

41 > 2

What's greater than 2 billion in assets?  
41 years of family values.



*On May 1, 2009, The Sloane family and Century Bank associates celebrated the Bank's anniversary.*

# 2009



Dear Fellow Shareholders:

In a year when financial "giants" faltered and the federal deficit ballooned, Century Bancorp grew its assets by 25% to a record \$2.3 billion and increased net income by 12% to \$10.2 million. The Century stock price rose 40% in 2009, from \$15.75 to \$22.03 per share. We believe the increase is in recognition of our consistent and proven brand of banking. Our formula is once again in high regard by the marketplace because we value relationships, our colleagues who serve them, and our communities.

2009 was a whirlwind of economic and credit market events, and yet Century emerged stronger than ever. Century management has been saying for a very long time that banking is a business that requires a steady temperament to cultivate quality relationships, built on a foundation of careful risk management. We found it amusing, even absurd, that the financial giants sent out press releases announcing their renewed focus on "risk management" because we believe that skill has always been in our genetic code.

### *About Century*

*Century Bancorp, Inc. is a \$2.3 billion banking and financial services company headquartered in Medford, Massachusetts. The Company operates 22 banking offices in 17 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."*

**\$2.3**  
billion in assets

## Some important highlights of 2009

- Net income grew 12% to \$10.2 million for the year ended December 31, 2009, or \$1.84 per diluted share, as compared to net income of \$9.0 million, or \$1.63 per diluted share, for the same period a year ago. This growth came despite an additional FDIC special insurance premium assessment of \$1.0 million.
- Total assets increased 25% to \$2.3 billion on December 31, 2009, from \$1.8 billion on December 31, 2008, a gain of \$452.5 million. We were frequently considered a "safe haven" destination for deposits of well-informed customers and fiduciaries.
- Total equity rose to \$132.7 million on December 31, 2009, up 10% from \$120.5 million on December 31, 2008. Book value per share increased in the period to \$24.00 from \$21.76 at the end of 2008.
- Total loans grew by 5% to \$877.1 million on December 31, 2009. Nonperforming assets ended the year at a manageable \$12.3 million.
- Our efficiency ratio, one of the key metrics of our operations, improved (decreased) to 68.5% in 2009 from 70.6% in the prior year.
- We prepared to open a new branch in April 2010 at 1354 Beacon Street in the Coolidge Corner neighborhood of Brookline.
- We continued our focus on enhancing the communities we serve. In 2009, we made hundreds of charitable donations; invested in the Hebrew Senior Life Facility in Brookline, where we dedicated the Sloane Family/Century Bank Garden; and agreed to construct and maintain a landmark park, the Rose Sloane Garden, adjacent to our Medford Square Branch.
- We were proud to have been acknowledged in 2009 by Sandler O'Neill + Partners as one of the 30 "Sm-All Stars" top-performing US small-cap banks, by the Small Business Administration because we were the top lender to veterans in Massachusetts, and as our market capitalization grew, our stock was included in the Russell 3000 Index.
- Finally, we remind all that we never needed, nor accepted, the TARP (Troubled Assets Relief Program) capital from the US Treasury.

**\$10.2**  
million in net income

**34%**  
increase in deposits

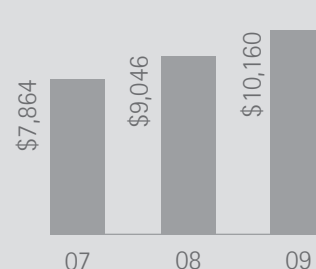
Total Assets (in thousands)



Earnings per share, diluted



Net Income (in thousands)



Century Bank is proud to be recognized by these organizations in 2009.



Many bank management teams traditionally spend a fair amount of time working on their bank strategic plan and long-range forecasts. None that we have heard of foresaw anything like the events of 2009. What led us through the storm was our basic system of business beliefs: lend in your home geography, lend with verified collateral, know your customer, care about your communities, and treat your customers and associates fairly. These are what we've called "family values" for 41 years. They are the core values our Founder and Chairman, Marshall M. Sloane, set down in 1969, and they propelled our organization to a record 2009. They are the reason we are the largest family-controlled bank in New England.

In 2010, with the dedication of all of our associates, the support of our clients, and the confidence of our shareholders, we plan to do it again.

Sincerely,

A handwritten signature in black ink that reads "Barry R. Sloane".

Barry R. Sloane  
for the Management Committee

*Management Committee members, pictured from left: Brian J. Feeney, William P. Hornby, Linda Sloane Kay, Marshall M. Sloane, Barry R. Sloane, David B. Woonton, and Paul A. Evangelista*





**Sloane Family and Century Bank  
Garden Dedication  
Hebrew Senior Life, Brookline, MA  
June 25, 2009**



**Rose Sloane Garden Dedication  
Medford Square, Medford, MA  
July 16, 2009**

## Charitable donations 2009

For 41 years, Century Bank has been supporting charitable and civic organizations dedicated to the betterment of the communities we serve. In 2009, we provided financial and leadership support to the following 163 organizations:

Adopt-A-Student Foundation • Alzheimer's Association • American Cancer Society • American Heart Association • American Red Cross of Massachusetts Bay • Andover Business Center Association • Arthritis Foundation • Associazione Gizio • Bay State Chapter Freedoms Foundation • Beacon Academy • Ben-Gurion University of the Negev • Beverly Main Streets • Big Brothers Big Sisters of MA Bay • Boston Center for Community & Justice • Boston Harbor Association • Boston Minuteman Council, Boy Scouts of America • Boston University • Boy Scouts of America • Brendan M. Curtin Sponsorship Fund • Brookline High School • Brookline Music School • Burlington Community Scholarship Foundation/Dollars for Scholars • Burlington Education Foundation • Burlington High School Scholarship Fund • Burlington Knights of Columbus • Cambridge & Somerville Program for Alcoholism and Drug Abuse Rehabilitation (CASPAR) • Cambridge Youth Dance Program • Caritas St. Elizabeth's Medical Center • Catholic Charities of Boston • Center for Integration of Medicine & Innovative Technology • City of Malden • City of Medford • City of Somerville • Codman Square Health Center • Cohen Hillel Academy • Cystic Fibrosis Foundation • Dana-Farber Cancer Institute • Dimock Community Health Centers • Don Guanella Center • DONNE 2000 • Elizabeth Peabody House • Everett Chamber of Commerce • Everett Kiwanis Club • Facing Cancer Together • First Candle • Foundation for Faces of Children • Fourth Presbyterian Church of South Boston • Franciscan Children's Hospital • Friends of Francis Food Pantry • Gann Academy • Greater Boston Chamber of Commerce • Greater Medford VNA • Harry Langburd Scholarship Fund • Healthy Malden, Inc. • Hebrew Senior Life • High Mowing School • Housing Families • I.B.E.W. Local 103 • Institute of Contemporary Art • Interfaithfamily.com • Italia Unita • Jewish Big Brothers Big Sisters • Jewish Cemetery Association of Massachusetts • Jewish Community Centers of Greater Boston • Jewish Family Services of the North Shore • Kids Clothes Club • KIPP Academy Lynn • LADDERS • League of Women Voters of Winchester • Little League of Somerville • Little Sisters of the Poor • Lynn Chamber of Commerce • Maimonides School • Malden Babe Ruth League • Malden Chamber of Commerce • Malden Rotary Club • MASCO • Medford Firefighters Union • Medford Housing Authority • Medford Mustangs Football • Medford Police Association • Mental Health Programs, Inc. (MHPI) • MetroCast Foundation • MetroWest Jewish Day School • MIRA Coalition • Museum of African American History • Mystic Valley Regional Charter School • Nazzaro Recreation Center • North End Against Drugs, Inc. • Neighborhood Charter School • NEMPAC • New England Province of Jesuits • Newton-Needham Chamber of Commerce • North Bennet Street School • North Cambridge Catholic High School • North Shore Chamber of Commerce • North Shore Community Mediation, Inc. • North Shore Medical Center Cancer Walk • Pan-Mass Challenge • Peabody Chamber of Commerce • Peabody High School Hockey Boosters • Prospect Hill Academy Charter School • Rashi School • Regis College • RESPOND, Inc. • Rodman Ride for Kids • Rosie's Place • Sacred Heart School • Saint Anthony School • Saint John School • Saint Peter School • Salem High School • Salem State College, Bertolon School of Business • SCM Community Transportation/Somerville Chamber of Commerce • Silent Spring Institute • Societa di San Guiseppe • Society Of Jesus Of New England • Solomon Schechter Day School • Somerville Chamber of Commerce • Somerville Council on Aging/City of Somerville • Somerville High School • Somerville High School Football Association • Somerville Housing Authority • Somerville Kiwanis Club • Somerville Mental Health • Somerville Pop Warner • Somerville Rotary Club • Special Olympics Massachusetts • St. Elizabeth's Medical Center • St. Francis House • St. Joseph School • St. Patrick Parish • St. Patrick's Shelter for Homeless Women • Synagogue Council of Massachusetts • Teamsters Local 25 • Temple Beth Avodah • Temple Israel of Boston • The 9691 Foundation • The Arc of Greater Boston • The David Project • The Elliott Chambers Memorial Foundation, Inc. • The Genesis Fund • The Jimmy Fund • The Progeria Research Foundation • The Winchester Foundation for Education Excellence • The Yancey Book Fair • Torah Academy • Town of Burlington • Town of Wayland • Town of Weymouth • Toys for Tots • Tufts University PMC Team • Wachusett Area Rotary Club • Ward 7 Improvement Association • West Suburban YMCA • Wheelock College • William H. Lincoln School • Winchester Community Music School • Winchester Historical Society • Winchester Rotary Charitable Fund, Inc. • Winchester Rotary Club • World Unity • Young Israel of Brookline



## Century Bancorp, Inc. Directors

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

Roger S. Berkowitz<sup>2,5,7\*</sup>  
President & CEO  
Legal Sea Foods, Inc.

Marshall I. Goldman<sup>3,5\*\*</sup>  
Professor Emeritus  
Wellesley College

Russell B. Higley, Esq.<sup>6,7</sup>  
Attorney  
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Jackie Jenkins-Scott<sup>4,5</sup>  
President  
Wheelock College

Linda Sloane Kay<sup>7</sup>  
Senior Vice President  
Century Bank and Trust Company

Fraser Lemley<sup>2,4,5</sup>  
Chairman & CEO  
Sentry Auto Group

Joseph J. Senna, Esq.<sup>1,4</sup>  
Attorney

Barry R. Sloane<sup>4,5,6,7</sup>  
Co-President & Co-CEO  
Century Bank and Trust Company

Jonathan G. Sloane<sup>4,5,6,7</sup>  
Co-President & Co-CEO  
Century Bank and Trust Company

Marshall M. Sloane<sup>4,5</sup>  
Chairman of the Board  
Century Bank and Trust Company

Stephanie Sonnabend<sup>13,5\*</sup>  
CEO & President  
Sonesta International Hotels Corporation

George F. Swansburg<sup>4,5</sup>

Jon Westling<sup>12,3</sup>  
President Emeritus  
Boston University

## Officers

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Founder and Chairman

Barry R. Sloane  
Co-President & Co-CEO

Jonathan G. Sloane  
Co-President & Co-CEO

William P. Hornby, CPA  
Chief Financial Officer & Treasurer

Rosalie A. Cunio  
Clerk

Paula A. Grimaldi  
Assistant Clerk

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### Management Committee

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Co-President & Co-CEO

Jonathan G. Sloane  
Co-President & Co-CEO

William P. Hornby, CPA  
Chief Financial Officer & Treasurer

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Executive Vice President

Brian J. Feeney  
Executive Vice President

David B. Woonton  
Executive Vice President

Linda Sloane Kay  
Senior Vice President

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Gracine Copithorne  
Rosalie A. Cunio  
Barbara J. Cunningham  
Sandra R. Edey

Michele English  
Judith A. Fallon  
Howard N. Gold  
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F. Omar Hazoury  
T. Daniel Kausel  
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Janice D. Taylor  
Tuesday N. Thomas  
David J. Waryas

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John R. Ferguson  
Marissa L. Fitzgerald  
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Elizabeth M. Pinault  
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Lawrence H. Tsoi  
Jose I. Umana  
Christina Welch-Matthews

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Janet Garcia  
Sara A. Gaudet  
Paula A. Grimaldi  
Amelia N. Iocco  
Brian Kelly  
Brandon N. Letellier  
Robson G. Miguel  
Marie A. Nugent  
Scott M. Rembis  
Judith A. Shannon  
Krzysztof A. Sikorski  
Elizabeth A. Theriault  
Jeanne A. Wood

<sup>1</sup> Audit Committee, <sup>2</sup> Compensation Committee, <sup>3</sup> Nominating Committee, <sup>4</sup> Executive Committee, <sup>5</sup> Asset Liability Committee, <sup>6</sup> Non-deposit Investment and Insurance Products Committee, <sup>7</sup> Trust Committee, \* Committee Chairperson, \*\* Vice Chairperson





## FINANCIAL STATEMENTS

<b>1</b>	Financial Highlights
<b>3</b>	Management's Discussion and Analysis of Results of Operations and Financial Condition
<b>19</b>	Consolidated Balance Sheets
<b>20</b>	Consolidated Statements of Income
<b>21</b>	Consolidated Statements of Changes in Stockholders' Equity
<b>22</b>	Consolidated Statements of Cash Flows
<b>23</b>	Notes to Consolidated Financial Statements
<b>46</b>	Reports of Independent Registered Public Accounting Firm
<b>48</b>	Management's Report on Internal Control Over Financial Reporting

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## Financial Highlights

Century Bancorp, Inc. AR '09

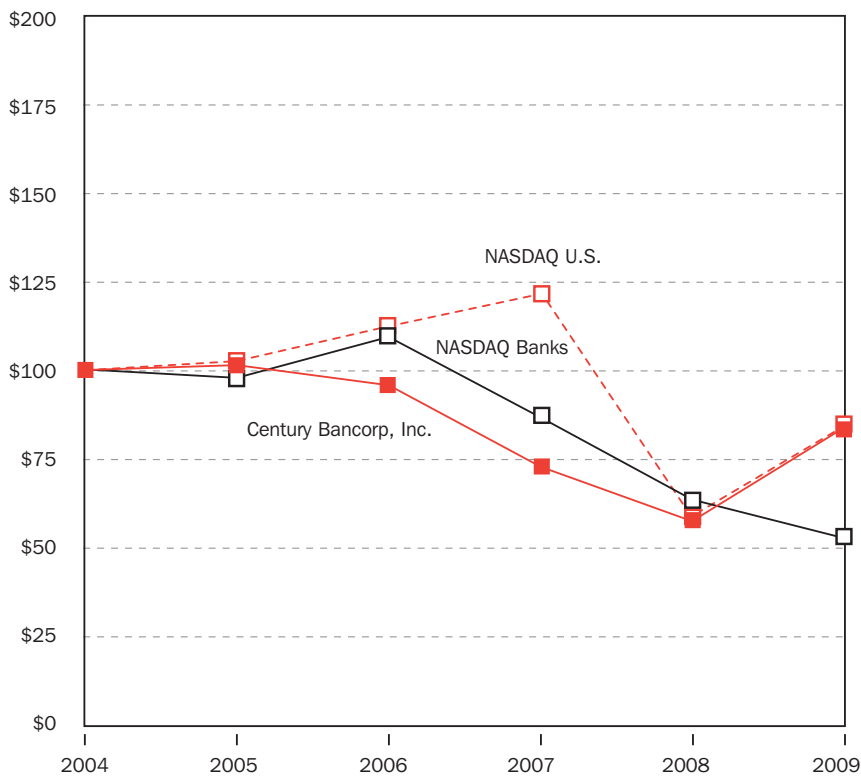
	2009	2008	2007	2006	2005
(dollars in thousands, except share data)					
<b>FOR THE YEAR</b>					
Interest income	\$ 79,600	\$ 80,693	\$ 83,008	\$ 80,707	\$ 72,811
Interest expense	31,723	35,914	43,805	43,944	32,820
Net interest income	47,877	44,779	39,203	36,763	39,991
Provision for loan losses	6,625	4,425	1,500	825	600
Net interest income after provision for loan losses	41,252	40,354	37,703	35,938	39,391
Other operating income	16,470	13,975	13,948	11,365	10,973
Operating expenses	46,379	43,028	40,255	40,196	40,318
Income before income taxes	11,343	11,301	11,396	7,107	10,046
Provision for income taxes	1,183	2,255	3,532	2,419	3,166
Net income	\$ 10,160	\$ 9,046	\$ 7,864	\$ 4,688	\$ 6,880
Average shares outstanding, basic	5,532,249	5,541,983	5,542,461	5,540,966	5,535,202
Average shares outstanding, diluted	5,534,340	5,543,702	5,546,707	5,550,722	5,553,009
Shares outstanding at year-end	5,530,297	5,538,407	5,543,804	5,541,188	5,535,422
Earnings per share:					
Basic	\$ 1.84	\$ 1.63	\$ 1.42	\$ 0.85	\$ 1.24
Diluted	\$ 1.84	\$ 1.63	\$ 1.42	\$ 0.84	\$ 1.24
Dividend payout ratio	21.4 %	24.0 %	27.6 %	46.2 %	31.3 %
<b>AT YEAR-END</b>					
Assets	\$ 2,254,035	\$ 1,801,566	\$ 1,680,281	\$ 1,644,290	\$ 1,728,769
Loans	877,125	836,065	726,251	736,773	689,645
Deposits	1,701,987	1,265,527	1,130,061	1,268,965	1,217,040
Stockholders' equity	132,730	120,503	118,806	106,818	103,201
Book value per share	\$ 24.00	\$ 21.76	\$ 21.43	\$ 19.28	\$ 18.64
<b>SELECTED FINANCIAL PERCENTAGES</b>					
Return on average assets	0.50 %	0.54 %	0.49 %	0.28 %	0.41 %
Return on average stockholders' equity	7.98 %	7.43 %	7.05 %	4.45 %	6.57 %
Net interest margin, taxable equivalent	2.69 %	3.00 %	2.65 %	2.40 %	2.58 %
Net charge-offs as a percent of average loans	0.63 %	0.38 %	0.22 %	0.06 %	0.04 %
Average stockholders' equity to average assets	6.26 %	7.23 %	6.97 %	6.39 %	6.31 %
Efficiency ratio	68.5 %	70.6 %	77.5 %	83.5 %	79.1 %

Per Share Data

2009, Quarter Ended	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 25.00	\$ 24.99	\$ 18.99	\$ 17.75
Low	18.53	17.60	13.00	9.46
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.06	0.06	0.06	0.06
2008, Quarter Ended				
	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 18.00	\$ 20.51	\$ 21.62	\$ 22.48
Low	11.50	12.76	17.00	18.25
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, 2004 to December 31, 2009 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, 2004 at:	2005	2006	2007	2008	2009
Century Bancorp, Inc.	\$ 100.83	\$ 95.75	\$ 72.26	\$ 58.04	\$ 83.35
NASDAQ U.S.	102.13	112.19	121.68	58.64	84.28
NASDAQ Banks	97.69	109.64	86.90	63.36	53.09

\*Assumes that the value of the investment in the Company's Common Stock and each index was \$100 on December 31, 2004 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.

### RECENT MARKET DEVELOPMENTS

The financial services industry is facing unprecedented challenges in the face of the current national and global economic crisis. The global and U. S. economies are experiencing significantly reduced business activity. Dramatic declines in the housing market during the past two years, with falling home prices and increasing foreclosures and unemployment, have resulted in significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. These write-downs, initially of mortgage-backed securities but spreading to credit default swaps and other derivative securities, have caused many financial institutions to seek additional capital; to merge with larger and stronger institutions; and, in some cases, to fail. The Company is fortunate that the markets it serves have been impacted to a lesser extent than many areas around the country.

In response to the financial crises affecting the banking system and financial markets, there have been several announcements of federal programs designed to purchase assets from, provide equity capital to, and guarantee the liquidity of the industry.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. The EESA authorizes the U.S. Treasury to, among other things, purchase up to \$750 billion of mortgages, mortgage-backed securities, and certain other financial instruments from financial institutions for the purpose of stabilizing and providing liquidity to the U.S. financial markets. The Company does not expect to participate in the sale of any of our assets into these programs. EESA, as amended, also increases the FDIC deposit insurance limit from \$100,000 to \$250,000 through December 31, 2013.

On October 14, 2008, the U.S. Treasury announced that it would purchase equity stakes in a wide variety of banks and thrifts. Under this program, known as the Troubled Assets Relief Program Capital Purchase Program (the "TARP Capital Purchase Program"), the U.S. Treasury made \$250 billion of capital available (from the \$750 billion authorized by the EESA) to U.S. financial institutions in the form of preferred stock. In conjunction with the purchase of preferred stock, the U.S. Treasury received warrants to purchase common stock with an aggregate market price equal to 15% of the preferred investment. Participating financial institutions were required to adopt the U. S. Treasury's standards for executive compensation, dividend restrictions and corporate governance for the period during which the Treasury holds equity issued under

the TARP Capital Purchase Program. The U.S. Treasury also announced that nine large financial institutions had already agreed to participate in the TARP Capital Purchase Program. Subsequently, a number of smaller institutions had participated in the TARP Capital Purchase Program. On December 18, 2008, the Company announced in a press release, it had received preliminary approval from the U.S. Treasury to participate in the TARP Capital Purchase Program, in an amount up to \$30 million in the form of Century Bancorp, Inc. preferred stock and warrants to purchase Class A common stock. In light of uncertainty surrounding additional restrictions that may be imposed on participants under pending legislation, the Company, on January 14, 2009, informed the U.S. Treasury that it would not be closing on the transaction on January 16, 2009, as originally scheduled. The Company subsequently withdrew its application.

On October 14, 2008, the U. S. Treasury and the FDIC jointly announced a new program, known as the Temporary Liquidity Guarantee Program ("TLGP"), to strengthen confidence and encourage liquidity in the nation's banking system. The TLGP consists of two programs: the Debt Guarantee Program ("DGP") and the Transaction Account Guarantee Program ("TAGP"). Under the DGP, as amended, the FDIC will guarantee certain newly issued senior unsecured debt of participating banks, thrifts and certain holding companies issued from October 14, 2008 through October 31, 2009, which debt matures on or prior to December 31, 2012, up to a fixed maximum amount per participant. In addition, under the TAGP, the FDIC will fully guarantee deposits in noninterest bearing transaction accounts without dollar limitation through December 31, 2009. Institutions opting to participate in the DGP will be charged a 50-, 75- or 100-basis point fee (depending on maturity) for the guarantee of eligible debt, and a 10-basis point assessment will be applicable to deposits in noninterest bearing transaction accounts at institutions participating in the TAGP that exceed the existing deposit insurance limit of \$250,000. The Company opted to participate in both the DGP and the TAGP. The TAGP has been extended through June 30, 2010. The annual assessment rate that will apply during the extension period will be either 15, 20 or 25 basis points, depending on the risk category assigned to the institution under the FDIC's risk-based premium system.

On May 22, 2009, the FDIC announced a special assessment on insured institutions as part of its efforts to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The special assessment is five basis points of each FDIC-insured depository institution's assets minus Tier 1 capital, as of June 30, 2009. The Company recorded a pre-tax charge of approximately \$1.0 million in the second quarter of 2009 in connection with the special assessment.

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking (NPR) that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period from seven to eight years. This rule was finalized on November 2, 2009. As a result, the Company is carrying a prepaid asset of \$8.8 million as of December 31, 2009. The Company's quarterly risk-based deposit insurance assessments will be paid from this amount until the amount is exhausted or until December 30, 2014, when any amount remaining would be returned to the Company.

### 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. At December 31, 2009, the Company had total assets of \$2.3 billion. Currently, the Company operates 22 banking offices in 17 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 the interest paid on deposits and borrowings. The results of operations are also affected by the level of income/fees from loans and 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.

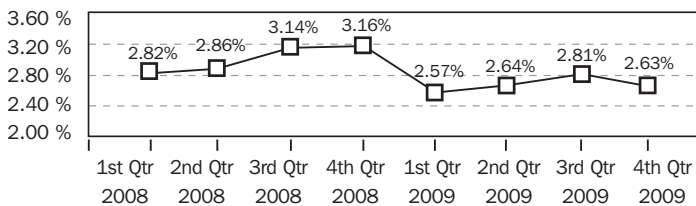
The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, nonprofit organizations and individuals. It emphasizes service to small and medium-sized businesses and retail customers in its market area. The Company makes commercial loans, real estate 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 it 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, which is 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 175 (50%) of the 351 cities and towns in Massachusetts.

The Company had net income of \$10,160,000 for the year ended December 31, 2009, compared with net income of \$9,046,000 for the year ended December 31, 2008 and net income of \$7,864,000 for the year ended December 31, 2007. Diluted earnings per share were \$1.84 in 2009, compared to \$1.63 in 2008 and \$1.42 in 2007. Included in income for 2007 is a \$1,321,000 pre-tax gain on the sale of the building that houses the Company's Medford Square branch.

Throughout 2008, the Company had seen improvement in its net interest margin; however, the first quarter of 2009 reflects a decrease in the net interest margin with a modest increase during the second and third quarters of 2009 followed by a decrease during the fourth quarter of 2009 as illustrated in the graph below:

Net Interest Margin



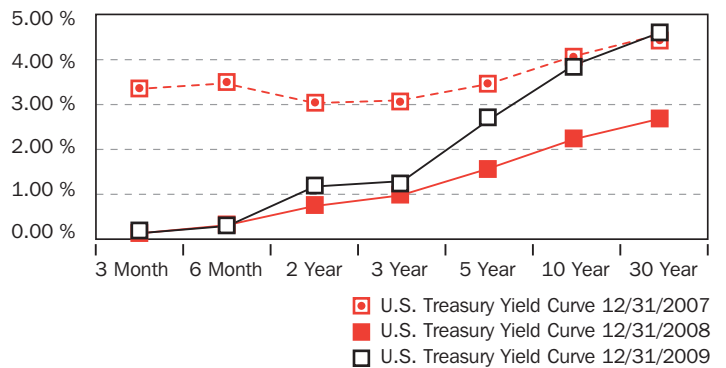
The primary factors accounting for the increase in net interest margin during 2008 are:

- a continuing decline in the cost of funds as a result of increased pricing discipline related to deposits
- an increase in average loans outstanding during 2008
- the maturity of lower-yielding investment securities
- an increase in the slope of the yield curve
- an increase in investment yields due, in part, to taking advantage of elevated yields in the municipal auction rate securities market, particularly in the third quarter of 2008

The primary factors accounting for the general decrease in the net interest margin during 2009 were a large influx of deposits, primarily from municipalities, and a corresponding increase in short-term investments.

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.

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 2009, the Company's earnings were positively impacted primarily by an increase in net interest income. This increase was primarily due to an increase in earning assets. During 2009 and 2008, the U.S. economy experienced a lower rate environment along with a steepening of the yield curve, which means that the spread between the long-term and short-term yields has increased. The lower short-term rates negatively impacted the net interest margin for 2009 as the rate at which short-term deposits could be invested declined more than the rates offered on those deposits. The steeper yield curve positively impacted the net interest margin for 2008. During 2007, rates fell and the yield curve steepened somewhat, positively impacting the net interest margin.

Total assets were \$2,254,035,000 at December 31, 2009, an increase of 25.1% from total assets of \$1,801,566,000 on December 31, 2008.

On December 31, 2009, stockholders' equity totaled \$132,730,000, compared with \$120,503,000 on December 31, 2008. Book value per share increased to \$24.00 at December 31, 2009 from \$21.76 on December 31, 2008.

On August 17, 2007, the Company sold the building that houses one of its branches located at 55 High Street, Medford, Massachusetts, for \$1.5 million at market terms. The Bank relocated this branch to 1 Salem Street (formerly 3 Salem Street), Medford, Massachusetts. This sale resulted in a pre-tax gain of \$1,321,000. The branch opened on May 5, 2008.

On April 14, 2008, the Company opened a branch located on Riverside Avenue in Medford, Massachusetts. On November 17, 2008, the Company opened a branch located on Main Street in Winchester, Massachusetts. During October 2008, the Company received regulatory approval to close a branch on Albany Street in Boston, Massachusetts. This branch closed during the first quarter of 2009. Also, during the fourth quarter of 2009, the Company received regulatory approval to open a branch located at Coolidge Corner in Brookline, Massachusetts. This branch is expected to open during the second quarter of 2010.

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.

### 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 net 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 net loss experience, as well as regulatory guidelines.

Specific allowances for loan losses entail 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 principal 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 nonaccrual 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 writedown is included as a charge to earnings. The amount of the impairment charge is recognized in earnings with an offset for the noncredit component which is recognized through other comprehensive income. Some factors considered for other-than-temporary impairment related to a debt security include an analysis of yield which results in a decrease in expected cash flows, whether an unrealized loss is issuer specific, whether the issuer has defaulted on scheduled interest and principal payments, whether the issuer's current financial condition hinders its ability to make future scheduled interest and principal payments on a timely basis or whether there was a downgrade in ratings by rating agencies.

The Company does not intend to sell any of its debt securities with an unrealized loss, and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost, which may be maturity.

### FINANCIAL CONDITION

#### Investment Securities

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

Securities available-for-sale consist of certain U.S. Treasury and U.S. Government Sponsored Enterprise mortgage-backed securities; state, county and municipal securities; privately issued mortgage-backed securities; foreign debt securities; and other marketable equities.

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, 2009 totaled \$647,796,000 and included gross unrealized gains of \$9,442,000 and gross unrealized losses of \$2,656,000. A year earlier, securities available-for-sale were \$495,585,000 including gross unrealized gains of \$4,783,000 and unrealized losses of \$5,244,000. In 2009, the Company recognized gains of \$2,734,000 on the sale of available-for-sale securities. In 2008, the Company recognized gross gains of \$251,000 and gross losses of \$2,000 on the sale of available-for-sale securities. The Company also recognized \$76,000 in realized losses in 2008 on the writedown of two stocks.

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, 2009 are carried at their amortized cost of \$217,643,000 and exclude gross unrealized gains of \$4,526,000 and gross unrealized losses of \$756,000. A year earlier, securities held-to-maturity totaled \$184,047,000 excluding gross unrealized gains of \$1,820,000 and gross unrealized losses of \$434,000.

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,	2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
U.S. Treasury	\$ 2,003	0.3 %	\$ 2,028	0.4 %	\$ 2,036	0.5 %
U.S. Government Sponsored Enterprises	192,364	29.7 %	161,292	32.5 %	218,729	56.4 %
U.S. Government Agency and Sponsored Enterprises						
Mortgage-Backed Securities	418,512	64.6 %	260,132	52.5 %	145,638	37.5 %
Privately Issued Residential Mortgage-Backed Securities	4,910	0.8 %	5,659	1.1 %	10,161	2.6 %
Privately Issued Commercial Mortgage-Backed Securities	544	0.1 %	3,367	0.7 %	6,363	1.6 %
Obligations Issued by States and Political Subdivisions	26,289	4.1 %	60,259	12.2 %	1,678	0.4 %
Other Debt Securities	2,259	0.3 %	2,100	0.4 %	2,090	0.6 %
Equity Securities	915	0.1 %	748	0.2 %	1,409	0.4 %
Total	\$ 647,796	100.0 %	\$ 495,585	100.0 %	\$ 388,104	100.0 %

Included in Obligations Issued by States and Political Subdivisions as of December 31, 2009, are \$11,635,000 of auction rate municipal obligations ("ARSs") and \$5,000,000 of variable rate demand notes ("VRDNs") with unrealized losses of \$468,000 for ARSs. VRDNs' fair value equals the carrying value. These debt securities were issued by governmental entities but are not necessarily debt obligations of the issuing entity. Of the total of \$16,635,000 of ARSs and VRDNs, \$5,000,000 are obligations of governmental entities and the remainder are obligations of large nonprofit entities. These obligations are variable rate securities with long-term maturities whose interest rates are set periodically through an auction process for ARSs and by prevailing market rates for VRDNs. Should the auction not attract sufficient bidders, the interest rate adjusts to the default rate defined in each obligation's underlying documents. The Company increased its holdings in these types of securities during the second and third quarters of 2008 to take advantage of yields available due to market disruption. Although many of these issuers have bond insurance, the Company purchased the securities based on the creditworthiness of the underlying obligor.

In the case of a failed auction, the Company may not have access to funds as only a limited market exists for failed ARSs. As of December 31, 2009, two of the Company's ARSs were purchased subsequent to their failure with a fair value of \$7,820,000 and an amortized cost of \$8,288,000.

As of December 31, 2009, the weighted average taxable equivalent yield on these securities was 0.52%.

The majority of the Company's securities AFS are classified as Level 2, as defined in footnote 1 of the "Notes to Consolidated Financial Statements." The fair values of these securities are obtained from a pricing service, which provides the Company with a description of the inputs generally utilized for each type of security. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Market indicators and industry and economic events are also monitored. The decline in fair value from amortized cost for available-for-sale securities is not attributable to changes in credit quality. Because the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2009.

Securities available-for-sale totaling \$13,677,000, or 0.61% of assets, are classified as Level 3, as defined in footnote 1 of the "Notes to Consolidated Financial Statements." These securities are generally equity investments or municipal securities with no readily determinable fair value. The securities are carried at fair value with periodic review of underlying financial statements and credit ratings to assess the appropriateness of these valuations.

Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac. Control of these enterprises was directly taken over by the U.S. Government in the third quarter of 2008.

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,	2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
U.S. Government Sponsored Enterprises	\$ 69,555	32.0 %	\$ 44,000	23.9 %	\$ 94,987	51.7 %
U.S. Government Agency and Sponsored Enterprise						
Mortgage-Backed Securities	148,088	68.0 %	140,047	76.1 %	88,723	48.3 %
Total	\$ 217,643	100.0 %	\$ 184,047	100.0 %	\$ 183,710	100.0 %

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



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

Century Bancorp, Inc. AR '09

The following two tables set forth contractual maturities of the Bank's securities portfolio at December 31, 2009. 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	Over Ten Years	% of Total	Weighted Average Yield
(dollars in thousands)												
U.S. Treasury	\$ —	0.0 %	0.00 %	\$ 2,003	0.3 %	0.95 %	\$ —	0.0 %	0.00 %	\$ —	0.0 %	0.00 %
U.S. Government Sponsored Enterprises	—	0.0 %	0.00 %	115,098	17.8 %	1.89 %	77,266	11.9 %	2.89 %	—	0.0 %	0.00 %
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	23,762	3.7 %	4.00 %	348,048	53.7 %	3.86 %	36,268	5.6 %	4.05 %	10,434	1.6 %	3.62 %
Privately Issued Residential Mortgage- Backed Securities	—	0.0 %	0.00 %	4,910	0.8 %	3.08 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %
Privately Issued Commercial Mortgage- Backed Securities	—	0.0 %	0.00 %	544	0.1 %	3.90 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %
Obligations of States and Political Subdivisions	6,355	1.0 %	1.49 %	3,299	0.5 %	3.22 %	5,000	0.8 %	0.35 %	11,635	1.8 %	0.45 %
Other Debt Securities	100	0.0 %	2.19 %	700	0.1 %	3.19 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %
Equity Securities	—	0.0 %	0.00 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %
<b>Total</b>	<b>\$ 30,217</b>	<b>4.7 %</b>	<b>3.47 %</b>	<b>\$ 474,602</b>	<b>73.3 %</b>	<b>3.35 %</b>	<b>\$ 118,534</b>	<b>18.3 %</b>	<b>3.14 %</b>	<b>\$ 22,069</b>	<b>3.4 %</b>	<b>1.95 %</b>

	Non- Maturing	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
(dollars in thousands)						
U.S. Treasury	\$ —	0.0 %	0.00 %	\$ 2,003	0.3 %	0.95 %
U.S. Government Sponsored Enterprises	—	0.0 %	0.00 %	192,364	29.7 %	2.29 %
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	—	0.0 %	0.00 %	418,512	64.6 %	3.88 %
Privately Issued Residential Mortgage-Backed Securities	—	0.0 %	0.00 %	4,910	0.8 %	3.08 %
Privately Issued Commercial Mortgage-Backed Securities	—	0.0 %	0.00 %	544	0.1 %	3.90 %
Obligations of States and Political Subdivisions	—	0.0 %	0.00 %	26,289	4.1 %	0.98 %
Other Debt Securities	1,459	0.2 %	5.00 %	2,259	0.3 %	4.40 %
Equity Securities	915	0.1 %	2.73 %	915	0.1 %	2.73 %
<b>Total</b>	<b>\$ 2,374</b>	<b>0.3 %</b>	<b>4.12 %</b>	<b>\$ 647,796</b>	<b>100.0 %</b>	<b>3.28 %</b>

### 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	\$ —	0.0 %	0.00 %	\$ 20,572	9.5 %	2.74 %	\$ 48,983	22.5 %	2.49 %	\$ 69,555	32.0 %	2.57 %
U.S. Government Sponsored Enterprise Mortgage- Backed Securities	4,693	2.2 %	3.98 %	142,949	65.6 %	4.46 %	446	0.2 %	2.31 %	148,088	68.0 %	4.44 %
<b>Total</b>	<b>\$ 4,693</b>	<b>2.2 %</b>	<b>3.98 %</b>	<b>\$ 163,521</b>	<b>75.1 %</b>	<b>4.24 %</b>	<b>\$ 49,429</b>	<b>22.7 %</b>	<b>2.49 %</b>	<b>\$ 217,643</b>	<b>100.0 %</b>	<b>3.84 %</b>

At December 31, 2009 and 2008, the Bank had no investments in obligations of individual states, counties, municipalities or nongovernment corporate entities which exceeded 10% of stockholders' equity. Additionally, in 2009, there were sales totaling \$16,185,000 in gross proceeds in state, county or municipal securities resulting in gross gains of \$0 and gross losses of \$0. In 2009, sales of securities totaling \$94,142,000 in gross proceeds resulted in a net realized gain of \$2,734,000. In 2008, there were sales totaling \$123,704,000 in gross proceeds in state, county or municipal securities resulting in gross gains of \$46,000 and gross losses of \$0. In 2008, sales of securities totaling \$238,894,000 in gross proceeds resulted in a net realized gain of \$249,000. The book value of two equity securities was written down \$76,000 during 2008.

Management reviews the investment portfolio for other-than-temporary impairment of individual securities on a regular basis. The results of such analysis are dependent upon general market conditions and specific conditions related to the issuers of our securities.

### 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 are generally dependent on the health of the real estate market in the borrowers' geographic areas and of the general economy.

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

December 31,	2009		2008		2007		2006		2005	
	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	\$ 60,349	6.9 %	\$ 59,511	7.1 %	\$ 62,412	8.6 %	\$ 49,709	6.7 %	\$ 58,846	8.5 %
Commercial and industrial	141,061	16.1 %	141,373	16.9 %	117,332	16.2 %	117,497	15.9 %	94,139	13.7 %
Commercial real estate	361,823	41.2 %	332,325	39.8 %	299,920	41.3 %	327,040	44.4 %	302,279	43.8 %
Residential real estate	188,096	21.4 %	194,644	23.3 %	168,204	23.2 %	167,946	22.8 %	146,355	21.2 %
Consumer	7,105	0.8 %	8,246	1.0 %	8,359	1.1 %	7,104	1.0 %	8,318	1.2 %
Home equity	118,076	13.5 %	98,954	11.8 %	68,585	9.4 %	66,157	9.0 %	78,369	11.4 %
Overdrafts	615	0.1 %	1,012	0.1 %	1,439	0.2 %	1,320	0.2 %	1,339	0.2 %
<b>Total</b>	<b>\$ 877,125</b>	<b>100.0 %</b>	<b>\$ 836,065</b>	<b>100.0 %</b>	<b>\$ 726,251</b>	<b>100.0 %</b>	<b>\$ 736,773</b>	<b>100.0 %</b>	<b>\$ 689,645</b>	<b>100.0 %</b>

At December 31, 2009, 2008, 2007, 2006 and 2005, loans were carried net of discounts of \$645,000, \$692,000, \$3,000, \$3,000 and \$4,000, respectively. Net deferred loan fees of \$71,000, \$81,000, \$38,000, \$183,000 and \$482,000 were carried in 2009, 2008, 2007, 2006 and 2005, respectively.

The following table summarizes the remaining maturity distribution of certain components of the Company's loan portfolio on December 31, 2009. 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, 2009

	One Year or Less	One to Five Years	Over Five Years	Total
(dollars in thousands)				
Construction and land development	\$ 10,435	\$ 12,868	\$ 37,046	\$ 60,349
Commercial and industrial	60,578	40,150	40,333	141,061
Commercial real estate	24,551	138,595	198,677	361,823
<b>Total</b>	<b>\$ 95,564</b>	<b>\$ 191,613</b>	<b>\$ 276,056</b>	<b>\$ 563,233</b>

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

December 31, 2009	One to Five Years	Over Five Years	Total
(dollars in thousands)			
Predetermined interest rates	\$ 100,346	\$ 46,760	\$ 147,106
Floating or adjustable interest rates	91,267	229,296	320,563
<b>Total</b>	<b>\$ 191,613</b>	<b>\$ 276,056</b>	<b>\$ 467,669</b>

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

Century Bancorp, Inc. AR '09

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 in 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. Also included are loans to educational institutions, hospitals and other non-profit organizations. Loans are normally extended in amounts up to a maximum of 80% of appraised value and normally for terms between three and ten years. Amortization schedules are long term and thus a balloon payment is generally due at maturity. Under most circumstances, the Bank will offer to rewrite or otherwise extend the loan at prevailing interest rates. During recent years, the Bank has emphasized nonresidential-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 nonresidential and residential mortgages.

Residential real estate (1-4 family) includes two categories of loans. Included in residential real estate are approximately \$6,860,000 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 is mostly 1-4 family residential properties located in the Bank's market area. General underwriting criteria are largely the same as those used by Fannie Mae but normally only one- or three-year adjustable interest rates are used. The Bank utilizes mortgage insurance to provide lower down payment products and has provided a "First Time Homebuyer" product to encourage new home ownership. Residential real estate loan volume has increased and remains a core consumer product. The economic environment impacts the risks associated with this category.

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

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, 2009, the Company was obligated to advance a total of \$22,699,000 to complete projects under construction.

The composition of nonperforming assets is as follows:

December 31,	2009	2008	2007	2006	2005
(dollars in thousands)					
Total nonperforming loans/loans on nonaccrual	\$12,311	\$ 3,661	\$1,312	\$ 135	\$ 949
Other real estate owned	—	—	452	—	—
Total nonperforming assets	\$12,311	\$ 3,661	\$1,764	\$ 135	\$ 949
Troubled debt restructured loans	\$ 521	\$ —	\$ —	\$ —	\$ —
Loans past due 90 and still accruing	—	89	122	789	—
Nonperforming loans as a percent of gross loans	1.40 %	0.44 %	0.18 %	0.02 %	0.14 %
Nonperforming assets as a percent of total assets	0.55 %	0.20 %	0.10 %	0.01 %	0.05 %

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

	2009	2008	2007	2006	2005
Residential real estate, multi-family	\$ —	\$ 194	\$ —	\$ —	\$ —
Commercial real estate	4,260	1,175	—	—	—
Construction and land development	4,900	—	—	—	675
Commercial and industrial	1,356	1,329	196	16	211
Total impaired loans	\$10,516	\$ 2,698	\$ 196	\$ 16	\$ 886

At December 31, 2009, 2008 and 2007, impaired loans had specific reserves of \$745,000, \$600,000 and \$75,000, respectively. There were no impaired loans with specific reserves at December 31, 2005 and December 31, 2006.

The Company was servicing mortgage loans sold to others without recourse of approximately \$1,127,000, \$768,000, \$559,000, \$798,000 and \$1,078,000 at December 31, 2009, 2008, 2007, 2006 and 2005, respectively. Additionally, the Company services mortgage loans sold to others with limited recourse. The outstanding balance of these loans with limited recourse was approximately \$47,000, \$56,000, \$65,000, \$72,000 and \$80,000 at December 31, 2009, 2008, 2007, 2006 and 2005, 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 nonaccrual 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, is reviewed on a regular basis by senior management and monthly by the Board of Directors of the Bank.

Nonaccrual loans increased from 2008 to 2009 primarily as a result of three loan relationships, one primarily commercial real estate and two construction totaling \$7,379,000. Nonaccrual loans increased from 2007 to 2008 primarily as a result of eight consumer mortgages totaling \$1,649,000. Nonaccrual 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.

The Company continues to monitor closely \$35,229,000 and \$21,807,000 at December 31, 2009 and 2008, respectively, of loans for which management has concerns regarding the ability of the borrowers to perform. The majority of the loans is secured by real estate and is considered to have adequate collateral value to cover the loan balances at December 31, 2009, although such values may fluctuate with changes in the economy and the real estate market.

### Allowance for Loan Losses

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

Year Ended December 31,	2009	2008	2007	2006	2005
(dollars in thousands)					
Year-end loans outstanding (net of unearned discount and deferred loan fees)	\$ 877,125	\$ 836,065	\$ 726,251	\$ 736,773	\$ 689,645
Average loans outstanding (net of unearned discount and deferred loan fees)	\$ 853,422	\$ 775,337	\$ 725,903	\$ 723,825	\$ 641,103
Balance of allowance for loan losses at the beginning of year	\$ 11,119	\$ 9,633	\$ 9,713	\$ 9,340	\$ 9,001
Loans charged-off:					
Commercial	1,498	2,869	1,828	386	366
Construction	3,639	15	—	—	—
Residential real estate	490	—	—	—	—
Consumer	443	489	311	322	324
Total loans charged-off	6,070	3,373	2,139	708	690
Recovery of loans previously charged-off:					
Commercial	352	159	268	96	75
Construction	25	—	—	—	—
Real estate	4	5	149	49	235
Consumer	318	270	142	111	119
Total recoveries of loans previously charged-off:	699	434	559	256	429
Net loan charge-offs	5,371	2,939	1,580	452	261
Additions to allowance charged to operating expense	6,625	4,425	1,500	825	600
Balance at end of year	\$ 12,373	\$ 11,119	\$ 9,633	\$ 9,713	\$ 9,340
Ratio of net charge-offs during the year to average loans outstanding	0.63 %	0.38 %	0.22 %	0.06 %	0.04 %
Ratio of allowance for loan losses to loans outstanding	1.41 %	1.33 %	1.33 %	1.32 %	1.35 %

These provisions are the result of management's evaluation of the quality of the loan portfolio considering such factors as loan status, specific reserves on impaired loans, 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 through 2009 due to an increase in commercial loan charge-offs and construction loan charge-offs for 2009 as a result of the weakening of the overall economy and real estate market.

In evaluating the allowance for loan losses the Company considered the following categories to be higher risk:

**Small business loans** — The outstanding loan balances of small business loans is \$50,414,000 at December 31, 2009. These are considered higher risk loans because small businesses have been negatively impacted by the current economic conditions. In a liquidation scenario, the collateral, if any, is often not sufficient to fully recover the outstanding balance of the loan. As a result, the Company often seeks additional collateral prior to renewing maturing small business loans. In addition, the payment status of the loans is monitored closely in order to initiate collection efforts in a timely fashion.

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

Century Bancorp, Inc. AR '09

Construction loans — The outstanding loan balance of construction loans at December 31, 2009 is \$60,349,000. As noted above, a major factor in nonaccrual loans is two large construction loans. Based on this fact, and the general local construction conditions facing construction, the management closely monitors all construction loans and considers this type of loan to be higher risk.

Higher balance loans — Loans greater than \$1.0 million are considered "high balance loans." The balance of these loans is \$421,371,000 at December 31, 2009. These loans are considered higher risk due to the concentration in individual loans. Additional allowance allocations are made based upon the level of high balance loans.

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:

	2009		2008		2007		2006		2005	
	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	\$ 370	6.9 %	\$ 679	7.1 %	\$ 592	8.6 %	\$ 849	6.7 %	\$ 1,014	8.5 %
Commercial and industrial	5,070	16.1	5,148	16.9	4,714	16.2	1,916	15.9	1,575	13.7
Commercial real estate	3,042	41.2	2,632	39.8	2,584	41.3	4,502	44.4	4,131	43.8
Residential real estate	1,329	21.4	782	23.3	647	23.2	512	22.8	778	21.2
Consumer and other	1,787	0.9	344	1.1	407	1.3	135	1.2	148	1.4
Home equity	775	13.5	1,534	11.8	689	9.4	219	9.0	625	11.4
Unallocated	—		—		—		1,580		1,069	
Total	<b>\$12,373</b>	<b>100.0 %</b>	<b>\$11,119</b>	<b>100.0 %</b>	<b>\$ 9,633</b>	<b>100.0 %</b>	<b>\$ 9,713</b>	<b>100.0 %</b>	<b>\$ 9,340</b>	<b>100.0 %</b>

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. Prior to 2007, 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. Additionally, 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.

	2009		2008		2007	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
Demand Deposits	\$ 277,300	17.8 %	\$ 267,966	22.0 %	\$ 278,402	23.1 %
Savings and Interest Checking	528,973	34.0 %	369,687	30.3 %	314,961	26.1 %
Money Market	432,159	27.8 %	308,432	25.3 %	277,482	23.0 %
Time Certificates of Deposit	318,413	20.4 %	273,925	22.4 %	335,972	27.8 %
Total	<b>\$ 1,556,845</b>	<b>100.0 %</b>	<b>\$ 1,220,010</b>	<b>100.0 %</b>	<b>\$ 1,206,817</b>	<b>100.0 %</b>

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

	2009
(dollars in thousands)	
Three months or less	\$ 33,331
Three months through six months	34,495
Six months through twelve months	33,687
Over twelve months	50,167
	<u>\$ 151,680</u>

### Borrowings

The Bank's borrowings consisted primarily of Federal Home Loan Bank of Boston ("FHLBB") borrowings collateralized by a blanket pledge agreement on the Bank's FHLBB stock, certain qualified investment securities, deposits at the FHLBB and residential mortgages held in the Bank's portfolios. The Bank's borrowings from the FHLBB totaled \$232,500,000, a decrease of \$4,500,000 from the prior year. The Bank's remaining term borrowing capacity at the FHLBB at December 31, 2009 was approximately \$136,476,000. In addition, the Bank has a \$14,500,000 line of credit with the FHLBB. See Note 12, "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 20 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 \$118,745,000, an increase of \$6,235,000 from the prior year. See Note 11, "Securities Sold Under Agreements to Repurchase," for a schedule, including their interest rates and other information.

## RESULTS OF OPERATIONS

### Net Interest Income

The Company's operating results depend primarily on net interest income and fees received for providing services. Net interest income on a fully taxable equivalent basis increased 9.6% in 2009 to \$51,215,000, compared with \$46,750,000 in 2008. The increase in net interest income for 2009 was mainly due to a 22.3% increase in the average balances of earning assets, combined with a similar increase in deposits. The increased volume was partially offset by a decrease of thirty-one basis points in the net interest margin. The level of interest rates, the ability of the Company's earning assets and liabilities to adjust to changes in interest rates and the mix of the Company's earning assets and liabilities affect net interest income. The net interest margin on a fully taxable equivalent basis decreased to 2.69% in 2009 from 3.00% in 2008 and increased from 2.65% in 2007.

Additional information about the increased net interest margin is contained in the "Overview" section of this report. Also, there can be no assurance that certain factors beyond its control, such as the prepayment of loans and changes in market interest rates, will continue to positively impact the net interest margin. Management believes that the current yield curve environment will continue to present challenges as deposit and borrowing costs may have the potential to increase at a faster rate than corresponding asset categories.

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

Century Bancorp, Inc. AR '09

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,	2009			2008			2007		
	Average Balance	Interest Income/Expense <sup>(1)</sup>	Rate Earned/Paid <sup>(1)</sup>	Average Balance	Interest Income/Expense <sup>(1)</sup>	Rate Earned/Paid <sup>(1)</sup>	Average Balance	Interest Income/Expense <sup>(1)</sup>	Rate Earned/Paid <sup>(1)</sup>
(dollars in thousands)									
<b>ASSETS</b>									
Interest-earning assets:									
Loans <sup>(2)</sup>	\$ 853,422	\$ 51,174	6.00 %	\$ 775,337	\$ 50,199	6.47 %	\$ 725,903	\$ 52,902	7.29 %
Securities available-for-sale: <sup>(3)</sup>									
Taxable	562,899	20,439	3.63	411,938	18,183	4.41	372,878	14,466	3.88
Tax-exempt	48,347	1,061	2.19	61,406	3,204	5.24	330	17	5.21
Securities held-to-maturity:									
Taxable	193,520	8,093	4.18	193,584	8,265	4.27	248,338	9,065	3.65
Federal funds sold	—	—	—	99,784	2,442	2.45	131,737	6,661	5.06
Interest-bearing deposits in other banks	245,002	2,171	0.87	14,478	371	2.56	163	7	4.29
Total interest-earning assets	1,903,190	82,938	4.36 %	1,556,527	82,664	5.31 %	1,479,349	83,118	5.62 %
Noninterest-earning assets	143,984			136,830			130,652		
Allowance for loan losses	(13,331)			(9,997)			(9,719)		
Total assets	\$ 2,033,843			\$ 1,683,360			\$ 1,600,282		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
Interest-bearing deposits:									
NOW accounts	\$ 279,213	\$ 2,396	0.86 %	\$ 203,678	\$ 3,076	1.51 %	\$ 202,761	\$ 4,235	2.09 %
Savings accounts	249,761	2,862	1.15	166,009	2,929	1.76	112,200	2,477	2.21
Money market accounts	432,159	6,100	1.41	308,432	7,260	2.35	277,482	8,901	3.21
Time deposits	318,412	9,438	2.96	273,925	9,744	3.56	335,972	15,640	4.66
Total interest-bearing deposits	1,279,545	20,796	1.63	952,044	23,009	2.42	928,415	31,253	3.37
Securities sold under agreements to repurchase	98,635	576	0.58	94,526	1,393	1.47	89,815	3,193	3.56
Other borrowed funds and subordinated debentures	219,713	10,351	4.71	225,743	11,512	5.10	168,535	9,359	5.55
Total interest-bearing liabilities	1,597,893	31,723	1.99 %	1,272,313	35,914	2.82 %	1,186,765	43,805	3.69 %
Noninterest-bearing liabilities									
Demand deposits	277,300			267,966			278,402		
Other liabilities	31,289			21,363			23,565		
Total liabilities	1,906,482			1,561,642			1,488,732		
Stockholders' equity	127,361			121,718			111,550		
Total liabilities and stockholders' equity	\$ 2,033,843			\$ 1,683,360			\$ 1,600,282		
Net interest income on a fully taxable equivalent basis									
		\$ 51,215			\$ 46,750			\$ 39,313	
Less taxable equivalent adjustment									
		(3,338)			(1,971)			(110)	
Net interest income									
		\$ 47,877			\$ 44,779			\$ 39,203	
Net interest spread									
			2.37 %			2.49 %			1.93 %
Net interest margin									
			2.69 %			3.00 %			2.65 %

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

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

<sup>(3)</sup> 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,	2009 Compared with 2008 Increase/(Decrease) Due to Change in			2008 Compared with 2007 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
(dollars in thousands)						
Interest income:						
Loans	\$ 5,110	\$ (4,135)	\$ 975	\$ 3,450	\$ (6,153)	\$ (2,703)
Securities available-for-sale:						
Taxable	5,867	(3,611)	2,256	1,606	2,111	3,717
Tax-exempt	(574)	(1,569)	(2,143)	3,187	—	3,187
Securities held-to-maturity:						
Taxable	(3)	(169)	(172)	(2,190)	1,390	(800)
Federal funds sold	(2,442)	—	(2,442)	(1,349)	(2,870)	(4,219)
Interest-bearing deposits in other banks	2,198	(398)	1,800	368	(4)	364
Total interest income	10,156	(9,882)	274	5,072	(5,526)	(454)
Interest expense:						
Deposits:						
NOW accounts	913	(1,593)	(680)	19	(1,178)	(1,159)
Savings accounts	1,172	(1,239)	(67)	1,020	(568)	452
Money market accounts	2,329	(3,489)	(1,160)	915	(2,556)	(1,641)
Time deposits	1,452	(1,758)	(306)	(2,589)	(3,307)	(5,896)
Total interest-bearing deposits	5,866	(8,079)	(2,213)	(635)	(7,609)	(8,244)
Securities sold under agreements to repurchase	58	(875)	(817)	159	(1,959)	(1,800)
Other borrowed funds and subordinated debentures	(301)	(860)	(1,161)	2,968	(815)	2,153
Total interest expense	5,623	(9,814)	(4,191)	2,492	(10,383)	(7,891)
Change in net interest income	\$ 4,533	\$ (68)	\$ 4,465	\$ 2,580	\$ 4,857	\$ 7,437

Average earning assets were \$1,903,190,000 in 2009, an increase of \$346,663,000 or 22.3% from the average in 2008, which was 5.2% higher than the average in 2007. Total average securities, including securities available-for-sale and securities held-to-maturity, were \$804,766,000, an increase of 20.7% from the average in 2008. The increase in securities volume was mainly attributable to an increase in taxable securities. An increase in securities balances offset by lower securities returns resulted in lower securities income, which decreased 0.2% to \$29,593,000 on a fully tax equivalent basis. Total average loans increased 10.1% to \$853,422,000 after increasing \$49,434,000 in 2008. The primary reason for the increase in loans was due in large part to an increase in tax-exempt commercial real estate lending as well as residential first and second mortgage lending. The increase in loan volume partially offset by decreases in loan rates resulted in higher loan income, which increased by 1.9% or \$975,000 to \$51,174,000. Total loan income was \$52,902,000 in 2007.

The Company's sources of funds include deposits and borrowed funds. On average, deposits showed an increase of 27.6% or \$336,835,000 in 2009 after increasing by 1.1% or \$13,193,000 in 2008. Deposits increased in 2009, primarily as a result of increases in savings, money market, NOW and time deposit accounts. Deposits increased in 2008 primarily as a result of increases in savings and money market accounts, which increased by 21.8% or \$84,759,000, somewhat offset by decreases in time deposits, which decreased by 18.5% or \$62,047,000. Borrowed funds and subordinated debentures decreased by 0.6% in 2009 following an increase of 24.0% in 2008. The majority of the Company's borrowed funds are borrowings from the FHLBB and retail repurchase agreements. Average borrowings from the FHLBB decreased by approximately \$6,030,000, and average retail repurchase agreements increased by \$4,109,000 in 2009. Interest expense totaled \$31,723,000 in 2009, a decrease of \$4,191,000 or 11.7% from 2008 when interest expense decreased 18.0% from 2007. The decrease in interest expense is primarily due to market decreases in deposit rates and continued deposit pricing discipline.

#### Provision for Loan Losses

The provision for loan losses was \$6,625,000 in 2009, compared with \$4,425,000 in 2008 and \$1,500,000 in 2007. 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 2009 and 2008 primarily as a result of growth in the loan portfolio, nonperforming loans and an increase in net charge-offs during the year as well as management's quantitative analysis of the loan portfolio.

The allowance for loan losses was \$12,373,000 at December 31, 2009, compared with \$11,119,000 at December 31, 2008. Expressed as a percentage of outstanding loans at year-end, the allowance was 1.41% in 2009 and 1.33% in 2008. This ratio increased as a result of management's evaluation of the loan portfolio.

Nonperforming loans, which include all nonaccruing loans, totaled \$12,311,000 on December 31, 2009, compared with \$3,661,000 on December 31, 2008. Nonperforming loans increased primarily as a result of three loan relationships: one primarily commercial real estate, and two construction totaling \$7,379,000. During 2009, charge-offs totaling \$3,604,000 were taken on the two construction loans.

### Other Operating Income

During 2009, 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.

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 that 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 2009 was \$16,470,000, an increase of \$2,495,000 or 17.9% compared to 2008. This increase followed an increase of \$27,000 or 0.2% in 2008, compared to 2007. Included in other operating income are net gains on sales of securities of \$2,734,000, \$249,000 and \$153,000 in 2009, 2008 and 2007, respectively. 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 \$8,003,000 in 2009, decreased \$187,000 compared to 2008. This followed an increase of \$611,000 compared to 2007. Service charges on deposit accounts decreased during 2009 mainly because of decreases in overdraft fees. The decrease in overdraft fees was mainly attributable to a reduction in the number of overdraft lines. Service charges on deposit accounts increased during 2008 mainly because of increases in fees. Lockbox revenues totaled \$2,814,000, down \$139,000 in 2009 following a decrease of \$3,000 in 2008. Other income totaled \$2,709,000, up \$230,000 in 2009 following an increase of \$792,000 in 2008. The increase in 2009 was mainly attributable to an increase of \$263,000 in the growth of cash surrender values on life insurance policies, which was attributable to higher returns on life insurance policies. The increase in 2008 was mainly attributable to an increase of \$420,000 in the growth of cash surrender values on life insurance policies, which was attributable to higher returns on life insurance policies, an increase of \$143,000 in foreign ATM surcharges and an increase of \$138,000 in royalty payments on the merchant and credit card customer base. Foreign ATM surcharges increased because of an increase in rates charged and the addition of ATMs.

### Operating Expenses

Total operating expenses were \$46,379,000 in 2009, compared to \$43,028,000 in 2008 and \$40,255,000 in 2007.

Salaries and employee benefits expenses increased by \$1,304,000 or 5.1% in 2009, after increasing by 4.4% in 2008. The increase in 2009 was mainly attributable to increases in pension expense and health insurance costs. The increase in 2008 was mainly attributable to an increase in staff levels, merit increases in salaries and increases in health insurance costs.

Occupancy expense decreased by \$142,000 or 3.3% in 2009, following an increase of \$394,000 or 10.2% in 2008. The decrease in 2009 was primarily attributable to a decrease in depreciation offset, somewhat, by an increase in rent expense associated with full year costs of branch expansion as well as general rent escalations. The increase in 2008 was primarily attributable to an increase in rent expense associated with general rent escalations as well as retail branch expansion, depreciation and real estate taxes.

Equipment expense decreased by \$502,000 or 17.5% in 2009, following a decrease of \$83,000 or 2.8% in 2008. The decrease in 2009 and 2008 was primarily attributable to a decrease in depreciation expense. Other operating expenses decreased by \$32,000 in 2009, which followed a \$925,000 increase in 2008. The decrease in 2009 was primarily attributable to a decrease in personnel recruitment expense and other real estate owned expense, offset, somewhat by an increase in legal expense. The increase in 2008 was primarily attributable to an increase in legal expense, consulting expense and contributions to charitable organizations.

FDIC assessments increased by \$2,723,000, mainly because of an increase in the assessment rate, a special assessment and an increase in the deposit base. The FDIC assessment rate was raised beginning on January 1, 2009 and contributed approximately \$1,000,000 to the increase in assessments. On May 22, 2009, the FDIC announced a special assessment on insured institutions as part of its efforts to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The special assessment was five basis points of each FDIC-insured depository institution's assets minus Tier 1 capital, as of June 30, 2009. The Company recorded a pre-tax charge of approximately \$1,000,000 in the second quarter of 2009 in connection with the special assessment. The remainder of the increase was associated with an increase in the deposit base and from participation in the TAGP. Participation in the TAGP is discussed in the "Recent Market Developments" section.

### Provision for Income Taxes

Income tax expense was \$1,183,000 in 2009, \$2,255,000 in 2008 and \$3,532,000 in 2007. The effective tax rate was 10.4% in 2009, 20.0% in 2008 and 31.0% in 2007. The decreases in the effective tax rate for 2009 and 2008 were mainly attributable to an increase in tax-exempt interest income as a percentage of taxable income. The federal tax rate was 34% in 2009, 2008 and 2007.

On July 3, 2008, the Commonwealth of Massachusetts enacted a law that included reducing the tax rates on net income applicable to financial institutions. The rate drops from the current rate of 10.5% to 10% for tax years beginning on or after January 1, 2010 to 9.5% for tax years beginning on or after January 1, 2011 and to 9% for tax years beginning on or after January 1, 2012 and thereafter. The Company has analyzed the impact of this law and as a result of revaluing its net deferred tax assets; we calculated the impact to be additional tax expense of approximately \$80,000 that was recognized during 2008.

### 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. 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 exposure 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 <sup>(1)</sup>
+300	(7.7) %
+200	(5.5) %
+100	(3.1) %
-100	3.9 %
-200	6.5 %
-300	0.5 %

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

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

### Liquidity and Capital Resources

Liquidity is provided by maintaining an adequate level of liquid assets that include cash and due from banks, federal funds sold and other temporary investments. Liquid assets totaled \$417,160,000 on December 31, 2009, compared with \$199,982,000 on December 31, 2008. 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 \$132,730,000 at December 31, 2009, compared with \$120,503,000 at December 31, 2008. The increase in 2009 was primarily the result of earnings and a decrease in accumulated other comprehensive loss, net of taxes, offset by dividends paid. The decrease in accumulated other comprehensive loss was mainly attributable to an increase of \$4,421,000 in the net unrealized gains on the Company's available-for-sale portfolio, net of taxes offset by an increase of \$77,000 in the 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 14.45% and 11.68%, respectively, and total capital-to-risk assets ratio of 15.53% and 12.76%, respectively, at December 31, 2009. 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, 2009, the Company and the Bank exceeded this requirement with leverage ratios of 7.73% and 6.23%, 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, 2009.

#### 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
FHLBB advances	\$232,500	\$104,000	\$ 30,500	\$ 56,000	\$ 42,000
Subordinated debentures	36,083	—	—	—	36,083
Retirement benefit obligations	23,611	1,835	3,860	4,069	13,847
Lease obligations	5,631	1,474	1,823	934	1,400
Other					
Treasury, tax and loan	1,380	1,380	—	—	—
Customer repurchase agreements	118,745	118,745	—	—	—
<b>Total contractual cash obligations</b>	<b>\$417,950</b>	<b>\$227,434</b>	<b>\$ 36,183</b>	<b>\$ 61,003</b>	<b>\$ 93,330</b>

OTHER COMMITMENTS	Total	Amount of Commitment Expiring—By Period			
		Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Lines of credit	\$143,556	\$ 87,726	\$ 310	\$ 2,228	\$ 53,292
Standby and commercial letters of credit	8,904	7,440	1,214	250	—
Other commitments	28,368	5,132	4,839	1,206	17,191
<b>Total commitments</b>	<b>\$180,828</b>	<b>\$100,298</b>	<b>\$ 6,363</b>	<b>\$ 3,684</b>	<b>\$ 70,483</b>

**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	2009	2008
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate 1-4 family mortgages	\$ 1,262	\$ 1,225
Standby and commercial letters of credit	8,904	14,225
Unused lines of credit	143,556	144,653
Unadvanced portions of construction loans	22,699	16,642
Unadvanced portions of other loans	4,407	6,558

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. The fair value of standby letters of credit was \$93,000 and \$117,000 for 2009 and 2008, respectively.

**Recent Accounting Developments**

FASB ASC 320-10, *Investments-Debt and Equity Securities* (formerly FASB Staff Position FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments"). On April 9, 2009, the FASB issued FASB ASC 320-10, which is intended to provide greater clarity to investors about the credit and noncredit component of an OTTI event and to more effectively communicate when an OTTI event has occurred. The FSP applies to debt securities and requires that the total OTTI be presented in the statement of income with an offset for the amount of impairment that is recognized in other comprehensive income, which is the noncredit component. Noncredit component losses are to be recorded in other comprehensive income if an investor can assess that (a) it does not have the intent to sell or (b) it is more likely than not that it will not have to sell the security prior to its anticipated recovery. The Company adopted FASB ASC 320-10 as of April 1, 2009. The adoption did not have a material effect on the Company's consolidated financial statements.

FASB ASC 820-10, *Fair Value Measurements and Disclosures-Overall* (formerly FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"). On April 9, 2009, FASB issued FASB ASC 820, which provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements. The FSP was applied prospectively, as retrospective application was not permitted. The Company adopted FASB ASC 820 as of April 1, 2009. The adoption did not have a material effect on the Company's consolidated financial statements.

FASB ASC 805, *Business Combinations* (formerly Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations") and FASB ASC 810, *Consolidation* (formerly Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51"). In December 2007, the FASB issued FASB ASC 805 and FASB ASC 810. These statements require significant changes in the accounting and reporting for business acquisitions and the reporting of noncontrolling interests in subsidiaries. Among many changes under FASB ASC 805, an acquirer will record 100% of all assets and liabilities at fair value for partial acquisitions, contingent consideration will be recognized at fair value at the acquisition date with changes possibly recognized in earnings, and acquisition related costs will be expensed rather than capitalized. FASB ASC 810 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary. Key changes under the standard are that noncontrolling interests in a subsidiary will be reported as part of equity, losses allocated to a noncontrolling interest can result in a deficit balance, and changes in ownership interests that do not result in a change of control are accounted for as equity transactions and, upon a loss of control, gain or loss is recognized and the remaining interest is remeasured at fair value on the date control is lost. FASB ASC 805 applies prospectively to business combinations for which the acquisition is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The effective date for applying FASB ASC 810 is also the first annual reporting period beginning on or after December 15, 2008. Adoption of these statements will affect the Company's accounting for any business acquisitions occurring after the effective date and the reporting of any noncontrolling interests in subsidiaries existing on or after the effective date.

FASB ASC 350, *Intangibles-Goodwill and Other* (formerly FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets"). In April 2008, the FASB issued FASB ASC 350. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. These principles are effective for fiscal years beginning on or after December 15, 2008, and interim periods within those years. Early application is not permitted. The Company has determined that the impact of the adoption of FASB ASC 350 to the Company's statement of financial position or results of operations is immaterial.

FASB ASC 260-10, *Earnings per Share-Overall* (formerly FSP EITF 03-6-01, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"). In June 2008, the FASB issued FASB ASC 260-10-55, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." FASB ASC 260-10-55 addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS") under the two-class method. The guidance applies to the calculation of EPS for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based

payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FASB 260-10-55 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings and selected financial data) to conform to these provisions. Early application is not permitted. The Company adopted FASB ASC 260-10-55 and the adoption did not have a material effect on the results of operations.

FASB ASC 715-20, *Defined Benefit Plans-General* (formerly FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets"). In December 2008, the FASB issued FASB ASC 715-30-50, "Employers' Disclosures about Postretirement Benefit Plan Assets." FASB ASC 715-30-50 requires disclosure of additional information about investment allocation, fair values of major asset categories of assets, the development of fair value measurements, and concentrations of risk. FASB ASC 715-30-50 is effective for fiscal years ending after December 15, 2009; however, earlier application is permitted. The Company has made the required disclosures for the period ending December 31, 2009.

FASB ASC 825-10-50, *Financial Instruments-Overall-Disclosure* and FASB ASC 270-10-05 *Interim Reporting-Overall-Disclosure* (formerly FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments"). These standards require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. These standards, which became effective for interim reporting periods ending after June 15, 2009, allowed early adoption for periods ending after March 15, 2009, only if a company also elects to early adopt. The Company adopted these standards for the period ended June 30, 2009.

On June 30, 2009, the Company adopted FASB ASC 855, *Subsequent Events* (formerly Statement of Financial Accounting Standards No. 165, "Subsequent Events"). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, FASB ASC 855 defines: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Management has reviewed events occurring through February 23, 2010, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

FASB ASC 860, *Transfers and Servicing* (formerly Statement of Financial Accounting Standards No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140"). In June, 2009, the FASB issued FASB ASC 860. FASB ASC 860 was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. Specifically to address: (1) practices that have developed since the issuance of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied to transfers occurring on or after

the effective date. Additionally, on or after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. FASB ASC 860 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. Management does not expect the adoption of these Statements to have a material effect on the Company's financial statement at the date of adoption, January 1, 2010.

FASB ASC 810, *Consolidation* (formerly Statement of Financial Accounting Standards No. 167, "Amendments to FASB Interpretation No. 46(R)"). In June 2009, the FASB issued FASB ASC 810. FASB ASC 810 was issued to improve financial reporting by enterprises involved with variable interest entities, specifically to address: (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," as a result of the elimination of the qualifying special-purpose entity concept in FASB ASC 860 and (2) constituent concerns about the application of certain key provisions of FASB ASC 860, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. FASB ASC 810 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. Management does not expect the adoption of these Statements to have a material effect on the Company's financial statement at the date of adoption, January 1, 2010.

FASB ASC 105, *Generally Accepted Accounting Principles* (formerly Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162"). The codification will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all previously existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. ASC 105 has not had a material impact on our financial statements.



## Consolidated Balance Sheets

Century Bancorp, Inc. AR '09

December 31,	2009	2008
(dollars in thousands except share data)		
<b>ASSETS</b>		
Cash and due from banks (Note 2)	\$ 42,627	\$ 61,195
Federal funds sold and interest-bearing deposits in other banks	356,015	94,973
<b>Total cash and cash equivalents</b>	<b>398,642</b>	<b>156,168</b>
Short-term investments	18,518	43,814
Securities available-for-sale, amortized cost \$641,010 in 2009 and \$496,046 in 2008 (Notes 3 and 9)	647,796	495,585
Securities held-to-maturity, fair value \$221,413 in 2009 and \$185,433 in 2008 (Notes 4 and 11)	217,643	184,047
Federal Home Loan Bank of Boston, stock at cost	15,531	15,531
Loans, net (Note 5)	877,125	836,065
Less: allowance for loan losses (Note 6)	12,373	11,119
<b>Net loans</b>	<b>864,752</b>	<b>824,946</b>
Bank premises and equipment (Note 7)	21,015	22,054
Accrued interest receivable	5,806	6,723
Prepaid FDIC assessments	8,757	—
Other assets (Notes 8 and 14)	55,575	52,698
<b>Total assets</b>	<b>\$ 2,254,035</b>	<b>\$ 1,801,566</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Demand deposits	\$ 279,874	\$ 277,217
Savings and NOW deposits	575,592	353,261
Money market accounts	553,883	308,177
Time deposits (Note 10)	292,638	326,872
<b>Total deposits</b>	<b>1,701,987</b>	<b>1,265,527</b>
Securities sold under agreements to repurchase (Note 11)	118,745	112,510
Other borrowed funds (Note 12)	234,024	238,558
Subordinated debentures (Note 12)	36,083	36,083
Other liabilities	30,466	28,385
<b>Total liabilities</b>	<b>2,121,305</b>	<b>1,681,063</b>
Commitments and contingencies (Notes 7, 16 and 17)		
Stockholders' equity (Note 13):		
Common stock, Class A,		
\$1.00 par value per share; authorized		
10,000,000 shares; issued 3,515,767 shares in 2009 and		
3,511,307 shares in 2008	3,516	3,511
Common stock, Class B,		
\$1.00 par value per share; authorized 5,000,000 shares; issued		
2,014,530 shares in 2009 and 2,027,100 shares in 2008	2,014	2,027
Additional paid-in capital	11,376	11,475
Retained earnings	120,125	112,135
	<b>137,031</b>	<b>129,148</b>
Unrealized gains (losses) on securities available-for-sale, net of taxes	4,129	(292)
Pension liability, net of taxes	(8,430)	(8,353)
<b>Total accumulated other comprehensive loss, net of taxes (Notes 3 and 13)</b>	<b>(4,301)</b>	<b>(8,645)</b>
<b>Total stockholders' equity</b>	<b>132,730</b>	<b>120,503</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 2,254,035</b>	<b>\$ 1,801,566</b>

See accompanying "Notes to Consolidated Financial Statements."

Year Ended December 31,	2009	2008	2007
(dollars in thousands except share data)			
<b>INTEREST INCOME</b>			
Loans, taxable	\$ 43,119	\$ 47,521	\$ 52,589
Loans, non-taxable	5,080	1,782	207
Securities available-for-sale, taxable	20,439	17,680	13,815
Securities available-for-sale, non-taxable	698	2,101	12
Federal Home Loan Bank of Boston dividends	—	531	651
Securities held-to-maturity	8,093	8,265	9,065
Federal funds sold, interest-bearing deposits in other banks and short-term investments	2,171	2,813	6,669
Total interest income	79,600	80,693	83,008
<b>INTEREST EXPENSE</b>			
Savings and NOW deposits	5,258	6,005	6,712
Money market accounts	6,100	7,260	8,901
Time deposits (Note 8)	9,438	9,744	15,640
Securities sold under agreements to repurchase	576	1,393	3,191
Other borrowed funds and subordinated debentures	10,351	11,512	9,361
Total interest expense	31,723	35,914	43,805
Net interest income	47,877	44,779	39,203
Provision for loan losses (Note 6)	6,625	4,425	1,500
Net interest income after provision for loan losses	41,252	40,354	37,703
<b>OTHER OPERATING INCOME</b>			
Service charges on deposit accounts	8,003	8,190	7,579
Lockbox fees	2,814	2,953	2,956
Brokerage commissions	140	180	135
Net gains on sales of securities	2,734	249	153
Writedown of certain investments to fair value (Note 3)	—	(76)	—
Net gains on sales of fixed assets	70	—	1,438
Other income	2,709	2,479	1,687
Total other operating income	16,470	13,975	13,948
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits (Note 15)	26,919	25,615	24,543
Occupancy	4,104	4,246	3,852
Equipment	2,372	2,874	2,957
FDIC assessments	3,336	613	148
Other (Note 18)	9,648	9,680	8,755
Total operating expenses	46,379	43,028	40,255
Income before income taxes	11,343	11,301	11,396
Provision for income taxes (Note 14)	1,183	2,255	3,532
Net income	\$ 10,160	\$ 9,046	\$ 7,864
<b>SHARE DATA (Note 13)</b>			
Weighted average number of shares outstanding, basic	5,532,249	5,541,983	5,542,461
Weighted average number of shares outstanding, diluted	5,534,340	5,543,702	5,546,707
Net income per share, basic	\$ 1.84	\$ 1.63	\$ 1.42
Net income per share, diluted	1.84	1.63	1.42

See accompanying "Notes to Consolidated Financial Statements."



## Consolidated Statements of Changes in Stockholders' Equity

Century Bancorp, Inc. AR '09

	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, 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 and \$153 in realized net gains	—	—	—	—	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
Net income	—	—	—	9,046	—	9,046
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of \$32 in taxes and \$249 in realized net gains	—	—	—	—	(81)	(81)
Pension liability adjustment, net of \$3,054 in taxes	—	—	—	—	(4,754)	(4,754)
Comprehensive income						4,211
Effects of changing pension plans' measurement date pursuant to SFAS 158, net of \$177 in taxes	—	—	—	(287)	31	(256)
Stock repurchased, 5,397 shares	(6)	—	(78)	—	—	(84)
Cash dividends, Class A Common Stock, \$0.48 per share	—	—	—	(1,687)	—	(1,687)
Cash dividends, Class B Common Stock, \$0.24 per share	—	—	—	(487)	—	(487)
BALANCE, DECEMBER 31, 2008	\$ 3,511	\$ 2,027	\$ 11,475	\$ 112,135	\$(8,645)	\$ 120,503
Net income	—	—	—	10,160	—	10,160
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of \$2,826 in taxes and \$2,734 in realized net gains	—	—	—	—	4,421	4,421
Pension liability adjustment, net of \$50 in taxes	—	—	—	—	(77)	(77)
Comprehensive income						14,504
Conversion of Class B Common Stock to Class A Common Stock, 12,570 shares	13	(13)	—	—	—	—
Stock repurchased, 8,110 shares	(8)	—	(99)	—	—	(107)
Cash dividends, Class A Common Stock, \$0.48 per share	—	—	—	(1,684)	—	(1,684)
Cash dividends, Class B Common Stock, \$0.24 per share	—	—	—	(486)	—	(486)
BALANCE, DECEMBER 31, 2009	\$ 3,516	\$ 2,014	\$ 11,376	\$ 120,125	\$(4,301)	\$ 132,730

See accompanying "Notes to Consolidated Financial Statements."

Year Ended December 31, (dollars in thousands)	2009	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 10,160	\$ 9,046	\$ 7,864
Adjustments to reconcile net income to net cash provided by operating activities:			
Mortgage loans originated for sales	(374)	(512)	—
Proceeds from mortgage loans sold	379	515	—
Gain on sale of loans	(5)	(3)	—
Gain on sale of building	—	—	(1,321)
Gain on sale of fixed assets	(70)	—	(117)
Net gain on sales of securities	(2,734)	(249)	(153)
Writedown of certain investments to fair value	—	76	—
Provision for loan losses	6,625	4,425	1,500
Deferred tax (benefit) expense	(2,294)	(1,094)	111
Net depreciation and amortization	6,035	3,229	3,443
Decrease (increase) in accrued interest receivable	917	(133)	782
Increase in prepaid FDIC assessments	(8,757)	—	—
Loss on sales of other real estate owned	—	33	—
Writedown of other real estate owned	—	77	—
Increase in other assets	(3,822)	(1,415)	(5,809)
Increase (decrease) in other liabilities	2,003	737	(656)
Net cash provided by operating activities	8,063	14,732	5,644
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from maturities of short-term investments	221,628	3,717	—
Purchase of short-term investments	(196,332)	(47,531)	—
Proceeds from calls/maturities of securities available-for-sale	327,615	282,705	197,322
Proceeds from sales of securities available-for-sale	94,142	238,894	160
Purchase of securities available-for-sale	(566,680)	(593,958)	(177,870)
Proceeds from calls/maturities of securities held-to-maturity	94,069	56,123	82,074
Purchase of securities held-to-maturity	(128,373)	(91,431)	—
Loan acquired, net of discount	—	(4,099)	—
Net (increase) decrease in loans	(46,385)	(108,950)	8,489
Proceeds from sales of other real estate owned	—	673	—
Proceeds from sale of building	—	—	1,500
Proceeds from sales of fixed assets	100	—	300
Capital expenditures	(1,257)	(3,009)	(2,252)
Net cash (used in) provided by investing activities	(201,473)	(266,866)	109,723
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net (decrease) increase in time deposit accounts	(34,234)	31,294	(114,519)
Net increase (decrease) in demand, savings, money market and NOW deposits	470,694	104,172	(24,385)
Net payments for the repurchase of stock	(107)	(84)	—
Net proceeds from the exercise of stock options	—	—	51
Cash dividends	(2,170)	(2,174)	(2,173)
Net increase (decrease) in securities sold under agreements to repurchase	6,235	26,520	(970)
Net (decrease) increase in other borrowed funds	(4,534)	(51,327)	166,862
Net cash provided by financing activities	435,884	108,401	24,866
Net increase (decrease) in cash and cash equivalents	242,474	(143,733)	140,233
Cash and cash equivalents at beginning of year	156,168	299,901	159,668
Cash and cash equivalents at end of year	\$ 398,642	\$ 156,168	\$ 299,901
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest	\$ 32,202	\$ 35,997	\$ 44,787
Income taxes	2,858	2,750	3,942
Change in unrealized gains on securities available-for-sale, net of taxes	\$ 4,421	\$ (81)	\$ 4,900
Pension liability adjustment, net of taxes	(77)	(4,754)	1,346
Effects of changing pension plans' measurement date pursuant to FASB ASC 715-30 (formerly SFAS 158), net of taxes	—	(256)	—
Transfer of loans to other real estate owned	—	330	453

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, and 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.

### FAIR VALUE MEASUREMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued FASB ASC 820, *Fair Value Measurements and Disclosures* (formerly SFAS 157, "Fair Value Measurements"), which, among other things, requires enhanced disclosures about assets and liabilities carried at fair value. FASB ASC 820 is effective for fiscal years beginning after November 15, 2007. The effective date of FASB ASC 820 was delayed for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. FASB ASC 820 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels defined by the FASB ASC 820 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 value has 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 that are generally included in this 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 certain commercial mortgage loans, certain private equity investments, distressed debt, and noninvestment grade residual interests in securitizations as well as certain highly structured OTC derivative contracts.

FASB ASC 820-10, *Fair Value Measurements and Disclosures-Overall* (formerly FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"). On April 9, 2009, FASB issued FASB ASC 820, which provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements. The Company adopted FASB ASC 820 as of April 1, 2009. The adoption did not have a material effect on the Company's consolidated financial statements.

### CASH AND CASH EQUIVALENTS

For purposes of reporting cash flows, cash equivalents include highly liquid assets with an original maturity of three months or less. Highly liquid assets include cash and due from banks, federal funds sold and certificates of deposit.

### SHORT-TERM INVESTMENTS

As of December 31, 2009, short-term investments include highly liquid certificates of deposit with original maturities of more than 90 days but less than one year.

**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 total amount of the impairment charge is recognized in earnings, with an offset for the noncredit component which is recognized as other comprehensive income. Gains and losses on the sale of investment securities are recognized on the trade date on a specific identification basis.

The Company owns Federal Home Loan Bank of Boston ("FHLBB") stock which is considered a restricted equity security. As a voluntary member of the FHLBB, the Company is required to invest in stock of the FHLBB in an amount equal to 4.5% of its outstanding advances from the FHLBB. Stock is purchased at par value. As and when such stock is redeemed, the Company would receive from the FHLBB an amount equal to the par value of the stock. At its discretion, the FHLBB may declare dividends on the stock. On April 10, 2009, the FHLBB reiterated to its members that, while it currently meets all its regulatory capital requirements, it is focusing on preserving capital in response to ongoing market volatility, and accordingly, has suspended its quarterly dividend and has extended the moratorium on excess stock repurchases. It also announced that it had taken a write-down of \$381.7 million in other-than-temporary impairment charges on its private-label mortgage-backed securities for the year ended December 31, 2008. This resulted in a net loss of \$115.8 million. For the nine months ended September 30, 2009, the FHLBB reported a net loss of \$193.1 million resulting from the recognition of \$371.6 million of impairment losses which were recognized through income. In the future, if additional unrealized losses are deemed to be other-than-temporary, the associated impairment charges could exceed the FHLBB's current level of retained earnings and possibly put into question whether the fair value of the FHLBB stock owned by the Company is less than par value. The FHLBB has stated that it expects and intends to hold its private-label mortgage-backed securities to maturity. Despite these negative trends, the FHLBB exceeded the regulatory capital requirements promulgated by the Federal Home Loan Banks Act and the Federal Housing Financing Agency. The FHLBB has the capacity to issue additional debt if necessary to raise cash. If needed, the FHLBB also has the ability to secure funding available to U.S. Government Sponsored Enterprises through the U.S. Treasury. Based on the capital adequacy and the liquidity position of the FHLBB, management believes there is no other-than-temporary impairment related to the carrying amount of the Company's FHLBB stock as of December 31, 2009. The Company will continue to monitor its investment in FHLBB stock.

**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 nonaccrual loans. When a loan is placed on nonaccrual, all income that has been accrued but remains unpaid is reversed against current period income, and all amortization of deferred loan costs and fees is discontinued. Nonaccrual 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 collectability of principal and interest. Income received on nonaccrual loans is either recorded in income or applied to the principal balance of the loan, depending on management's evaluation as to the collectability 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. Prepayments are not initially considered when amortizing premiums and discounts.

The Bank measures impairment for impaired loans at either the fair value of the loan, 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 collectability 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.

**ACQUIRED LOANS**

In accordance with FASB ASC 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* (formerly Statement of Position ("SOP") No. 03-3, "Accounting for Certain Loans or Debt Securities Acquired in a Transfer,") the Company reviews acquired loans for differences between contractual cash flows and cash flows expected to be collected from the Company's initial investment in the acquired loans to determine if those differences are attributable, at least in part, to credit quality. If those differences are attributable to credit quality, the loan's contractually required payments received in excess of the amount of its cash flows expected at acquisition, or nonaccretable discount, is not accreted into income. FASB ASC 310-30 requires that the Company recognize the excess of all cash flows expected at acquisition over the Company's initial investment in the loan as interest income using the interest method over the term of the loan. This excess is referred to as accretable discount and is recorded as a reduction of the loan balance.

Loans which, at acquisition, do not have evidence of deterioration of credit quality since origination are outside the scope of FASB ASC 310-30. For such loans, the discount, if any, representing the excess of the amount of reasonably estimable and probable discounted future cash collections over the purchase price, is accreted into interest income using the interest method over the term of the loan. Prepayments are not considered in the calculation of accretion income. Additionally, discount is not accreted on nonperforming loans.

When a loan is paid off, the excess of any cash received over the net investment is recorded as interest income. In addition to the amount of purchase discount that is recognized at that time, income may include interest owed by the borrower prior to the Company's acquisition of the loan, interest collected if on nonperforming status, prepayment fees and other loan fees.

**NONPERFORMING ASSETS**

In addition to nonperforming loans, nonperforming assets include other real estate owned. Other real estate owned is comprised of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure. Other real estate owned is recorded initially at estimated fair value less costs to sell. When such assets are acquired, the excess of the loan balance over the estimated fair

value of the asset is charged to the allowance for loan losses. An allowance for losses on other real estate owned is established by a charge to earnings when, upon periodic evaluation by management, further declines in the estimated fair value of properties have occurred. Such evaluations are based on an analysis of individual properties as well as a general assessment of current real estate market conditions. Holding costs and rental income on properties are included in current operations, while certain costs to improve such properties are capitalized. Gains and losses from the sale of other real estate owned are reflected in earnings when realized.

### 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 that ultimately prove uncollectible. In determining the level of the allowance, periodic evaluations are made of the loan portfolio, which takes 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, collectability 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.

### GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Goodwill is not subject to amortization. Identifiable intangible assets consist of core deposit intangibles and are assets resulting from acquisitions that are being amortized over their estimated useful lives. Goodwill and identifiable intangible assets are included in other assets on the consolidated balance sheets. The Company tests goodwill for impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. Goodwill impairment testing is performed at the segment (or "reporting unit") level. Currently, the Company's goodwill is evaluated at the entity level as there is only one reporting unit. Goodwill is assigned to reporting units at the date the goodwill is initially recorded. Once goodwill has been assigned to reporting units, it no longer retains its association with a particular acquisition, and all of the activities within a reporting unit, whether acquired or organically grown, are available to support the value of the goodwill.

The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment.

### STOCK OPTION ACCOUNTING

The Company follows the fair value recognition provisions of FASB ASC 718, *Compensation – Stock Compensation* (formerly SFAS 123R) for all share-based payments, using the modified-prospective transition method. The Company's method of valuation for share-based awards granted utilizes the Black-Scholes option-pricing model, which was also previously used for the Company's pro forma information required under FASB ASC 718. 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 nonqualified 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 nonqualified 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 68,637 shares of Class A common stock exercisable at December 31, 2009.

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 FASB ASC 718 for all share-based payments. The Company estimates that, as a result of this accelerated vesting, approximately \$190,000 of 2006 noncash 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 noncash compensation expense that would otherwise be expected to be recorded in conjunction with the Company's required adoption of FASB ASC 718 in 2006. There was no earnings impact for 2006 due to the Company's adoption of FASB ASC 718.

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 2009.

### 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 FASB issued FASB ASC 740, *Income Taxes* (formerly Financial Accounting Standards Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"). This clarified the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. FASB ASC 740 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. FASB ASC 740 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The Company adopted FASB ASC 740 on January 1, 2007. The adoption of FASB ASC 740 did not have a material impact on the Company's results of operations 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 of 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.

#### RECENT ACCOUNTING DEVELOPMENTS

FASB ASC 320-10, *Investments-Debt and Equity Securities* (formerly FASB Staff Position FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments"). On April 9, 2009, the FASB issued FASB ASC 320-10, which is intended to provide greater clarity to investors about the credit and noncredit component of an OTTI event and to more effectively communicate when an OTTI event has occurred. The FSP applies to debt securities and requires that the total OTTI be presented in the statement of income with an offset for the amount of impairment that is recognized in other comprehensive income, which is the noncredit component. Noncredit component losses are to be recorded in other comprehensive income if an investor can assess that (a) it does not have the intent to sell or (b) it is more likely than

not that it will have to sell the security prior to its anticipated recovery. The Company adopted FASB ASC 320-10 as of April 1, 2009. The adoption did not have a material effect on the Company's consolidated financial statements.

FASB ASC 820-10, *Fair Value Measurements and Disclosures-Overall* (formerly FSP FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly"). On April 9, 2009, FASB issued FASB ASC 820, which provides additional guidance on determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurements. The FSP was applied prospectively as retrospective application was not permitted. The Company adopted FASB ASC 820 as of April 1, 2009. The adoption did not have a material effect on the Company's consolidated financial statements.

FASB ASC 805, *Business Combinations* (formerly Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations") and FASB ASC 810, *Consolidation* (formerly Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51"). In December 2007, the FASB issued FASB ASC 805 and FASB ASC 810. These statements require significant changes in the accounting and reporting for business acquisitions and the reporting of noncontrolling interests in subsidiaries. Among many changes under FASB ASC 805, an acquirer will record 100% of all assets and liabilities at fair value for partial acquisitions, contingent consideration will be recognized at fair value at the acquisition date with changes possibly recognized in earnings, and acquisition related costs will be expensed rather than capitalized. FASB ASC 810 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary. Key changes under the standard are that noncontrolling interests in a subsidiary will be reported as part of equity, losses allocated to a noncontrolling interest can result in a deficit balance, and changes in ownership interests that do not result in a change of control are accounted for as equity transactions and, upon a loss of control, gain or loss is recognized and the remaining interest is remeasured at fair value on the date control is lost. FASB ASC 805 applies prospectively to business combinations for which the acquisition is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The effective date for applying FASB ASC 810 is also the first annual reporting period beginning on or after December 15, 2008. Adoption of these statements will affect the Company's accounting for any business acquisitions occurring after the effective date and the reporting of any noncontrolling interests in subsidiaries existing on or after the effective date.

FASB ASC 350, *Intangibles-Goodwill and Other* (formerly FSP FAS 142-3, "Determination of the Useful Life of Intangible Assets"). In April 2008, the FASB issued FASB ASC 350. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. These principles are effective for fiscal years beginning on or after December 15, 2008, and interim periods within those years. Early application is not permitted. The Company has determined that the impact of the adoption of FASB ASC 350 to the Company's statement of financial position or results of operations is immaterial.

FASB ASC 260-10, *Earnings per Share-Overall* (formerly FSP EITF 03-6-01, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities"). In June 2008, the FASB issued FASB ASC 260-10-55, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." FASB ASC 260-10-55 addresses whether instruments granted in share-based payment

transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share ("EPS") under the two-class method. The guidance applies to the calculation of EPS for share-based payment awards with rights to dividends or dividend equivalents. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. FASB 260-10-55 is effective for fiscal years beginning on or after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings and selected financial data) to conform to these provisions. Early application is not permitted. The Company adopted FASB ASC 260-10-55 and the adoption did not have a material effect on the results of operations.

FASB ASC 715-20, *Defined Benefit Plans-General* (formerly FSP FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets"). In December 2008, the FASB issued FASB ASC 715-30-50, "Employers' Disclosures about Postretirement Benefit Plan Assets." FASB ASC 715-30-50 requires disclosure of additional information about investment allocation, fair values of major asset categories of assets, the development of fair value measurements, and concentrations of risk. FASB ASC 715-30-50 is effective for fiscal years ending after December 15, 2009; however, earlier application is permitted. The Company has made the required disclosures for the period ending December 31, 2009.

FASB ASC 825-10-50, *Financial Instruments-Overall-Disclosure* and FASB ASC 270-10-05 *Interim Reporting-Overall-Disclosure* (formerly FSP FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments"). These standards require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. These standards, which became effective for interim reporting periods ending after June 15, 2009, allowed early adoption for periods ending after March 15, 2009, only if a company also elects to early adopt. The Company adopted these standards for the period ended June 30, 2009.

On June 30, 2009, the Company adopted FASB ASC 855, *Subsequent Events* (formerly Statement of Financial Accounting Standards No. 165, "Subsequent Events"). FASB ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, FASB ASC 855 defines: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Management has reviewed events occurring through February 23, 2010, the date the financial statements were issued and no subsequent events occurred requiring accrual or disclosure.

FASB ASC 860, *Transfers and Servicing* (formerly Statement of Financial Accounting Standards No. 166, "Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140"). In June, 2009, the FASB issued FASB ASC 860. FASB ASC 860 was issued to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance,

and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. Specifically to address: (1) practices that have developed since the issuance of FASB Statement No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," that are not consistent with the original intent and key requirements of that Statement and (2) concerns of financial statement users that many of the financial assets (and related obligations) that have been derecognized should continue to be reported in the financial statements of transferors. This Statement must be applied to transfers occurring on or after the effective date. Additionally, on or after the effective date, the concept of a qualifying special-purpose entity is no longer relevant for accounting purposes. FASB ASC 860 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. Management does not expect the adoption of these Statements to have a material effect on the Company's financial statement at the date of adoption, January 1, 2010.

FASB ASC 810, *Consolidation* (formerly Statement of Financial Accounting Standards No. 167, "Amendments to FASB Interpretation No. 46(R)"). In June 2009, the FASB issued FASB ASC 810. FASB ASC 810 was issued to improve financial reporting by enterprises involved with variable interest entities, specifically to address: (1) the effects on certain provisions of FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities," as a result of the elimination of the qualifying special-purpose entity concept in FASB ASC 860 and (2) constituent concerns about the application of certain key provisions of FASB ASC 860, including those in which the accounting and disclosures under the Interpretation do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. FASB ASC 810 must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter with early application prohibited. Management does not expect the adoption of these Statements to have a material effect on the Company's financial statement at the date of adoption, January 1, 2010.

FASB ASC 105, *Generally Accepted Accounting Principles* (formerly Statement of Financial Accounting Standards No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162"). The codification will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all previously-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. FASB ASC 105 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. FASB ASC 105 has not had a material impact on our financial statements.

## 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 \$1,061,000 at December 31, 2009 and \$1,020,000 at December 31, 2008.



## 3. Securities Available-for-Sale

	December 31, 2009				December 31, 2008			
	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. Treasury	\$ 1,998	\$ 5	\$ —	\$ 2,003	\$ 1,999	\$ 29	\$ —	\$ 2,028
U.S. Government Sponsored Enterprises	192,942	374	952	192,364	159,100	2,216	24	161,292
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	410,181	8,855	524	418,512	259,264	2,427	1,559	260,132
Privately Issued Residential Mortgage-Backed Securities	5,383	—	473	4,910	7,539	—	1,880	5,659
Privately Issued Commercial Mortgage-Backed Securities	537	7	—	544	3,433	—	66	3,367
Obligations Issued by States and Political Subdivisions	26,627	130	468	26,289	61,532	38	1,311	60,259
Other Debt Securities	2,300	—	41	2,259	2,200	—	100	2,100
Equity Securities	1,042	71	198	915	979	73	304	748
<b>Total</b>	<b>\$ 641,010</b>	<b>\$ 9,442</b>	<b>\$ 2,656</b>	<b>\$ 647,796</b>	<b>\$ 496,046</b>	<b>\$ 4,783</b>	<b>\$ 5,244</b>	<b>\$ 495,585</b>

\*Amortized cost is net of impairment writedown.

Included in U.S. Government Sponsored Enterprise Securities and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities are securities at fair value pledged to secure public deposits and repurchase agreements amounting to \$332,064,000 and \$113,259,000 at December 31, 2009 and 2008, respectively. Also included in securities available-for-sale at fair value are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$172,497,000 and \$244,409,000 at December 31, 2009 and 2008, respectively. The Company realized gross gains of \$2,734,000 from the proceeds of \$94,142,000 from the sales of available-for-sale securities for the year ended December 31, 2009.

Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac. Control of these enterprises was directly taken over by the U.S. Government in the third quarter of 2008.

The following table shows the estimated maturity distribution of the Company's securities available-for-sale at December 31, 2009.

	Amortized Cost*	Fair Value
(dollars in thousands)		
Within one year	\$ 29,585	\$ 30,217
After one but within five years	467,566	474,602
After five but within ten years	118,917	118,534
More than ten years	22,400	22,069
Nonmaturing	2,542	2,374
<b>Total</b>	<b>\$ 641,010</b>	<b>\$ 647,796</b>

\*Amortized cost is net of impairment writedown.

The weighted average remaining life of investment securities available-for-sale at December 31, 2009, was 3.9 years. Auction rate municipal obligations ("ARs") and variable rate demand notes ("VRDNs") are included in Obligations Issued by States and Political Subdivisions. Included in the weighted average remaining life calculation at December 31, 2009, was \$187,342,000 of U.S. Government Sponsored Enterprise obligations that are callable at the discretion of the issuer. These call dates were not utilized in computing the weighted average remaining life. The contractual maturities, which were used in the table above, of mortgage-backed securities, will differ from the actual 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, 2009. 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 41 and 17 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 287 holdings at December 31, 2009.

As of December 31, 2009, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade. The change in the unrealized losses on the state and municipal securities and the nonagency mortgage-backed securities was primarily caused by changes in credit spreads and liquidity issues in the marketplace.

In evaluating the underlying credit quality of a security, management considers several factors such as the credit rating of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary. In the case of privately issued mortgage-backed securities, the performance of the underlying loans is analyzed as deemed necessary to determine the estimated future cash flows of the securities. Factors considered include the level of subordination, current and estimated future default rates, current and estimated prepayment rates, estimated loss severity rates, geographic concentrates and origination dates of underlying loans. In the case of marketable equity securities, the severity of the unrealized loss, the length of time the unrealized loss has existed, and the issuer's financial performance are considered.

## Notes to Consolidated Financial Statements

Century Bancorp, Inc. AR '09

### Temporarily Impaired Investments\*

	December 31, 2009					
	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 Enterprise	\$ 127,259	\$ 952	\$ —	\$ —	\$ 127,259	\$ 952
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	51,903	428	11,752	96	63,655	524
Privately Issued Residential Mortgage-Backed Securities	—	—	4,910	473	4,910	473
Obligations Issued by States and Political Subdivisions	3,427	187	4,393	281	7,820	468
Other Debt Securities	—	—	1,459	41	1,459	41
Equity Securities	—	—	495	198	495	198
<b>Total temporarily impaired securities</b>	<b>\$ 182,589</b>	<b>\$ 1,567</b>	<b>\$ 23,009</b>	<b>\$ 1,089</b>	<b>\$ 205,598</b>	<b>\$ 2,656</b>

\*At December 31, 2009, the Company does not intend to sell any of its debt securities and it is not likely that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost. The unrealized losses on Obligations Issued by States and Political Subdivisions were considered by management to be temporary in nature. Full collection of those debt securities is expected because the financial condition of the obligors is considered to be sound, there has been no default in scheduled payment and the debt securities are rated investment grade. The unrealized loss on U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprises Mortgage-Backed Securities related primarily to 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, 2009. Excluded from the table above are two equity securities that were written down in 2008 by \$76,000. The fair value is \$121,000 with an unrealized gain of \$12,000 at December 31, 2009. These stocks were deemed to be other than temporarily impaired based on the extent of the decline in value and the length of time the stocks had been trading below cost.

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2008. 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 44 and 17 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 260 holdings at December 31, 2008. The Company believes that the investments are temporarily impaired.

### Temporarily Impaired Investments\*

	December 31, 2008					
	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	\$ 4,976	\$ 24	\$ —	\$ —	\$ 4,976	\$ 24
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	80,873	1,351	15,793	208	96,666	1,559
Privately Issued Residential Mortgage-Backed Securities	1,716	569	5,455	1,320	7,171	1,889
Privately Issued Commercial Mortgage-Backed Securities	—	—	1,855	57	1,855	57
Obligations Issued by States and Political Subdivisions	13,645	1,311	—	—	13,645	1,311
Other Debt Securities	100	1	150	1	250	2
Equity Securities	382	265	1,419	124	1,801	389
<b>Total temporarily impaired securities</b>	<b>\$ 101,692</b>	<b>\$ 3,521</b>	<b>\$ 24,672</b>	<b>\$ 1,710</b>	<b>\$ 126,364</b>	<b>\$ 5,231</b>

\*The decline in fair 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, 2008. Excluded from the table above are two equity securities that were written down by \$76,000. The fair value is \$96,000 with an unrealized loss of \$13,000. These stocks were deemed to be other than temporarily impaired based on the extent of the decline in value and the length of time the stocks had been trading below cost.

## 4. Investment Securities Held-to-Maturity

	December 31, 2009				December 31, 2008			
	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 Enterprise	\$ 69,555	\$ 36	\$ 707	\$ 68,884	\$ 44,000	\$ 506	\$ —	\$ 44,506
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	148,088	4,490	49	152,529	140,047	1,314	434	140,927
<b>Total</b>	<b>\$ 217,643</b>	<b>\$ 4,526</b>	<b>\$ 756</b>	<b>\$ 221,413</b>	<b>\$ 184,047</b>	<b>\$ 1,820</b>	<b>\$ 434</b>	<b>\$ 185,433</b>

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to \$9,036,000 and \$35,000,000 at December 31, 2009, and 2008, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank at fair value amounting to \$83,693,000 and \$114,103,000 at December 31, 2009, and 2008, respectively.

At December 31, 2009 and 2008, all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises. Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac. Control of these enterprises was directly taken over by the U.S. Government in the third quarter of 2008.

The following table shows the maturity distribution of the Company's securities held-to-maturity at December 31, 2009.

	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	\$ 4,693	\$ 4,719
After one but within five years	163,521	167,768
After five but within ten years	49,429	48,926
<b>Total</b>	<b>\$ 217,643</b>	<b>\$ 221,413</b>

The weighted average remaining life of investment securities held-to-maturity at December 31, 2009, was 3.8 years. Included in the weighted average remaining life calculation at December 31, 2009, were \$69,555,000 of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. 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, 2009. 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 12 and 0 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 94 holdings at December 31, 2009.

As of December 31, 2009, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell this debt security and it is not likely that it will be required to sell this debt security before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on this security are from an issuer that is investment grade.

In evaluating the underlying credit quality of a security, management considers several factors such as the credit notary of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary.

#### Temporarily Impaired Investments\*

	December 31, 2009					
	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	\$ 49,848	\$ 707	\$ —	\$ —	\$ 49,848	\$ 707
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	11,152	49	—	—	11,152	49
<b>Total temporarily impaired securities</b>	<b>\$ 61,000</b>	<b>\$ 756</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 61,000</b>	<b>\$ 756</b>

\*The unrealized loss on U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities related primarily to interest rates and not credit quality, and because the Company does not intend to sell any of this security and it is not likely that it will be required to sell this security before the anticipated recovery of the remaining amortized cost, the Company does not consider this investment to be other-than-temporarily impaired at December 31, 2009.

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2008. 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 9 and 12 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 80 holdings at December 31, 2008.

#### Temporarily Impaired Investments\*

	December 31, 2008					
	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 Agency and Sponsored Enterprise Mortgage-Backed Securities	\$ 12,995	\$ 111	\$ 19,821	\$ 323	\$ 32,816	\$ 434
<b>Total temporarily impaired securities</b>	<b>\$ 12,995</b>	<b>\$ 111</b>	<b>\$ 19,821</b>	<b>\$ 323</b>	<b>\$ 32,816</b>	<b>\$ 434</b>

\*The unrealized loss on U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities related primarily to 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, 2008.

## Notes to Consolidated Financial Statements

Century Bancorp, Inc. AR '09

### 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,	2009	2008
(dollars in thousands)		
Construction and land development	\$ 60,349	\$ 59,511
Commercial and industrial	141,061	141,373
Commercial real estate	361,823	332,325
Residential real estate	188,096	194,644
Consumer	7,105	8,246
Home equity	118,076	98,954
Overdrafts	615	1,012
Total	<u>\$877,125</u>	<u>\$ 836,065</u>

Net deferred fees included in loans at December 31, 2009 and December 31, 2008 were \$71,000 and \$81,000, respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately \$1,127,000 and \$768,000 at December 31, 2009, and December 31, 2008, 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 \$47,000 and \$56,000 at December 31, 2009, and at December 31, 2008, respectively.

As of December 31, 2009, and 2008, the Bank recorded investment in impaired loans was \$10,516,000 and \$2,698,000, respectively. If an impaired loan is placed on nonaccrual, the loan may be returned to an accrual status when principal and interest payments are not delinquent or the risk characteristics have improved to the extent that there no longer exists a concern as to the collectibility of principal and interest. At December 31, 2009, there were \$1,980,000 of impaired loans with a specific reserve of \$745,000. At December 31, 2008, there were \$1,460,000 of impaired loans with a specific reserve of \$600,000.

Loans are designated as "restructured" when a concession is made on a credit as a result of financial difficulties of the borrower. Typically, such concessions consist of a reduction in interest rate to a below market rate, taking into account the credit quality of the note, or a deferment of payments, principal or interest, which materially alters the Bank's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination. Restructured loans are included in the impaired loan category.

The composition of nonaccrual loans and impaired loans is as follows:

December 31,	2009	2008	2007
(dollars in thousands)			
Loans on nonaccrual	\$ 12,311	\$ 3,661	\$ 1,312
Loans 90 days past due and still accruing	—	89	122
Impaired loans on nonaccrual included above	9,736	1,511	196
Total recorded investment in impaired loans	10,516	2,698	196
Average recorded investment of impaired loans	9,718	1,194	332
Troubled debt restructured loans	521	—	—
Interest income not recorded on nonaccrual loans according to their original terms	1,121	121	52
Interest income on nonaccrual loans actually recorded	—	—	—
Interest income recognized on impaired loans	24	24	—

During the first quarter of 2008, the Company purchased a loan for \$4,823,000 with a discount of \$724,000. The entire discount is classified as an accretable discount. The Company accreted \$46,000 and \$34,000 of the discount during 2009 and 2008, respectively.

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

The following table shows the aggregate amount of loans to directors and officers of the Company and their associates during 2009.

Balance at December 31, 2008	Additions	Repayments and Deletions	Balance at December 31, 2009
(dollars in thousands)			
\$ 2,572	\$ 568	\$ 167	\$ 2,973

**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, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
(dollars in thousands)			
Allowance for loan losses, beginning of year	\$ 11,119	\$ 9,633	\$ 9,713
Loans charged-off	(6,070)	(3,373)	(2,139)
Recoveries on loans previously charged-off	699	434	559
Net charge-offs	(5,371)	(2,939)	(1,580)
Provision charged to expense	6,625	4,425	1,500
Allowance for loan losses, end of year	\$ 12,373	\$ 11,119	\$ 9,633

**7. Bank Premises and Equipment**

December 31,	2009	2008	Estimated Useful Life
(dollars in thousands)			
Land	\$ 3,478	\$ 3,478	—
Bank premises	17,883	17,846	30-39 years
Furniture and equipment	26,202	25,357	3-10 years
Leasehold improvements	6,328	6,558	30-39 years or lease term
	53,891	53,239	
Accumulated depreciation and amortization	(32,876)	(31,185)	
Total	\$ 21,015	\$ 22,054	

During 2007, the Company sold the building that 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 relocated this branch to 1 Salem Street (formerly 3 Salem Street), Medford, Massachusetts. This property is leased from an entity affiliated with Marshall M. Sloane, Chairman of the Board of the Company. The lease is for a period of 15 years. The annual base rent amount is \$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. The branch opened on May 5, 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 \$1,673,000, \$1,533,000 and \$1,349,000 for the years ended December 31, 2009, 2008 and 2007, respectively. Rental income approximated \$418,000, \$399,000 and \$351,000 in 2009, 2008 and 2007, respectively.

Future minimum rental commitments for noncancelable operating leases with initial or remaining terms of one year or more at December 31, 2009, were as follows:

Year	Amount
(dollars in thousands)	
2010	\$ 1,474
2011	1,230
2012	593
2013	502
2014	432
Thereafter	1,400
	\$ 5,631

**8. Goodwill and Identifiable Intangible Assets**

Historically, the Company has determined fair values of reporting units based on stock prices, market earnings and tangible book value multiples of peer companies for the reporting unit. During the third quarter of 2008, management determined that the Company's goodwill should be tested for impairment as the Company's Class A common stock had been trading below book value per share. In the third quarter of 2008, management enhanced the valuation methodology with discounted cash flow analysis. During the fourth quarter of 2008, management reviewed the assumptions used during the third quarter and concluded that the assumptions continued to be appropriate. Based on management's assessment of the reporting unit's fair value, goodwill was not considered to be impaired at December 31, 2008.

During the second half of 2009, the Company's Class A common stock traded closer to or above book value per share. Accordingly, at December 31, 2009 management measured for impairment utilizing the fair value of the reporting unit based on the recent stock price of the Company. Management determined that the Company's goodwill is not considered to be impaired at December 31, 2009.

The changes in goodwill and identifiable intangible assets for the years ended December 31, 2009 and 2008 are shown in the table below.

Carrying Amount of Goodwill and Intangibles	Goodwill	Core Deposit Intangibles	Total
(dollars in thousands)			
Balance at December 31, 2007	\$ 2,714	\$ 1,671	\$ 4,385
Amortization Expense	—	(388)	(388)
Balance at December 31, 2008	\$ 2,714	\$ 1,283	\$ 3,997
Amortization Expense	—	(387)	(387)
Balance at December 31, 2009	\$ 2,714	\$ 896	\$ 3,610

The following table sets forth the estimated annual amortization expense of the identifiable intangible assets.

Core Deposit Intangibles	Year	Amount
(dollars in thousands)		
	2010	\$ 388
	2011	388
	2012	119
		\$ 895

**9. Fair Value Measurements**

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures* (formerly SFAS 157, "Fair Value Measurements"), which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. The principles were effective for fiscal years beginning after November 15, 2007. The effective date for nonfinancial assets and nonfinancial liabilities was delayed, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. These elements were adopted on January 1, 2009. ASC 820-10 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels of the 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 include cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value 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 this 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 certain 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 results of the fair value hierarchy as of December 31, 2009 are as follows:

	Fair Value Measurements Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
(dollars in thousands)				
<b>Financial Instruments Measured at Fair Value on a Recurring Basis – Securities AFS</b>				
U.S. Treasury	\$ 2,003	\$ —	\$ 2,003	\$ —
U.S. Government Sponsored Enterprises	192,364	—	192,364	—
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	418,512	—	418,512	—
Privately Issued Residential Mortgage-Backed Securities	4,910	—	4,910	—
Privately Issued Commercial Mortgage-Backed Securities	544	—	544	—
Obligations Issued by States and Political Subdivisions	26,289	—	12,846	13,443
Other Debt Securities	2,259	—	2,259	—
Equity Securities	915	681	—	234
<b>Total</b>	<b>\$ 647,796</b>	<b>\$ 681</b>	<b>\$ 633,438</b>	<b>\$ 13,677</b>
<b>Financial Instruments Measured at Fair Value on a Non-recurring Basis</b>				
Impaired Loans	\$ 6,855	\$ —	\$ —	\$ 6,855

Impaired loan balances in the table above represent those collateral dependent loans where management has estimated the credit loss during the year by comparing the loan's carrying value against the expected realizable fair value of the collateral. Specific provisions relates to impaired loans recognized for 2009 for the estimated credit loss amounted to \$4,553,000. There was an \$8,500,000 reclassification of impaired loans to Level 3 during the third quarter of 2009 due to the lack of an active real estate market for the loans in this category. The Company uses discounts to appraisals based on management's observations of the local real estate market for loans in this category.

The changes in Level 3 securities for the year ended December 31, 2009 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States and Political Subdivisions	Equity Securities	Total
(dollars in thousands)				
Balance at December 31, 2008	\$ —	\$ 3,300	\$ 170	\$ 3,470
Purchases	—	7,790	64	7,854
Maturities	(12,580)	(5,467)	—	(18,047)
Reclassification	21,061	—	—	21,061
Change in fair value	(661)	—	—	(661)
<b>Balance at December 31, 2009</b>	<b>\$ 7,820</b>	<b>\$ 5,623</b>	<b>\$ 234</b>	<b>\$ 13,677</b>

There was a \$21,061,000 reclassification of failed auction rate securities to Level 3 during the first quarter of 2009 due to the lack of an active market. The amortized cost of Level 3 securities was \$14,142,000 with an unrealized loss of \$465,000 at December 31, 2009. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.



## Notes to Consolidated Financial Statements

Century Bancorp, Inc. AR '09

The results of the fair value hierarchy as of December 31, 2008 are as follows:

	Carrying Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
(dollars in thousands)				
Financial Instruments Measured at Fair Value on a Recurring Basis – Securities AFS				
U.S. Treasury	\$ 2,028	\$ —	\$ 2,028	\$ —
U.S. Government Sponsored Enterprises	161,292	—	161,292	—
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	260,132	—	260,132	—
Privately Issued Residential Mortgage-Backed Securities	5,659	—	5,659	—
Privately Issued Commercial Mortgage-Backed Securities	3,367	—	3,367	—
Obligations Issued by States and Political Subdivisions	60,259	—	56,959	3,300
Other Debt Securities	2,100	—	2,100	—
Equity Securities	748	578	—	170
Total	<u>\$ 495,585</u>	<u>\$ 578</u>	<u>\$ 491,537</u>	<u>\$ 3,470</u>
Financial Instruments Measured at Fair Value on a Non-recurring Basis				
Impaired Loans	\$ 1,460	\$ —	\$ —	\$ 1,460

Specific provisions related to impaired loans recognized for 2008 for credit losses amounted to \$2,519,000.

The changes in Level 3 securities for the year ended December 31, 2008 are shown in the table below:

	Auction Rate Securities	Obligations Issued by States and Political Subdivisions	Equity Securities	Total
(dollars in thousands)				
Balance at December 31, 2007	\$ —	\$ —	\$ —	\$ —
Purchases	—	12,741	29	12,770
Maturities	—	(10,194)	(12)	(10,206)
Reclassification	—	753	153	906
Change in fair value	—	—	—	—
Balance at December 31, 2008	<u>\$ —</u>	<u>\$ 3,300</u>	<u>\$ 170</u>	<u>\$ 3,470</u>

### 10. Deposits

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

	2009	Percent	2008	Percent
(dollars in thousands)				
Within one year	\$ 180,498	61 %	\$ 254,314	78 %
Over one year to two years	84,395	29 %	23,517	7 %
Over two years to three years	16,788	6 %	36,576	11 %
Over three years to five years	10,957	4 %	12,465	4 %
Total	<u>\$ 292,638</u>	<u>100 %</u>	<u>\$ 326,872</u>	<u>100 %</u>

Time deposits of \$100,000 or more totaled \$151,680,000 and \$182,694,000 in 2009 and 2008, respectively.

**11. Securities Sold Under Agreements to Repurchase**

The following is a summary of securities sold under agreements to repurchase as of December 31,

	2009	2008	2007
(dollars in thousands)			
Amount outstanding at December 31	\$ 118,745	\$ 112,510	\$ 85,990
Weighted average rate at December 31	0.52 %	1.08 %	2.95 %
Maximum amount outstanding at any month end	\$ 122,521	\$ 112,510	\$ 102,110
Daily average balance outstanding during the year	\$ 98,635	\$ 94,526	\$ 89,815
Weighted average rate during the year	0.58 %	1.47 %	3.56 %

Amounts outstanding at December 31, 2009, 2008 and 2007 carried maturity dates of the next business day. U.S. Government Sponsored Enterprise securities with a total amortized cost of \$115,792,000, \$112,072,000 and \$86,760,000 were pledged as collateral and held by custodians to secure the agreements at December 31, 2009, 2008 and 2007, respectively. The approximate fair value of the collateral at those dates was \$118,186,000, \$112,990,000 and \$86,692,000, respectively.

**12. Other Borrowed Funds and Subordinated Debentures**

The following is a summary of other borrowed funds and subordinated debentures as of December 31,

	2009	2008	2007
(dollars in thousands)			
Amount outstanding at December 31	\$ 270,107	\$ 274,641	\$ 325,968
Weighted average rate at December 31	3.63 %	4.22 %	4.94 %
Maximum amount outstanding at any month end	\$ 272,071	\$ 293,668	\$ 325,968
Daily average balance outstanding during the year	\$ 219,713	\$ 225,743	\$ 168,535
Weighted average rate during the year	4.71 %	5.10 %	5.55 %

**FEDERAL HOME LOAN BANK BORROWINGS**

Federal Home Loan Bank of Boston ("FHLBB") borrowings are collateralized by a blanket pledge agreement on the Bank's FHLBB stock, certain qualified investment securities, deposits at the FHLBB and residential mortgages held in the Bank's portfolios. The Bank's remaining term borrowing capacity at the FHLBB at December 31, 2009, was approximately \$136,476,000. In addition, the Bank has a \$14,500,000 line of credit with the FHLBB. A schedule of the maturity distribution of FHLBB advances with the weighted average interest rates is as follows:

December 31,	2009		2008		2007	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(dollars in thousands)						
Within one year	\$ 104,000	2.72 %	\$ 104,500	2.80 %	\$ 124,750	4.65 %
Over one year to two years	11,000	1.81 %	59,000	5.17 %	54,500	4.67 %
Over two years to three years	19,500	2.08 %	11,000	4.05 %	59,000	5.17 %
Over three years to five years	56,000	3.65 %	20,500	4.18 %	9,000	4.14 %
Over five years	42,000	4.55 %	42,000	4.55 %	42,000	4.53 %
Total	\$ 232,500	3.18 %	\$ 237,000	3.88 %	\$ 289,250	4.73 %

Included in the table above are \$82,500,000, \$85,000,000 and \$123,500,000 of FHLBB advances at December 31, 2009, 2008 and 2007, respectively, that are puttable at the discretion of FHLBB. These put dates were not utilized in the table above.

During 2009, the Company restructured \$19,000,000 of FHLBB advances. Prior to restructure, the weighted average rate on these advances was 4.10% and the weighted average remaining maturity was 15 months. Subsequent to restructure, the weighted average rate was 3.56% and the weighted average maturity was 46 months. The restructure was accounted for as a modification.

**SUBORDINATED DEBENTURES**

Subordinated debentures totaled \$36,083,000 at December 31, 2009 and 2008. 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 on 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 20 years.

**OTHER BORROWED FUNDS**

There were no overnight federal funds purchased at December 31, 2009 and 2008.

The Bank serves as a Treasury Tax and Loan depository under a note option with the Federal Reserve Bank of Boston. This open-ended interest-bearing borrowing carries an interest rate equal to the daily federal funds rate less 0.25%. This amount totaled \$1,380,000 and \$1,413,000 at December 31, 2009 and 2008, respectively.

The Bank also has an outstanding loan in the amount of \$144,000 and \$145,000 at December 31, 2009 and 2008, respectively, borrowed against the cash value of a whole life insurance policy for a key executive of the Bank.

**13. 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 per 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 2009, 2008 and 2007 was an increase of 2,091, 1,719 and 4,246 shares, respectively.

**STOCK REPURCHASE PLAN**

During 2009, the Board of Directors of the Company approved a reauthorization of the stock repurchase program. Under the program, the Company is reauthorized to repurchase up to 300,000, or less than 9%, of Century Bancorp Class A Common Stock outstanding. This vote supersedes the previous program voted by the Board of Directors during 2008, which also authorized the Company to repurchase up to 300,000, or less than 9%, of Century Bancorp Class A Common Stock.

The stock buy back is authorized to take place from time-to-time, subject to prevailing market conditions. The purchases are made on the open market and are funded from available cash. During 2009, the Company repurchased 8,110 shares at an average price of \$13.04 per share.

**STOCK OPTION PLAN**

During 2000 and 2004, common stockholders of the Company approved stock option plans (the "Option Plans") that provide 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 nonqualified 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 nonqualified 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 68,637 options exercisable at December 31, 2009.

Stock option activity under the plan is as follows:

	December 31, 2009		December 31, 2008		December 31, 2007	
	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	81,037	\$ 27.42	94,787	\$ 27.66	122,737	\$ 27.20
Forfeited	(12,400)	34.77	(13,750)	29.07	(25,334)	26.32
Exercised	—	—	—	—	(2,616)	19.20
Outstanding at end of year	68,637	\$ 26.09	81,037	\$ 27.42	94,787	\$ 27.66
Exercisable at end of year	68,637	\$ 26.09	81,037	\$ 27.42	94,787	\$ 27.66
Available to be granted at end of year	202,909		190,509		176,759	

At December 31, 2009, 2008 and 2007, the options outstanding have exercise prices between \$15.063 and \$35.010, and a weighted average remaining contractual life of three years for 2009, four years for 2008 and four years for 2007. The weighted average intrinsic value of options exercised for the period ended December 31, 2007 was \$4.90 per share with an aggregate value of \$61,805. The average intrinsic value of options exercisable at December 31, 2009, 2008 and 2007 had an aggregate value of \$74,056, \$7,331 and \$54,805, 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, 2009, that the Bank and the Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2009, 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 below. 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
<b>As of December 31, 2009</b>						
Total Capital (to Risk-Weighted Assets)	\$ 145,586	12.76 %	\$ 91,262	8.00 %	\$ 114,078	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	133,213	11.68 %	45,631	4.00 %	68,447	6.00 %
Tier 1 Capital (to 4th Qtr. Average Assets)	133,213	6.23 %	85,466	4.00 %	106,832	5.00 %
<b>As of December 31, 2008</b>						
Total Capital (to Risk-Weighted Assets)	\$ 134,990	13.19 %	\$ 81,904	8.00 %	\$ 102,380	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	123,871	12.10 %	40,952	4.00 %	61,428	6.00 %
Tier 1 Capital (to 4th Qtr. Average Assets)	123,871	7.15 %	69,264	4.00 %	86,580	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
<b>As of December 31, 2009</b>						
Total Capital (to Risk-Weighted Assets)	\$ 177,808	15.53 %	\$ 91,571	8.00 %	\$ 114,464	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	165,435	14.45 %	45,786	4.00 %	68,678	6.00 %
Tier 1 Capital (to 4th Qtr. Average Assets)	165,435	7.73 %	85,619	4.00 %	107,024	5.00 %
<b>As of December 31, 2008</b>						
Total Capital (to Risk-Weighted Assets)	\$ 168,121	16.38 %	\$ 82,114	8.00 %	\$ 102,643	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	157,002	15.30 %	41,057	4.00 %	61,586	6.00 %
Tier 1 Capital (to 4th Qtr. Average Assets)	157,002	9.05 %	69,404	4.00 %	86,755	5.00 %

#### 14. Income Taxes

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

	2009	2008	2007
(dollars in thousands)			
Current expense:			
Federal	\$ 3,058	\$ 3,117	\$ 3,137
State	419	232	284
Total current expense	<u>3,477</u>	<u>3,349</u>	<u>3,421</u>
Deferred expense (benefit):			
Federal	(1,759)	(954)	50
State	(535)	(140)	61
Total deferred expense (benefit)	<u>(2,294)</u>	<u>(1,094)</u>	<u>111</u>
Provision for income taxes	<u>\$ 1,183</u>	<u>\$ 2,255</u>	<u>\$ 3,532</u>

Included in income tax expense for the year ended December 31, 2009, 2008, and 2007 is interest of \$0, \$0 and \$0, respectively. There were no penalties during these periods.

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

	2009	2008
(dollars in thousands)		
Currently (payable) receivable	\$ (628)	\$ (9)
Deferred income tax asset, net	12,340	12,822
Total	<u>\$ 11,712</u>	<u>\$ 12,813</u>

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

	2009	2008	2007
(dollars in thousands)			
Federal income tax expense at statutory rates	\$ 3,856	\$ 3,842	\$ 3,875
State income tax, net of federal income tax benefit	(76)	62	225
Insurance income	(442)	(353)	(210)
Effect of tax-exempt interest	(1,965)	(1,307)	(105)
Other	(190)	11	(253)
Total	<u>\$ 1,183</u>	<u>\$ 2,255</u>	<u>\$ 3,532</u>
Effective tax rate	10.4 %	20.0 %	31.0 %

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

	2009	2008
(dollars in thousands)		
Deferred income tax assets:		
Allowance for loan losses	\$ 6,430	\$ 4,495
Deferred compensation	4,384	4,151
Unrealized loss on securities available-for-sale	—	169
Pension and SERP liability	5,795	5,745
Acquisition premium	532	519
Depreciation	—	64
Investments writedown	31	27
Deferred gain	71	91
Other	60	11
Nonaccrual interest	444	54
Gross deferred income tax asset	<u>17,747</u>	<u>15,326</u>
Deferred income tax liabilities:		
Depreciation	(169)	—
Limited partnerships	(2,466)	(2,401)
Unrealized gain on securities available-for-sale	(2,657)	—
Other	(115)	(103)
Gross deferred income tax liability	<u>(5,407)</u>	<u>(2,504)</u>
Deferred income tax asset net	<u>\$ 12,340</u>	<u>\$ 12,822</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, 2009. 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. For the tax year beginning in 2009, the Commonwealth of Massachusetts requires a combined state tax return, except for security corporations, which file separate tax returns. For years before 2006, the Company is no longer subject to federal or state income tax examinations.

### 15. 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 its retirement plans. The target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range of 40% to 64% of total portfolio assets. The remainder of the portfolio is allocated to fixed income securities with target range of 15% to 25% and other investments including global asset allocation and hedge funds from 20% to 36%.

The Trustees of SBERA, through its Investment Committee, select investment managers for the common and collective trust portfolio. A professional investment 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 investments across a spectrum of investment types to limit risks from large market swings. The Company closed the plan to employees hired after March 31, 2006.

Prior to 2008, the measurement date for the Plan was September 30 for each year. Beginning in 2008, the measurement date was changed to December 31. The benefits expected to be paid in each year from 2010 to 2014 are \$780,000, \$824,000, \$926,000, \$955,000 and \$1,013,000, respectively. The aggregate benefits expected to be paid in the five years from 2015 to 2019 are \$6,482,000. The Company plans to contribute \$1,275,000 to the Plan in 2010.

The weighted-average asset allocation of pension benefit assets was:

Asset Category	December 31, 2009	December 31, 2008
Fixed income	32 %	35 %
Domestic equity	48 %	45 %
International equity	12 %	12 %
Hedge funds	8 %	8 %
Total	<u>100 %</u>	<u>100 %</u>

The fair value of plan assets as of December 31, 2009 is as follows:

Asset Category	Percent	Total	Level 1	Level 2	Level 3
(dollars in thousands)					
Collective funds	41.1 %	\$ 7,038	\$ 2,057	\$ 4,981	\$ —
Equity securities	25.8 %	4,400	4,400	—	—
Mutual funds	14.5 %	2,476	2,282	194	—
Hedge funds	7.7 %	1,319	—	—	1,319
Short term investments	10.9 %	1,854	—	1,854	—
	100.0 %	\$ 17,087	\$ 8,739	\$ 7,029	\$ 1,319

The Bank's fair value of major categories of pension plan assets are summarized above.

#### LEVEL 1

The plan assets measured at fair value in Level 1 are based on quoted market prices in an active exchange market.

#### LEVEL 2

Plan assets measured at fair value in Level 2 are based on pricing models that consider standard input factors, such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

#### LEVEL 3

Plan assets measured at fair value in Level 3 are based on unobservable inputs, which includes SBERA's assumptions and the best information available under the circumstance. Level 3 assets consist of hedge funds. The underlying assets are valued based upon quoted exchange prices, over-the-counter trades, bid/ask prices, relative value assessments based on market conditions, and other information, as available. Further adjustments may be made based on factors impacting liquidity.

The changes in Level 3 securities for the year ended December 31, 2009 are shown in the table below:

Balance at December 31, 2008	\$ 1,174
Actual return – assets still being held	145
Actual return – assets sold during year	—
Purchases	—
Sales	—
Maturities	—
Transfers	—
Balance at December 31, 2009	\$ 1,319

The performance of the plan assets is dependent upon general market conditions and specific conditions related to the issuers of the underlying securities.

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.

Prior to 2008, the measurement date for the Supplemental Plan was September 30 for each year. Beginning in 2008, the measurement date was changed to December 31 in accordance with FASB ASC 715-20. The benefits expected to be paid in each year from 2010 to 2014 are \$1,055,000, \$1,058,000, \$1,052,000, \$1,051,000 and \$1,050,000, respectively. The aggregate benefits expected to be paid in the five years from 2015 to 2019 are \$7,365,000.

## Notes to Consolidated Financial Statements

Century Bancorp, Inc. AR '09

	Defined Benefit Pension Plan		Supplemental Insurance/ Retirement Plan	
	2009	2008	2009	2008
(dollars in thousands)				
Change projected in benefit obligation				
Benefit obligation at beginning of year	\$ 21,413	\$ 19,139	\$ 15,768	\$ 13,462
Service cost	792	1,026	469	336
Interest cost	1,240	1,436	934	1,008
Actuarial (gain)/loss	1,396	459	782	2,255
Benefits paid	(594)	(647)	(1,047)	(1,293)
Projected benefit obligation at end of year	\$ 24,247	\$ 21,413	\$ 16,906	\$ 15,768
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 14,059	\$ 16,660		
Actual (loss) return on plan assets	2,347	(3,731)		
Employer contributions	1,275	1,777		
Benefits paid	(594)	(647)		
Fair value of plan assets at end of year	\$ 17,087	\$ 14,059		
(Unfunded) Funded status	\$ (7,160)	\$ (7,534)	\$ (16,906)	\$ (15,768)
Accumulated benefit obligation	\$ 21,939	\$ 19,468	\$ 15,030	\$ 14,165
Weighted-average assumptions as of December 31				
Discount rate — Liability	5.50 %	5.75 %	5.50 %	5.75 %
Discount rate — Expense	5.75 %	6.00 %	5.75 %	6.00 %
Expected return on plan assets	8.00 %	8.00 %	NA	NA
Rate of compensation increase	4.00 %	4.00 %	4.00 %	4.00 %
Components of net periodic benefit cost				
Service cost	\$ 792	\$ 821	\$ 469	\$ 308
Interest cost	1,240	1,148	934	814
Expected return on plan assets	(1,128)	(1,333)	—	—
Recognized prior service cost	(113)	(116)	110	108
Recognized net losses	696	211	139	49
Net periodic cost	\$ 1,487	\$ 731	\$ 1,652	\$ 1,279
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Amortization of prior service cost	\$ 113	\$ 116	\$ (110)	\$ (108)
Net (gain) loss	(519)	5,623	643	2,177
Total recognized in other comprehensive income	(406)	5,739	533	2,069
Total recognized in net periodic benefit cost and other comprehensive income	\$ 1,081	\$ 6,470	\$ 2,185	\$ 3,348

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

	December 31, 2009			December 31, 2008		
	Plan	Supplemental Plan	Total	Plan	Supplemental Plan	Total
Prior service cost	\$ 932	\$ (1,440)	\$ (508)	\$ 1,045	\$ (1,513)	\$ (468)
Net actuarial loss	(9,298)	(4,272)	(13,570)	(9,817)	(3,666)	(13,483)
Total	\$ (8,366)	\$ (5,712)	\$ (14,078)	\$ (8,772)	\$ (5,179)	\$ (13,951)



The following table summarizes the amounts included in Accumulated Other Comprehensive Loss at December 31, 2009, 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 2010	\$ (104)	\$ 110
Amortization of loss to be recognized in 2010	634	172

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 \$261,000 for 2009, \$265,000 for 2008 and \$229,000 for 2007. Administrative costs associated with the plan are absorbed by the Company.

The Company has a cash incentive plan that is designed to reward our executives and officers for the achievement of annual financial performance goals of the Company as well as business line, department and individual performance. The plan supports the philosophy that management be measured for their performance as a team in the attainment of these goals. There were no payments under this plan for 2007, 2008 and 2009. Discretionary bonus expense amounted to \$403,000, \$348,000 and \$154,000 in 2009, 2008, and 2007, respectively.

The Company does not offer any postretirement programs other than pensions.

#### 16. Commitments and Contingencies

A number of legal claims against the Company arising in the normal course of business were outstanding at December 31, 2009. 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 operations.

#### 17. 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	2009	2008
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate		
1-4 family mortgages	\$ 1,262	\$ 1,225
Standby and commercial letters of credit	8,904	14,225
Unused lines of credit	143,556	144,653
Unadvanced portions		
of construction loans	22,699	16,642
Unadvanced portions		
of other loans	4,407	6,558

Commitments to originate loans, unadvanced portions of construction loans, unused lines of credit 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.

#### 18. Other Operating Expenses

Year ended December 31,	2009	2008	2007
(dollars in thousands)			
Marketing	\$ 1,518	\$ 1,482	\$ 1,540
Processing services	981	828	806
Legal and audit	1,284	994	776
Postage and delivery	882	922	867
Software maintenance/amortization	794	807	721
Supplies	662	698	759
Consulting	733	832	639
Telephone	585	626	546
Core deposit tangible amortization	388	388	388
Insurance	304	322	380
Director's fees	256	229	232
Other	1,261	1,552	1,101
Total	\$ 9,648	\$ 9,680	\$ 8,755

#### 19. 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.

**SHORT-TERM INVESTMENTS**

The fair value of short-term investments is estimated using the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for short-term investments of similar remaining maturities.

**SECURITIES HELD-TO-MATURITY AND SECURITIES AVAILABLE-FOR-SALE**

The fair value of these securities were based on quoted market prices, where available, as provided by third-party investment portfolio pricing vendors. If quoted market prices were not available, fair values provided by the vendors were based on quoted market prices of comparable instruments in active markets and/or based on a matrix pricing methodology which employs The Bond Market Association's standard calculations for cash flow and price/yield analysis, live benchmark bond pricing and terms/condition data available from major pricing sources. Management regards the inputs and methods used by third party pricing vendors to be "Level 2 inputs and methods" as defined in the "fair value hierarchy" provided by FASB.

**LOANS**

For variable-rate loans, which 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:

	2009		2008	
	Carrying Amounts	Fair Value	Carrying Amounts	Fair Value
(dollars in thousands)				
Financial assets:				
Cash and cash equivalents	\$ 398,642	\$ 398,642	\$ 156,168	\$ 156,168
Short-term investments	18,518	18,665	43,814	43,978
Securities available-for-sale	647,796	647,796	495,585	495,585
Securities held-to-maturity	217,643	221,413	184,047	185,433
Net loans	877,125	876,197	824,946	837,064
Accrued interest receivable	5,806	5,806	6,723	6,723
Financial liabilities:				
Deposits	1,701,987	1,706,271	1,265,527	1,271,404
Repurchase agreement and other borrowed funds	352,769	359,989	351,068	357,927
Subordinated debentures	36,083	36,136	36,083	41,908
Accrued interest payable	1,116	1,116	1,595	1,595
Standby letters of credit	—	93	—	117

**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.

**20. Quarterly Results of Operations (unaudited)**

2009 Quarters	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	\$ 19,786	\$ 20,037	\$ 20,194	\$ 19,583
Interest expense	7,337	7,363	8,232	8,791
Net interest income	12,449	12,674	11,962	10,792
Provision for loan losses	2,475	1,250	1,050	1,850
Net interest income after provision for loan losses	9,974	11,424	10,912	8,942
Other operating income	4,861	3,399	3,540	4,670
Operating expenses	11,418	11,228	12,283	11,450
Income before income taxes	3,417	3,595	2,169	2,162
Provision for income taxes	332	413	162	276
Net income	\$ 3,085	\$ 3,182	\$ 2,007	\$ 1,886

## Share data:

Average shares outstanding, basic	5,530,297	5,530,297	5,530,724	5,537,781
Average shares outstanding, diluted	5,533,943	5,533,622	5,531,329	5,537,781
Earnings per share, basic	\$ 0.56	\$ 0.58	\$ 0.36	\$ 0.34
Earnings per share, diluted	\$ 0.56	\$ 0.58	\$ 0.36	\$ 0.34

**2008 Quarters**

	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	\$ 20,570	\$ 20,891	\$ 19,470	\$ 19,762
Interest expense	8,638	8,932	8,814	9,530
Net interest income	11,932	11,959	10,656	10,232
Provision for loan losses	1,450	1,350	925	700
Net interest income after provision for loan losses	10,482	10,609	9,731	9,532
Other operating income	3,499	3,577	3,477	3,422
Operating expenses	10,851	11,051	10,743	10,384
Income before income taxes	3,130	3,135	2,465	2,570
Provision for income taxes	320	576	589	770
Net income	\$ 2,810	\$ 2,559	\$ 1,876	\$ 1,800

## Share data:

Average shares outstanding, basic	5,539,043	5,541,345	5,543,781	5,543,804
Average shares outstanding, diluted	5,539,092	5,542,404	5,546,128	5,546,700
Earnings per share, basic	\$ 0.51	\$ 0.46	\$ 0.34	\$ 0.32
Earnings per share, diluted	\$ 0.51	\$ 0.46	\$ 0.34	\$ 0.32

## Notes to Consolidated Financial Statements

Century Bancorp, Inc. AR '09

### 21. Parent Company Financial Statements

The balance sheets of Century Bancorp, Inc. ("Parent Company") as of December 31, 2009 and 2008 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2009, 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,	2009	2008
(dollars in thousands)		
ASSETS:		
Cash	\$ 29,488	\$ 31,588
Investment in subsidiary, at equity	135,459	122,324
Other assets	3,973	2,786
Total assets	<u>\$ 168,920</u>	<u>\$ 156,698</u>
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities	\$ 107	\$ 112
Subordinated debentures	36,083	36,083
Stockholders' equity	132,730	120,503
Total liabilities and stockholders' equity	<u>\$ 168,920</u>	<u>\$ 156,698</u>

#### STATEMENTS OF INCOME

Year Ended December 31,	2009	2008	2007
(dollars in thousands)			
Income:			
Dividends from subsidiary	\$ 2,766	\$ 4,778	\$ 3,611
Interest income from deposits in bank	409	884	1,442
Other income	72	72	72
Total income	<u>3,247</u>	<u>5,734</u>	<u>5,125</u>
Interest expense	2,400	2,400	2,400
Operating expenses	200	165	130
Income before income taxes and equity in undistributed income of subsidiary	647	3,169	2,595
Benefit from income taxes	(720)	(547)	(345)
Income before equity in undistributed income of subsidiary	1,367	3,716	2,940
Equity in undistributed income of subsidiary	8,793	5,330	4,924
Net income	<u>\$ 10,160</u>	<u>\$ 9,046</u>	<u>\$ 7,864</u>

#### STATEMENTS OF CASH FLOWS

December 31,	2009	2008	2007
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 10,160	\$ 9,046	\$ 7,864
Adjustments to reconcile net income to net cash provided by operating activities:			
Undistributed income of subsidiary	(8,793)	(5,330)	(4,924)
Depreciation and amortization	12	12	12
Increase in other assets	(1,197)	(286)	(495)
Increase (decrease) in liabilities	(5)	5	(39)
Net cash provided by operating activities	<u>177</u>	<u>3,447</u>	<u>2,418</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Stock repurchases	(107)	(84)	—
Net proceeds from the exercise of stock options	—	—	51
Cash dividends paid	(2,170)	(2,174)	(2,173)
Net cash used in financing activities	<u>(2,277)</u>	<u>(2,258)</u>	<u>(2,122)</u>
Net increase (decrease) in cash	<u>(2,100)</u>	<u>1,189</u>	<u>296</u>
Cash at beginning of year	31,588	30,399	30,103
Cash at end of year	<u>\$ 29,488</u>	<u>\$ 31,588</u>	<u>\$ 30,399</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 its subsidiary as of December 31, 2009 and 2008 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009. 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 its subsidiary as of December 31, 2009 and 2008 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, 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, 2009, 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 23, 2010, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

A handwritten signature in black ink that reads "KPMG LLP". The letters are slightly slanted and connected, with a stylized 'K' and 'M'.

Boston, Massachusetts

February 23, 2010

**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, 2009, 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, 2009, 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, 2009 and 2008 and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated February 23, 2010, expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

Boston, Massachusetts

February 23, 2010

**CENTURY BANCORP, INC.**

400 Mystic Avenue  
Medford, Massachusetts 02155

We, together with the other members of Century Bancorp, Inc. and our 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.

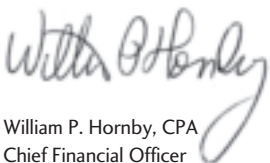
All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009. 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, 2009, 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 47.



Barry R. Sloane  
Co-President & Co-CEO



William P. Hornby, CPA  
Chief Financial Officer  
& Treasurer

February 23, 2010





## Stockholder Information

### Corporate Headquarters

Century Bank  
400 Mystic Avenue  
Medford, MA 02155-6316  
TEL (866) 8-CENTURY or (866) 823-6887  
AskCentury.com

### Transfer Agent and Registrar

Computershare Investor Services  
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 13, 2010, 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 on the NASDAQ market and is traded under the symbol "CNBKA."

### 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	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
Brookline	1354 Beacon Street, Brookline, MA 02446 .....	OPENING APRIL 2010
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	1 Salem Street, Medford, MA 02155 .....	(781) 391-9830
Medford	400 Mystic Avenue, Medford, MA 02155 .....	(781) 393-4160
Medford	503 Riverside Avenue, Fellsway Plaza, Medford, MA 02155 .....	(781) 393-6520
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
Winchester	522 Main Street, Winchester, MA 01890 .....	(781) 756-3480

### Free-Standing Cash Dispensers

Boston	The Hotel Commonwealth, 500 Commonwealth Avenue, Boston, MA 02215
Cambridge	CambridgeSide Galleria, 100 CambridgeSide Place, Cambridge, MA 02141
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

***Century***  
***Bancorp, Inc.***

[www.AskCentury.com](http://www.AskCentury.com)

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of family  
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