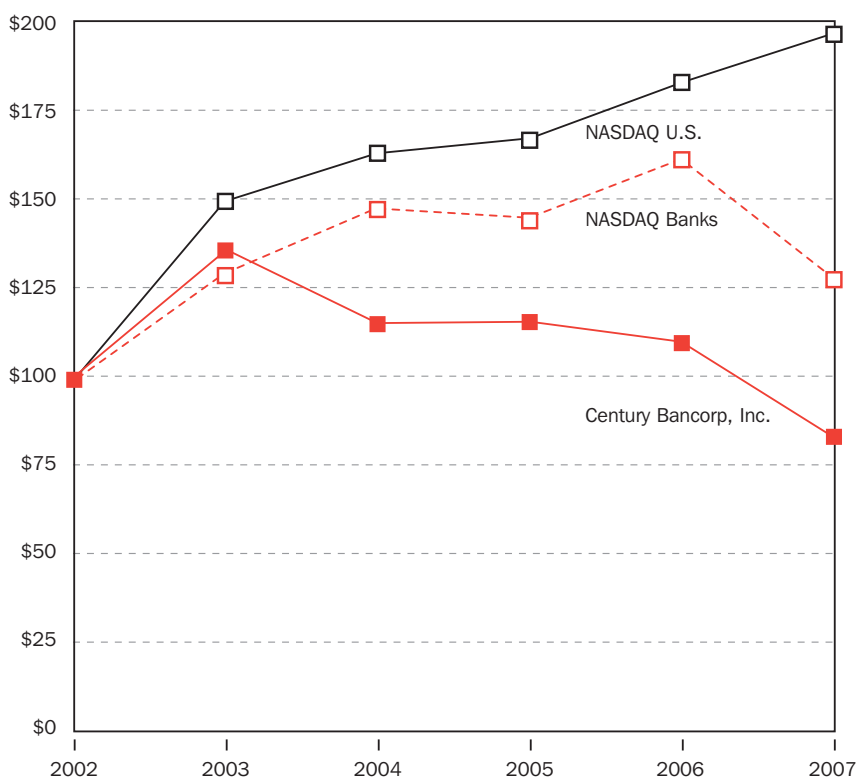
	2007	2006	2005	2004	2003
(dollars in thousands, except share data)					
FOR THE YEAR					
Interest income	\$ 83,008	\$ 80,707	\$ 72,811	\$ 65,033	\$ 69,298
Interest expense	43,805	43,944	32,820	23,646	23,942
Net interest income	39,203	36,763	39,991	41,387	45,356
Provision for loan losses	1,500	825	600	300	450
Net interest income after provision for loan losses	37,703	35,938	39,391	41,087	44,906
Other operating income	13,948	11,365	10,973	10,431	10,009
Operating expenses	40,255	40,196	40,318	37,663	34,272
Income before income taxes	11,396	7,107	10,046	13,855	20,643
Provision for income taxes	3,532	2,419	3,166	4,974	8,963
Net income	\$ 7,864	\$ 4,688	\$ 6,880	\$ 8,881	\$ 11,680
Average shares outstanding, basic	5,542,461	5,540,966	5,535,202	5,526,202	5,519,800
Average shares outstanding, diluted	5,546,707	5,550,722	5,553,009	5,553,197	5,548,615
Shares outstanding at year-end	5,543,804	5,541,188	5,535,422	5,534,088	5,524,438
Earnings per share:					
Basic	\$ 1.42	\$ 0.85	\$ 1.24	\$ 1.61	\$ 2.12
Diluted	\$ 1.42	\$ 0.84	\$ 1.24	\$ 1.60	\$ 2.11
Dividend payout ratio	27.6 %	46.2 %	31.3 %	24.2 %	17.2 %
AT YEAR-END					
Assets	\$ 1,680,281	\$ 1,644,290	\$ 1,728,769	\$ 1,833,701	\$ 1,688,911
Loans	726,251	736,773	689,645	580,003	512,314
Deposits	1,130,061	1,268,965	1,217,040	1,394,010	1,338,853
Stockholders' equity	118,806	106,818	103,201	104,773	103,728
Book value per share	\$ 21.43	\$ 19.28	\$ 18.64	\$ 18.93	\$ 18.78
SELECTED FINANCIAL PERCENTAGES					
Return on average assets	0.49 %	0.28 %	0.41 %	0.55 %	0.74 %
Return on average stockholders' equity	7.05 %	4.45 %	6.57 %	8.61 %	11.57 %
Net interest margin, taxable equivalent	2.65 %	2.40 %	2.58 %	2.75 %	3.08 %
Net charge-offs as a percent of average loans	0.22 %	0.06 %	0.04 %	0.01 %	0.04 %
Average stockholders' equity to average assets	6.97 %	6.39 %	6.31 %	6.38 %	6.40 %
Efficiency ratio	77.5 %	83.5 %	79.1 %	72.7 %	61.9 %

Per Share Data

2007, Quarter Ended	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 25.49	\$ 22.67	\$ 26.55	\$ 28.25
Low	19.80	19.26	21.17	26.00
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.06	0.06	0.06	0.06
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

The stock performance graph below compares the cumulative total shareholder return of the Company's Common Stock from December 31, 2002 to December 31, 2007 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, 2002 at:	2003	2004	2005	2006	2007
Century Bancorp, Inc.	\$ 135.64	\$ 114.56	\$ 115.51	\$ 109.69	\$ 82.78
NASDAQ Banks	128.64	147.22	143.82	161.41	127.92
NASDAQ U.S.	149.52	162.72	166.18	182.57	197.98

* Assumes that the value of the investment in the Company's Common Stock and each index was \$100 on December 31, 2002 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 policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

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

OVERVIEW

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the "Company") is a Massachusetts state chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the "Bank"): Century Bank and Trust Company formed in 1969. The Company had total assets of \$1.7 billion at December 31, 2007. The Company presently operates 21 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.

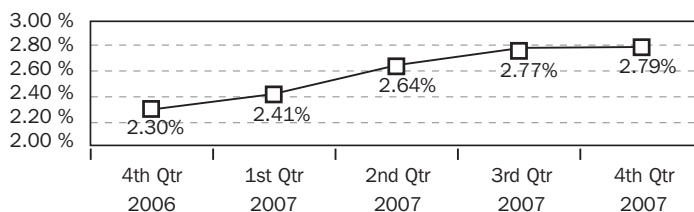
The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium-sized businesses and retail customers in its market area. The Company makes commercial loans, real estate 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 Linsco/Private Ledger Corp., 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 39% of the 351 cities and towns in Massachusetts.

The Company had net income of \$7,864,000 for the year ended December 31, 2007, compared with net income of \$4,688,000 for the year ended December 31, 2006 and net income of \$6,880,000 for the year ended December 31, 2005. Basic earnings per share were \$1.42 in 2007, compared to \$0.85 in 2006 and \$1.24 in 2005. Diluted earnings per share were \$1.42 in 2007, compared to \$0.84 in 2006 and \$1.24 in 2005. Included in income for 2007 is \$1,321,000 pre-tax gain on the sale of the building that houses the Company's Medford Square branch. Included in income for 2006 is a pre-tax gain of \$600,000 from the sale of the Company's rights to future royalty payments for a portion of its Merchant Credit Card customer base.

Throughout 2007, the Company has seen improvement in its net interest margin as illustrated in the graph below:

Net Interest Margin



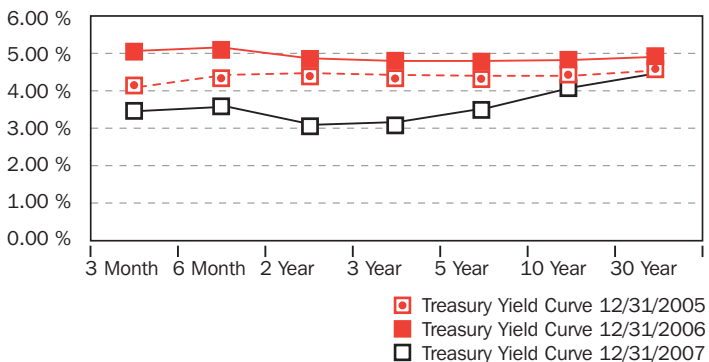
The primary factors accounting for the increase in net interest margin are:

- A continuing decline in the cost of funds as a result of increased pricing discipline related to deposits,
- An increase in the loan yield due to an increase in prepayment fees, particularly in the second quarter of 2007, and
- The maturity of lower-yielding investment securities.

While management will continue its efforts to improve the net interest margin, there can be no assurance that certain factors beyond its control, such as prepayments of loans and changes in market interest rates, will continue to positively impact the net interest margin.

In addition, a great deal of emphasis has been placed on cost control during 2007 as demonstrated by the increase of 0.1% in operating expenses for the year ended December 31, 2007.

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. During 2005 and 2006, the U.S. economy 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. During 2007, rates have fallen and the yield curve has steepened somewhat. This has positively impacted the net interest margin. During 2006 the Company's earnings were negatively impacted primarily by a decrease in net interest income. This decrease was primarily due to the inverted yield curve during 2006 as well as increased funding costs.

Total assets were \$1,680,281,000 at December 31, 2007, an increase of 2.2% from total assets of \$1,644,290,000 on December 31, 2006.

On December 31, 2007, stockholders' equity totaled \$118,806,000, compared with \$106,818,000 on December 31, 2006. Book value per share increased to \$21.43 at December 31, 2007 from \$19.28 on December 31, 2006.

During the fourth quarter of 2007, the Company sold the assets associated with the Sherman Union branch located on Commonwealth Avenue in Boston, Massachusetts as well as Automated Teller Machines (ATMs) located at or near Boston University. The buyer assumed the leases for the branch and ATMs. The deposits associated with the Sherman Union branch were transferred to Century's Hotel Commonwealth branch located at 512 Commonwealth Avenue in Boston, Massachusetts. This resulted in a gain of \$115,000.

During 2007, the Company entered into a lease agreement to open a branch located on Riverside Avenue in Medford, Massachusetts. The branch is scheduled to open during the second quarter of 2008.

On August 17, 2007, the Company sold the building which houses one of its branches located at 55 High Street, Medford, Massachusetts for \$1.5 million at market terms. The Bank is relocating this branch to 1 Salem Street (formerly 3 Salem Street), Medford, Massachusetts. This sale resulted in a gain of \$1,321,000.

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.

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 and specific allowances for identified problem loans.

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 formula allowance and specific allowances also include management's evaluation of various conditions, including business and economic conditions, delinquency trends, charge-off experience and other quality factors.

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 of 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 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.

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The Company has the ability and intent to hold all securities with an unrealized loss 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, 2007 totaled \$403,635,000 and include gross unrealized gains of \$1,728,000 and gross unrealized losses of \$2,077,000. A year earlier, securities available-for-sale were \$415,481,000 including gross unrealized gains of \$221,000 and unrealized losses of \$8,447,000. In 2007, the Company recognized gross gains of \$153,000 on the sale of one stock. In 2006, 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, 2007 are carried at their amortized cost of \$183,710,000 and exclude gross unrealized gains of \$131,000 and gross unrealized losses of \$2,137,000. A year earlier, securities held-to-maturity totaled \$265,712,000 excluding gross unrealized gains of \$76,000 and gross unrealized losses of \$7,368,000.

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,	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
U.S. Treasury	\$ 2,036	0.5 %	\$ 1,991	0.5 %	\$ 1,979	0.4 %
U.S. Government Sponsored Enterprises	218,729	54.2 %	221,037	53.2 %	292,153	54.7 %
Mortgage-backed securities	162,162	40.2 %	179,076	43.1 %	218,552	41.0 %
Obligations of states and political subdivisions	1,678	0.4 %	—	0 %	807	0.2 %
FHLB Stock	15,531	3.8 %	9,823	2.4 %	16,312	3.1 %
Other	3,499	0.9 %	3,554	0.8 %	3,179	0.6 %
Total	\$ 403,635	100.0 %	\$ 415,481	100.0 %	\$ 532,982	100.0 %

Included in mortgage-backed securities are U.S. Government Sponsored Enterprises totaling \$148,856,000, \$148,134,000 and \$180,690,000 for 2007, 2006 and 2005, respectively.

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,	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
U.S. Government Sponsored Enterprises	\$ 94,987	51.7 %	\$ 159,969	60.2 %	\$ 159,952	55.8 %
Mortgage-backed securities	88,723	48.3 %	105,743	39.8 %	126,626	44.2 %
Total	\$ 183,710	100.0 %	\$ 265,712	100.0 %	\$ 286,578	100.0 %

For all years presented all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises.

The following two tables set forth contractual maturities of the Bank's securities portfolio at December 31, 2007. 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
(dollars in thousands)									
U.S. Treasury	\$ 2,036	0.5 %	4.60 %	\$ —	0.0 %	—	\$ —	0.0 %	—
U.S. Government Sponsored Enterprises	84,581	21.0 %	3.20 %	98,862	24.5 %	4.87 %	35,286	8.7 %	5.00 %
Mortgage-backed securities	7,017	1.7 %	3.51 %	148,100	36.7 %	4.46 %	7,045	1.8 %	4.95 %
Obligations of state and political subdivisions and other	2,424	0.6 %	4.00 %	—	0.0 %	—	—	0.0 %	—
Total	\$ 96,058	23.8 %	3.27 %	\$ 246,962	61.2 %	4.62 %	\$ 42,331	10.5 %	4.99 %

	Non- Maturing	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
(dollars in thousands)						
U.S. Treasury	\$ —	0.0 %	—	\$ 2,036	0.5 %	4.60 %
U.S. Government Sponsored Enterprises	—	0.0 %	—	218,729	54.2 %	4.24 %
Mortgage-backed securities	—	0.0 %	—	162,162	40.2 %	4.44 %
Obligations of state and political subdivisions and other	18,284	4.5 %	6.10 %	20,708	5.1 %	5.85 %
Total	\$ 18,284	4.5 %	6.10 %	\$ 403,635	100.0 %	4.40 %

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	Total	% of Total	Weighted Average Yield
(dollars in thousands)												
U.S. Government Sponsored Enterprises	\$ 69,988	38.1 %	3.31 %	\$ 24,999	13.6 %	3.92 %	\$ —	0.0 %	—	\$ 94,987	51.7 %	3.47 %
Mortgage-backed securities	1	0.0 %	5.29 %	88,558	48.2 %	4.17 %	164	0.1 %	4.78 %	88,723	48.3 %	4.17 %
Total	\$ 69,989	38.1 %	3.31 %	\$ 113,557	61.8 %	4.11 %	\$ 164	0.1 %	4.78 %	\$ 183,710	100.0 %	3.81 %

At December 31, 2007 and 2006, the Bank had no investments in obligations of individual states, counties, municipalities or nongovernment corporate entities which exceeded 10% of stockholders' equity. In addition, there were no sales of state, county or municipal securities in 2007 or 2006. One equity security was sold during 2007 with gross proceeds of \$336,000 resulting in a gain of \$153,000.

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.

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

December 31,	2007		2006		2005		2004		2003	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(dollars in thousands)										
Construction and land development	\$ 62,412	8.6 %	\$ 49,709	6.7 %	\$ 58,846	8.5 %	\$ 51,918	9.0 %	\$ 34,121	6.7 %
Commercial and industrial	117,332	16.2 %	117,497	16.0 %	94,139	13.7 %	71,962	12.4 %	39,742	7.8 %
Commercial real estate	299,920	41.3 %	327,040	44.5 %	302,279	43.8 %	258,524	44.6 %	293,781	57.3 %
Residential real estate	168,204	23.2 %	167,946	22.8 %	146,355	21.2 %	118,223	20.4 %	86,780	16.9 %
Consumer	20,149	2.8 %	9,881	1.3 %	9,977	1.5 %	8,607	1.5 %	8,025	1.6 %
Home Equity	56,795	7.7 %	63,380	8.5 %	76,710	11.1 %	69,957	12.0 %	49,382	9.6 %
Overdrafts	1,439	0.2 %	1,320	0.2 %	1,339	0.2 %	812	0.1 %	483	0.1 %
Total	\$ 726,251	100.0 %	\$ 736,773	100.0 %	\$ 689,645	100.0 %	\$ 580,003	100.0 %	\$ 512,314	100.0 %

At December 31, 2007, 2006, 2005, 2004 and 2003 loans were carried net of discounts of \$3,000, \$3,000, \$4,000, \$20,000 and \$138,000, respectively. Net deferred loan fees of \$38,000, \$183,000, \$482,000, \$485,000 and \$389,000 were carried in 2007, 2006, 2005, 2004 and 2003, respectively.

The following table summarizes the remaining maturity distribution of certain components of the Company's loan portfolio on December 31, 2007. The table excludes loans secured by 1-4 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, 2007

	One Year or Less	One to Five Years	Over Five Years	Total
(dollars in thousands)				
Construction and land development	\$ 41,025	\$ 14,865	\$ 6,522	\$ 62,412
Commercial and industrial	67,572	40,194	9,566	117,332
Commercial real estate	30,473	118,108	151,339	299,920
Total	\$ 139,070	\$ 173,167	\$ 167,427	\$ 479,664

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

December 31, 2007	One to Five Years	Over Five Years	Total
(dollars in thousands)			
Predetermined interest rates	\$ 94,598	\$ 30,294	\$ 124,892
Floating or adjustable interest rates	78,569	137,133	215,702
Total	\$ 173,167	\$ 167,427	\$ 340,594

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 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 complements 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. Included in residential real estate are approximately \$9,503,000 of C&I 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 Federal National Mortgage Association (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, 2007, the Company was obligated to advance a total of \$27,294,000 to complete projects under construction.

The composition of nonperforming assets is as follows:

December 31,	2007	2006	2005	2004	2003
(dollars in thousands)					
Total nonperforming loans/loans on non-accrual	\$ 1,312	\$ 135	\$ 949	\$ 628	\$ 1,175
Other real estate owned	452	—	—	—	—
Total nonperforming assets	\$ 1,764	\$ 135	\$ 949	\$ 628	\$ 1,175
Restructured loans	\$ —	\$ —	\$ —	\$ —	\$ —
Loans past due 90 and still accruing	122	789	—	160	—
Nonperforming loans as a percent of gross loans	0.18 %	0.02 %	0.14 %	0.11 %	0.23 %
Nonperforming assets as a percent of total assets	0.10 %	0.01 %	0.05 %	0.03 %	0.07 %

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

	2007	2006	2005	2004	2003
Residential real estate, multi-family	\$ —	\$ —	\$ —	\$ 512	\$ 541
Construction and land development	—	—	675	—	—
Commercial and industrial	196	16	211	452	1,077
Total impaired loans	\$ 196	\$ 16	\$ 886	\$ 964	\$ 1,618

At December 31, 2007, impaired loans of \$75,000 had specific reserves of \$75,000. There were no impaired loans with specific reserves from December 31, 2003 through December 31, 2006.

The Company was servicing mortgage loans sold to others without recourse of approximately \$559,000, \$798,000, \$1,078,000, \$1,538,000 and \$2,397,000 at December 31, 2007, 2006, 2005, 2004 and 2003, respectively. Additionally, the Company services mortgage loans sold to others with limited recourse.

The outstanding balance of these loans with limited recourse was approximately \$65,000, \$72,000, \$80,000, \$86,000 and \$183,000 at December 31, 2007, 2006, 2005, 2004 and 2003, 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 Bank.

Non-accrual loans increased from 2006 to 2007 primarily as a result of three consumer mortgages totaling \$938,000. The relatively low level of nonperforming assets of \$135,000 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 \$14,117,000 and \$20,779,000 at December 31, 2007 and 2006, respectively, of potential problem 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, 2007, although such values can fluctuate with changes in the economy and the real estate market.

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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,	2007	2006	2005	2004	2003
(dollars in thousands)					
Year-end loans outstanding (net of unearned discount and deferred loan fees)	\$ 726,251	\$ 736,773	\$ 689,645	\$ 580,003	\$ 512,314
Average loans outstanding (net of unearned discount and deferred loan fees)	\$ 725,903	\$ 723,825	\$ 641,103	\$ 546,147	\$ 500,723
Balance of allowance for loan losses at the beginning of year	\$ 9,713	\$ 9,340	\$ 9,001	\$ 8,769	\$ 8,506
Loans charged-off:					
Commercial	1,828	386	366	1	240
Residential real estate	—	—	—	194	—
Consumer	311	322	324	113	125
Total loans charged-off	2,139	708	690	308	365
Recovery of loans previously charged-off:					
Commercial	268	96	75	117	127
Real estate	149	49	235	103	29
Consumer	142	112	119	20	22
Total recoveries of loans previously charged-off:	559	256	429	240	178
Net loan charge-offs	1,580	452	261	68	187
Additions to allowance charged to operating expense	1,500	825	600	300	450
Balance at end of year	\$ 9,633	\$ 9,713	\$ 9,340	\$ 9,001	\$ 8,769
Ratio of net charge-offs during the year to average loans outstanding	0.22 %	0.06 %	0.04 %	0.01 %	0.04 %
Ratio of allowance for loan losses to loans outstanding	1.33 %	1.32 %	1.35 %	1.55 %	1.71 %

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. Charge-offs increased during 2007 due to an increase in commercial loan charge-offs.

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

	2007		2006		2005		2004		2003	
	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	\$ 592	8.6 %	\$ 849	6.8 %	\$ 1,014	8.5 %	\$ 806	9.0 %	\$ 563	6.7 %
Commercial and industrial	4,714	16.2	1,916	15.9	1,575	13.7	1,232	12.4	895	7.8
Commercial real estate	2,457	39.0	4,460	43.9	4,131	43.8	3,626	44.6	4,182	57.3
Residential real estate	647	23.2	512	22.8	778	21.2	628	20.4	551	16.9
Consumer and other	1,006	5.0	220	2.0	173	1.7	144	1.6	130	1.7
Home equity	217	8.0	176	8.6	600	11.1	546	12.0	385	9.6
Unallocated	—		1,580		1,069		2,019		2,063	
Total	\$ 9,633	100.0 %	\$ 9,713	100.0 %	\$ 9,340	100.0 %	\$ 9,001	100.0 %	\$ 8,769	100.0 %

The shift in the allocations of the allowance for loan losses in 2007 is the result of the implementation of guidance issued by the FDIC. The current allocation is based on historical charge-off rates with additional allocations based on risk factors for each category and general economic factors. In prior years, the allowance related to general economic factors was included solely in the unallocated category.

Deposits

The Company offers savings accounts, NOW accounts, demand deposits, time deposits and money market accounts. The Company offers cash management accounts which provide either automatic transfer of funds above a specified level from the customer's checking account to a money market account or short-term borrowings. Also, an account reconciliation service is offered whereby the Company provides a computerized report balancing the customer's checking account.

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

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

	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
Demand Deposits	\$ 278,402	23.1 %	\$ 284,295	22.6 %	\$ 283,876	23.1 %
Savings and Interest Checking	314,961	26.1 %	290,172	23.0 %	313,146	25.5 %
Money Market	277,482	23.0 %	327,203	26.0 %	366,623	29.8 %
Time Certificates of Deposit	335,972	27.8 %	359,045	28.4 %	265,310	21.6 %
Total	<u>\$1,206,817</u>	<u>100.0 %</u>	<u>\$1,260,715</u>	<u>100.0 %</u>	<u>\$1,228,955</u>	<u>100.0 %</u>

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

	2007
(dollars in thousands)	
Three months or less	\$ 74,153
Three months through six months	59,677
Six months through twelve months	19,602
Over twelve months	19,160
	<u>\$ 172,592</u>

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 from the FHLB totaled \$289,250,000, an increase of \$167,500,000 from the prior year. The Bank's remaining term borrowing capacity at the FHLB at December 31, 2007 was approximately \$31,452,000. 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 Securities with a liquidation value of \$10 per share. These securities pay dividends at an annualized rate of 8.30%. The Company redeemed through its subsidiary, Century Bancorp Capital Trust, 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 Capital Trust II.

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

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 \$85,990,000, a decrease of \$970,000 from the prior year. See note 9 "Securities Sold Under Agreements to Repurchase" for a schedule, including their interest rates and other information.

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

Century Bancorp, Inc. AR '07

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 increased 6.6% in 2007 to \$39,203,000, compared with \$36,763,000 in 2006. The increase in net interest income for 2007 was mainly due to a 10.4% or a twenty-five basis point increase 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 increased to 2.65% in 2007 from 2.40% in 2006, which had decreased from 2.58% in 2005.

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,	2007			2006			2005		
	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⁾	\$ 725,903	\$ 52,902	7.29 %	\$ 723,825	\$ 51,466	7.11 %	\$ 641,103	\$ 41,274	6.44 %
Securities available-for-sale: ⁽³⁾									
Taxable	372,878	14,466	3.88	497,113	17,182	3.46	580,129	19,518	3.36
Tax-exempt	330	17	5.21	354	18	5.02	878	32	3.85
Securities held-to-maturity:									
Taxable	248,338	9,065	3.65	275,897	10,112	3.67	311,738	11,635	3.73
Federal funds sold	131,737	6,661	5.06	37,511	1,955	5.21	15,847	362	2.28
Interest-bearing deposits in other banks									
	163	7	4.29	217	9	4.15	50	—	0.64
Total interest-earning assets	1,479,349	83,118	5.62 %	1,534,917	80,742	5.26 %	1,549,745	72,821	4.70 %
Non interest-earning assets	130,652			123,601			118,325		
Allowance for loan losses	(9,719)			(9,608)			(9,353)		
Total assets	\$ 1,600,282			\$ 1,648,910			\$ 1,658,717		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing deposits:									
NOW accounts	\$ 202,761	\$ 4,235	2.09 %	\$ 205,645	\$ 3,936	1.91 %	\$ 237,016	\$ 3,265	1.38 %
Savings accounts	112,200	2,477	2.21	84,527	1,013	1.20	76,130	287	0.38
Money market accounts	277,482	8,901	3.21	327,203	9,804	3.00	366,623	7,018	1.91
Time deposits	335,972	15,640	4.66	359,045	16,026	4.46	265,310	8,835	3.33
Total interest-bearing deposits	928,415	31,253	3.37	976,420	30,779	3.15	945,079	19,405	2.05
Securities sold under agreements to repurchase	89,815	3,193	3.56	70,862	2,681	3.78	39,746	813	2.05
Other borrowed funds and subordinated debentures	168,535	9,359	5.55	192,143	10,484	5.46	268,878	12,602	4.69
Total interest-bearing liabilities	1,186,765	43,805	3.69 %	1,239,425	43,944	3.55 %	1,253,703	32,820	2.62 %
Non-interest-bearing liabilities									
Demand deposits	278,402			284,295			283,876		
Other liabilities	23,565			19,801			16,463		
Total liabilities	1,488,732			1,543,521			1,554,042		
Stockholders' equity	111,550			105,389			104,675		
Total liabilities & stockholders' equity	\$ 1,600,282			\$ 1,648,910			\$ 1,658,717		
Less taxable equivalent adjustment	(110)			(35)			(10)		
Net interest income	\$ 39,203			\$ 36,763			\$ 39,991		
Net interest spread		1.93 %			1.71 %			2.08 %	
Net interest margin		2.65 %			2.40 %			2.58 %	

⁽¹⁾ On a fully taxable equivalent basis calculated using a federal tax rate of 34%. ⁽²⁾ Non-accrual 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,	2007 Compared with 2006 Increase/(Decrease) Due to Change in			2006 Compared with 2005 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
(dollars in thousands)						
Interest income:						
Loans	\$ 148	\$ 1,288	\$ 1,436	\$ 5,633	\$ 4,559	\$10,192
Securities available-for-sale:						
Taxable	(4,647)	1,931	(2,716)	(2,857)	521	(2,336)
Tax-exempt	(1)	—	(1)	(23)	9	(14)
Securities held-to-maturity:						
Taxable	(1,006)	(41)	(1,047)	(1,317)	(206)	(1,523)
Federal funds sold	4,766	(60)	4,706	822	771	1,593
Interest-bearing deposits in other banks	(2)	—	(2)	4	5	9
Total interest income	(742)	3,118	2,376	2,262	5,659	7,921
Interest expense:						
Deposits:						
NOW accounts	(56)	355	299	(475)	1,146	671
Savings accounts	410	1,054	1,464	35	691	726
Money market accounts	(1,562)	659	(903)	(823)	3,609	2,786
Time deposits	(1,056)	670	(386)	3,663	3,528	7,191
Total interest-bearing deposits	(2,264)	2,738	474	2,400	8,974	11,374
Securities sold under agreements to repurchase	682	(170)	512	896	972	1,868
Other borrowed funds and subordinated debentures	(1,308)	183	(1,125)	(3,971)	1,853	(2,118)
Total interest expense	(2,890)	2,751	(139)	(675)	11,799	11,124
Change in net interest income	\$ 2,148	\$ 367	\$ 2,515	\$ 2,937	\$ (6,140)	\$ (3,203)

Average earning assets were \$1,479,349,000 in 2007, a decrease of \$55,568,000 or 3.6% from the average in 2006, which was 1.0% lower than the average in 2005. Total average securities, including securities available-for-sale and securities held-to-maturity, were \$621,546,000, a decrease of 19.6% from the average in 2006. The decrease in securities volume was mainly attributable to an increase in pricing discipline relating to deposits that resulted in a smaller average balance sheet. A decrease in securities balances resulted in lower securities income, which decreased 13.8% to \$23,548,000. Total average loans increased 0.3% to \$725,903,000 after increasing \$82,722,000 in 2006. The primary reason for the increase in loans was due in large part to an increase in small business lending. The increase in loan volume and increases in loan rates resulted in higher loan income, which increased by 2.8% or \$1,436,000 to \$52,902,000. Total loan income was \$41,274,000 in 2005.

The Company's sources of funds include deposits and borrowed funds. On average, deposits showed a decrease of 4.3% or \$53,898,000 in 2007 after increasing by 2.6% or \$31,760,000 in 2006. Deposits decreased in 2007 primarily as a result of decreases in money market accounts, which decreased by 15.2% or \$49,721,000 and time deposits, which decreased by 6.4% or \$23,073,000. Borrowed funds and subordinated debentures decreased by 12.3% in 2007 following a decrease of 14.8% in 2006. The majority of the Company's borrowed funds are borrowings from the FHLB and retail repurchase agreements. Borrowings from the FHLB decreased by approximately \$22,801,000 and retail repurchase agreements increased by \$18,953,000. Interest expense totaled \$43,805,000 in 2007, a slight decrease of \$139,000 or 0.3% from 2006 when interest expense increased 33.9% from 2005. The decrease in interest expense is primarily due to deposit pricing discipline.

Provision for Loan Loss

The provision for loan losses was \$1,500,000 in 2007, compared with \$825,000 in 2006 and \$600,000 in 2005. These provisions are the result of management's evaluation of the amounts and quality of the loan portfolio considering such factors as loan status, collateral values, financial condition of the borrower, the state of the economy and other relevant information. The provision increased during 2007 primarily as a result of an increase in net charge-offs during the year.

The allowance for loan losses was \$9,633,000 at December 31, 2007, compared with \$9,713,000 at December 31, 2006. Expressed as a percentage of outstanding loans at year-end, the allowance was 1.33% in 2007 and 1.32% in 2006. This ratio increased mainly as a result of a small decrease in the loan portfolio.

Nonperforming loans, which include all non-accruing loans, totaled \$1,312,000 on December 31, 2007, compared with \$135,000 on December 31, 2006. Nonperforming loans increased primarily as a result of three consumer mortgages totaling \$938,000.

Other Operating Income

During 2007, 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 Linsco/Private Ledger Corp. ("LPL"), an unaffiliated registered securities broker-dealer and investment advisor. The brokerage service was previously offered through IFMG, also an unaffiliated registered securities broker-dealer and investment advisor.

Under the lockbox program, which is not tied to extensions of credit by the Company, the Company's customers arrange for payments of their 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 LPL, a full service securities brokerage business. Registered representatives employed by LPL offer limited investment advice, execute transactions and assist customers in financial and retirement planning. LPL provides research to and supervises its representatives. The Bank receives a share in the commission revenues.

Total other operating income in 2007 was \$13,948,000, an increase of \$2,583,000 or 22.7% compared to 2006. This increase followed an increase of \$392,000 or 3.6% in 2006, compared to 2005. Included in 2007 is the \$1,321,000 pre-tax gain on the sale of the building that houses the Company's Medford Square branch. Service charge income, which continues to be a major area of other operating income totaling \$7,579,000 in 2007, increased \$877,000 compared to 2006. This followed an increase of \$856,000 compared to 2005. Service charges on deposit accounts increased mainly because of increases in fees and an increase in overdraft charges. Lockbox revenues totaled \$2,956,000, up \$184,000 in 2007 following a decrease of \$35,000 in 2006. This increase was mainly attributable to an increase in the customer base. Other income totaled \$1,687,000, down \$55,000 in 2007 following a decrease of \$116,000 in 2006. The decrease in 2007 was mainly attributable to an increase of \$217,000 in foreign ATM surcharges and an increase of \$183,000 in the growth of cash surrender values on life insurance policies that was attributable to higher returns on life insurance policies 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 during 2006. Foreign ATM surcharges increased because of an increase in rates charged and the addition of ATM machines. The decrease in 2006 was mainly attributable to a decrease in the growth of cash surrender values by \$697,000 due to a decline in the policy returns 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.

Operating Expenses

Total operating expenses were \$40,255,000 in 2007, compared to \$40,196,000 in 2006 and \$40,318,000 in 2005.

Salaries and employee benefits expenses increased by \$728,000 or 3.1% in 2007, after decreasing by 1.6% in 2006. The increase in 2007 was mainly attributable to an increase in staff levels, merit increases in salaries and increases in health insurance costs. The decrease in 2006 was mainly attributable to the retirement of the former Chief Executive Officer offset somewhat by an increase in pension expense and health insurance costs.

Occupancy expense decreased by \$55,000 or 1.4% in 2007, following an increase of \$109,000 or 2.9% in 2006. The decrease in 2007 was primarily attributable to an increase in rental income. The increase in 2006 was primarily attributable to an increase in utility rates. Equipment expense decreased by \$86,000 or 2.8% in 2007, following an increase of \$56,000 or 1.9% in 2006. The decrease in 2007 was primarily attributable to a decrease in depreciation expense. The increase in 2006 was primarily attributable to depreciation associated with the addition of capital expenditures. Other operating expenses decreased by \$528,000 in 2007, which followed a \$95,000 increase in 2006. The decrease in 2007 was primarily attributable to a decrease in bank processing charges and legal expense. The increase in 2006 was primarily attributable to an increase in contributions.

Provision for Income Taxes

Income tax expense was \$3,532,000 in 2007, \$2,419,000 in 2006 and \$3,166,000 in 2005. The effective tax rate was 31.0% in 2007, 34.0% in 2006 and 31.5% in 2005. The decrease in the effective tax rate for 2007 was mainly attributable to a higher level of non-taxable income. The increase in the effective tax rate for 2006 was primarily the result of a decrease in non-taxable income. The federal tax rate was 34% in 2007, 2006 and 2005.

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 change 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	(0.2)%
+200	(0.4)%
+100	(0.7)%
-100	(2.5)%
-200	(3.8)%
-300	(4.9)%

⁽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 \$299,901,000 on December 31, 2007, compared with \$159,668,000 on December 31, 2006. 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 \$118,806,000 at December 31, 2007, compared with \$106,818,000 at December 31, 2006. The increase in 2007 was primarily the result of earnings and a decrease in accumulated other comprehensive loss less dividends paid. The decrease in accumulated other comprehensive loss was mainly attributable to an improvement of \$4,900,000 in the net unrealized loss on the Company's available-for-sale portfolio, and an improvement of \$1,346,000 in the additional pension liability, net of taxes.

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 16.46% and 13.02%, respectively, and total capital-to-risk assets ratio of 17.51% and 14.08%, respectively, at December 31, 2007. 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, 2007, the Company and the Bank exceeded this requirement with leverage ratios of 9.56% and 7.56%, 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, 2007.

Contractual Obligations and Commitments by Maturity (dollars in thousands)

CONTRACTUAL OBLIGATIONS	Total	Payments Due—by Period			
		Less than One Year	One to Three Years	Three to Five Years	After Five Years
FHLB advances	\$289,250	\$124,750	\$113,500	\$9,000	\$42,000
Subordinated debentures	36,083	—	—	—	36,083
Retirement benefit obligations	20,467	1,637	3,478	3,789	11,563
Lease obligations	5,486	1,311	2,098	907	1,170
Other					
Treasury, tax and loan	489	489	—	—	—
Customer repurchase agreements and federal funds purchased	85,990	85,990	—	—	—
Total contractual cash obligations	\$437,765	\$214,177	\$119,076	\$13,696	\$90,816

OTHER COMMITMENTS	Total	Amount of Commitment Expiring—by Period			
		Less than One Year	One to Three Years	Three to Five Years	After Five Years
Lines of credit	\$155,378	\$89,431	\$8,987	\$1,002	\$55,958
Standby and commercial letters of credit	13,498	12,956	542	—	—
Other commitments	38,482	15,550	10,430	1,770	10,732
Total commitments	\$207,358	\$117,937	\$19,959	\$2,772	\$66,690

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.

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

Century Bancorp, Inc. AR '07

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	2007	2006
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate 1-4 family mortgages	\$ 2,442	\$ 2,305
Standby and commercial letters of credit	13,498	10,397
Unused lines of credit	155,378	168,290
Unadvanced portions of construction loans	27,294	16,793
Unadvanced portions of other loans	8,746	5,975

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 creditworthiness 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 September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 157, "Fair Value Measurements," which among other things, requires enhanced disclosures about financial instruments carried at fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007. SFAS 157 establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels defined by the SFAS 157 hierarchy are as follows:

Level I – Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The type of financial instruments included in Level I are highly liquid cash instruments with quoted prices such as G-7 government, agency securities, listed equities and money market securities, as well as listed derivative instruments.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments includes cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair values have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Instruments which are generally included in the category are corporate bonds and loans, mortgage whole loans, municipal bonds and OTC derivatives.

Level III – Instruments that have little to no pricing observability as of the reported

date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Instruments that are included in this category generally include commercial mortgage loans, certain private equity investments, distressed debt, non-investment grade residual interests in securitizations, as well as certain highly structured OTC derivative contracts.

The Company is currently evaluating the impact SFAS 157 will have upon disclosures upon adoption.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities," which gives entities the option to measure eligible financial assets, and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company's first fiscal year after November 15, 2007. The Company adopted SFAS 159 on January 1, 2008 and did not elect to apply the fair value to any existing financial instruments.

In March 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on EITF 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements." EITF 06-10 will require employers to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement if the employer remains subject to the risks or rewards associated with the underlying insurance contract (in the postretirement period) that collateralizes the employer's asset. Additionally, an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement by assessing what future cash flows the employer is entitled to, if any, as well as the employer's obligation and ability to repay the employer. The employer's asset should be limited to the amount of the cash surrender value of the insurance policy, unless the arrangement requires the employee (or retiree) to repay the employer irrespective of the amount of the cash surrender value of the insurance policy (and assuming the employee (or retiree) is an adequate credit risk), in which case the employer should recognize the value of the loan including accrued interest, if applicable. EITF 06-10 is effective for fiscal years beginning after December 15, 2007, earlier application permitted. Entities should recognize the effects of applying EITF 06-10 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings in the statement of financial position as of the beginning of the year of adoption or through a change in accounting principle through retrospective application to all prior periods. The Company anticipates the impact of EITF 06-10 to be immaterial to the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS 141R, "Business Combinations." SFAS 141R replaces FASB Statement No. 141, "Business Combinations," but retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. It also retains the guidance in Statement 141 for identifying and recognizing intangible assets separately from goodwill. However, SFAS 141R's scope is broader than that of Statement 141. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. For any business combinations entered into by the Company subsequent to January 1, 2009, the Company will be required to apply the guidance in SFAS 141R.

December 31,	2007	2006
(dollars in thousands except share data)		
ASSETS		
Cash and due from banks (note 2)	\$ 66,974	\$ 60,465
Federal funds sold and interest-bearing deposits in other banks	232,927	99,203
Total cash and cash equivalents	299,901	159,668
Securities available-for-sale, amortized cost \$403,984 in 2007 and \$423,707 in 2006 (note 3)	403,635	415,481
Securities held-to-maturity, fair value \$181,704 in 2007 and \$258,420 in 2006 (notes 4 and 9)	183,710	265,712
Loans, net (note 5)	726,251	736,773
Less: allowance for loan losses (note 6)	9,633	9,713
Net loans	716,618	727,060
Bank premises and equipment (note 7)	21,985	22,955
Accrued interest receivable	6,590	7,372
Other assets (note 12)	47,842	46,042
Total assets	\$ 1,680,281	\$ 1,644,290
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	\$ 289,526	\$ 283,449
Savings and NOW deposits	310,858	274,231
Money market accounts	234,099	301,188
Time deposits (note 8)	295,578	410,097
Total deposits	1,130,061	1,268,965
Securities sold under agreements to repurchase (note 9)	85,990	86,960
Other borrowed funds (note 10)	289,885	123,023
Subordinated debentures (note 10)	36,083	36,083
Other liabilities	19,456	22,441
Total liabilities	1,561,475	1,537,472
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 3,516,704 shares in 2007 and 3,498,738 shares in 2006	3,517	3,499
Common stock, Class B, \$1.00 par value per share; authorized 5,000,000 shares; issued 2,027,100 shares in 2007 and 2,042,450 shares in 2006	2,027	2,042
Additional paid-in-capital	11,553	11,505
Retained earnings	105,550	99,859
	122,647	116,905
Unrealized losses on securities available-for-sale, net of taxes	(211)	(5,111)
Additional pension liability, net of taxes	(3,630)	(4,976)
Total accumulated other comprehensive loss, net of taxes (note 3)	(3,841)	(10,087)
Total stockholders' equity	118,806	106,818
Total liabilities and stockholders' equity	\$ 1,680,281	\$ 1,644,290

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

Century Bancorp, Inc. AR '07

Year Ended December 31,	2007	2006	2005
(dollars in thousands except share data)			
INTEREST INCOME			
Loans	\$ 52,796	\$ 51,437	\$ 41,274
Securities available-for-sale	14,478	17,194	19,540
Securities held-to-maturity	9,065	10,112	11,635
Federal funds sold and interest-bearing deposits in other banks	6,669	1,964	362
Total interest income	83,008	80,707	72,811
INTEREST EXPENSE			
Savings and NOW deposits	6,712	4,950	3,552
Money market accounts	8,901	9,804	7,018
Time deposits (note 8)	15,640	16,026	8,835
Securities sold under agreements to repurchase	3,191	2,681	813
Other borrowed funds and subordinated debentures	9,361	10,483	12,602
Total interest expense	43,805	43,944	32,820
Net interest income	39,203	36,763	39,991
Provision for loan losses (note 6)	1,500	825	600
Net interest income after provision for loan losses	37,703	35,938	39,391
OTHER OPERATING INCOME			
Service charges on deposit accounts	7,579	6,702	5,846
Lockbox fees	2,956	2,772	2,807
Brokerage commissions	135	149	462
Net gain on sale of fixed assets	1,438	—	—
Net gains on sales of securities	153	—	—
Other income	1,687	1,742	1,858
Total other operating income	13,948	11,365	10,973
OPERATING EXPENSES			
Salaries and employee benefits (note 13)	24,543	23,815	24,197
Occupancy	3,852	3,907	3,798
Equipment	2,957	3,043	2,987
Other (note 16)	8,903	9,431	9,336
Total operating expenses	40,255	40,196	40,318
Income before income taxes	11,396	7,107	10,046
Provision for income taxes (note 12)	3,532	2,419	3,166
Net income	\$ 7,864	\$ 4,688	\$ 6,880
SHARE DATA (note 11)			
Weighted average number of shares outstanding, basic	5,542,461	5,540,966	5,535,202
Weighted average number of shares outstanding, diluted	5,546,707	5,550,722	5,553,009
Net income per share, basic	\$ 1.42	\$ 0.85	\$ 1.24
Net income per share, diluted	1.42	0.84	1.24

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Stockholders' Equity

Century Bancorp, Inc. AR '07

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
(dollars in thousands except share data)						
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 \$761 in taxes	—	—	—	—	(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 \$1,421 in taxes	—	—	—	—	(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
Net income	—	—	—	7,864	—	7,864
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of \$2,977 in taxes	—	—	—	—	4,900	4,900
Pension liability adjustment, net of \$934 in taxes	—	—	—	—	1,346	1,346
Comprehensive income						14,110
Conversion of Class B Common Stock to Class A Common Stock, 15,350 shares	15	(15)	—	—	—	—
Stock options exercised, 2,616 shares	3	—	48	—	—	51
Cash dividends, Class A Common Stock, \$0.48 per share	—	—	—	(1,685)	—	(1,685)
Cash dividends, Class B Common Stock, \$0.24 per share	—	—	—	(488)	—	(488)
BALANCE, DECEMBER 31, 2007	\$ 3,517	\$ 2,027	\$ 11,553	\$ 105,550	\$ (3,841)	\$ 118,806

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Century Bancorp, Inc. AR '07

Year Ended December 31,	2007	2006	2005
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 7,864	\$ 4,688	\$ 6,880
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,500	825	600
Deferred income taxes	111	(713)	128
Net depreciation and amortization	3,443	3,595	3,348
Decrease (increase) in accrued interest receivable	782	(245)	(327)
Increase in other assets	(5,809)	(2,644)	(3,646)
Gain on sales of securities available-for-sale	(153)	—	—
Gain on sales of fixed assets	(1,438)	—	—
(Decrease) increase in other liabilities	(656)	1,202	299
Net cash provided by operating activities	5,644	6,708	7,282
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from calls/maturities of securities available-for-sale	197,322	123,013	180,317
Proceeds from sales of securities available-for-sale	160	—	—
Purchase of securities available-for-sale	(177,870)	(498)	(112,235)
Proceeds from calls/maturities of securities held-to-maturity	82,074	20,965	60,950
Purchase of securities held-to-maturity	—	—	(2,022)
Net decrease (increase) in loans	8,489	(47,580)	(110,369)
Proceeds from sales of fixed assets	1,800	—	—
Capital expenditures	(2,252)	(723)	(1,916)
Net cash provided by investing activities	109,723	95,177	14,725
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in time deposit accounts	(114,519)	8,324	41,957
Net (decrease) increase in demand, savings, money market and NOW deposits	(24,385)	43,601	(218,927)
Net proceeds from the exercise of stock options	51	95	23
Cash dividends	(2,173)	(2,167)	(2,153)
Net (decrease) increase in securities sold under agreements to repurchase	(970)	36,950	11,360
Net increase (decrease) in other borrowed funds	166,862	(181,699)	89,816
Retirement of subordinated debentures	—	—	(29,639)
Net cash provided by (used in) financing activities	24,866	(94,896)	(107,563)
Net increase (decrease) in cash and cash equivalents	140,233	6,989	(85,556)
Cash and cash equivalents at beginning of year	159,668	152,679	238,235
Cash and cash equivalents at end of year	\$ 299,901	\$ 159,668	\$ 152,679
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the year for:			
Interest	\$ 44,787	\$ 42,887	\$ 33,369
Income taxes	3,942	2,713	3,050
Change in unrealized gains on securities available-for-sale, net of taxes	\$ 4,900	\$ 3,159	\$ (5,261)
Change in additional pension liability, net of taxes	1,346	(2,158)	(1,061)

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 judgments about information available to them at the time of their examination.

Certain reclassifications are 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 on the trade date 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 costs and 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 such as residential real estate and consumer 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 94,787 shares of Class A common stock exercisable at December 31, 2007.

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. 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 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.

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 for the year ended December 31, 2005 would have been reduced to the pro forma amounts indicated in the following table:

Net income:	
As reported	\$6,880
Less:	
Pro forma stock based compensation cost (net of tax):	<u>282</u>
Pro forma net income	\$6,598
Basic earning per share	
As reported	\$ 1.24
Pro forma	\$ 1.19
Diluted earnings per share	
As reported	\$ 1.24
Pro forma	\$ 1.19

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 in years	9
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 2007.

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.

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. The Company adopted FIN 48 on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's results of operation or its financial position.

The Company classifies interest resulting from underpayment of income taxes as income tax expense in the first period the interest would begin accruing according to the provisions of the relevant tax law.

The Company classifies penalties resulting from underpayment of income taxes as income tax expense in the period for which the Company claims or expects to claim an uncertain tax position or in the period in which the Company's judgment changes regarding an uncertain tax position.

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.

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 September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS 157, "Fair Value Measurements," which among other things, requires enhanced disclosures about financial instruments carried at fair value. SFAS 157 is effective for fiscal years beginning after November 15, 2007. SFAS 157 establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels defined by the SFAS 157 hierarchy are as follows:

Level I – Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The type of financial instruments included in Level I are highly liquid cash instruments with quoted prices such as G-7 government, agency securities, listed equities and money market securities, as well as listed derivative instruments.

Level II – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments includes cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair values have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Instruments which are generally included in the category are corporate bonds and loans, mortgage whole loans, municipal bonds and OTC derivatives.

Level III – Instruments that have little to no pricing observability as of the reported date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. Instruments that are included in this category generally include commercial mortgage loans, certain private equity investments, distressed debt, non-investment grade residual interests in securitizations, as well as certain highly structured OTC derivative contracts.

The Company is currently evaluating the impact SFAS 157 will have upon disclosures upon adoption.

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159 ("SFAS 159"), "The Fair Value Option for Financial Assets and Financial Liabilities," which gives entities the option to measure eligible financial assets, and financial liabilities at fair value on an instrument by instrument basis, that are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company's first fiscal year after November 15, 2007. The Company adopted SFAS 159 on January 1, 2008 and did not elect to apply the fair value to any existing financial instruments.

In March 2007, the FASB ratified the consensus reached by the Emerging Issues Task Force ("EITF") on EITF 06-10, "Accounting for Deferred Compensation and Postretirement Benefit Aspects of Collateral Assignment Split-Dollar Life Insurance Arrangements." EITF 06-10 will require employers to recognize a liability for the postretirement benefit related to a collateral assignment split-dollar life insurance arrangement if the employer remains subject to the risks or rewards associated with the underlying insurance contract (in the postretirement period) that collateralizes the employer's asset. Additionally, an employer should recognize and measure an asset based on the nature and substance of the collateral assignment split-dollar life insurance arrangement by assessing what future cash flows the employer is entitled to, if any, as well as the employer's obligation and ability to repay the employer. The employer's asset should be limited to the amount of the cash surrender value of the insurance policy, unless the arrangement requires the employee (or retiree) to repay the employer irrespective of the amount of the cash surrender value of the insurance policy (and assuming the employee (or retiree) is an adequate credit risk), in which case the employer should recognize the value of the loan including accrued interest, if applicable. EITF 06-10 is effective for fiscal years beginning after December 15, 2007, earlier application permitted. Entities should recognize the effects of applying EITF 06-10 through either a change in accounting principle through a cumulative-effect adjustment to retained earnings in the statement of financial position as of the beginning of the year of adoption or through a change in accounting principle through retrospective application to all prior periods. The Company anticipates the impact of EITF 06-10 to be immaterial to the Company's consolidated financial statements.

In December 2007, the FASB issued SFAS 141R, "Business Combinations." SFAS 141R replaces FASB Statement No. 141, "Business Combinations," but retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. It also retains the guidance in Statement 141 for identifying and recognizing intangible assets separately from goodwill. However, SFAS 141R's scope is broader than that of Statement 141. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. For any business combinations entered into by the Company subsequent to January 1, 2009, the Company will be required to apply the guidance in SFAS 141R.

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 \$1,909,000 at December 31, 2007 and \$805,000 at December 31, 2006.

3. Securities Available-for-Sale

	December 31, 2007				Amortized Cost	December 31, 2006		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
(dollars in thousands)								
U.S. Treasury	\$ 1,997	\$ 39	\$ —	\$ 2,036	\$ 2,000	\$ —	\$ 9	\$ 1,991
U.S. Government Sponsored Enterprises	218,168	982	421	218,729	224,960	—	3,923	221,037
Mortgage-backed securities	163,323	402	1,563	162,162	183,458	56	4,438	179,076
Obligations of states and political subdivisions	1,678	—	—	1,678	800	—	11	789
FHLB stock	15,531	—	—	15,531	9,823	—	—	9,823
Other	3,287	305	93	3,499	2,666	165	66	2,765
Total	\$ 403,984	\$ 1,728	\$ 2,077	\$ 403,635	\$ 423,707	\$ 221	\$ 8,447	\$ 415,481

Included in U.S. Government Sponsored Enterprises securities are securities pledged to secure public deposits and repurchase agreements amounting to \$80,260,000 and \$91,510,000 at December 31, 2007 and 2006, respectively. Also included in securities available-for-sale are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$233,544,000 and \$190,961,000 at December 31, 2007 and 2006, respectively. The Company realized gross gains of \$153,000 in 2007 from gross proceeds of \$336,000 on the sale of one stock. The Company did not realize any gains or losses in 2006 and 2005.

Included in mortgage-backed securities are U.S. Government Sponsored Enterprises totaling \$148,856,000 and \$148,134,000 in 2007 and 2006, respectively.

The following table shows the maturity distribution of the Company's securities available-for-sale at December 31, 2007.

	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	\$ 96,490	\$ 96,058
After one but within five years	247,321	246,962
After five but within ten years	42,105	42,331
Non-maturing	18,068	18,284
Total	\$ 403,984	\$ 403,635

The weighted average remaining life of investment securities available-for-sale at December 31, 2007 and 2006 was 2.2 and 2.1 years, respectively. Included in the weighted average remaining life calculation at December 31, 2007 and 2006 were \$113,160,000 and \$10,000,000, 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 available-for-sale portfolio at December 31, 2007. 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 5 and 63 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 174 holdings at December 31, 2007. The Company believes that the investments are temporarily impaired.

Temporarily Impaired Investments*

	December 31, 2007					
	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	\$ —	\$ —	\$ 89,570	\$ 421	\$ 89,570	\$ 421
Mortgage-backed securities	10,404	82	96,113	1,481	106,517	1,563
Other	198	28	1,985	65	2,183	93
Total temporarily impaired securities	\$ 10,602	\$ 110	\$ 187,668	\$ 1,967	\$ 198,270	\$ 2,077

* The decline in market value is attributable to change 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, 2007.

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 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.

4. Investment Securities Held-to-Maturity

	December 31, 2007				December 31, 2006			
	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	\$ 94,987	\$ 59	\$ 251	\$ 94,795	\$ 159,969	\$ —	\$ 3,406	\$ 156,563
Mortgage-backed securities	88,723	72	1,886	86,909	105,743	76	3,962	101,857
Total	\$ 183,710	\$ 131	\$ 2,137	\$ 181,704	\$ 265,712	\$ 76	\$ 7,368	\$ 258,420

Included in U.S. Government and Agency securities are securities pledged to secure public deposits and repurchase agreements amounting to \$93,000,000 and \$130,949,000 at December 31, 2007 and 2006, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$86,987,000 and \$103,971,000 at December 31, 2007 and 2006, respectively.

At December 31, 2007 and 2006, all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises.

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The following table shows the maturity distribution of the Company's securities held-to-maturity at December 31, 2007.

	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	\$ 69,989	\$ 69,753
After one but within five years	113,557	111,785
After five but within ten years	164	166
Total	\$ 183,710	\$ 181,704

The weighted average remaining life of investment securities held-to-maturity at December 31, 2007 and 2006 was 1.8 and 2.3 years, respectively. 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, 2007. 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 63 securities that are temporarily impaired for 12 months or longer, out of a total of 78 holdings at December 31, 2007. The Company believes that the investments are temporarily impaired.

Temporarily Impaired Investments*	December 31, 2007					
	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	\$ —	\$ —	\$ 74,737	\$ 251	\$ 74,737	\$ 251
Mortgage-backed securities	—	—	82,667	1,886	82,667	1,886
Total temporarily impaired securities	\$ —	\$ —	\$ 157,404	\$ 2,137	\$ 157,404	\$ 2,137

* 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, 2007.

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.

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,	2007	2006
(dollars in thousands)		
Construction and land development	\$ 62,412	\$ 49,709
Commercial and industrial	117,332	117,497
Commercial real estate	299,920	327,040
Residential real estate	168,204	167,946
Consumer	20,149	9,881
Home equity	56,795	63,380
Overdrafts	1,439	1,320
Total	<u>\$ 726,251</u>	<u>\$ 736,773</u>

Net deferred fees included in loans at December 31, 2007 and December 31, 2006 were \$38,000 and \$183,000, respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately \$559,000 and \$798,000 at December 31, 2007 and December 31, 2006, 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 \$65,000 and \$72,000 at December 31, 2007 and at December 31, 2006, respectively.

As of December 31, 2007 and 2006, the Bank recorded investment in impaired loans was \$196,000 and \$16,000, respectively.

At December 31, 2007, there were \$75,000 of impaired loans with a specific reserve of \$75,000. There were no impaired loans with specific reserves December 31, 2006.

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

December 31,	2007	2006	2005
(dollars in thousands)			
Loans on non-accrual	\$ 1,312	\$ 135	\$ 949
Impaired loans on non-accrual included above	196	16	886
Total recorded investment in impaired loans	196	16	886
Average recorded value of impaired loans	332	278	1,384
Interest income on non-accrual loans according to their original terms	52	3	77
Interest income on non-accrual loans actually recorded	—	—	—
Interest income recognized on impaired loans	—	—	—

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 2007.

Balance at December 31, 2006	Additions	Repayments and Deletions	Balance at December 31, 2007
(dollars in thousands)			
\$ 1,943	\$ 1,298	\$ 1,085	\$ 2,156

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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, 2007, 2006 and 2005 are as follows:

	2007	2006	2005
(dollars in thousands)			
Allowance for loan losses, beginning of year	\$ 9,713	\$ 9,340	\$ 9,001
Loans charged-off	(2,139)	(708)	(690)
Recoveries on loans previously charged-off	559	256	429
Net charge-offs	(1,580)	(452)	(261)
Provision charged to expense	1,500	825	600
Allowance for loan losses, end of year	\$ 9,633	\$ 9,713	\$ 9,340

7. Bank Premises and Equipment

December 31,	2007	2006	Estimated Useful Life
(dollars in thousands)			
Land	\$ 3,478	\$ 3,650	—
Bank premises	17,710	17,146	30-39 years
Furniture and equipment	23,889	22,952	3-10 years
Leasehold improvements	5,114	5,310	30-39 years or lease term
	50,191	49,058	
Accumulated depreciation and amortization	(28,206)	(26,103)	
Total	\$ 21,985	\$ 22,955	

During 2007, the Company sold the building which houses one of its branches located at 55 High Street, Medford, Massachusetts for \$1,500,000 at market terms. This property was sold to an entity affiliated with a director of the Company. The Bank financed \$1,000,000 of this purchase at market terms. This sale resulted in a pre-tax gain of \$1,321,000.

The Bank is relocating this branch to 1 Salem Street (formerly 3 Salem Street), Medford, Massachusetts. This property will be leased from an entity affiliated with Marshall M. Sloane, Chairman of the Board of the Company. The lease is for a period of fifteen years. The annual base rent amount will be \$28,500 with annual increases based on the consumer price index. The Company is also required to pay 25% of all real estate taxes and operating costs. The lease contains options to extend the lease for three additional five-year periods. The lease was effective on September 1, 2007. The terms of the lease were based on an independent appraisal of the property and are considered to be market terms.

Until such time as 1 Salem Street is opened as a branch, 55 High Street has been leased to the Bank as a tenant-at-will at market terms. It is anticipated that the new branch will be opened during the second or third quarter of 2008.

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 \$1,349,000, \$1,113,000 and \$1,076,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Rental income approximated \$351,000, \$69,000 and \$61,000 in 2007, 2006 and 2005, respectively.

Future minimum rental commitments for noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2007 were as follows:

Year	Amount
(dollars in thousands)	
2008	\$ 1,311
2009	1,177
2010	921
2011	687
2012	220
Thereafter	1,170
	\$ 5,486

8. Deposits

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

	2007	Percent	2006	Percent
(dollars in thousands)				
Within 1 year	\$ 255,983	87 %	\$ 361,825	88 %
Over 1 year to 2 years	27,945	9 %	37,719	9 %
Over 2 years to 3 years	5,849	2 %	9,109	2 %
Over 3 years to 5 years	5,801	2 %	1,444	1 %
Total	<u>\$ 295,578</u>	<u>100 %</u>	<u>\$ 410,097</u>	<u>100 %</u>

Time deposits of \$100,000 or more totaled \$172,592,000 and \$229,576,000 in 2007 and 2006, respectively.

9. Securities Sold Under Agreements to Repurchase

	2007	2006	2005
(dollars in thousands)			
Amount outstanding at December 31,	\$ 85,990	\$ 86,960	\$ 50,010
Weighted average rate at December 31,	2.95 %	3.71 %	3.05 %
Maximum amount outstanding at any month end	\$ 102,110	\$ 139,460	\$ 52,680
Daily average balance outstanding during the year	\$ 89,815	\$ 70,862	\$ 39,746
Weighted average rate during the year	3.55 %	3.78 %	2.05 %

Amounts outstanding at December 31, 2007, 2006 and 2005 carried maturity dates of the next business day. U.S. Government Sponsored Enterprises securities with a total book value of \$86,760,000, \$89,114,000 and \$52,009,000 were pledged as collateral and held by custodians to secure the agreements at December 31, 2007, 2006, and 2005, respectively. The approximate fair value of the collateral at those dates was \$86,692,000, \$87,249,000 and \$50,328,000, respectively.

10. Other Borrowed Funds and Subordinated Debentures

	2007	2006	2005
(dollars in thousands)			
Amount outstanding at December 31,	\$ 325,968	\$ 159,106	\$ 340,805
Weighted average rate at December 31,	4.94 %	5.54 %	4.79 %
Maximum amount outstanding at any month end	\$ 325,968	\$ 339,858	\$ 393,734
Daily average balance outstanding during the year	\$ 168,535	\$ 192,143	\$ 268,878
Weighted average rate during the year	5.55 %	5.46 %	4.69 %

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 remaining term borrowing capacity at the FHLB at December 31, 2007 was approximately \$31,452,000. 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,	2007		2006		2005	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(dollars in thousands)						
Within 1 year	\$ 124,750	4.65 %	\$ 2,750	3.80 %	\$ 197,156	4.15 %
Over 1 year to 2 years	54,500	4.67 %	19,500	5.38 %	2,500	3.66 %
Over 2 years to 3 years	59,000	5.17 %	32,000	5.17 %	19,500	5.38 %
Over 3 years to 5 years	9,000	4.14 %	40,500	5.80 %	63,500	5.72 %
Over 5 years	42,000	4.53 %	27,000	4.44 %	16,000	4.43 %
Total	<u>\$ 289,250</u>	<u>4.73 %</u>	<u>\$ 121,750</u>	<u>5.22 %</u>	<u>\$ 298,656</u>	<u>4.58 %</u>

SUBORDINATED DEBENTURES

Subordinated debentures totaled \$36,083,000 at December 31, 2007 and 2006. In May 1998, the Company consummated the sale of a trust preferred securities offering, in which it issued \$29,639,000 of subordinated debt securities due 2029 to its newly formed unconsolidated subsidiary Century Bancorp Capital Trust.

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

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

OTHER BORROWED FUNDS

The Bank had \$270,000 of overnight federal funds purchased on December 31, 2006. The borrowings carried an interest rate of 5.00% for 2006. There were no such borrowings at December 31, 2007.

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 \$489,000 and \$856,000 at December 31, 2007 and 2006, respectively.

The Bank also has an outstanding loan in the amount of \$146,000 and \$147,000 at December 31, 2007 and 2006, 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 2007, 2006 and 2005 was an increase of 4,246, 9,756 and 17,807 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 94,787 options exercisable at December 31, 2007.

Stock option activity under the plan is as follows:

	December 31, 2007		December 31, 2006		December 31, 2005	
	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	122,737	\$ 27.20	130,133	\$ 26.74	131,787	\$ 26.65
Granted	—	—	—	—	—	—
Forfeited	(25,334)	26.32	(1,650)	28.05	(300)	28.56
Exercised	(2,616)	19.20	(5,746)	16.54	(1,354)	16.82
Outstanding at end of year	94,787	\$ 27.66	122,737	\$ 27.20	130,133	\$ 26.74
Exercisable at end of year	94,787	\$ 27.66	122,737	\$ 27.20	130,133	\$ 26.74
Available to be granted at end of year	176,759		151,425		149,775	

At December 31, 2007, 2006 and 2005, the options outstanding have exercise prices between \$15.063 and \$35.010, and a weighted average remaining contractual life of four years for 2007, five years for 2006 and six years for 2005. The weighted average intrinsic value of options exercised for the period ended December 31, 2007, 2006 and 2005 was \$4.90, \$10.76 and \$12.45 per share with an aggregate value of \$12,808, \$61,805 and \$16,857, respectively. The average intrinsic value of options exercisable at December 31, 2007, 2006 and 2005 had an aggregate value of \$54,805, \$271,511 and \$487,075, 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 effect 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 judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulation) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2007, that the Bank and the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2007, 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, 2007						
Total Capital (to Risk-Weighted Assets)	\$ 128,405	14.08 %	\$ 72,960	8.00 %	\$ 91,200	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	118,772	13.02 %	36,480	4.00 %	54,720	6.00 %
Tier 1 Capital (to 4th Qtr. Average Assets)	118,772	7.56 %	62,846	4.00 %	78,557	5.00 %
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 %

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, 2007						
Total Capital (to Risk-Weighted Assets)	\$ 160,076	17.51 %	\$ 73,130	8.00 %	\$ 91,413	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	150,443	16.46 %	36,565	4.00 %	54,848	6.00 %
Tier 1 Capital (to 4th Qtr. Average Assets)	150,443	9.56 %	62,966	4.00 %	78,708	5.00 %
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 %

12. Income Taxes

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

	2007	2006	2005
(dollars in thousands)			
Current expense:			
Federal	\$ 3,137	\$ 2,968	\$ 2,842
State	284	164	196
Total current expense	3,421	3,132	3,038
Deferred expense (benefit):			
Federal	50	(592)	117
State	61	(121)	11
Total deferred expense (benefit)	111	(713)	128
Provision for income taxes	\$ 3,532	\$ 2,419	\$ 3,166

Included in income tax expense for the year ended December 31, 2007, 2006, and 2005 is interest of \$0, \$24,000 and \$0, respectively. There were no penalties during these periods.

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

	2007	2006
(dollars in thousands)		
Currently receivable	\$ 589	\$ 67
Deferred income tax asset, net	8,465	12,487
Total	<u>\$ 9,054</u>	<u>\$ 12,554</u>

Differences between income tax expense at the statutory federal income tax rate and total income tax expense are summarized as follows:

	2007	2006	2005
(dollars in thousands)			
Federal income tax expense at statutory rates	\$ 3,875	\$ 2,417	\$ 3,516
State income tax, net of federal income tax benefit	225	108	135
Insurance income	(210)	(109)	(356)
Effect of tax-exempt interest	(105)	(4)	(8)
Other	(253)	7	(121)
Total	<u>\$ 3,532</u>	<u>\$ 2,419</u>	<u>\$ 3,166</u>
Effective tax rate	31.0 %	34.0 %	31.5 %

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

	2007	2006
(dollars in thousands)		
Deferred income tax assets:		
Allowance for loan losses	\$ 3,943	\$ 3,975
Deferred compensation	4,132	4,141
Unrealized loss on securities available-for-sale	137	3,115
Pension and SERP liability	2,514	3,447
Acquisition premium	515	502
Investments write-down	27	27
Deferred gain	112	132
Other	2	33
Gross deferred income tax asset	<u>11,382</u>	<u>15,372</u>
Deferred income tax liabilities:		
Depreciation	(360)	(733)
Limited partnerships	(2,415)	(2,048)
Other	(142)	(104)
Gross deferred income tax liability	<u>(2,917)</u>	<u>(2,885)</u>
Deferred income tax asset net	<u>\$ 8,465</u>	<u>\$ 12,487</u>

Based on the Company's historical and current pre-tax earnings, management believes it is more likely than not that the Company will realize the deferred income tax asset existing at December 31, 2007. 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 affect 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.

The Company and its subsidiaries file a consolidated federal tax return and separate state income tax return. For years before 2004 the Company is no longer subject to federal or state income tax examinations.

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 then began maintaining the Qualified 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 2008-2012 are \$604,000, \$693,000, \$727,000, \$780,000 and \$925,000. The aggregate benefits expected to be paid in the five years from 2013-2017 are \$5,720,000. The Company plans to contribute \$1,387,000 to the Plan in 2008.

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

Asset Category	2007	2006
Fixed income	38 %	36 %
Domestic equity	46 %	49 %
International equity	16 %	15 %
Total	<u>100 %</u>	<u>100 %</u>

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 2008-2012 are \$1,033,000, \$1,029,000, \$1,029,000, \$1,041,000 and \$1,043,000. The aggregate benefits expected to be paid in the five years from 2013-2017 are \$5,843,000.

	Defined Benefit Pension Plan		Supplemental Insurance/ Retirement Plan	
	2007	2006	2007	2006
(dollars in thousands)				
Change projected in benefit obligation				
Benefit obligation at beginning of year	\$ 18,795	\$ 18,339	\$ 13,740	\$ 14,130
Service cost	867	882	107	106
Interest cost	1,081	997	758	766
Actuarial (gain)/loss	(1,116)	(1,039)	(111)	(613)
Benefits paid	(488)	(384)	(1,032)	(649)
Projected benefit obligation at end of year	\$ 19,139	\$ 18,795	\$ 13,462	\$ 13,740
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 13,873	\$ 12,194		
Actual return on plan assets	1,735	645		
Employer contributions	1,540	1,418		
Benefits paid	(488)	(384)		
Fair value of plan assets at end of year	\$ 16,660	\$ 13,873		
(Unfunded) Funded status	\$ (2,479)	\$ (4,922)	\$ (13,462)	\$ (13,740)
Accumulated benefit obligation	\$ 17,375	\$ 17,050	\$ 12,584	\$ 12,962
Weighted-average assumptions as of December 31				
Discount rate—Liability	6.00 %	5.75 %	6.00 %	5.75 %
Discount rate—Expense	5.75 %	5.50 %	5.75 %	5.50 %
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	\$ 867	\$ 882	\$ 107	\$ 106
Interest cost	1,081	996	758	766
Expected return on plan assets	(1,110)	(1,015)	—	—
Recognized prior service cost	(116)	(115)	64	64
Recognized net losses	398	371	81	110
Net periodic cost	\$ 1,120	\$ 1,119	\$ 1,010	\$ 1,046
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Amortization of prior service cost	\$ 116	\$ 115	\$ (64)	\$ (64)
Net (gain) loss	(2,140)	1,807	(192)	1,721
Total recognized in other comprehensive income	(2,024)	1,922	(256)	1,657
Total recognized in net periodic benefit cost and other comprehensive income	\$ (904)	\$ 3,041	\$ 754	\$ 2,703

The following table summarizes amounts recognized in Accumulated Other Comprehensive Loss as of :

	December 31, 2007			December 31, 2006		
	Plan	Supplemental Plan	Total	Plan	Supplemental Plan	Total
Prior service cost	\$ 1,190	\$ (964)	\$ 226	\$ 1,305	\$ (1,028)	\$ 277
Net actuarial loss	(4,225)	(2,146)	(6,371)	(6,364)	(2,338)	(8,702)
Total	\$ (3,035)	\$ (3,110)	\$ (6,145)	\$ (5,059)	\$ (3,366)	\$ (8,425)

The following table summarizes the amounts included in Accumulated Other Comprehensive Income (loss) at December 31, 2007 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 2008	\$ (116)	\$ 64
Amortization of loss to be recognized in 2008	211	53

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 performs 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 performs 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 \$229,000 for 2007, \$210,000 for 2006 and \$217,000 for 2005. Administrative costs associated with the plan are absorbed by the Company.

The Company does not offer any postretirement 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, 2007. 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 nonperformance 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	2007	2006
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate		
1-4 family mortgages	\$ 2,442	\$ 2,305
Standby and commercial letters of credit	13,498	10,397
Unused lines of credit	155,378	168,290
Unadvanced portions		
of construction loans	27,294	16,793
Unadvanced portions		
of other loans	8,746	5,975

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 creditworthiness 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,	2007	2006	2005
(dollars in thousands)			
Marketing	\$ 1,540	\$ 1,515	\$ 1,478
Processing services	876	1,326	1,281
Legal and audit	776	894	881
Postage and delivery	867	849	820
Software maintenance/amortization	721	717	876
Supplies	759	684	605
Consulting	639	642	616
Telephone	546	524	489
Core deposit tangible amortization	388	388	388
Insurance	380	368	370
Director's fees	232	219	200
FDIC assessment	148	154	186
Capital expense amortization	12	12	9
Other	1,019	1,139	1,137
Total	<u>\$ 8,903</u>	<u>\$ 9,431</u>	<u>\$ 9,336</u>

17. Fair Values of Financial Instruments

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

Excluded from this disclosure are 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 prices published in financial newspapers or received from pricing services, 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 offered 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:

	2007		2006	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
(dollars in thousands)				
Financial assets:				
Cash and cash equivalents	\$ 299,901	\$ 299,901	\$ 159,668	\$ 159,668
Securities available-for-sale	403,635	403,635	415,481	415,481
Securities held-to-maturity	183,710	181,704	265,712	258,420
Net loans	716,618	711,611	727,060	713,889
Accrued interest receivable	6,590	6,590	7,372	7,372
Financial liabilities:				
Deposits	1,130,061	1,131,503	1,268,965	1,268,500
Repurchase agreement and other borrowed funds	375,875	379,229	209,983	211,931
Subordinated debentures	36,083	36,694	36,083	34,948
Accrued interest payable	1,678	1,678	2,659	2,659
Standby letters of credit	—	109	—	96

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 judgments 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 judgment 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)

2007 Quarters	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	\$ 20,481	\$ 20,944	\$ 20,837	\$ 20,746
Interest expense	10,378	10,835	11,048	11,544
Net interest income	10,103	10,109	9,789	9,202
Provision for loan losses	600	300	300	300
Net interest income after provision for loan losses	9,503	9,809	9,489	8,902
Other operating income	3,591	4,416	3,092	2,849
Operating expenses	9,765	9,940	10,247	10,302
Income before income taxes	3,329	4,285	2,334	1,449
Provision for income taxes	955	1,421	711	445
Net income	\$ 2,374	\$ 2,864	\$ 1,623	\$ 1,004
Share data:				
Average shares outstanding, basic	5,543,804	5,542,483	5,542,304	5,541,225
Average shares outstanding, diluted	5,547,234	5,545,915	5,548,105	5,550,653
Earnings per share, basic	\$ 0.43	\$ 0.52	\$ 0.29	\$ 0.18
Earnings per share, diluted	\$ 0.43	\$ 0.52	\$ 0.29	\$ 0.18
2006 Quarters				
(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

Notes to Consolidated Financial Statements

Century Bancorp, Inc. AR '07

19. Parent Company Financial Statements

The balance sheets of Century Bancorp, Inc. ("Parent Company") as of December 31, 2007 and 2006 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2007 are presented below. The statements of changes in stockholders' equity are identical to the consolidated statements of changes in stockholders' equity and are therefore not presented here.

BALANCE SHEETS

December 31,	2007	2006
(dollars in thousands)		
ASSETS:		
Cash	\$ 30,399	\$ 30,103
Investment in subsidiary, at equity	122,085	110,915
Other assets	2,512	2,029
Total assets	<u>\$ 154,996</u>	<u>\$ 143,047</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities	\$ 107	\$ 146
Subordinated debentures	36,083	36,083
Stockholders' equity	118,806	106,818
Total liabilities and stockholders' equity	<u>\$ 154,996</u>	<u>\$ 143,047</u>

STATEMENTS OF INCOME

Year Ended December 31,	2007	2006	2005
(dollars in thousands)			
Income:			
Dividends from subsidiary	\$ 3,611	\$ 2,891	\$ 4,505
Interest income from deposits in bank	1,442	1,381	798
Other income	72	72	72
Total income	<u>5,125</u>	<u>4,344</u>	<u>5,375</u>
Interest expense	2,400	2,400	2,468
Operating expenses	130	158	186
Income before income taxes and equity in undistributed income of subsidiary	<u>2,595</u>	<u>1,786</u>	<u>2,721</u>
Benefit from income taxes	(345)	(375)	(638)
Income before equity in undistributed income of subsidiary	<u>2,940</u>	<u>2,161</u>	<u>3,359</u>
Equity in undistributed income of subsidiary	4,924	2,527	3,521
Net income	<u>\$ 7,864</u>	<u>\$ 4,688</u>	<u>\$ 6,880</u>

STATEMENTS OF CASH FLOWS

December 31,	2007	2006	2005
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 7,864	\$ 4,688	\$ 6,880
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income of subsidiary	(4,924)	(2,527)	(3,521)
Depreciation and amortization	12	12	9
Decrease (increase) in other assets	(495)	(490)	906
(Decrease) increase in liabilities	(39)	34	(751)
Net cash provided by operating activities	<u>2,418</u>	<u>1,717</u>	<u>3,523</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Subordinated debt issuance (retirement)	—	—	(29,639)
Net proceeds from the exercise of stock options	51	95	23
Cash dividends paid	(2,173)	(2,167)	(2,153)
Net cash (used in) provided by financing activities	<u>(2,122)</u>	<u>(2,072)</u>	<u>(31,769)</u>
Net increase (decrease) in cash	<u>296</u>	<u>(355)</u>	<u>(28,246)</u>
Cash at beginning of year	<u>30,103</u>	<u>30,458</u>	<u>58,704</u>
Cash at end of year	<u>\$ 30,399</u>	<u>\$ 30,103</u>	<u>\$ 30,458</u>

KPMG LLP

Independent Registered Public Accounting Firm
99 High Street
Boston, Massachusetts 02110

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

We have audited the accompanying consolidated balance sheets of Century Bancorp, Inc. and subsidiary as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, 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), Century Bancorp, Inc.'s internal control over financial reporting as of December 31, 2007, 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 26, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Boston, Massachusetts
February 26, 2008

Report of Independent Registered Public Accounting Firm

Century Bancorp, Inc. AR '07

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 Century Bancorp, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Century Bancorp, Inc.'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, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, Century Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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. as of December 31, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 26, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Boston, Massachusetts
February 26, 2008

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, 2007. 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, 2007, 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 the effectiveness of the Company's internal control over financial reporting. Their report appears on page 39.




Marshall M. Sloane
Chairman

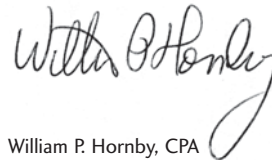
February 26, 2008



Jonathan G. Sloane
Co-President and Co-CEO



Barry R. Sloane
Co-President and Co-CEO



William P. Hornby, CPA
Chief Financial Officer and Treasurer

Stockholder Information

CORPORATE HEADQUARTERS

Century Bank
400 Mystic Avenue
Medford, MA 02155-6316
TEL (866) 8.CENTURY or (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 8, 2008, 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 or online at <http://www.century-bank.com/about/investorrelations.cfm>

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	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/Rt 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

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Cambridge	One Kendall Square, Building #100, Cambridge, MA 02139
Medford	Sloane Square, 110 Medford Street, Medford, MA 02155
Milton	Milton Hospital, 199 Reedsdale Road, Milton, MA 02186
Weston	College Hall, Regis College, 235 Wellesley Street, Weston, MA 02493

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