

***Century***  
***Bancorp***<sup>®</sup>  
2016 Annual Report

# Outperformance

A year of outdoing ourselves.

## Chairman's Message

I turned 90 years young in 2016 and continued to accomplish many goals, including publishing my autobiography titled "Character Counts." I used the book to reflect on my past and share life lessons with my family, associates and friends. I've seen the business of banking transform over the course of my career. Working in my father's furniture store taught me that my generation, the "Greatest Generation," made their decisions based on service, honesty and convenience. If you provided one family member with great service they referred others to our store. My generation wanted this same convenience and service with their banking too.

When I founded Century, banks were confined to a single community. I recognized the need for a state-chartered commercial bank in Somerville but I didn't want to limit my customer base to a single community. I knew a major highway, Route 93, was being planned that would funnel traffic from the communities north of Boston onto Mystic Avenue in Somerville. I knew exactly where our first branch needed to be located for optimal visibility. During my generation, the laws changed to enable banks to expand from cities to counties, to the entire state and then nationally. When I opened our Malden branch, I introduced free checking and numerous other products that appealed to the public. We also expanded our operating hours to include Saturday. Customers welcomed these changes, but other local bankers were furious with me because they were used to closing on Wednesday afternoons and Saturdays. They felt I was being disruptive by focusing on what the customers desired. None of these banks are in existence today; they have all closed or merged.

Today's generation banks from anywhere, at any time. Weekly trips to the bank to make deposits are no longer routine – deposits are made by taking pictures from mobile phones. Century Bank's adaption of new technology has enabled us to compete with the largest international banks. Even with all of these changes, brick-and-mortar branches still matter. Technology and generational tastes change but the physical branch still remains an important aspect of where to bank. We've responded by shrinking the branch size and expanding our staff skills to provide the full breath of banking services. Brands that once were the gold standard of retailing, like Sears, are struggling to find their place today. Retailers have been slow to evolve their model to compete with online behemoths like Amazon. Generations change and business must evolve with them.

No matter what happens, banking remains a business of trust. Our clients and communities trust us with their homes, life savings and businesses. They expect us to do the right thing. Yet we continue to read about bankers who take advantage of this trust for their own gain. I was disheartened, but not surprised, to recently learn another giant bank took advantage of their clients' trust by charging them fees for products and services they never requested. The fraud was ingrained in their organizational culture. Once discovered by the regulators they paid big fines but I have my doubts these indiscretions won't reoccur even with the new leadership. Century's culture would never tolerate this behavior which is why I'm proud to partner with the more than 400 Associates in the business I founded almost 50 years ago. My son and daughter, Barry and Linda, are the leaders for the next generation and will carry on the principles my father taught me. We are the largest family-run bank in New England, a rare characteristic in today's financial industry. I am confident we will continue to deliver outperformance in our financial growth and risk decisions. I'm still excited and fascinated by the business of banking and intend to actively lead Century Bank as long as my health allows. I look forward to prospering together in 2017 and the years ahead. I thank you for your continued support and loyalty.

Our Family's Bank. And Yours.



Marshall M. Sloane, Founder and Chairman

## President's Message

Dear Fellow Shareholders:

2016 is the seventh consecutive record year for Century Bank. Century has been profitable in virtually every one of its 48 years, and has paid an uninterrupted dividend for 40 years. We continue to outperform in nearly all matters financial and strategic. Capital, assets, deposits, earnings, and loans all again reached record year-end levels. We wish to make particular note of our loan growth in 2016, \$192 million, or 11%, to a total of \$1.9 billion. We have achieved consistent and meaningful loan growth, without taking any speculative real estate project risk, a very different strategy than virtually all of our peers. We ended 2016 at \$4.5 billion in assets, growth of 13% and \$24.5 million of annual earnings, an increase of 6.6%. Our stock rose an astounding 38% to \$60 at year-end; a three-year cumulative total return of 87% and a five-year cumulative total return of 127%. All three principal business units performed extremely well in 2016.

It is no exaggeration to say that the regulatory, fiscal, and macroeconomic environment all changed on November 8. The post-election world, despite enormous controversy, appears to be constructive for our future.

### **Our Family's Bank. And Yours.**

Our Founder and Chairman, Marshall M. Sloane, is in his 91st year, making him one of the 3 most senior working bank Chairmen in the country. He comes to work every day, adding his unparalleled market knowledge and industry experience to our decision making process.

Our slogan translates into our devotion to treat our clients as we, as a family and a business, would wish to be treated. It means fair products, rates, and fees, quick credit decisions and closings, transparency of process, and respect for the continuity and loyalty of our clients. Yet we also appreciate the frailty of life and business conditions, and try to support our clients through those inevitable undulations.

Let's examine the multiple elements of Century's outperformance that have contributed to our success.



Pictured from left: Founder & Chairman Marshall M. Sloane; Executive Vice President Linda Sloane Kay; and President & CEO Barry R. Sloane

## Outperforming Through Centralized Hands on Management

Banking is a business of temperament and daily routine. We are steadfast in our centralized control and transparency of management. Our Loan Committee is a weekly institution that approves in open forum every loan over \$500,000. So-called Deal of the Day meets almost every afternoon to approve all other loans and lines of credit. I participate in virtually every one. It is a level of centralized credit approval that ensures we know the risks we take, makes sure we reward customer loyalty, and connects us to our clients and communities.

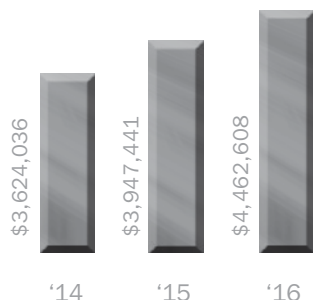
Our Management Committee is composed of the 11 most senior sector executives at Century. This bi-weekly, half-day, meeting follows an agenda that covers officer hirings, contracts, leases, audits, marketing campaigns, significant complaints, policy changes, donations, and pipelines of all new business. MANCOM, as we call it, sets our cultural tone of centralized, yet participatory, management engagement. Opinions and dialogue are encouraged; the wisdom of our collective executive team is shared. All have a stake in decisions made. It works.

## Outperforming in Consistency of Net Earnings Growth and Return on Equity

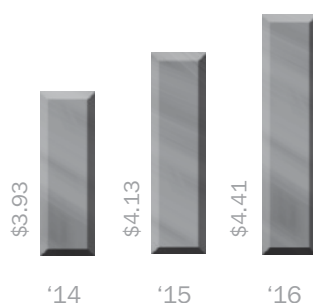
Net income grew by 6.6% to a record \$24.5 million, or \$4.41 per Class A share diluted, for the year ended December 31, 2016, as compared to net income of \$23.0 million, or \$4.13 per Class A share diluted for 2015. Century's return on average equity (ROE) was 10.80%, for 2016, as compared to 2015's 11.26%. Our ROE remains within the top 15% of our regional peer group. The ROE is the primary building block of our financial goal setting. It reflects our priority to grow shareholder value as the key driver of our strategic plan, our annual budget, and our tactical decisions. We can't control the equity markets, but we can have a high level of confidence that if we continue to produce a double digit ROE, the share price will follow over time. It is why we believe Standard and Poor's continues for the second year to rate Century's shares an "A" and a "Buy."

In addition, our efficiency ratio of overhead to revenue, the key metric of comparative non-interest expense decreased (favorable) from 64% in 2015 to 63% in 2016. We watch our expenses carefully.

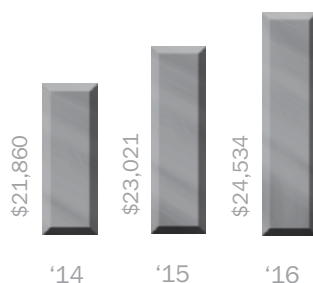
Total Assets (in thousands)



Earnings per Class A share, diluted



Net Income (in thousands)



### **Outperforming Results Yield Significant Asset Growth**

Total assets grew 13% to a record of \$4.5 billion on December 31, 2016, up from \$3.9 billion on December 31, 2015, an increase of \$515 million. We experienced significant growth in 2016 for all three of our business lines: consumer, business, and institutional services. Our depositor confidence is pronounced and predicated on our consistent growth of earnings and assets. We are proud to have dozens of depositors who each routinely keep tens of millions at Century with confidence in our high performing earnings and asset growth. Being one of the nine S&P “A” rated banks in America, and one of only two in Massachusetts, is a strong external contributing confidence factor.

### **Outperforming Supports Capital Adequacy**

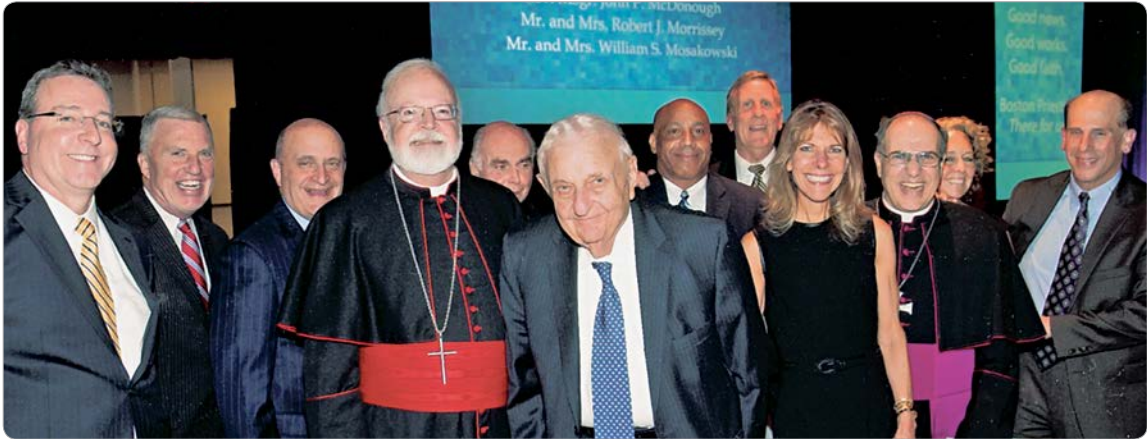
Total equity was \$240.0 million on December 31, 2016, an increase of \$25.5 million or 11.9% from \$214.5 million on December 31, 2015. Book value per share increased to \$43.11 at December 31, 2016, up by \$4.58 from \$38.53 at December 31, 2015. Century is “well capitalized” by all regulatory standards, and we have passed all “Basel III” requirements through organic capital generation from earnings.

# 38%

**Increase in Stock Price**

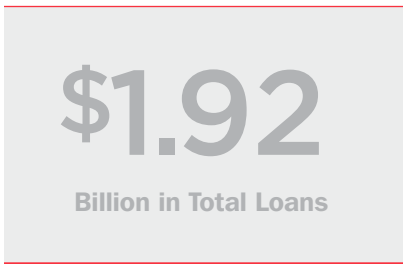


**Pictured from left:** Chief Financial Officer & Treasurer William P. Hornby; Executive Vice President Paul A. Evangelista; Executive Vice President David B. Wootton; and Executive Vice President Brian J. Feeney



**Annual Priesthood Celebration**

Pictured from left: Bradford J. Buckley, SVP, Century Bank; James M. Flynn, Jr., SVP, Century Bank; Barry R. Sloane; Cardinal Sean P. O'Malley; Reverend J. Bryan Hehir; Marshall M. Sloane; Gerald S. Algere, SVP, Century Bank; David B. Woonton, EVP, Century Bank; Linda Sloane Kay; Most Reverend Peter J. Uglietto, Vicar General; Karen Woonton; and Peter R. Castiglia, SVP, Century Bank.



**Outperforming Grows Our Loan Portfolio**

Our unique loan portfolio strategy continues to work really well. Total loans grew by \$192 million or 11% to a record \$1.92 billion on December 31, 2016; our largest loan portfolio ever, and a loan to deposit ratio of 53%. Non-performing assets fell again from the previous year to \$1.1 million, down from \$2.3 million, a continued minimal number for a portfolio of our size. The education and healthcare sectors anchor our loan growth, increasing some 10% as 2016 saw many quality not-for-profit institutions expanding and continuing to refinance debt with simpler and less expensive “direct purchase” loan placements. We are, by any standard, one of the leading experts in tax-exempt financing in New England.

We believe the magnetism and quality of Greater Boston’s colleges and universities validates our decade-long strategic conclusion that education and healthcare were and are the future of our region.

Our calling officers are seeking new middle market business prospects every day. We combine expert market knowledge with extraordinary product expertise, leading to some of the longest duration satisfied relationships in commercial banking. The process goes on, every day, pushing up our market share, but it’s not easy as many of our peers have lower underwriting standards than we do. The middle business market is an exceptionally competitive environment.

Loan quality is religion to us; our portfolio continues to be well-diversified with emphasis on quality underwriting and effective ongoing monitoring of every loan.

2016 was a productive year in which we closed \$93 million in residential first mortgages, and \$148 million in home equity loans. We extended 188 energy conservation loans through the Mass Save loan program, which helped us do our part for conservation while originating many new long term relationships.

## Outperformance in Our Branch System

In 2016 we decided to relocate our “downtown” Wellesley branch to 258 Washington Street in Wellesley Hills at Route 9. It is an improved location with reserved parking in front, and we opened in December 2016. It has already met with a warm reception from the community and deposits have grown. We will be very discerning in the search for branch #28. We are on the lookout for further high visibility market-extending locations, small size and manageable cost is paramount.

We approved in 2016 a regionally managed branch system, dividing by geography, and placing supervision and mentoring much closer to the line. It worked skillfully in 2016 along with our superb staff, as branch deposits grew by 20%.

## Outperformance Fostered Record Growth in Institutional Services

The Institutional Services Group, which includes our government, cash management, and not-for-profit banking teams, had another record year of client growth. Our share of government banking deposits is now the highest among Massachusetts chartered banks, and we have expanded our client set significantly in Rhode Island and New Hampshire.

We processed over 37 million check and payment items in 2016, with exceptional quality control and customer service. The lockbox function remains a time tested magnet for corporate and institutional clients. We are proud of the most stable operational management team in the industry, combining an advanced technology platform with live and experienced customer service personnel.

Let me quote one truly satisfied long-duration government client who wrote to us, “Providing quality customer service has become a lost art as companies today are strictly profit driven. There is no business that we are affiliated with that sets a higher standard than Century Bank...it remains a first class organization in every respect.” I truly could not have said it any better. We will do our utmost to insure it is always true.



### Wellesley Branch Grand Opening Ribbon Cutting

Pictured from left: Barbara J. Sloane; State Senator Richard Ross; Jack Morgan, Wellesley Board of Selectman; State Representative Alice Peisch; Linda Sloane Kay; Marshall M. Sloane; Jonathan Kay; Kerry Healey, President of Babson College; Candace Lapidus Sloane, M.D., Chair of the Board of Registration in Medicine; Barry R. Sloane; Russell B. Higley, Esq., Century Bank Board Member; Joseph J. Senna, Esq., Century Bank Board Member; and George R. Baldwin, Century Bank Board Member.

## Outperformance in Wealth Management

2016 was the second full year of our rechristened wealth management function. Our assets under management grew 31.6% to over \$78 million in 2016. Our wealth management business is a great opportunity to serve the generational transition challenges of our private clients while providing our non-profit clients an institutional-quality offering that embraces industry best practices. In 2016 we also migrated to a much enhanced custodial and trading platform that improves reporting and reduces client expenses.

## Outperformance in Branding

It's easy to be different in this realm as there is no other family managed and controlled bank of our size in New England. Our advertising, in print and on radio, promotes our consistent message of local family control, permanence, approachability, and personal service. Dad, Linda, and I keep taking the time to personally sign each welcome note thanking all new clients of Century. This level of personal touch is unique from all others in the industry.

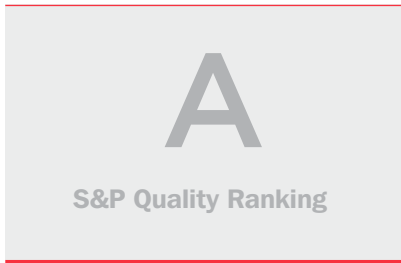
## Outperformance in Information Systems

We pride ourselves on a technology platform of redundancy and expertise that our clients can rely on for financial inquiry, transactions, and high quality service. We are proud to say that Information Systems met all of its operational and service goals in 2016. We are constantly monitoring our systems reliability, and when customers encounter problems at night or on weekends we're always reachable. Even New Year's Eve when a client with a withdrawal problem reached me at 1 AM, we took action to rectify the issue within an hour.

We are forever vigilant in the daily battle against cybercrime. It is the new "bank robbery" risk. We employ the most sophisticated tools and consultants available to reduce our risks of fraud.

### Senior Vice Presidents

Pictured from left: Yasmin D. Whipple; Kenneth A. Samuelian; William J. Gambon Jr.; Brenda C. Kerr; Janice A. Brandano; Shipley C. Mason; Thomas E. Piemontese; Gerald S. Algere; Bradford J. Buckley; Anthony C. LaRosa; Richard L. Billig; Jason J. Melius; Christine D. Scarafoni; Timothy L. Glynn; Deborah R. Rush; Peter R. Castiglia; Susan B. Delahunt; and James M. Flynn, Jr.





## Outperformance in Commitment to the Community

We are focused on our social responsibility to our home communities. Led by our imperative for locally controlled enterprise, community development, and relationship based philanthropy, we live our social mission every day. We support the Community Reinvestment Act function with staff, resources, and management commitment. We are utilizing these resources to better serve our minority and lower income communities with home ownership opportunities and access to traditional banking services. We have refreshed our First Time Home Buyer offering, and are very proud that we are the lead lender to a new affordable housing project in Somerville of 25 units to be occupied in 2018.

## Outperformance of People and Our Values

We can't say enough about the commitment and capability of our over 400 Century Associates. When bad weather, family calamity, or

industry changes bring challenges, our colleagues faultlessly respond with time, ability and ingenuity. So many of our colleagues have worked together for decades, a rare condition in our industry that makes our teamwork superb. Most of the achievements described above are the result of the talent and resourcefulness of the Century team.

Finally, we see so clearly our family and corporate values of industry, fairness, and community. We certainly hope in 2017 that the divisions in our society will mend, and all Americans will focus on the elements of our commonality, rather than our differences.

Thank you to our shareholders, our clients, our associates, and our communities, for their confidence and relationships. We will endeavor to make 2017 another year of outperformance through our diligence and resourcefulness.

Gratefully,

Barry R. Sloane  
President and CEO

Over  
**400**  
Century Bank Associates



# 2016

 This year, we continued to invest in our communities, supporting 278 organizations.

2020 Women on Boards  
ACT Lawrence  
Action for Boston Community Development, Inc.  
Adenoid Cystic Carcinoma Research Foundation  
AFSCME Council 93  
American Cancer Society  
American Foundation for Suicide Prevention  
American Jewish Committee  
Andover Business Community Association  
Andover Coalition for Education  
Andover Rotary Club  
Animal Rescue League of Boston  
Anti-Defamation League  
Archdiocese of Boston  
Asian Community Development Corporation  
Associazione Gizio  
Back Bay Association  
Bais Yaakov of Boston High School for Girls  
Beacon Academy



**Rabbi Elaine Zecher Honoring  
Marshall M. Sloane**

Best Buddies  
Beth Israel Deaconess Medical Center - Milton  
Bishop Fenwick High School  
Black Ministerial Alliance of Greater Boston  
Boston Architectural College  
Boston Ballet  
Boston Celtics Shamrock Foundation  
Boston Children's Hospital  
Boston College Carroll School of Management  
Boston Harbor Association  
Boston Jewish Film Festival  
Boston Landmarks Orchestra  
Boston University  
Bottom Line  
Boys & Girls Clubs of Medford and Somerville  
Bread of Life  
Brookline Chamber of Commerce  
Brookline Recreation Department  
Burlington Recreation Department  
Cambridge Camping  
Cambridge College  
Cambridge Mayor's Fire Relief Fund  
Cambridge Montessori School  
Cambridge School of Weston  
Cambridge YMCA  
Cambridge YWCA

Cancer Research and Marblehead/  
Salem Scholarships  
Cape Cod Healthcare Foundation  
Cardinal Cushing Centers, Inc.  
Cardinal Spellman High School  
Cathedral High School  
Catholic Charities of Boston  
Catholic Schools Foundation, Inc./Inner-City  
Scholarship Fund  
Challenge Unlimited  
Chinese Cultural Connection  
Christians and Jews United for Israel  
City of Beverly  
City of Cambridge  
City of Chicopee  
City of Everett  
City of Lowell  
City of Peabody  
City of Somerville  
Codman Square Health Center  
Cohen Hillel Academy  
Colleen E. Ritzer Memorial Scholarship Fund  
Colton J. Buckley Memorial Fund  
Combined Jewish Philanthropies  
Community Dispute Settlement Center  
Congregation Shaarei Tefillah  
Coolidge Corner Merchants' Association  
Cristo Rey Boston High School  
Cyrus E. Dallin Art Museum, Inc.  
Dana-Farber Cancer Institute  
DCF Kids Fund  
Development Corporation for Israel  
Dimock Community Health Centers  
DONNE 2000  
Dorothy C. Gabriel Foundation



**Team Century Participating in  
Step Up for Colleen**

East Middlesex Association for Children  
Elizabeth Peabody House  
ESSCO - MGH Breast Cancer Research Fund  
Essex Chamber Music Players  
Essex County Community Foundation  
Essex North Shore Agricultural Technical  
Foundation, Inc.  
Everett Chamber of Commerce

Everett Rotary Club  
Facing Cancer Together  
Family Promise MetroWest  
Fisher Center for Alzheimer's Research Fund  
Foundation for MetroWest  
Fractured Atlas  
Franciscan Children's  
Friends of Christopher Columbus Park  
Gann Academy  
German International School Boston  
Greater Boston Jewish Directory  
Greater Lawrence Family Health Center  
Greater Lynn Senior Services  
Greater Medford Visiting Nurse Association  
Greater Salem NH Rotary Club  
Griffin Museum of Photography  
Hadassah  
Hearing Loss Association of America



**Asian Community Development Corporation  
First Time Homebuyer Seminar at  
Century Bank Malden**

Hebrew SeniorLife  
Hillel House at Boston University  
Homes for Our Troops  
Hospitality Homes, Inc.  
I.B.E.W. Local 103  
Innovation Academy Charter School  
Intimate Partner Violence Project, Inc.  
Irish International Immigrant Center  
Italian American Association  
Italian Home for Children  
James L. McKeown Boys & Girls Club of Woburn  
Jewish Big Brothers Big Sisters  
Jewish Cemetery Association of Massachusetts  
Jewish Community Centers of Greater Boston  
Jewish Family Service  
Jewish Vocational Service  
John J. Forcellese Memorial Fund  
Joseph N. Hermann Youth Center  
Justin's Voice  
Kironde Education and Health Fund  
Knights of Pythias, Local 158  
Koleinu Boston's Jewish Community Chorus  
Kosher Dental Study  
Ladies Ancient Order of Hibernians  
Lupus Foundation of America  
Lynn Chamber of Commerce

Lynn Housing Authority & Neighborhood Development  
 Lynn Museum & Historical Society  
 Malden Babe Ruth League  
 Malden Chamber of Commerce  
 Malden YMCA  
 Massachusetts Affordable Housing Alliance  
 Massachusetts Association of Community Development Corporations  
 Massachusetts Eye and Ear Infirmary  
 Massachusetts General Hospital  
 Matignon High School  
 May Institute  
 Mayor Theodore D. Mann Memorial Prayer  
 McNally Education Fund  
 Medford Chamber of Commerce  
 Medford Public Schools  
 Medford Rotary Club  
 Merrimack Valley Chamber of Commerce  
 MetroWest Jewish Day School  
 Minority Business Expo  
 Minuteman Senior Services  
 Monsignor Neagle Apartments  
 Morgan Memorial Goodwill Industries  
 My Life My Choice  
 Mystic Valley Area Branch of the NAACP  
 Mystic Valley Elder Services  
 Mystic Valley Public Health Coalition  
 Mystic Valley Regional Charter School  
 NAIOP Massachusetts  
 Nashua Senior Activity Center  
 National Association of Black Accountants  
 National Brain Tumor Society



**Century Bank received the Outstanding Friend Award from the National Association of Black Accountants**

National Tay-Sachs & Allied Diseases Association  
 Nativity Preparatory School  
 Nazzaro Recreation Center  
 Neighborhood House Charter School  
 Neurofibromatosis, Inc., Northeast  
 New England Conservatory  
 Newbury Street League  
 Newton South High School  
 Newton-Needham Chamber of Commerce  
 Newton-Wellesley Hospital Charitable Foundation  
 North Andover Scholarship Foundation  
 North End Against Drugs, Inc.  
 North End Beautification Committee  
 North End Music and Performing Arts Center  
 North End Waterfront Health  
 North Reading Little League

North Shore Chamber of Commerce  
 North Shore Community Action Programs, Inc.  
 Northeast Arc  
 On the Rise  
 One Mission  
 Our Lady of Cedars of Lebanon Church  
 Pancreatic Cancer Research at MGH  
 Pan-Mass Challenge  
 Partners HealthCare at Home  
 Peabody Chamber of Commerce



**WROR Morning Show Hosts and Pan-Mass Challenge**

Precision Athletic Training  
 Prospect Hill Academy Charter School  
 Quincy Asian Resources, Inc.  
 Quincy Chamber of Commerce  
 Quincy College  
 Rashi School  
 Redemptoris Mater Seminary  
 Regis College  
 Ridgefield Academy  
 Riverside Community Care  
 Road to Responsibility  
 Rosie's Place  
 Run for our Troops  
 Sacred Heart Parish  
 Sacred Heart School  
 Sail Cape Cod  
 Saint Anthony's Society  
 Saint John School  
 Saint Joseph School  
 Saint Leonard Parish  
 Saint Peter School  
 Saint Vasilios  
 Salem Chamber of Commerce  
 Salem Rotary Club  
 Salesian Missions  
 Salve Regina University  
 Science Club for Girls  
 Shakespeare & Company  
 Sharsheret  
 Silent Spring Institute  
 Sisters of St. Joseph of Boston  
 Solomon Schechter Day School  
 Somerville Chamber of Commerce  
 Somerville Family Learning Collaborative  
 Somerville High School  
 Somerville Housing Authority  
 Somerville Museum  
 Somerville Rotary Club  
 South End Community Health Center  
 SpeakEasy Stage Company  
 Special Olympics Massachusetts

Spirit of Adventure Council, Boy Scouts of America  
 St. Anthony Shrine  
 St. John the Evangelist Church  
 St. Joseph Parish  
 Suzuki School of Newton  
 Teamsters Local 25, Autism Fund Inc.  
 Temple Beth Shalom  
 Temple Emanuel Andover  
 Temple Emanuel Newton  
 Temple Israel of Boston  
 Temple Reyim  
 The Angel Fund  
 The ARC of the South Shore  
 The Carroll Center For The Blind  
 The Community Family Inc.  
 The Exchange Club of Needham  
 The Gifford School  
 The Greater Boston Food Bank  
 The Jett Foundation  
 The Jimmy Fund  
 The Joey Fund  
 The Juilliard School  
 The Kennek Foundation  
 The Progeria Research Foundation  
 The Second Step  
 The Skating Club of Boston  
 The Soldiers Fund  
 Torah Academy  
 Town of Acton



**Salem Rotary Club Honoring Local Veterans**

Town of Arlington  
 Town of Burlington  
 UNICO Merrimack Valley  
 UWUA Local 369  
 Vilna Shul  
 Walnut Street Center  
 Ward 7 Improvement Association  
 Watertown Youth Baseball  
 Wellesley BNI  
 Wellesley Chamber of Commerce  
 Winchester Foundation for Educational Excellence  
 Winchester Rotary Club  
 Woburn Business Association  
 Woburn Dollars for Scholars  
 Woburn Middlesex Lions Club  
 Woburn Public Library  
 Women's Bar Association of Massachusetts  
 Women's Business Group Connects  
 Women's Lunch Place  
 World Unity  
 YAD Chessed Fund  
 Yoga Reaches Out

## Century Bancorp, Inc. Directors

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

Stephen R. Delinsky, Esq.<sup>1,3\*,7</sup>  
Attorney  
Clark, Hunt, Ahearn & Embry

Louis J. Grossman<sup>4,7</sup>  
Chairman  
The Grossman Companies, Inc.

Russell B. Higley, Esq.<sup>6,7</sup>  
Attorney

Jackie Jenkins-Scott<sup>4,5\*</sup>  
President Emeritus  
Wheelock College

Linda Sloane Kay<sup>4,5,6,7</sup>  
Executive Vice President  
Century Bank and Trust Company

Fraser Lemley<sup>2\*,3,4,5</sup>  
Chairman & CEO  
Sentry Auto Group

Joseph P. Mercurio<sup>1,2,4,7\*</sup>  
Senior Vice President  
Administration & Finance  
Quincy College

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

Jo Ann Simons<sup>5,6</sup>  
CEO  
Northeast ARC

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

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

George F. Swansburg<sup>4\*,5,6</sup>

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

## Officers

Marshall M. Sloane  
Founder and Chairman

Barry R. Sloane  
President & CEO

Linda Sloane Kay  
Executive Vice President

William P. Hornby, CPA  
Chief Financial Officer & Treasurer

Rosalie A. Cunio  
Clerk

Judith Sinclair  
Assistant Clerk

## Century Bank and Trust Company Officers

### Management Committee

Marshall M. Sloane  
Chairman of the Board

Barry R. Sloane  
President & CEO

William P. Hornby, CPA  
Chief Financial Officer & Treasurer

Paul A. Evangelista  
Executive Vice President

Brian J. Feeney  
Executive Vice President

Linda Sloane Kay  
Executive Vice President

David B. Woonton  
Executive Vice President

Richard L. Billig  
Senior Vice President

James M. Flynn, Jr.  
Senior Vice President

Jason J. Melius  
Senior Vice President

Christine D. Scarafoni  
Senior Vice President

### Senior Vice Presidents

Gerald S. Algere  
Janice A. Brandano  
Bradford J. Buckley  
Peter R. Castiglia  
Susan B. Delahunt  
William J. Gambon, Jr.  
Timothy L. Glynn  
Brenda C. Kerr  
Anthony C. LaRosa, CPA  
ShIPLEY C. Mason  
Thomas E. Piemontese  
Deborah R. Rush  
Kenneth A. Samuelian  
Yasmin D. Whipple

### First Vice Presidents

Michael D. Ballard  
Gracine Copithorne  
Anna M. Gorska  
T. Daniel Kausel  
David J. Waryas

### Vice Presidents

Jean P. Belcher-Scarpa  
Robert A. Bennett  
John S. Bosco, Jr.  
Valerie R. Bosse  
Gerald Bovardi  
Pasqualina Buttiri  
James W. Clark  
Derek J. Craig  
Rosalie A. Cunio  
Anthony Daniels  
Laura A. DiFava  
Tracy E. Dunn  
Sandra R. Edey  
Michele English  
Judith A. Fallon  
Marissa L. Fitzgerald  
Jane C. Gilberti  
Adam S. Glick  
Howard N. Gold  
Lisa Gosling  
Geoffrey T. Grayson  
Carl R. Hall  
Michelle L. Haughton  
Ashkon Hedvat  
James J. Jordan  
Darlene Joyce  
Michael F. Long  
Nancy M. Marsh  
Karen M. Martin  
Carl M. Mattos  
Kathleen McGillicuddy  
Nancy R. Miller  
Patricia M. Moran  
John L. Norris III  
Meredith O'Keefe  
David J. Orise  
Sarah A. O'Toole  
Cornelius C. Prioleau  
Youyi Shi  
Mary Spadoni  
Tuesday N. Thomas  
Lawrence H. Tsoi  
Jose I. Umana  
Calvin M. Wong

### Assistant Vice Presidents

Zubin C. Bagwadia  
Roberta M. Byington  
Cindy Cohen  
John R. Ferguson  
Saida Idouahmane  
Linda M. Johns  
William B. Keefe  
Brian Kelly  
Anne M. Mahoney  
Ann E. Mannion  
Carol A. Melisi  
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Jennifer A. Nickerson, CPA  
Marie A. Nugent  
Karen J. Pessia  
Scott M. Rembis  
Krzysztof A. Sikorski  
Jeremy P. Styles  
Oliver Sun  
Jeanne A. Wood

### Officers

Angela L. Barahona  
Susan A. Cabral  
Anel Cetina-Santos  
Margaret M. DiCeglie  
James R. Ellis  
Joseph R. Ferreira  
Crissy Flaherty  
Richard Forrest  
Sara A. Gaudet  
Lisa M. Glynn  
Paula A. Grimaldi  
Jill A. Holak, CIA  
Joshua L. Jick  
Earl K. Kishida  
Brandon N. Letellier  
Paula A. Malley  
Daniel R. Martiniello  
Laura A. Parany  
Christopher M. Ross  
Cynthia E. Sarnie  
Biljana Savic  
Kathleen E. Schroeder  
Michael E. Serieka  
Maria R. Serrentino  
Danielle G. Sheehan  
Robert J. Silva  
Judith Sinclair  
Elizabeth A. Theriault

## FINANCIAL STATEMENTS

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## Financial Highlights

Century Bancorp, Inc. AR '16

	2016	2015	2014	2013	2012
(dollars in thousands, except share data)					
<b>FOR THE YEAR</b>					
Interest income	\$ 96,699	\$ 90,093	\$ 85,371	\$ 79,765	\$ 81,494
Interest expense	22,617	20,134	19,136	18,805	19,540
Net interest income	74,082	69,959	66,235	60,960	61,954
Provision for loan losses	1,375	200	2,050	2,710	4,150
Net interest income after provision					
for loan losses	72,707	69,759	64,185	58,250	57,804
Other operating income	16,222	15,993	15,271	18,615	15,865
Operating expenses	64,757	62,198	56,730	55,812	53,238
Income before income taxes	24,172	23,554	22,726	21,053	20,431
Provision for income taxes	(362)	533	866	1,007	1,392
Net income	\$ 24,534	\$ 23,021	\$ 21,860	\$ 20,046	\$ 19,039
Average shares outstanding Class A, basic	3,600,729	3,600,729	3,591,732	3,575,683	3,557,693
Average shares outstanding Class B, basic	1,967,180	1,967,180	1,969,030	1,980,855	1,990,474
Average shares outstanding Class A, diluted	5,567,909	5,567,909	5,562,209	5,557,693	5,549,191
Average shares outstanding Class B, diluted	1,967,180	1,967,180	1,969,030	1,980,855	1,990,474
Total shares outstanding at year-end	5,567,909	5,567,909	5,567,909	5,556,584	5,554,959
Earnings per share:					
Basic, Class A	\$ 5.35	\$ 5.02	\$ 4.78	\$ 4.39	\$ 4.18
Basic, Class B	\$ 2.68	\$ 2.51	\$ 2.39	\$ 2.19	\$ 2.09
Diluted, Class A	\$ 4.41	\$ 4.13	\$ 3.93	\$ 3.61	\$ 3.43
Diluted, Class B	\$ 2.68	\$ 2.51	\$ 2.39	\$ 2.19	\$ 2.09
Dividend payout ratio – Non-GAAP <sup>(1)</sup>	9.0 %	9.6 %	10.0 %	10.9 %	11.5 %
<b>AT YEAR-END</b>					
Assets	\$ 4,462,608	\$ 3,947,441	\$ 3,624,036	\$ 3,431,154	\$ 3,086,209
Loans	1,923,933	1,731,536	1,331,366	1,264,763	1,111,788
Deposits	3,653,218	3,075,060	2,737,591	2,715,839	2,445,073
Stockholders' equity	240,041	214,544	192,500	176,472	179,990
Book value per share	\$ 43.11	\$ 38.53	\$ 34.57	\$ 31.76	\$ 32.40
<b>SELECTED FINANCIAL PERCENTAGES</b>					
Return on average assets	0.57 %	0.59 %	0.61 %	0.60 %	0.65 %
Return on average stockholders' equity	10.80 %	11.26 %	11.57 %	11.58 %	11.06 %
Net interest margin, taxable equivalent	2.12 %	2.18 %	2.22 %	2.21 %	2.51 %
Net (recoveries) charge-offs as a percent of average loans	0.00 %	(0.04) %	0.05 %	0.08 %	0.15 %
Average stockholders' equity to average assets	5.29 %	5.25 %	5.27 %	5.22 %	5.85 %
Efficiency ratio – Non-GAAP <sup>(1)</sup>	62.7 %	64.1 %	62.0 %	63.0 %	62.1 %

<sup>(1)</sup> Non-GAAP Financial Measures are reconciled in the following tables:

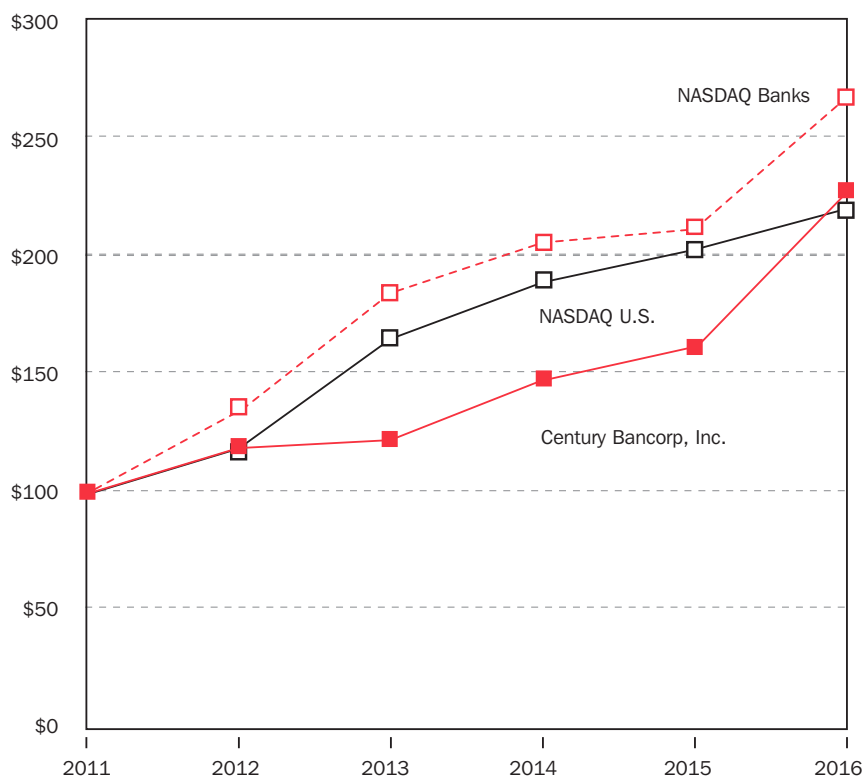
	2016	2015	2014	2013	2012
<b>Calculation of Efficiency Ratio:</b>					
Total Operating Expenses (numerator)	\$ 64,757	\$ 62,198	\$ 56,730	\$ 55,812	\$ 53,238
Net Interest Income	\$ 74,082	\$ 69,959	\$ 66,235	\$ 60,960	\$ 61,954
Total Other Operating Income	16,222	15,993	15,271	18,615	15,865
Tax Equivalent Adjustment	12,917	11,140	10,033	8,984	7,964
Total Income (denominator)	\$ 103,221	\$ 97,092	\$ 91,539	\$ 88,559	\$ 85,783
Efficiency Ratio, Year – Non-GAAP	62.7 %	64.1 %	62.0 %	63.0 %	62.1 %
<b>Calculation of Dividend Payout Ratio:</b>					
Dividends Paid (numerator)	\$ 2,201	\$ 2,200	\$ 2,196	\$ 2,191	\$ 2,186
Net Income (denominator)	\$ 24,534	\$ 23,021	\$ 21,860	\$ 20,046	\$ 19,039
Dividend Payout Ratio – Non-GAAP	9.0 %	9.6 %	10.0 %	10.9 %	11.5 %

Per Share Data

2016, Quarter Ended	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 62.60	\$ 45.45	\$ 43.24	\$ 43.96
Low	44.95	41.41	38.75	38.61
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.06	0.06	0.06	0.06
2015, Quarter Ended				
Market price range (Class A)				
High	\$ 45.09	\$ 41.87	\$ 41.44	\$ 40.50
Low	40.95	38.61	38.37	38.34
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 Class A Common Stock from December 31, 2011 to December 31, 2016 with the cumulative total return of the NASDAQ Market Index (U.S. Companies) and the NASDAQ Bank Stock Index. The lines in the graph 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, 2011 at:	2012	2013	2014	2015	2016
Century Bancorp, Inc.	\$ 118.54	\$ 121.32	\$ 148.13	\$ 162.59	\$ 226.85
NASDAQ Banks	134.74	184.08	205.85	210.40	266.24
NASDAQ U.S.	117.45	164.57	188.84	201.98	219.89

\*Assumes that the value of the investment in the Company's Common Stock and each index was \$100 on December 31, 2011 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 continues to face challenges in the aftermath of the recent national and global economic crisis. Since June 2009, the U.S. economy has been recovering from the most severe recession and financial crisis since the Great Depression. There have been improvements in private sector employment, industrial production and U.S. exports; nevertheless, the pace of economic recovery has been slow. Financial markets have improved since the depths of the crisis but are still unsettled and volatile. There is continued concern about the U.S. economic outlook.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") became law. The Act was intended to address many issues arising in the recent financial crisis and is exceedingly broad in scope, affecting many aspects of bank and financial market regulation. The Act requires, or permits by implementing regulation, enhanced prudential standards for banks and bank holding companies inclusive of capital, leverage, liquidity, concentration and exposure measures. In addition, traditional bank regulatory principles such as restrictions on transactions with affiliates and insiders were enhanced. The Act also contains reforms of consumer mortgage lending practices and creates a Bureau of Consumer Financial Protection, which is granted broad authority over consumer financial practices of banks and others. It is expected as the specific new or incremental requirements applicable to the Company become effective that the costs and difficulties of remaining compliant with all such requirements will increase. The Act broadened the base for FDIC assessments to average consolidated assets less tangible equity of financial institutions and also permanently raises the current standard maximum FDIC deposit insurance amount to \$250,000. The Act extended unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012. In addition, the Act added a new Section 13 to the Bank Holding Company Act, the so-called "Volcker Rule," (the "Rule") which generally restricts certain banking entities such as the Company and its subsidiaries or affiliates, from engaging in proprietary trading activities and owning equity in or sponsoring any private equity or hedge fund. The Rule became effective July 21, 2012. The final implementing regulations for the Rule were issued by various regulatory agencies in December, 2013 and under an extended conformance regulation compliance was required to be achieved by July 21, 2015. The conformance period for investments in and relationships with certain "legacy covered funds" has been extended to July 21, 2017. Under the Rule, the Company may be restricted from engaging in proprietary trading, investing in third party hedge or private

equity funds or sponsoring new funds unless it qualifies for an exemption from the rule. The Company has little involvement in prohibited proprietary trading or investment activities in covered funds and the Company does not expect that complying with the requirements of the Rule will have any material effect on the Company's financial condition or results of operation.

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance-sheet items. Also, the Basel Committee has issued capital standards entitled "Basel III: A global regulatory framework for more resilient banks and banking systems" ("Basel III"). The Federal Reserve Board has finalized its rule implementing the Basel III regulatory capital framework. The rule that came into effect in January 2015 sets the Basel III minimum regulatory capital requirements for all organizations. It included a new common equity Tier I ratio of 4.5 percent of risk-weighted assets, raised the minimum Tier I capital ratio from 4 percent to 6 percent of risk-weighted assets and would set a new conservation buffer of 2.5 percent of risk-weighted assets. The implementation of the framework did not have a material impact on the Company's financial condition or results of operations.

### 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, 2016, the Company had total assets of \$4.5 billion. Currently, the Company operates 27 banking offices in 20 cities and towns in Massachusetts, ranging from Braintree in the south to Andover 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, New Hampshire, Rhode Island, Connecticut and New York.

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

The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium sized businesses and retail customers in its market area. In recent years, the Company has increased business to larger institutions, specifically, healthcare and higher education. 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 its corporate and institutional customers automated lock box collection services, cash management services and account reconciliation services, and actively promotes the marketing of these services to the municipal market. Also, the Company provides full service securities brokerage services through a program called Investment Services at Century Bank, which is supported by LPL Financial, a third party full-service securities brokerage business.

The Company has municipal cash management client engagements in Massachusetts, New Hampshire and Rhode Island comprised of approximately 250 government entities.

The Company had net income of \$24,534,000 for the year ended December 31, 2016, compared with net income of \$23,021,000 for the year ended December 31, 2015, and net income of \$21,860,000 for the year ended December 31, 2014. Class A diluted earnings per share were \$4.41 in 2016, compared to \$4.13 in 2015 and \$3.93 in 2014.

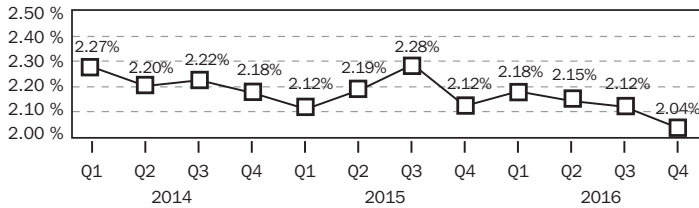


Earnings per share (EPS) for each class of stock and for each year ended December 31, is as follows:

	2016	2015	2014
Basic EPS – Class A common	\$ 5.35	\$ 5.02	\$ 4.78
Basic EPS – Class B common	\$ 2.68	\$ 2.51	\$ 2.39
Diluted EPS – Class A common	\$ 4.41	\$ 4.13	\$ 3.93
Diluted EPS – Class B common	\$ 2.68	\$ 2.51	\$ 2.39

The trends in the net interest margin are illustrated in the graph below:

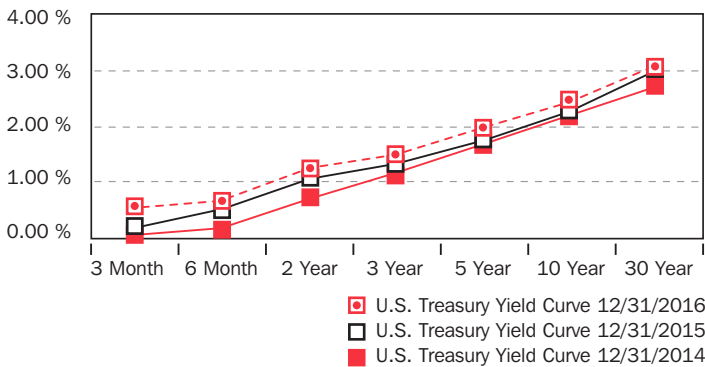
**Net Interest Margin**



The net interest margin declined slightly throughout 2014 and the first quarter of 2015. During the second and third quarter of 2015 the net interest margin increased primarily as a result of an increase in higher yielding assets as well as prepayment penalties collected. The increase in higher yielding assets was primarily the result of increased purchases of securities held-to-maturity. The margin decreased during the fourth quarter of 2015 primarily as a result of lower yielding loan originations. The margin increased during the first quarter of 2016 primarily as a result of an increase in rates on earning assets. The margin decreased during the second, third, and fourth quarters of 2016 primarily as a result of a decrease in rates on earning assets.

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 the prepayment 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. Over the past three years, the U.S. economy has experienced low short-term rates. During 2015 and 2016, short-term rates increased slightly more than longer-term rates resulting in a slight flattening of the yield curve.

During 2016 and 2015, 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. Also contributing to the increase in earnings for 2015 was a decrease in the provision for loan losses. This was primarily the result of changes in the risk profile of the Company's new loan originations, related methodology enhancements to address these changes, as well as net

recoveries being realized during the year. During 2016, 2015 and 2014, the U.S. economy experienced a low short-term rate environment. The lower short-term rates negatively impacted the net interest margin as the rate at which short-term deposits could be invested declined more than the rates offered on those deposits.

Total assets were \$4,462,608,000 at December 31, 2016, an increase of 13.1% from total assets of \$3,947,441,000 at December 31, 2015.

On December 31, 2016, stockholders' equity totaled \$240,041,000, compared with \$214,544,000 on December 31, 2015. Book value per share increased to \$43.11 at December 31, 2016, from \$38.53 on December 31, 2015.

During December 2013, the Company entered into a lease agreement to open a branch located in Woburn, Massachusetts. The branch opened on November 3, 2014.

During March 2014, the Company entered into a lease agreement to open a branch located on Boylston Street in Boston, Massachusetts. This property is leased from an entity affiliated with Marshall M. Sloane, Chairman of the Board of the Company. This agreement was approved by the Board of Directors in the absence of the Chairman of the Board. The branch opened on April 22, 2015. The deposits from the Kenmore Square, Boston, Massachusetts branch, which closed on September 30, 2014, were moved to the new Boylston Street branch. The Kenmore Square landlord did not renew the existing lease during 2014.

During June 2016, the Company entered into a lease agreement to open a new branch located in Wellesley, Massachusetts. The Company closed its existing Wellesley branch and transferred the accounts to the new Wellesley branch which opened on December 19, 2016.

**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 impairment of investment securities, allowance for loan losses and income taxes to be its critical accounting policies. There have been no significant changes in the methods or assumptions used in the investment securities accounting policy that require material estimates and assumptions. There was a methodology enhancement to the allowance for loan losses policy. This enhancement is described below.

**Impaired Investment Securities**

Management evaluates securities for other-than-temporary impairment ("OTTI") on a periodic basis. Factors considered in determining whether an impairment is OTTI include: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) projected future cash flows, (3) the financial condition and near-term prospects of the issuers and (4) the intent and ability of the Company to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. The Company records an OTTI loss in an amount equal to the entire difference between the fair value and amortized cost if (1) the Company intends to sell an impaired investment security, (2) it is more likely than not that the Company will be required to sell the investment security before its amortized costs or (3) for debt securities, the present value of expected future cash flows is not sufficient to recover the entire amortized cost basis. If an investment security is determined to be OTTI but the Company does not intend to sell the investment security, only the credit portion of the estimated loss is recognized in earnings, with the non-credit portion of the loss recognized in other comprehensive income.

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

### 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 specific allowances, if appropriate, for identified problem loans, formula allowance, and possibly an unallocated allowance. Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment.

Specific allowances for loan losses entail the assignment of allowance amounts to individual loans on the basis of loan impairment. Under this method, loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification or nonaccrual status. The formula allowances are based on evaluations of homogenous loans to determine the allocation appropriate within each portfolio segment. Formula allowances are based on internal risk ratings or credit ratings from external sources. After considering the above components, an unallocated component may be generated to cover uncertainties that could affect management's estimate of probable losses. Further information regarding the Company's methodology for assessing the appropriateness of the allowance is contained within Note 1 of the "Notes to Consolidated Financial Statements".

During 2015, the Company enhanced its approach to the development of the historical loss factors and qualitative factors used on certain loan portfolios. The enhancement is described within the Allowance for Loan Losses section of "Management's Discussion and Analysis of Results of Operations and Financial Condition". During 2016, the Company continued to enhance its methodology to the allowance for loan losses by updating qualitative factors on certain loan portfolios. 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.

### Income Taxes

Certain areas of accounting for income taxes require management's judgment, including determining the expected realization of deferred tax assets and the adequacy of liabilities for uncertain tax positions. Judgments are made regarding various tax positions, which are often subjective and involve assumptions about items that are inherently uncertain. If actual factors and conditions differ materially from estimates made by management, the actual realization of the net deferred tax assets or liabilities for uncertain tax positions could vary materially from the amounts previously recorded.

Deferred tax assets arise from items that may be used as a tax deduction or credit in future income tax returns, for which a financial statement tax benefit has already been recognized. The realization of the net deferred tax asset generally depends upon future levels of taxable income and the existence of prior years' taxable income to which refund claims could be carried back. Valuation allowances are recorded against those deferred tax assets determined not likely to be realized. Deferred tax liabilities represent items that will require a future tax payment. They generally represent tax expense recognized in the Company's financial statements for which payment has been deferred, or a deduction taken on the Company's tax return but not yet recognized as an expense in the Company's financial statements. Deferred tax liabilities are also recognized for certain non-cash items such as goodwill.

## FINANCIAL CONDITION

### Investment Securities

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

Securities available-for-sale consist of certain U.S. Treasury, U.S. Government Sponsored Enterprises, SBA Backed Securities, and U.S. Government Sponsored Enterprise mortgage-backed securities; state, county and municipal securities; privately issued mortgage-backed securities; other 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, 2016 totaled \$499,297,000 and included gross unrealized gains of \$555,000 and gross unrealized losses of \$1,478,000. A year earlier, the fair value of securities available-for-sale was \$404,623,000 including gross unrealized gains of \$979,000 and gross unrealized losses of \$1,333,000. In 2016, the Company recognized gains of \$52,000 on the sale of available-for-sale securities. In 2015 and 2014, the Company recognized gains of \$289,000 and \$450,000, respectively.

Securities classified as held-to-maturity consist of U.S. Government Sponsored Enterprises, SBA Backed Securities, and U.S. Government Sponsored Enterprise mortgage-backed securities. Securities held-to-maturity as of December 31, 2016 are carried at their amortized cost of \$1,653,986,000. A year earlier, securities held-to-maturity totaled \$1,438,903,000. In 2016 the company recognized gains of \$12,000 on the sale of held-to-maturity securities. The sales from securities held-to-maturity relate to certain mortgage-backed securities for which the Company had previously collected a substantial portion of its principal investment. In 2015, the Company recognized gains of \$305,000. In 2014 the Company did not recognize any gains on sales of held-to-maturity securities.

During the third quarter of 2013, \$987,037,000 of securities available-for-sale with unrealized losses of \$25,333,000 were transferred to securities held-to-maturity. This was done in response to rising interest rates and an assessment of liquidity needs.

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,	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
U.S. Treasury	\$ 2,000	0.4 %	\$ 1,989	0.5 %	\$ 2,000	0.4 %
U.S. Government Sponsored Enterprises	24,952	5.0 %	—	0.0 %	—	0.0 %
SBA Backed Securities	57,767	11.6 %	5,989	1.5 %	6,717	1.5 %
U.S. Government Agency and Sponsored Enterprises						
Mortgage-Backed Securities	243,325	48.7 %	233,526	57.7 %	337,093	75.2 %
Privately Issued Residential Mortgage-Backed Securities	1,109	0.2 %	1,434	0.4 %	1,874	0.4 %
Obligations Issued by States and Political Subdivisions	164,876	33.0 %	156,960	38.8 %	96,784	21.6 %
Other Debt Securities	4,924	1.0 %	4,473	1.1 %	3,524	0.8 %
Equity Securities	344	0.1 %	252	0.1 %	398	0.1 %
Total	\$ 499,297	100.0 %	\$ 404,623	100.0 %	\$ 448,390	100.0 %

The majority of the Company's securities AFS are classified as Level 2, as defined in Note 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. Management's understanding of a pricing service's pricing methodologies includes obtaining an understanding of the valuation risks, assessing its qualification, verification of sources of information and processes used to develop prices and identifying, documenting, and testing controls. Management's validation of a vendor's pricing methodology includes establishing internal controls to determine that the pricing information received by a pricing service and used by management in the valuation process is relevant and reliable. Market indicators and industry and economic events are also monitored. The decline in fair value from amortized cost for individual available-for-sale securities that are temporarily impaired 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 more likely than not 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, 2016.

Securities available-for-sale totaling \$164,876,000, or 3.7% of assets, are classified as Level 3, as defined in Note 1 of the "Notes to Consolidated Financial Statements." These securities are generally municipal securities with no readily determinable fair value. The Company also utilizes internal pricing analysis on various municipal securities using market rates on comparable securities. 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 refer primarily to debt securities of Fannie Mae and Freddie Mac.

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,	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
U.S. Government Sponsored Enterprises	\$ 148,326	9.0 %	\$ 186,734	13.0 %	\$ 251,617	17.9 %
SBA Backed Securities	46,140	2.8 %	—	—	—	—
U.S. Government Sponsored Enterprise						
Mortgage-Backed Securities	1,459,520	88.2 %	1,252,169	87.0 %	1,155,175	82.1 %
Total	\$ 1,653,986	100.0 %	\$ 1,438,903	100.0 %	\$ 1,406,792	100.0 %

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The following two tables set forth contractual maturities of the Bank's securities portfolio at December 31, 2016. Actual maturities may 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	\$ 2,000	0.4 %	0.54 %	\$ —	0.0 %	0.00 %	\$ —	0.0 %	0.00 %	\$ —	0.0 %	0.00 %
U.S. Government Sponsored Enterprises	9,999	2.0 %	0.70 %	14,953	3.0 %	0.83 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %
SBA Backed Securities	—	0.0 %	0.00 %	—	0.0 %	0.00 %	18,613	3.7 %	1.21 %	39,154	7.8 %	1.14 %
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	—	0.0 %	0.00 %	90,157	18.1 %	1.17 %	148,429	29.6 %	1.24 %	4,739	1.0 %	1.38 %
Privately Issued Residential Mortgage-Backed Securities	1,109	0.2 %	1.71 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %
Obligations of States and Political Subdivisions	159,355	31.9 %	1.18 %	919	0.2 %	3.57 %	305	0.1 %	4.75 %	4,297	0.9 %	1.80 %
Other Debt Securities	800	0.2 %	1.59 %	753	0.2 %	1.88 %	1,000	0.2 %	6.00 %	1,017	0.2 %	6.00 %
<b>Total</b>	<b>\$ 173,263</b>	<b>34.7 %</b>	<b>1.15 %</b>	<b>\$ 106,782</b>	<b>21.5 %</b>	<b>1.15 %</b>	<b>\$ 168,347</b>	<b>33.6 %</b>	<b>1.28 %</b>	<b>\$ 49,207</b>	<b>9.9 %</b>	<b>1.32 %</b>

	Non- Maturing	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
(dollars in thousands)						
U.S. Treasury	\$ —	0.0 %	0.00 %	\$ 2,000	0.4 %	0.54 %
U.S. Government Agency Sponsored Enterprises	—	0.0 %	0.00 %	24,952	5.0 %	0.78 %
SBA Backed Securities	—	0.0 %	0.00 %	57,767	11.6 %	1.16 %
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	—	0.0 %	0.00 %	243,325	48.7 %	1.22 %
Privately Issued Residential Mortgage-Backed Securities	—	0.0 %	0.00 %	1,109	0.2 %	1.71 %
Obligations of States and Political Subdivisions	—	0.0 %	0.00 %	164,876	33.0 %	1.21 %
Other Debt Securities	1,354	0.2 %	3.06 %	4,924	1.0 %	3.85 %
Equity Securities	344	0.1 %	3.24 %	344	0.1 %	6.24 %
<b>Total</b>	<b>\$ 1,698</b>	<b>0.3 %</b>	<b>3.21 %</b>	<b>\$ 499,297</b>	<b>100.0 %</b>	<b>1.22 %</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	Over Ten Years	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
(dollars in thousands)															
U.S. Government Sponsored Enterprises	\$ 14,926	0.9 %	1.52 %	\$ 123,405	7.5 %	1.70 %	\$ 9,995	0.6 %	2.06 %	\$ —	0.0 %	0.00 %	\$ 148,326	9.0 %	1.71 %
SBA Backed Securities	—	0.0 %	0.00 %	7,965	0.5 %	1.57 %	33,169	2.0 %	2.20 %	5,006	0.3 %	2.56 %	46,140	2.8 %	2.13 %
U.S. Government Sponsored Enterprise Mortgage-Backed Securities	7,876	0.5 %	2.80 %	991,308	59.9 %	2.17 %	457,191	27.6 %	2.31 %	3,145	0.2 %	3.02 %	1,459,520	88.2 %	2.22 %
<b>Total</b>	<b>\$ 22,802</b>	<b>1.4 %</b>	<b>1.96 %</b>	<b>\$ 1,122,678</b>	<b>67.9 %</b>	<b>2.11 %</b>	<b>\$ 500,355</b>	<b>30.2 %</b>	<b>2.30 %</b>	<b>\$ 8,151</b>	<b>0.5 %</b>	<b>2.73 %</b>	<b>\$ 1,653,986</b>	<b>100.0 %</b>	<b>2.17 %</b>

At December 31, 2016 and 2015, the Bank had no investments in obligations of individual states, counties, municipalities or nongovernment corporate entities which exceeded 10% of stockholders' equity. In 2016, sales of securities totaling \$2,568,000 in gross proceeds resulted in a net realized gain of \$64,000. There were no sales of state, county or municipal securities during 2016 and 2015. In 2015, sales of securities totaling \$51,551,000 in gross proceeds resulted in net realized gains of \$594,000. In 2014, sales of securities totaling \$40,285,000 in gross proceeds resulted in net realized gains of \$450,000.

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, New Hampshire, Rhode Island, Connecticut and New York. The Company grants single-family and multi-family residential loans, commercial and commercial real estate loans, municipal 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,	2016		2015		2014		2013		2012	
	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	\$ 14,928	0.8 %	\$ 27,421	1.6 %	\$ 22,744	1.7 %	\$ 33,058	2.6 %	\$ 38,618	3.5 %
Commercial and industrial	612,503	31.8 %	452,235	26.1 %	149,732	11.2 %	76,675	6.1 %	88,475	8.0 %
Municipal	135,418	7.0 %	85,685	4.9 %	41,850	3.1 %	32,737	2.6 %	1,446	0.1 %
Commercial real estate	696,173	36.2 %	721,506	41.7 %	696,272	52.3 %	696,317	55.0 %	575,019	51.7 %
Residential real estate	241,357	12.5 %	255,346	14.7 %	257,305	19.3 %	286,041	22.6 %	281,857	25.3 %
Consumer	11,013	0.6 %	10,744	0.6 %	10,925	0.8 %	8,824	0.7 %	6,823	0.6 %
Home equity	211,857	11.0 %	178,020	10.3 %	151,275	11.4 %	130,277	10.3 %	118,923	10.7 %
Overdrafts	684	0.1 %	579	0.1 %	1,263	0.2 %	834	0.1 %	627	0.1 %
<b>Total</b>	<b>\$ 1,923,933</b>	<b>100.0 %</b>	<b>\$ 1,731,536</b>	<b>100.0 %</b>	<b>\$ 1,331,366</b>	<b>100.0 %</b>	<b>\$ 1,264,763</b>	<b>100.0 %</b>	<b>\$ 1,111,788</b>	<b>100.0 %</b>

At December 31, 2016, 2015, 2014, 2013, and 2012, loans were carried net of discounts of \$313,000, \$360,000, \$407,000, \$454,000 and \$498,000, respectively. Net deferred loan fees of \$641,000, \$988,000, \$908,000, \$174,000, and \$369,000 were carried in 2016, 2015, 2014, 2013 and 2012, respectively.

The following table summarizes the remaining maturity distribution of certain components of the Company's loan portfolio on December 31, 2016. The table excludes loans secured by 1-4 family residential real estate, loans for household and family personal expenditures, and municipal loans. 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, 2016

	One Year or Less	One to Five Years	Over Five Years	Total
(dollars in thousands)				
Construction and land development	\$ 2,535	\$ 783	\$ 11,610	\$ 14,928
Commercial and industrial	38,330	23,821	550,352	612,503
Commercial real estate	49,815	57,691	588,667	696,173
<b>Total</b>	<b>\$ 90,680</b>	<b>\$ 82,295</b>	<b>\$ 1,150,629</b>	<b>\$ 1,323,604</b>

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

December 31, 2016	One to Five Years	Over Five Years	Total
(dollars in thousands)			
Predetermined interest rates	\$ 37,516	\$ 284,820	\$ 322,336
Floating or adjustable interest rates	44,779	865,809	910,588
<b>Total</b>	<b>\$ 82,295</b>	<b>\$ 1,150,629</b>	<b>\$ 1,232,924</b>

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.

C&I loan customers also include large healthcare and higher education institutions. During 2015, and 2016, the Company increased its lending activities to these types of organizations. The percentage of these types of organizations to total C&I loans has increased to 81% at December 31, 2016, compared to 76% at December 31, 2015.

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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 Massachusetts, New Hampshire, and Rhode Island. 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 thirty 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.

Municipal loans customers include loans to municipalities or related interests, primarily for infrastructure projects. The Company has increased its lending activities to municipalities.

Residential real estate (1–4 family) includes two categories of loans. Included in residential real estate are approximately \$28,464,000 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. 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, 2016, the Company was obligated to advance a total of \$22,049,000 to complete projects under construction.

The composition of nonperforming assets is as follows:

December 31, (dollars in thousands)	2016	2015	2014	2013	2012
Total nonperforming loans	\$ 1,084	\$ 2,336	\$ 4,146	\$ 2,549	\$ 4,471
Other real estate owned	—	—	—	—	—
Total nonperforming assets	\$ 1,084	\$ 2,336	\$ 4,146	\$ 2,549	\$ 4,471
Accruing troubled debt restructured loans	\$ 3,526	\$ 2,893	\$ 3,296	\$ 5,969	\$ 3,048
Loans past due 90 and still accruing	—	—	—	—	—
Nonperforming loans as a percent of gross loans	0.06 %	0.13 %	0.31 %	0.20 %	0.40 %
Nonperforming assets as a percent of total assets	0.02 %	0.06 %	0.11 %	0.07 %	0.14 %

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

	2016	2015	2014	2013	2012
Residential real estate, multi-family	\$ 198	\$ 916	\$ 962	\$ 1,199	\$ 766
Home equity	—	90	92	94	96
Commercial real estate	3,149	1,678	4,318	4,520	2,281
Construction and land development	94	98	103	608	1,500
Commercial and industrial	389	443	852	1,367	1,282
Total impaired loans	\$ 3,830	\$ 3,225	\$ 6,327	\$ 7,788	\$ 5,925

At December 31, 2016, 2015, 2014, 2013, and 2012, impaired loans had specific reserves of \$173,000, \$250,000, \$904,000, \$1,019,000, and \$1,732,000 respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately \$229,730,000, \$185,299,000, \$143,696,000, \$109,301,000, and \$26,786,000 at December 31, 2016, 2015, 2014, 2013, and 2012, respectively. The Company had no loans held for sale at December 31, 2016, December 31, 2015, December 31, 2014, December 31, 2013, and \$9,378,000 at December 31, 2012.

Servicing assets are recorded at fair value and recognized as separate assets when rights are acquired through sale of loans with servicing rights retained. Mortgage servicing assets ("MSA") are amortized into non-interest income in proportion to, and over the period of, the estimated net servicing income. Upon sale, the mortgage servicing asset is established, which represents the then-current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing rights are assessed for impairment based on fair value at each reporting date. MSAs are reported in other assets in the consolidated balance sheets. MSAs totaled \$1,629,000 at December 31, 2016, \$1,305,000 at December 31, 2015, \$941,000 at December 31, 2014, \$703,000 for December 31, 2013, and \$137,000 for December 31, 2012.

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 decreased during 2016, primarily as a result of a decrease in home equity and residential real estate nonperforming loans. Nonaccrual loans decreased during 2015 primarily due to the sale and partial charge-off of the property securing a large commercial real estate loan subsequent to foreclosure. Nonaccrual loans increased during 2014 primarily as a result of a large commercial real estate loan. Nonaccrual loans decreased during 2013 primarily as a result of a charge-off of a construction loan and a decrease in residential real estate nonperforming loans.

The Company continues to monitor closely \$35,583,000 and \$11,203,000 at December 31, 2016 and 2015, respectively, of loans for which management has concerns regarding the ability of the borrowers to perform. The majority of the loans are secured by real estate and are considered to have adequate collateral value to cover the loan balances at December 31, 2016, although such values may fluctuate with changes in the economy and the real estate market. The increase is primarily attributable to one loan relationship secured by real estate.

### 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, 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, (dollars in thousands)	2016	2015	2014	2013	2012
Year-end loans outstanding (net of unearned discount and deferred loan fees)	\$ 1,923,933	\$ 1,731,536	\$ 1,331,366	\$ 1,264,763	\$ 1,111,788
Average loans outstanding (net of unearned discount and deferred loan fees)	\$ 1,838,136	\$ 1,507,546	\$ 1,307,888	\$ 1,184,912	\$ 1,036,296
Balance of allowance for loan losses at the beginning of year	\$ 23,075	\$ 22,318	\$ 20,941	\$ 19,197	\$ 16,574
Loans charged-off:					
Commercial and industrial	—	—	333	234	1,253
Construction	—	172	500	1,000	—
Commercial real estate	—	298	—	—	—
Residential real estate	27	—	24	—	351
Consumer	362	311	525	579	697
Total loans charged-off	389	781	1,382	1,813	2,301
Recovery of loans previously charged-off:					
Commercial and industrial	132	212	201	389	307
Construction	—	780	—	—	—
Real estate	6	91	117	31	45
Consumer	296	255	391	427	422
Total recoveries of loans previously charged-off:	434	1,338	709	847	774
Net loan (recoveries) charge-offs	(45)	(557)	673	966	1,527
Provision charged to operating expense	1,375	200	2,050	2,710	4,150
Reclassification to other liabilities	(89)	—	—	—	—
Balance at end of year	\$ 24,406	\$ 23,075	\$ 22,318	\$ 20,941	\$ 19,197
Ratio of net (recoveries) charge-offs during the year to average loans outstanding	0.00 %	(0.04) %	0.05 %	0.08 %	0.15 %
Ratio of allowance for loan losses to loans outstanding	1.27 %	1.33 %	1.68 %	1.66 %	1.73 %

The amount of the allowance for loan losses results from 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 declined in 2013, 2014, 2015 and 2016 as a result of the overall decrease in the level of nonaccrual loans. The dollar amount of the allowance for loan losses increased primarily as a result of a lower level of charge-off activity combined with changes in the portfolio composition and related methodology enhancements to address these changes.

During 2015, the Company enhanced its approach to the development of the historical loss factors and qualitative factors used on certain loan portfolios. The methodology enhancement was in response to the changes in the risk characteristics of the Company's new loan originations, as the Company has continued to increase its exposure to larger loan originations to large institutions with strong credit quality. The Company has limited internal loss history experience with these

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types of loans, and has determined a more appropriate representation of loss expectation is to utilize external historical loss factors based on public credit ratings, as there is a great deal of default and loss data available on these types of loans from the credit rating agencies. As of June 30, 2015, the Company incorporated this information into the development of the historical loss rates for these loan types. The combination of the enhancements made to the allowance methodology to address the changing risk profile of the Company's new loan originations and the increase in these loan types as a percentage of the overall portfolio, has resulted in a decrease in the ratio of allowance for loan losses to total loans.

In addition, the Company monitors the outlook for the industries in which these institutions operate. Healthcare and higher education are the primary industries. The Company also monitors the volatility of the losses within the historical data.

By combining the credit rating, the industry outlook and the loss volatility, the Company arrives at the quantitative loss factor for each credit grade.

Credit ratings issued by national organizations were utilized as credit quality indicators as presented in the following table at December 31, 2016.

	Commercial and Industrial	Municipal	Commercial Real Estate	Total
(in thousands)				
Credit Rating:				
Aaa-Aa3	\$ 334,674	\$ 66,245	\$ 6,596	\$ 407,515
A1-A3	188,777	33,365	129,423	351,565
Baa1-Baa3	—	26,970	127,366	154,336
Ba2	—	3,610	—	3,610
<b>Total</b>	<b>\$ 523,451</b>	<b>\$ 130,190</b>	<b>\$ 263,385</b>	<b>\$ 917,026</b>

Credit ratings issued by national organizations were utilized as credit quality indicators as presented in the following table at December 31, 2015.

	Commercial and Industrial	Municipal	Commercial Real Estate	Total
(in thousands)				
Credit Rating:				
Aaa-Aa3	\$ 234,733	\$ 63,865	\$ 7,547	\$ 306,145
A1-A3	140,419	7,400	130,872	278,691
Baa1-Baa3	—	8,890	167,489	176,379
Ba2	—	4,480	—	4,480
<b>Total</b>	<b>\$ 375,152</b>	<b>\$ 84,635</b>	<b>\$ 305,908</b>	<b>\$ 765,695</b>

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 is comprised of the following:

	2016		2015		2014		2013		2012	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
(dollars in thousands)										
Construction and land development	\$ 1,012	0.8 %	\$ 2,041	1.6 %	\$ 1,592	1.7 %	\$ 2,174	2.6 %	\$ 3,041	3.5 %
Commercial and industrial	6,972	31.8 %	5,899	26.1 %	4,757	11.2 %	2,617	6.1 %	3,118	8.0 %
Municipal	1,612	7.1 %	994	4.9 %	1,488	3.1 %	655	2.6 %	24	0.1 %
Commercial real estate	11,135	36.2 %	10,589	41.7 %	11,199	52.3 %	10,935	55.0 %	9,041	51.7 %
Residential real estate	1,698	12.5 %	1,320	14.7 %	776	19.3 %	2,006	22.6 %	1,994	25.3 %
Consumer and other	582	0.6 %	644	0.7 %	810	1.0 %	432	0.8 %	333	0.7 %
Home equity	1,102	11.0 %	1,077	10.3 %	599	11.4 %	959	10.3 %	886	10.7 %
Unallocated	293		511		1,097		1,163		760	
<b>Total</b>	<b>\$24,406</b>	<b>100.0 %</b>	<b>\$23,075</b>	<b>100.0 %</b>	<b>\$ 22,318</b>	<b>100.0 %</b>	<b>\$20,941</b>	<b>100.0 %</b>	<b>\$19,197</b>	<b>100.0 %</b>

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. The enhancements described above have resulted in a lower level of unallocated allowance for loan losses. Further information regarding the allocation of the allowance is contained within Note 6 of the "Notes to Consolidated Financial Statements."



## 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 report balancing the customer's checking account.

Interest rates on deposits are set twice per month 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.

	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
Demand Deposits	\$ 609,159	17.8 %	\$ 518,161	17.2 %	\$ 481,035	16.8 %
Savings and Interest Checking	1,322,714	38.6 %	1,139,449	37.8 %	1,096,303	38.2 %
Money Market	1,041,404	30.4 %	951,197	31.5 %	920,485	32.1 %
Time Certificates of Deposit	452,562	13.2 %	408,711	13.5 %	372,699	12.9 %
Total	<u>\$ 3,425,839</u>	<u>100.0 %</u>	<u>\$ 3,017,518</u>	<u>100.0 %</u>	<u>\$ 2,870,522</u>	<u>100.0 %</u>

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

	2016	2015
(dollars in thousands)		
Three months or less	\$ 84,522	\$ 106,268
Three months through six months	42,736	86,015
Six months through twelve months	85,476	63,409
Over twelve months	153,243	99,108
Total	<u>\$ 365,977</u>	<u>\$ 354,800</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 \$293,000,000, a decrease of \$75,000,000 from the prior year. The Bank's remaining term borrowing capacity at the FHLBB at December 31, 2016, was approximately \$239,163,000. 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, including related interest rates and other information.

## Subordinated Debentures

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

Century Bancorp Capital Trust II then issued 35,000 shares of Cumulative Trust Preferred Securities with a liquidation value of \$1,000 per share. These securities paid dividends at an annualized rate of 6.65% for the first ten years and then converted 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 \$182,280,000, a decrease of \$15,570,000 from the prior year. See Note 11, "Securities Sold Under Agreements to Repurchase," for a schedule, including related 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 7.3% in 2016 to \$86,999,000, compared with \$81,099,000 in 2015. The increase in net interest income for 2016 was mainly due to a 10.3% increase in the average balances of earning assets, combined with a similar increase in deposits. The increase in net interest income for 2015 was mainly due to an 8.3% increase in the average balances of earning assets, combined with a similar increase in deposits. 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 2.12% in 2016 from 2.18% in 2015 and decreased from 2.22% in 2014. The decrease in the net interest margin, for 2016 and 2015, was primarily the result of a decrease in rates on earning assets. This is primarily as a result of originating larger loans to borrowers with high credit quality, some of which are at variable rates. The Company collected approximately \$416,000, \$945,000 and \$693,000 respectively, of prepayment penalties, which are included in interest income on loans, for 2016, 2015, and 2014, respectively.

Additional information about the 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 '16

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,	2016			2015			2014		
	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>									
Taxable	\$ 866,180	\$ 34,324	3.96 %	\$ 783,451	\$ 32,136	4.10 %	\$ 757,088	\$ 32,198	4.25 %
Tax-exempt	971,956	35,943	3.70 %	724,095	30,862	4.26 %	550,800	27,798	5.05 %
Securities available-for-sale: <sup>(3)</sup>									
Taxable	349,023	3,969	1.14 %	334,249	2,558	0.77 %	445,656	2,883	0.65 %
Tax-exempt	149,631	1,465	0.98 %	120,389	853	0.71 %	55,272	428	0.77 %
Securities held-to-maturity:									
Taxable	1,533,032	32,679	2.13 %	1,603,530	34,388	2.14 %	1,499,995	31,745	2.12 %
Interest-bearing deposits									
in other banks	235,339	1,236	0.53 %	157,765	436	0.28 %	129,472	352	0.27 %
Total interest-earning assets	4,105,161	109,616	2.67 %	3,723,479	101,233	2.72 %	3,438,283	95,404	2.77 %
Noninterest-earning assets									
	210,203			191,700			166,792		
Allowance for loan losses									
	(23,872)			(22,559)			(21,876)		
Total assets	\$ 4,291,492			\$ 3,892,620			\$ 3,583,199		
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>									
Interest-bearing deposits:									
NOW accounts	\$ 904,892	\$ 2,311	0.26 %	\$ 794,293	\$ 1,798	0.23 %	\$ 762,280	\$ 1,677	0.22 %
Savings accounts	417,822	1,709	0.41 %	345,156	1,019	0.30 %	334,023	862	0.26 %
Money market accounts	1,041,404	3,542	0.34 %	951,197	3,038	0.32 %	920,485	2,715	0.29 %
Time deposits	452,562	5,706	1.26 %	408,711	4,887	1.20 %	372,699	4,421	1.19 %
Total interest-bearing deposits	2,816,680	13,268	0.47 %	2,499,357	10,742	0.43 %	2,389,487	9,675	0.40 %
Securities sold under									
agreements to repurchase	222,956	472	0.21 %	245,276	487	0.20 %	216,937	391	0.18 %
Other borrowed funds and									
subordinated debentures	357,974	8,877	2.48 %	374,108	8,905	2.38 %	271,710	9,070	3.34 %
Total interest-bearing liabilities	3,397,610	22,617	0.67 %	3,118,741	20,134	0.65 %	2,878,134	19,136	0.66 %
Noninterest-bearing liabilities									
Demand deposits	609,159			518,161			481,035		
Other liabilities	57,602			51,247			35,033		
Total liabilities	4,064,371			3,688,149			3,394,202		
Stockholders' equity									
	227,121			204,471			188,997		
Total liabilities and stockholders' equity	\$ 4,291,492			\$ 3,892,620			\$ 3,583,199		
Net interest income on a									
fully taxable equivalent basis		\$ 86,999			\$ 81,099			\$ 76,268	
Less taxable equivalent adjustment									
		(12,917)			(11,140)			(10,033)	
Net interest income		\$ 74,082			\$ 69,959			\$ 66,235	
Net interest spread									
			2.00 %			2.07 %			2.11 %
Net interest margin									
			2.12 %			2.18 %			2.22 %

<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,	2016 Compared with 2015 Increase/(Decrease) Due to Change in			2015 Compared with 2014 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
(dollars in thousands)						
Interest income:						
Loans						
Taxable	\$ 3,306	\$ (1,118)	\$ 2,188	\$ 1,101	\$ (1,163)	\$ (62)
Tax-exempt	9,556	(4,475)	5,081	7,836	(4,772)	3,064
Securities available-for-sale:						
Taxable	118	1,293	1,411	(797)	472	(325)
Tax-exempt	238	374	612	464	(39)	425
Securities held-to-maturity:						
Taxable	(1,504)	(205)	(1,709)	2,216	427	2,643
Interest-bearing deposits in other banks	283	517	800	78	6	84
<b>Total interest income</b>	<b>11,997</b>	<b>(3,614)</b>	<b>8,383</b>	<b>10,898</b>	<b>(5,069)</b>	<b>5,829</b>
Interest expense:						
Deposits:						
NOW accounts	267	246	513	72	49	121
Savings accounts	244	446	690	30	127	157
Money market accounts	299	205	504	93	230	323
Time deposits	543	276	819	430	36	466
Total interest-bearing deposits	1,353	1,173	2,526	625	442	1,067
Securities sold under agreements to repurchase	(46)	31	(15)	54	42	96
Other borrowed funds and subordinated debentures	(392)	364	(28)	2,861	(3,026)	(165)
<b>Total interest expense</b>	<b>915</b>	<b>1,568</b>	<b>2,483</b>	<b>3,540</b>	<b>(2,542)</b>	<b>998</b>
<b>Change in net interest income</b>	<b>\$ 11,082</b>	<b>\$ (5,182)</b>	<b>\$ 5,900</b>	<b>\$ 7,358</b>	<b>\$ (2,527)</b>	<b>\$ 4,831</b>

Average earning assets were \$4,105,161,000 in 2016, an increase of \$381,682,000 or 10.3% from the average in 2015, which was 8.3% higher than the average in 2014. Total average securities, including securities available-for-sale and securities held-to-maturity, were \$2,031,686,000, a decrease of 1.3% from the average in 2015. The decrease in securities volume was mainly attributable to a decrease in taxable securities. An increase in short term rates resulted in slightly higher securities income, which increased 0.8% to \$38,113,000 on a fully tax equivalent basis. Total average loans increased 21.9% to \$1,838,136,000 after increasing \$199,658,000 in 2015. The primary reason for the increase in loans was due in large part to an increase in tax-exempt lending as well as residential second mortgage lending. The increase in loan volume resulted in higher loan income. Loan income increased by 11.5% or \$7,269,000 to \$70,267,000. Total loan income was \$59,996,000 in 2014. Prepayment penalties collected were \$416,000, \$945,000, and \$693,000 for 2016, 2015, and 2014, respectively.

The Company's sources of funds include deposits and borrowed funds. On average, deposits increased 13.5%, or \$408,321,000, in 2016 after increasing by 5.1%, or \$146,996,000, in 2015. Deposits increased in 2016, primarily as a result of increases in demand deposits, savings, money market, NOW accounts, and time deposits. Deposits increased in 2015, primarily as a result of increases in demand deposits, savings, money market, NOW accounts, and time deposits. Borrowed funds and subordinated debentures decreased by 6.2% in 2016, following an increase of 26.8% in 2015. 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 \$16,134,000, and average retail repurchase agreements decreased by \$22,320,000 in 2016. Interest expense totaled \$22,617,000 in 2016, an increase of \$2,483,000, or 12.3%, from 2015 when interest expense increased 5.2% from 2014. The increase in interest expense, for 2016, is primarily due to increases in the average balances of deposits offset, somewhat by a decrease in borrowed funds. The increase in interest expense, for 2015, is primarily due to increases in the average balances of deposits and borrowed funds.

#### Provision for Loan Losses

The provision for loan losses was \$1,375,000 in 2016, compared with \$200,000 in 2015 and \$2,050,000 in 2014. These provisions are the result of management's evaluation of the amounts and credit 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 for loan losses increased during 2016, primarily as a result of an increase in loan balances. The provision for loan losses decreased during 2015, primarily as a result of changes in the portfolio composition, related methodology enhancements to address these changes, as well as net recoveries being realized during the year. During the second quarter of 2015, the Company enhanced its approach to the development of the historical loss factors on certain loans within the portfolio. This was done in response to the changing risk profile of the Company's new loan originations and related methodology enhancements to address these changes.

The allowance for loan losses was \$24,406,000 at December 31, 2016, compared with \$23,075,000 at December 31, 2015. Expressed as a percentage of outstanding loans at year-end, the allowance was 1.27% in 2016 and 1.33% in 2015. The allowance for loan losses increased primarily as a result of an increase in loan balances. The ratio of allowance for loan losses as a percentage of outstanding loans at year-end decreased primarily as a result of changes in portfolio composition and lower historical loss rates.

Nonperforming loans, which include all non-accruing loans, totaled \$1,084,000 on December 31, 2016, compared with \$2,336,000 on December 31, 2015. Nonperforming loans decreased primarily as a result of a decrease in consumer mortgage nonperforming loans.

#### Other Operating Income

During 2016, the Company continued to experience strong 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 supported by LPL Financial, a full-service securities brokerage business.

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 Financial, a full-service securities brokerage business. Registered representatives employed by Century Bank offer limited investment advice, execute transactions and assist customers in financial and retirement planning. LPL Financial provides research to the Bank's representatives. The Bank receives a share in the commission revenues.

Total other operating income in 2016 was \$16,222,000, an increase of \$229,000, or 1.4%, compared to 2015. This increase followed an increase of \$722,000, or 4.7%, in 2015, compared to 2014. Included in other operating income are net gains on sales of securities of \$64,000, \$594,000 and \$450,000 in 2016, 2015 and 2014, respectively. Also included in other operating income are net gains on sales of mortgage loans of \$1,331,000, \$1,034,000 and \$757,000 in 2016, 2015 and 2014, respectively. Service charge income, which continues to be a major source of other operating income, totaling \$7,907,000 in 2016, increased \$175,000 compared to 2015. This followed a decrease of \$331,000 in 2015 compared to 2014. The increase in fees, in 2016, was mainly attributable to an increase in fees collected from processing activities and debit card fees; this was offset somewhat by a decrease in overdraft fees. The decrease in fees, in 2015, was mainly attributable to a decrease in overdraft fees and fees collected from processing activities; this was offset somewhat by an increase in debit card fees. Lockbox revenues totaled \$3,164,000, down \$47,000 in 2016 following an increase of \$112,000 in 2015. Other income totaled \$3,441,000, up \$399,000 in 2016 following an increase of \$442,000 in 2015. The increase in 2016 was primarily the result of increases in wealth management fees, merchant and charge card sales royalties, and cash surrender values of life insurance policies. The increase in 2015 was primarily the result of increases in merchant and charge card sales royalties.

#### Operating Expenses

Total operating expenses were \$64,757,000 in 2016, compared to \$62,198,000 in 2015 and \$56,730,000 in 2014.

Salaries and employee benefits expenses increased by \$1,452,000 or 3.8% in 2016, after increasing by 10.0% in 2015. The increase in 2016 was mainly attributable to merit increases in salaries, bonus accruals, pension costs and

health insurance costs. The increase in 2015 was mainly attributable to increases in staff levels, merit increases in salaries, pension costs and health insurance costs.

Occupancy expense increased by \$31,000, or 0.5%, in 2016, following an increase of \$613,000, or 11.1%, in 2015. The increase in 2016 was primarily attributable to an increase in rent expense. The increase in 2015 was primarily attributable to an increase in rent expense, depreciation expense and building maintenance associated with branch expansion.

Equipment expense increased by \$219,000, or 8.3%, in 2016, following an increase of \$297,000, or 12.8%, in 2015. The increase in 2016 was primarily attributable to an increase in depreciation expense. The increase in 2015 was primarily attributable to an increase in depreciation expense associated with branch expansion.

FDIC assessments decreased by \$250,000, or 11.6%, in 2016, following an increase of \$182,000, or 9.2%, in 2015. FDIC assessments decreased in 2016 mainly as a result of a decrease in the assessment rate. FDIC assessments increased in 2015 mainly as a result of deposit growth.

Other operating expenses increased by \$1,107,000 in 2016, which followed an \$876,000 increase in 2015. The increase in 2016 was primarily attributable to an increase in marketing expenses, telephone expenses, software maintenance costs, contributions, and postage expenses. The increase in 2015 was primarily attributable to an increase in bank security, software maintenance costs, and legal expenses.

#### Provision for Income Taxes

Income tax expense was (\$362,000) in 2016, \$533,000 in 2015, and \$866,000 in 2014. The effective tax rate was (1.5%) in 2016, 2.3% in 2015 and 3.8% in 2014. The decrease in the effective tax rate for 2016 and 2015 was mainly attributable to an increase in tax-exempt interest income as a percentage of taxable income. The federal tax rate was 34% in 2016, 2015 and 2014.

#### 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>
+400	(9.0)
+300	(6.4)
+200	(4.7)
+100	(2.1)
-100	0.8
-200	(0.4)

<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 changes in the table above are within the Company's policy parameters.

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 includes cash and due from banks, federal funds sold and other temporary investments. Liquid assets totaled \$239,334,000 on December 31, 2016, compared with \$223,957,000 on December 31, 2015. In each of these two years, deposit and borrowing activity has generally been adequate to support asset activity.

The sources of funds for dividends paid by the Company are dividends received from the Bank and liquid funds held by the Company. 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 \$240,041,000 at December 31, 2016, compared with \$214,544,000 at December 31, 2015. The Company's equity increased primarily as a result of earnings and a decrease on other comprehensive loss, net of taxes, offset somewhat by dividends paid. Other comprehensive loss, net of taxes, decreased primarily as a result of a decrease in unrealized losses on securities transferred from available-for-sale to held-to-maturity and amortization of the pension liability. This was offset, somewhat, by an increase in unrealized losses on securities available-for-sale.

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance-sheet items. The following table reflects capital ratios computed utilizing the recently implemented Basel III regulatory capital framework:

	Minimum Capital Ratios	Bank	Company
Leverage ratios	4.00 %	6.02 %	6.28 %
Common equity tier 1 risk weighted capital ratios	4.50 %	11.25 %	10.41 %
Tier 1 risk weighted capital ratios	6.00 %	11.25 %	11.70 %
Total risk weighted capital ratios	8.00 %	12.27 %	12.72 %

#### 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, 2016.

##### 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	\$ 293,000	\$ 77,500	\$ 112,500	\$ 58,000	\$ 45,000
Subordinated debentures	36,083	—	—	—	36,083
Retirement benefit obligations	40,331	3,488	6,951	7,270	22,622
Lease obligations	12,313	2,408	4,276	3,103	2,526
Customer repurchase agreements	182,280	182,280	—	—	—
<b>Total contractual cash obligations</b>	<b>\$ 564,007</b>	<b>\$ 265,676</b>	<b>\$ 123,727</b>	<b>\$ 68,373</b>	<b>\$ 106,231</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	\$ 362,357	\$ 22,348	\$ 125,912	\$ 5,698	\$ 208,399
Standby and commercial letters of credit	6,796	6,209	320	106	161
Other commitments	88,150	18,091	1,050	2,534	66,475
<b>Total commitments</b>	<b>\$ 457,303</b>	<b>\$ 46,648</b>	<b>\$ 127,282</b>	<b>\$ 8,338</b>	<b>\$ 275,035</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 notional 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 Notional Amount (dollars in thousands)	2016	2015
Financial instruments whose contract amount represents credit risk:		
Commitments to originate 1-4 family mortgages	\$ 13,877	\$ 5,638
Standby and commercial letters of credit	6,796	4,936
Unused lines of credit	362,357	320,874
Unadvanced portions of construction loans	22,049	11,589
Unadvanced portions of other loans	52,224	41,717

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 \$44,000 and \$51,000 for 2016 and 2015, respectively.

**Recent Accounting Developments**

See Note 1 to the Notes to Consolidated Financial Statements for details of recent accounting developments and their expected impact on the Company's financial statements.

December 31,	2016	2015
(dollars in thousands except share data)		
<b>ASSETS</b>		
Cash and due from banks (Note 2)	\$ 62,400	\$ 52,877
Federal funds sold and interest-bearing deposits in other banks	173,751	167,847
Total cash and cash equivalents	236,151	220,724
Short-term investments	3,183	3,233
Securities available-for-sale, amortized cost \$500,220 in 2016 and \$404,977 in 2015 (Notes 3, 9 and 11)	499,297	404,623
Securities held-to-maturity, fair value \$1,635,808 in 2016 and \$1,438,960 in 2015 (Notes 4 and 11)	1,653,986	1,438,903
Federal Home Loan Bank of Boston, stock at cost	21,042	28,807
Loans, net (Note 5)	1,923,933	1,731,536
Less: allowance for loan losses (Note 6)	24,406	23,075
Net loans	1,899,527	1,708,461
Bank premises and equipment (Note 7)	23,417	24,106
Accrued interest receivable	9,645	8,002
Other assets (Notes 5, 8 and 16)	116,360	110,582
Total assets	\$ 4,462,608	\$ 3,947,441
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Demand deposits	\$ 689,286	\$ 541,955
Savings and NOW deposits	1,304,394	1,070,585
Money market accounts	1,181,179	989,094
Time deposits (Note 10)	478,359	473,426
Total deposits	3,653,218	3,075,060
Securities sold under agreements to repurchase (Note 11)	182,280	197,850
Other borrowed funds (Note 12)	293,000	368,000
Subordinated debentures (Note 12)	36,083	36,083
Other liabilities	57,986	55,904
Total liabilities	4,222,567	3,732,897
Commitments and contingencies (Notes 7, 18 and 19)		
Stockholders' equity (Note 15):		
Preferred Stock – \$1.00 par value; 100,000 shares authorized; no shares issued and outstanding	—	—
Common stock, Class A, \$1.00 par value per share; authorized 10,000,000 shares; issued 3,600,729 shares in 2016 and 2015	3,601	3,601
Common stock, Class B, \$1.00 par value per share; authorized 5,000,000 shares; issued 1,967,180 shares in 2016 and 2015	1,967	1,967
Additional paid-in capital	12,292	12,292
Retained earnings	243,565	221,232
	261,425	239,092
Unrealized losses on securities available-for-sale, net of taxes	(567)	(246)
Unrealized losses on securities transferred to held-to-maturity, net of taxes	(4,084)	(6,896)
Pension liability, net of taxes	(16,733)	(17,406)
Total accumulated other comprehensive loss, net of taxes (Notes 3, 13 and 15)	(21,384)	(24,548)
Total stockholders' equity	240,041	214,544
Total liabilities and stockholders' equity	\$ 4,462,608	\$ 3,947,441

See accompanying "Notes to Consolidated Financial Statements."

## Consolidated Statements of Income

Century Bancorp, Inc. AR '16

Year Ended December 31,	2016	2015	2014
(dollars in thousands except share data)			
<b>INTEREST INCOME</b>			
Loans, taxable	\$ 34,324	\$ 32,136	\$ 32,198
Loans, non-taxable	23,440	19,992	17,910
Securities available-for-sale, taxable	3,003	1,900	2,601
Securities available-for-sale, non-taxable	1,051	583	282
Federal Home Loan Bank of Boston dividends	966	658	283
Securities held-to-maturity	32,679	34,388	31,745
Federal funds sold, interest-bearing deposits in other banks and short-term investments	1,236	436	352
Total interest income	96,699	90,093	85,371
<b>INTEREST EXPENSE</b>			
Savings and NOW deposits	4,020	2,817	2,539
Money market accounts	3,542	3,038	2,715
Time deposits	5,706	4,887	4,421
Securities sold under agreements to repurchase	472	487	391
Other borrowed funds and subordinated debentures	8,877	8,905	9,070
Total interest expense	22,617	20,134	19,136
Net interest income	74,082	69,959	66,235
Provision for loan losses (Note 6)	1,375	200	2,050
Net interest income after provision for loan losses	72,707	69,759	64,185
<b>OTHER OPERATING INCOME</b>			
Service charges on deposit accounts	7,907	7,732	8,063
Lockbox fees	3,164	3,211	3,099
Brokerage commissions	315	380	302
Net gains on sales of securities	64	594	450
Gains on sales of mortgage loans	1,331	1,034	757
Other income	3,441	3,042	2,600
Total other operating income	16,222	15,993	15,271
<b>OPERATING EXPENSES</b>			
Salaries and employee benefits (Note 17)	40,048	38,596	35,096
Occupancy	6,147	6,116	5,503
Equipment	2,845	2,626	2,329
FDIC assessments	1,902	2,152	1,970
Other (Note 20)	13,815	12,708	11,832
Total operating expenses	64,757	62,198	56,730
Income before income taxes	24,172	23,554	22,726
Provision for income taxes (Note 16)	(362)	533	866
Net income	\$ 24,534	\$ 23,021	\$ 21,860
<b>SHARE DATA (Note 14)</b>			
Weighted average number of shares outstanding, basic			
Class A	3,600,729	3,600,729	3,591,732
Class B	1,967,180	1,967,180	1,969,030
Weighted average number of shares outstanding, diluted			
Class A	5,567,909	5,567,909	5,562,209
Class B	1,967,180	1,967,180	1,969,030
Basic earnings per share			
Class A	\$ 5.35	\$ 5.02	\$ 4.78
Class B	\$ 2.68	\$ 2.51	\$ 2.39
Diluted earnings per share			
Class A	\$ 4.41	\$ 4.13	\$ 3.93
Class B	\$ 2.68	\$ 2.51	\$ 2.39

See accompanying "Notes to Consolidated Financial Statements."



Year Ended December 31,	2016	2015	2014
(dollars in thousands)			
NET INCOME	\$ 24,534	\$ 23,021	\$ 21,860
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	(289)	38	1,401
Less: reclassification adjustment for gains included in net income	(32)	(361)	(279)
Total unrealized gains (losses) on securities	(321)	(323)	1,122
Accretion of net unrealized losses transferred during period	2,812	3,583	3,188
Defined benefit pension plans:			
Pension liability adjustment:			
Net (loss) gain	(297)	(2,890)	(8,544)
Amortization of prior service cost and loss included in net periodic benefit cost	970	853	226
Total pension liability adjustment	673	(2,037)	(8,318)
Other comprehensive (loss) income	3,164	1,223	(4,008)
Comprehensive income (loss)	\$ 27,698	\$ 24,244	\$ 17,852

See accompanying "Notes to Consolidated Financial Statements."

## Consolidated Statements of Changes in Stockholders' Equity

Century Bancorp, Inc. AR '16

	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, 2013	\$ 3,580	\$ 1,976	\$ 11,932	\$ 180,747	\$ (21,763)	\$ 176,472
Net income	—	—	—	21,860	—	21,860
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of \$756 in taxes and \$450 in realized net gains	—	—	—	—	1,122	1,122
Accretion of net unrealized losses transferred during the period, net of \$2,004 in taxes	—	—	—	—	3,188	3,188
Pension liability adjustment, net of \$5,532 in taxes	—	—	—	—	(8,318)	(8,318)
Conversion of Class B Common Stock to Class A Common Stock, 9,000 shares	9	(9)	—	—	—	—
Stock options exercised, 11,325 shares	12	—	349	—	—	361
Cashless stock options exercised, 7,700 shares	—	—	11	—	—	11
Cash dividends, Class A Common Stock, \$0.48 per share	—	—	—	(1,723)	—	(1,723)
Cash dividends, Class B Common Stock, \$0.24 per share	—	—	—	(473)	—	(473)
BALANCE, DECEMBER 31, 2014	\$ 3,601	\$ 1,967	\$ 12,292	\$ 200,411	\$ (25,771)	\$ 192,500
Net income	—	—	—	23,021	—	23,021
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of \$211 in taxes and \$594 in realized net gains	—	—	—	—	(323)	(323)
Accretion of net unrealized losses transferred during the period, net of \$1,919 in taxes	—	—	—	—	3,583	3,583
Pension liability adjustment, net of \$1,357 in taxes	—	—	—	—	(2,037)	(2,037)
Cash dividends, Class A Common Stock, \$0.48 per share	—	—	—	(1,728)	—	(1,728)
Cash dividends, Class B Common Stock, \$0.24 per share	—	—	—	(472)	—	(472)
BALANCE, DECEMBER 31, 2015	\$ 3,601	\$ 1,967	\$ 12,292	\$ 221,232	\$ (24,548)	\$ 214,544
Net income	—	—	—	24,534	—	24,534
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of \$248 in taxes and \$52 in realized net gains	—	—	—	—	(321)	(321)
Accretion of net unrealized losses transferred during the period, net of \$1,505 in taxes	—	—	—	—	2,812	2,812
Pension liability adjustment, net of \$448 in taxes	—	—	—	—	673	673
Cash dividends, Class A Common Stock, \$0.48 per share	—	—	—	(1,729)	—	(1,729)
Cash dividends, Class B Common Stock, \$0.24 per share	—	—	—	(472)	—	(472)
BALANCE, DECEMBER 31, 2016	\$ 3,601	\$ 1,967	\$ 12,292	\$ 243,565	\$ (21,384)	\$ 240,041

See accompanying "Notes to Consolidated Financial Statements."

Year Ended December 31, (dollars in thousands)	2016	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 24,534	\$ 23,021	\$ 21,860
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sales of portfolio loans	(1,331)	(1,034)	(757)
Gain on sale of fixed assets	—	—	(5)
Net gains on sales of securities	(64)	(594)	(450)
Provision for loan losses	1,375	200	2,050
Deferred tax benefit	(4,676)	(3,259)	(3,613)
Net depreciation and amortization	3,561	3,296	2,937
(Increase) decrease in accrued interest receivable	(1,643)	(1,761)	298
Gain on sales of other real estate owned	—	(57)	(60)
Increase in other assets	(2,953)	(10,862)	(2,849)
Increase in other liabilities	3,203	2,103	2,976
Net cash provided by operating activities	22,006	11,053	22,387
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from maturities of short-term investments	3,233	—	4,617
Purchase of short-term investments	(3,183)	(1,102)	(2,131)
Proceeds from redemptions of Federal Home Loan Bank of Boston stock	10,381	891	680
Purchase of Federal Home Loan Bank of Boston stock	(2,616)	(4,782)	(7,524)
Proceeds from calls/maturities of securities available-for-sale	277,657	206,109	153,832
Proceeds from sales of securities available-for-sale	2,376	47,853	40,285
Purchase of securities available-for-sale	(375,608)	(210,302)	(176,224)
Proceeds from calls/maturities of securities held-to-maturity	416,599	414,786	267,486
Proceeds from sales of securities held-to-maturity	192	3,698	—
Purchase of securities held-to-maturity	(627,670)	(444,969)	(181,411)
Proceeds from sales of portfolio loans	74,668	66,600	44,501
Net increase in loans	(265,732)	(467,048)	(111,528)
Proceeds from sales of other real estate owned	—	1,973	615
Proceeds from sales of fixed assets	—	—	5
Capital expenditures	(2,263)	(2,652)	(3,104)
Net cash (used in) provided by investing activities	(491,966)	(388,945)	30,099
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase in time deposit accounts	4,933	90,281	921
Net increase in demand, savings, money market and NOW deposits	573,225	247,188	20,831
Net proceeds from the exercise of stock options	—	—	361
Cash dividends	(2,201)	(2,200)	(2,196)
Net decrease in securities sold under agreements to repurchase	(15,570)	(14,510)	(2,080)
Net (decrease) increase in other borrowed funds	(75,000)	(27,500)	140,356
Net cash provided by financing activities	485,387	293,259	158,193
Net increase (decrease) in cash and cash equivalents	15,427	(84,633)	210,679
Cash and cash equivalents at beginning of year	220,724	305,357	94,678
Cash and cash equivalents at end of year	\$ 236,151	\$ 220,724	\$ 305,357
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Cash paid during the year for:			
Interest	\$ 22,668	\$ 19,979	\$ 19,168
Income taxes	3,730	4,300	4,493
Change in unrealized losses on securities available-for-sale, net of taxes	\$ (321)	\$ (323)	\$ 1,122
Change in unrealized losses on securities transferred to held-to-maturity, net of taxes	2,812	3,583	3,188
Pension liability adjustment, net of taxes	673	(2,037)	(8,318)
Transfer of loans to other real estate owned	—	1,916	555

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, New Hampshire, Rhode Island, Connecticut and New York. 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 a review of factors, including historical charge-off rates with additional allocations based on qualitative risk factors for each category and general economic factors. 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

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. ASC 820-10 establishes a hierarchical 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 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 over the counter ("OTC") derivatives.

Level III — These instruments 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.

### 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, 2016 and 2015, 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. Gains and losses on the sale of investment securities are recognized on the trade date on a specific identification basis.

Management also considers the Company's capital adequacy, interest-rate risk, liquidity and business plans in assessing whether it is more likely than not that the Company will sell or be required to sell the investment securities before recovery. If the Company determines that a decline in fair value is OTTI and that it is more likely than not that the Company will not sell or be required to sell the investment security before recovery of its amortized cost, the credit portion of the impairment loss is recognized in the Company's consolidated statement of income and the noncredit portion is recognized in accumulated other comprehensive income. The credit portion of the OTTI impairment represents the difference between the amortized cost and the present value of the expected future cash flows of the investment security. If the Company determines that a decline in fair value is OTTI and it is more likely than not that it will sell or

be required to sell the investment security before recovery of its amortized cost, the entire difference between the amortized cost and the fair value of the security will be recognized in the Company's consolidated statement of income.

The transfer of a security between categories of investments shall be accounted for at fair value. For a debt security transferred into the held-to-maturity category from the available-for-sale category, the unrealized holding gain or loss at the date of the transfer shall continue to be reported in a separate component of shareholders' equity but shall be amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of any premium or discount. The amortization of an unrealized holding gain or loss reported in equity will offset or mitigate the effect on interest income of the amortization of the premium or discount for that held-to-maturity security.

The sale of a security held-to-maturity may occur after a substantial portion (at least 85%) of the principal outstanding at acquisition due either to prepayments on the debt security or to scheduled payments on a debt security payable in equal installments over its term. For variable rate securities, the scheduled payments need not be equal.

#### FEDERAL HOME LOAN BANK STOCK

The Bank, as a member of the Federal Home Loan Bank of Boston ("FHLBB"), is required to maintain an investment in capital stock of the FHLBB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLBB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis of the stock. As of December 31, 2016, no impairment has been recognized.

#### LOANS HELD FOR SALE

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

#### LOANS

Interest on loans is recognized based on the daily principal amount outstanding. Accrual of interest is discontinued when loans become ninety days delinquent unless the collateral is sufficient to cover both principal and interest and the loan is in the process of collection. Past-due status is based on contractual terms of the loan. 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 collectibility 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 collectibility of principal.

Loan origination fees and related direct loan origination costs are offset, and the resulting net amount is deferred and amortized over the life of the related loans using the level-yield method. 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. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in

lieu of an allocation of a specific allowance when such an amount has been identified definitively as uncollectible. Management considers the payment status, net worth and earnings potential of the borrower, and the value and cash flow of the collateral as factors to determine if a loan will be paid in accordance with its contractual terms. Management does not set any minimum delay of payments as a factor in reviewing for impaired classification. Loans are charged-off when management believes that the collectibility of the loan's principal is not probable. The specific factors that management considers in making the determination that the collectibility of the loan's principal is not probable include the delinquency status of the loan, the fair value of the collateral, if secured, and, the financial strength of the borrower and/or guarantors. 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 effective rate of interest.

#### TRANSFERS OF FINANCIAL ASSETS

Transfers of financial assets, typically residential mortgages and loan participations for the Company, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets.

#### 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, the 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. There were no new loans acquired during the year ended December 31, 2016.

#### 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. The components of the allowance for loan losses represent estimates based upon Accounting Standards Codification ("ASC") Topic 450, contingencies, and ASC Topic 310 Receivables. ASC Topic 450 applies to homogenous loan pools such as consumer installment, residential mortgages, consumer lines of credit and commercial loans that are not individually evaluated for impairment under ASC Topic 310. In determining the level of the allowance, periodic evaluations are made of the loan portfolio, which takes into account factors such as the characteristics of the loans, loan status, financial strength 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 specific allowances, if appropriate, for identified problem loans, formula allowance, and possibly an unallocated allowance. Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment.

While management uses available information in establishing the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. Loans are charged-off in whole or in part when, in management's opinion, collectibility is not probable. The specific factors that management considers in making the determination that the collectibility of the loan's principal is not probable include the delinquency status of the loan, the fair value of the collateral and the financial strength of the borrower and/or guarantors.

Under ASC Topic 310, a loan is impaired, based upon current information and in management's opinion, when it is probable that the loan will not be repaid according to its original contractual terms, including both principal and interest, or if a loan is designated as a TDR. Specific allowances for loan losses entail the assignment of allowance amounts to individual loans on the basis of loan impairment. 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. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance when such an amount has been identified definitively as uncollectible.

In estimating probable loan loss under ASC Topic 450 management considers numerous factors, including historical charge-offs and subsequent recoveries. The formula allowances are based on evaluations of homogenous loans to determine the allocation appropriate within each portfolio segment. Formula allowances are based on internal risk ratings or credit ratings from external sources. 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. On these loans, the formula allowances are based on the risk ratings, the historical loss experience, and the loss emergence period. Historical loss data and loss emergence periods are developed based on the Company's historical experience. For larger loans with available external credit ratings, these ratings are utilized rather than the Company's risk ratings. The historical loss factor and loss emergence periods for these loans are based on data published by the rating agencies for similar credits as the Company has limited internal historical data. For the residential real estate and consumer loan portfolios, the formula allowances are calculated by applying historical loss experience and the loss emergence period to the outstanding balance in each loan category. Loss factors and loss emergence periods are based on the Company's historical net loss experience.

Additional allowances are added to portfolio segments based on qualitative factors. Management considers potential factors identified in regulatory guidance. Management has identified certain qualitative factors, which could impact the degree of loss sustained within the portfolio. These include market risk factors and 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, such as unemployment and GDP 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 the outlooks for business segments in which the Company's borrowers operate and loan size. The potential ranges for qualitative factors are based on historical volatility in losses. The actual amount utilized is based on management's assessment of current conditions.

After considering the above components, an unallocated component may be generated to cover uncertainties that could affect management's estimate of probable losses. These uncertainties include the effects of loans in new geographical areas and new industries. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

### BANK PREMISES AND EQUIPMENT

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Land is stated at cost. 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.

Goodwill impairment is evaluated by first assessing qualitative factors (events and circumstances) to determine whether it is more likely than not (meaning a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. If, after considering all relevant events and circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test will be unnecessary.

The first step, in the two-step impairment test, 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.

#### SERVICING

The Company services mortgage loans for others. Mortgage servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into loan servicing fee income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant risk characteristics, such as interest rates and terms. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum. Changes in the valuation allowance are reported in loan servicing fee income.

#### STOCK OPTION ACCOUNTING

The Company follows the fair value recognition provisions of FASB ASC 718, *Compensation—Stock Compensation* for all share-based payments. The Company's method of valuation for share-based awards granted utilizes the Black-Scholes option-pricing model. 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 no options to purchase shares of Class A common stock outstanding at December 31, 2016.

The Company uses the fair value method to account for stock options. There were no options granted during 2016 and 2015.

#### 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.

The Company accounts for uncertain tax positions in accordance with FASB ASC 740.

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.

#### EARNINGS PER SHARE ("EPS")

Class A and Class B shares participate equally in undistributed earnings. Under the Company's Articles of Organization, the holders of Class A Common Stock are entitled to receive dividends per share equal to at least 200% of dividends paid, if any, from time to time, on each share of Class B Common Stock.

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 stock options.

The company utilizes the two class method for reporting EPS. The two-class method is an earnings allocation formula that treats Class A and Class B shares as having rights to earnings that otherwise would have been available only to Class A shareholders and Class B shareholders as if converted to Class A shares.

#### 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. Individual life insurance policies, which are owned by the Company, are purchased covering the life of each participant.

The Company utilizes a full yield curve approach in the estimation of the service and interest components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to the underlying projected cash flows.

**RECENT ACCOUNTING DEVELOPMENTS**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU is intended to create a single source of revenue guidance which is more principles based than current revenue guidance. The guidance affects any entity that either enters into contracts with customers to transfer goods or services, or enters into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other standards. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date” to amend the effective date of ASU 2014-09. The amendments in ASU 2014-09 are effective for annual and interim periods within fiscal years beginning after December 15, 2017. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The FASB has since issued additional related ASUs amendments intended to clarify certain aspects and improve understanding of the implementation guidance of Topic 606 but do not change the core principles of the guidance in Topic 606. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements of Topic 606. The Company is currently evaluating the potential impact of the ASU and its amendments on the Company’s financial statements and results of operations.

In January 2016, FASB issued ASU 2016-1, “Financial Instruments-Overall” (Subtopic 825-10) *Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. It also amends certain disclosure requirements associated with the fair value of financial instruments. This ASU is effective for fiscal years beginning after December 15, 2017, including interim periods therein. The Company is currently assessing the applicability of this ASU and has not determined the impact, if any, as of December 31, 2016.

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU requires lessees to put most leases on their balance sheet but recognize expenses on their income statements in a manner similar to today’s accounting. This ASU also eliminates today’s real estate-specific provisions for all companies. For lessors, this ASU modifies the classification criteria and the accounting for sales-type and direct financing leases. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods therein. Early adoption is permitted. The Company is currently assessing the applicability of this ASU and has not determined the impact, if any, as of December 31, 2016.

In March 2016, the FASB issued ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323) *Simplifying the Transition to the Equity Method of Accounting*. This ASU requires that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. This ASU is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The effect of this update is not expected to have a material impact on the Company’s consolidated financial position.

In March 2016, the FASB issued ASU 2016-09, Compensation—Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting*. This ASU was issued as part of the FASB Simplification Initiative which intends to reduce the complexity of GAAP while improving usefulness to users. There are eight main items in this ASU that contribute to the simplification of share-based accounting. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2016, including interim periods

within those fiscal years. Early adoption is permitted. The effect of this update is not expected to have a material impact on the Company’s consolidated financial position.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. This ASU was issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in this ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Company is currently assessing this ASU and has not determined the impact, if any, as of December 31, 2016.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 326) *Classification of Certain Cash Receipts and Cash Payments*. Stakeholders indicated that there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. This ASU addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently assessing the applicability of this ASU and has not determined the impact, if any, as of December 31, 2016.

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) *Intra-Entity Transfers of Assets Other Than Inventory*. This ASU was issued to improve the accounting for income tax consequences of intra-entity transfers of assets other than inventory. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Management is currently assessing the applicability of this ASU and has not determined the impact, if any, as of December 31, 2016.

In October 2016, the FASB issued ASU 2016-17, Consolidation (Topic 810) *Interests Held through Related Parties That Are under Common Control*. The amendments of this ASU affect reporting entities that are required to evaluate whether they should consolidate a Variable Interest Entity within the Variable Interest Entities Subsections of Subtopic 810-10, Consolidation—Overall, in certain situations involving entities under common control. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The effect of this update is not expected to have a material impact on the Company’s consolidated financial position.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) *Restricted Cash*. The amendments of this ASU was issued to require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Management is currently assessing the applicability of this ASU and has not determined the impact, if any, as of December 31, 2016.



**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 \$0 at December 31, 2016, and \$0 at December 31, 2015.

**3. Securities Available-for-Sale**

	December 31, 2016				December 31, 2015			
	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	\$ 2,000	\$ —	\$ —	\$ 2,000	\$ 1,999	\$ —	\$ 10	\$ 1,989
U.S. Government Sponsored Enterprises	25,000	—	48	24,952	—	—	—	—
SBA Backed Securities	57,899	14	146	57,767	5,983	8	2	5,989
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	243,703	293	671	243,325	232,967	859	300	233,526
Privately Issued Residential Mortgage-Backed Securities	1,121	2	14	1,109	1,437	10	13	1,434
Obligations Issued by States and Political Subdivisions	165,281	—	405	164,876	157,838	—	878	156,960
Other Debt Securities	5,100	18	194	4,924	4,600	3	130	4,473
Equity Securities	116	228	-	344	153	99	-	252
<b>Total</b>	<b>\$ 500,220</b>	<b>\$ 555</b>	<b>\$ 1,478</b>	<b>\$ 499,297</b>	<b>\$ 404,977</b>	<b>\$ 979</b>	<b>\$ 1,333</b>	<b>\$ 404,623</b>

Included in SBA Backed Securities and U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities are securities at fair value pledged to secure public deposits and repurchase agreements amounting to \$210,780,000 and \$220,482,000 at December 31, 2016 and 2015, respectively. Also included in securities available-for-sale at fair value are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$53,396,000 and \$20,056,000 at December 31, 2016 and 2015, respectively. The Company realized gains on sales of securities of \$52,000, \$289,000, and \$450,000 from the proceeds of sales of available-for-sale securities of \$2,376,000, \$47,853,000, and \$40,285,000 for the years ended December 31, 2016, 2015, and 2014, respectively.

Debt securities of U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities primarily refer to debt securities of Fannie Mae and Freddie Mac.

The following table shows the estimated maturity distribution of the Company's securities available-for-sale at December 31, 2016.

	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	\$ 173,276	\$ 173,263
After one but within five years	107,005	106,782
After five but within ten years	168,698	168,347
More than ten years	49,625	49,207
Nonmaturing	1,616	1,698
<b>Total</b>	<b>\$ 500,220</b>	<b>\$ 499,297</b>

The weighted average remaining life of investment securities available-for-sale at December 31, 2016, was 4.4 years. Included in the weighted average remaining life calculation at December 31, 2016, were \$15,000,000 of US Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. 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. Also, \$301,253,000 of the securities are floating rate or adjustable rate and reprice prior to maturity.

As of December 31, 2016 and December 31, 2015, 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 these debt securities and it is not more likely than not that it will be required to sell these debt securities 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 these securities are from issuers that are investment grade. The change in the unrealized losses on the Obligations Issued by States and Political Subdivisions, Privately Issued Residential Mortgage-Backed Securities and Other Debt Securities was primarily caused by changes in credit spreads and liquidity issues in the marketplace.

The unrealized loss on SBA Backed Securities and 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, 2016 and December 31, 2015.

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 concentrations 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 '16

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2016. 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 49 and 15 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 270 holdings at December 31, 2016.

### Temporarily Impaired Investments

	December 31, 2016					
	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. Treasury	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
U.S. Government Sponsored Enterprises	24,952	48	—	—	24,952	48
SBA Backed Securities	52,346	145	951	1	53,297	146
U.S. Government Agency and Sponsored						
Enterprise Mortgage-Backed Securities	135,612	485	31,504	186	167,116	671
Privately Issued Residential Mortgage-Backed Securities	—	—	757	14	757	14
Obligations Issued by States and Political Subdivisions	—	—	4,298	405	4,298	405
Other Debt Securities	453	47	1,553	147	2,006	194
<b>Total temporarily impaired securities</b>	<b>\$ 213,363</b>	<b>\$ 725</b>	<b>\$ 39,063</b>	<b>\$ 753</b>	<b>\$ 252,426</b>	<b>\$ 1,478</b>

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2015. 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 14 and 11 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 290 holdings at December 31, 2015.

### Temporarily Impaired Investments

	December 31, 2015					
	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. Treasury	\$ 1,989	\$ 10	\$ —	\$ —	\$ 1,989	\$ 10
SBA Backed Securities	1,031	2	—	—	1,031	2
U.S. Government Agency and Sponsored						
Enterprise Mortgage-Backed Securities	26,519	52	49,341	248	75,860	300
Privately Issued Residential Mortgage-Backed Securities	—	—	490	13	490	13
Obligations Issued by States and Political Subdivisions	—	—	3,820	878	3,820	878
Other Debt Securities	497	3	1,373	127	1,870	130
<b>Total temporarily impaired securities</b>	<b>\$ 30,036</b>	<b>\$ 67</b>	<b>\$ 55,024</b>	<b>\$ 1,266</b>	<b>\$ 85,060</b>	<b>\$ 1,333</b>

## 4. Investment Securities Held-to-Maturity

	December 31, 2016				December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)								
U.S. Government Sponsored Enterprises	\$ 148,326	\$ 1,066	\$ 527	\$ 148,865	\$ 186,734	\$ 2,234	\$ 141	\$ 188,827
SBA Backed Securities	46,140	—	1,088	45,052	—	—	—	—
U.S. Government Sponsored Enterprises Mortgage-Backed Securities	1,459,520	4,948	22,577	1,441,891	1,252,169	7,547	9,583	1,250,133
<b>Total</b>	<b>\$ 1,653,986</b>	<b>\$ 6,014</b>	<b>\$ 24,192</b>	<b>\$ 1,635,808</b>	<b>\$ 1,438,903</b>	<b>\$ 9,781</b>	<b>\$ 9,724</b>	<b>\$ 1,438,960</b>

Included in U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprise Mortgage-Backed Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to \$1,147,207,000 and \$1,004,743,000 at December 31, 2016, and 2015, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank at fair value amounting to \$424,353,000 and \$432,965,000 at December 31, 2016, and 2015, respectively. The Company realized gains of sales of securities of \$12,000 from the proceeds of sales of held-to-maturity securities of \$192,000 for the year ending December 31, 2016. The sales from securities held-to-maturity relate to certain mortgage-backed securities for which the Company had previously collected a substantial portion of its principal investment. The Company realized gains on sales of securities of \$305,000 from the proceeds of sales of held-to-maturity securities of \$3,698,000 for the year ending December 31, 2015. There were no sales of held-to-maturity securities for the year ending December 31, 2014.

At December 31, 2016 and 2015, 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.

The following table shows the maturity distribution of the Company's securities held-to-maturity at December 31, 2016.

	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	\$ 22,802	\$ 22,911
After one but within five years	1,122,678	1,114,481
After five but within ten years	500,355	490,546
More than ten years	8,151	7,870
<b>Total</b>	<b>\$ 1,653,986</b>	<b>\$ 1,635,808</b>

The weighted average remaining life of investment securities held-to-maturity at December 31, 2016, was 4.5 years. Included in the weighted average remaining life calculation at December 31, 2016, were \$59,745,000 of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. 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. Also, \$188,000 of the securities are floating rate or adjustable rate and reprice prior to maturity.

As of December 31, 2016 and December 31, 2015, 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 these debt securities and it is not more likely than not that it will be required to sell these debt securities before the anticipated recovery of their remaining amortized costs. 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 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 does not intend to sell any of these securities and it is not more likely than not that it will be required to sell these securities before the anticipated recovery of the remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016 and December 31, 2015.

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.

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2016. 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 194 and 16 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 375 holdings at December 31, 2016.

Temporarily Impaired Investments	December 31, 2016					
	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	\$ 59,219	\$ 527	\$ -	\$ -	\$ 59,219	\$ 527
SBA Backed Securities	45,052	1,088	-	-	45,052	1,088
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	1,008,960	20,725	58,535	1,852	1,067,495	22,577
<b>Total temporarily impaired securities</b>	<b>\$ 1,113,231</b>	<b>\$ 22,340</b>	<b>\$ 58,535</b>	<b>\$ 1,852</b>	<b>\$ 1,171,766</b>	<b>\$ 24,192</b>

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2015. 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 101 and 26 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 322 holdings at December 31, 2015.

Temporarily Impaired Investments	December 31, 2015					
	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	\$ 9,859	\$ 141	\$ -	\$ -	\$ 9,859	\$ 141
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	626,218	6,657	123,864	2,926	750,082	9,583
<b>Total temporarily impaired securities</b>	<b>\$ 636,077</b>	<b>\$ 6,798</b>	<b>\$ 123,864</b>	<b>\$ 2,926</b>	<b>\$ 759,941</b>	<b>\$ 9,724</b>

**5. Loans**

The majority of the Bank's lending activities are conducted in Massachusetts with other lending activity principally in New Hampshire, Rhode Island, Connecticut and New York. The Bank originates construction, commercial and residential real estate loans, commercial and industrial loans, municipal 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,	2016	2015
(dollars in thousands)		
Construction and land development	\$ 14,928	\$ 27,421
Commercial and industrial	612,503	452,235
Municipal	135,418	85,685
Commercial real estate	696,173	721,506
Residential real estate	241,357	255,346
Consumer	11,013	10,744
Home equity	211,857	178,020
Overdrafts	684	579
Total	<u>\$ 1,923,933</u>	<u>\$ 1,731,536</u>

At December 31, 2016, and December 31, 2015, loans were carried net of discounts of \$313,000 and \$360,000, respectively. Net deferred fees included in loans at December 31, 2016, and December 31, 2015, were \$641,000 and \$988,000, respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately \$229,730,000 and \$185,299,000 at December 31, 2016, and December 31, 2015, respectively. The Company had no residential real estate loans held for sale at December 31, 2016 and December 31, 2015. The Company's mortgage servicing rights totaled \$1,629,000 and \$1,305,000 at December 31, 2016 and December 31, 2015, respectively.

As of December 31, 2016 and 2015, the Company's recorded investment in impaired loans was \$3,830,000 and \$3,225,000, 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 and 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, 2016, there were \$3,105,000 of impaired loans with a specific reserve of \$173,000. At December 31, 2015, there were \$3,051,000 of impaired loans with specific reserves of \$250,000.

Loans are designated as troubled debt restructures 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,	2016	2015	2014
(dollars in thousands)			
Loans on nonaccrual	\$ 1,084	\$ 2,336	\$ 4,146
Loans 90 days past due and still accruing	—	—	—
Impaired loans on nonaccrual included above	304	332	3,031
Total recorded investment in impaired loans	3,830	3,225	6,327
Average recorded investment of impaired loans	3,661	4,490	7,434
Accruing troubled debt restructures	3,526	2,893	3,296
Interest income not recorded on nonaccrual loans according to their original terms	37	91	123
Interest income on nonaccrual loans actually recorded	—	—	—
Interest income recognized on impaired loans	140	104	144

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 2016.

Balance at December 31, 2015	Additions	Repayments and Deletions	Balance at December 31, 2016
(dollars in thousands)			
\$ 5,010	\$ 6,778	\$ 806	\$ 10,982

**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, 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 allowance for loan losses for each of the three years ending December 31, 2016, 2015 and 2014 is as follows:

	2016	2015	2014
(dollars in thousands)			
Allowance for loan losses, beginning of year	\$ 23,075	\$ 22,318	\$ 20,941
Loans charged-off	(389)	(781)	(1,382)
Recoveries on loans previously charged-off	434	1,338	709
Net recoveries (charge-offs)	45	557	(673)
Provision charged to expense	1,375	200	2,050
Reclassification to other liabilities*	(89)	—	—
Allowance for loan losses, end of year	<u>\$ 24,406</u>	<u>\$ 23,075</u>	<u>\$ 22,318</u>

\* The reclassification relates to allowance for loan losses allocations on unused commitments that have been reclassified to other liabilities.

Further information pertaining to the allowance for loan losses at December 31, 2016 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
(dollars in thousands)									
Allowance for Loan Losses:									
Balance at December 31, 2015	\$ 2,041	\$ 5,899	\$ 994	\$ 10,589	\$ 1,320	\$ 644	\$ 1,077	\$ 511	\$ 23,075
Charge-offs	—	—	—	—	—	(362)	(27)	—	(389)
Recoveries	—	132	—	—	6	296	—	—	434
Reclassification to other liabilities	(5)	(25)	—	(9)	(3)	(3)	(44)	—	(89)
Provision	(1,024)	966	618	555	375	7	96	(218)	1,375
Ending balance at December 31, 2016	<u>\$ 1,012</u>	<u>\$ 6,972</u>	<u>\$ 1,612</u>	<u>\$ 11,135</u>	<u>\$ 1,698</u>	<u>\$ 582</u>	<u>\$ 1,102</u>	<u>\$ 293</u>	<u>\$ 24,406</u>
Amount of allowance for loan losses for loans deemed to be impaired	\$ 3	\$ 23	\$ —	\$ 140	\$ 7	\$ —	\$ —	\$ —	\$ 173
Amount of allowance for loan losses for loans not deemed to be impaired	\$ 1,009	\$ 6,949	\$ 1,612	\$ 10,995	\$ 1,691	\$ 582	\$ 1,102	\$ 293	\$ 24,233
Loans:									
Ending balance	\$ 14,928	\$ 612,503	\$ 135,418	\$ 696,173	\$ 241,357	\$ 11,697	\$ 211,857	\$ —	\$ 1,923,933
Loans deemed to be impaired	\$ 94	\$ 389	\$ —	\$ 3,149	\$ 198	\$ —	\$ —	\$ —	\$ 3,830
Loans not deemed to be impaired	\$ 14,834	\$ 612,114	\$ 135,418	\$ 693,024	\$ 241,159	\$ 11,697	\$ 211,857	\$ —	\$ 1,920,103

Further information pertaining to the allowance for loan losses at December 31, 2015 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
(dollars in thousands)									
Allowance for Loan Losses:									
Balance at December 31, 2014	\$ 1,592	\$ 4,757	\$ 1,488	\$ 11,199	\$ 776	\$ 810	\$ 599	\$ 1,097	\$ 22,318
Charge-offs	—	(172)	—	(298)	—	(311)	—	—	(781)
Recoveries	780	212	—	84	7	255	—	—	1,338
Provision	(331)	1,102	(494)	(396)	537	(110)	478	(586)	200
Ending balance at December 31, 2015	<u>\$ 2,041</u>	<u>\$ 5,899</u>	<u>\$ 994</u>	<u>\$ 10,589</u>	<u>\$ 1,320</u>	<u>\$ 644</u>	<u>\$ 1,077</u>	<u>\$ 511</u>	<u>\$ 23,075</u>
Amount of allowance for loan losses for loans deemed to be impaired	\$ 10	\$ 19	\$ —	\$ 99	\$ 32	\$ —	\$ 90	\$ —	\$ 250
Amount of allowance for loan losses for loans not deemed to be impaired	\$ 2,031	\$ 5,880	\$ 994	\$ 10,490	\$ 1,288	\$ 644	\$ 987	\$ 511	\$ 22,825
Loans:									
Ending balance	\$ 27,421	\$ 452,235	\$ 85,685	\$ 721,506	\$ 255,346	\$ 11,323	\$ 178,020	\$ —	\$ 1,731,536
Loans deemed to be impaired	\$ 98	\$ 443	\$ —	\$ 1,678	\$ 916	\$ —	\$ 90	\$ —	\$ 3,225
Loans not deemed to be impaired	\$ 27,323	\$ 451,792	\$ 85,685	\$ 719,828	\$ 254,430	\$ 11,323	\$ 177,930	\$ —	\$ 1,728,311

**CREDIT QUALITY INFORMATION**

The Company utilizes a six-grade internal loan rating system for commercial real estate, construction and commercial loans as follows:

Loans rated 1-3 (Pass) — Loans in this category are considered “pass” rated loans with low to average risk.

Loans rated 4 (Monitor) — These loans represent classified loans that management is closely monitoring for credit quality. These loans have had or may have minor credit quality deterioration as of December 31, 2016.

Loans rated 5 (Substandard) — Substandard loans represent classified loans that management is closely monitoring for credit quality. These loans have had more significant credit quality deterioration as of December 31, 2016.

Loans rated 6 (Doubtful) — Doubtful loans represent classified loans that management is closely monitoring for credit quality. These loans had more significant credit quality deterioration as of December 31, 2016, and are doubtful for full collection.

Impaired — Impaired loans represent classified loans that management is closely monitoring for credit quality. A loan is classified as impaired when it is probable that the Company will be unable to collect all amounts due.

The following table presents the Company's loans by risk rating at December 31, 2016.

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
(dollars in thousands)				
Grade:				
1-3 (Pass)	\$ 14,834	\$ 612,114	\$ 135,418	\$ 661,271
4 (Monitor)	—	—	—	31,753
5 (Substandard)	—	—	—	—
6 (Doubtful)	—	—	—	—
Impaired	94	389	—	3,149
<b>Total</b>	<b>\$ 14,928</b>	<b>\$ 612,503</b>	<b>\$ 135,418</b>	<b>\$ 696,173</b>

The Company has increased its exposure to larger loans to large institutions with publicly available credit ratings beginning in 2015. These ratings are tracked as a credit quality indicator for these loans.

The following table presents the Company's loans by credit rating at December 31, 2016.

	Commercial and Industrial	Municipal	Commercial Real Estate	Total
(dollars in thousands)				
Credit Rating:				
Aaa-Aa3	\$ 334,674	\$ 66,245	\$ 6,596	\$ 407,515
A1-A3	188,777	33,365	129,423	351,565
Baa1-Baa3	—	26,970	127,366	154,336
Ba2	—	3,610	—	3,610
<b>Total</b>	<b>\$ 523,451</b>	<b>\$ 130,190</b>	<b>\$ 263,385</b>	<b>\$ 917,026</b>

The following table presents the Company's loans by risk rating at December 31, 2015.

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
(dollars in thousands)				
Grade:				
1-3 (Pass)	\$ 20,281	\$ 451,774	\$ 85,685	\$ 718,911
4 (Monitor)	7,042	18	—	917
5 (Substandard)	—	—	—	—
6 (Doubtful)	—	—	—	—
Impaired	98	443	—	1,678
<b>Total</b>	<b>\$ 27,421</b>	<b>\$ 452,235</b>	<b>\$ 85,685</b>	<b>\$ 721,506</b>

The following table presents the Company's loans by credit rating at December 31, 2015.

	Commercial and Industrial	Municipal	Commercial Real Estate	Total
(dollars in thousands)				
Credit Rating:				
Aaa-Aa3	\$ 234,733	\$ 63,865	\$ 7,547	\$ 306,145
A1-A3	140,419	7,400	130,872	278,691
Baa1-Baa3	—	8,890	167,489	176,379
Ba2	—	4,480	—	4,480
Total	\$ 375,152	\$ 84,635	\$ 305,908	\$ 765,695

The Company utilized payment performance as credit quality indicators for residential real estate, consumer and overdrafts, and the home equity portfolio. The indicators are depicted in the table "aging of past-due loans," below.

#### AGING OF PAST-DUE LOANS

At December 31, 2016 the aging of past due loans are as follows:

	Accruing 30-89 Days		Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total
	Past Due	Non Accrual				
(dollars in thousands)						
Construction and land development	\$ —	\$ 94	\$ —	\$ 94	\$ 14,834	\$ 14,928
Commercial and industrial	37	65	—	102	612,401	612,503
Municipal	—	—	—	—	135,418	135,418
Commercial real estate	597	150	—	747	695,426	696,173
Residential real estate	245	656	—	901	240,456	241,357
Consumer and overdrafts	—	11	—	11	11,686	11,697
Home equity	735	108	—	843	211,014	211,857
Total	\$ 1,614	\$ 1,084	\$ —	\$ 2,698	\$ 1,921,235	\$ 1,923,933

At December 31, 2015 the aging of past due loans are as follows:

	Accruing 30-89 Days		Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total
	Past Due	Non Accrual				
(dollars in thousands)						
Construction and land development	\$ —	\$ 99	\$ —	\$ 99	\$ 27,322	\$ 27,421
Commercial and industrial	—	60	—	60	452,175	452,235
Municipal	—	—	—	—	85,685	85,685
Commercial real estate	1,462	174	—	1,636	719,870	721,506
Residential real estate	596	1,559	—	2,155	253,191	255,346
Consumer and overdrafts	6	—	—	6	11,317	11,323
Home equity	628	444	—	1,072	176,948	178,020
Total	\$ 2,692	\$ 2,336	\$ —	\$ 5,028	\$ 1,726,508	\$ 1,731,536

**IMPAIRED LOANS**

A loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. When a loan is impaired, the Company measures impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, except that as a practical expedient, the Company measures impairment based on a loan's observable market price or the fair value of the collateral if the loan is collateral dependent. Loans are charged-off when management believes that the collectibility of the loan's principal is not probable. The specific factors that management considers in making the determination that the collectibility of the loan's principal is not probable include; the delinquency status of the loan, the fair value of the collateral, if secured, and the financial strength of the borrower and/or guarantors. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance amount when such an amount has been identified definitively as uncollectible. The Company's policy for recognizing interest income on impaired loans is contained within Note 1 of the "Notes to Consolidated Financial Statements."

The following is information pertaining to impaired loans at December 31, 2016:

	Carrying Value	Unpaid Balance Principal	Required Reserve	Average Carrying Value Recognized	Interest Income
(dollars in thousands)					
With no required reserve recorded:					
Construction and land development	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial	45	232	—	53	—
Municipal	—	—	—	—	—
Commercial real estate	590	590	—	375	39
Residential real estate	90	179	—	102	7
Consumer	—	—	—	—	—
Home equity	—	—	—	—	—
Total	\$ 725	\$ 1,001	\$ —	\$ 530	\$ 46
With required reserve recorded:					
Construction and land development	\$ 94	\$ 108	\$ 3	\$ 96	\$ —
Commercial and industrial	344	360	23	360	18
Municipal	—	—	—	—	—
Commercial real estate	2,559	2,665	140	2,324	71
Residential real estate	108	108	7	323	5
Consumer	—	—	—	—	—
Home equity	—	—	—	28	—
Total	\$ 3,105	\$ 3,241	\$ 173	\$ 3,131	\$ 94
Total					
Construction and land development	\$ 94	\$ 108	\$ 3	\$ 96	\$ —
Commercial and industrial	389	592	23	413	18
Municipal	—	—	—	—	—
Commercial real estate	3,149	3,255	140	2,699	110
Residential real estate	198	287	7	425	12
Consumer	—	—	—	—	—
Home equity	—	—	—	28	—
Total	\$ 3,830	\$ 4,242	\$ 173	\$ 3,661	\$ 140



The following is information pertaining to impaired loans at December 31, 2015:

	Carrying Value	Unpaid Balance Principal	Required Reserve	Average Carrying Value Recognized	Interest Income
(dollars in thousands)					
With no required reserve recorded:					
Construction and land development	\$ —	\$ —	\$ —	\$ —	\$ —
Commercial and industrial	60	246	—	32	—
Municipal	—	—	—	—	—
Commercial real estate	—	—	—	151	—
Residential real estate	114	200	—	125	8
Consumer	—	—	—	—	—
Home equity	—	—	—	—	—
Total	\$ 174	\$ 446	\$ —	\$ 308	\$ 8
With required reserve recorded:					
Construction and land development	\$ 98	\$ 108	\$ 10	\$ 101	\$ —
Commercial and industrial	383	399	19	626	20
Municipal	—	—	—	—	—
Commercial real estate	1,678	1,776	99	2,550	69
Residential real estate	802	802	32	814	7
Consumer	—	—	—	—	—
Home equity	90	90	90	91	—
Total	\$ 3,051	\$ 3,175	\$ 250	\$ 4,182	\$ 96
Total					
Construction and land development	\$ 98	\$ 108	\$ 10	\$ 101	\$ —
Commercial and industrial	443	645	19	658	20
Municipal	—	—	—	—	—
Commercial real estate	1,678	1,776	99	2,701	69
Residential real estate	916	1,002	32	939	15
Consumer	—	—	—	—	—
Home equity	90	90	90	91	—
Total	\$ 3,225	\$ 3,621	\$ 250	\$ 4,490	\$ 104

Troubled Debt Restructurings are identified as a modification in which a concession was granted to a customer who was having financial difficulties. This concession may be below market rate, longer amortization/term, or a lower payment amount. The present value calculation of the modification did not result in an increase in the allowance for these loans beyond any previously established allocations.

There was one commercial real estate troubled debt restructuring during the year ended December 31, 2016. The pre-modification and post-modification outstanding recorded investment was \$2,091,000. The loan was modified in 2016, by reducing the interest rate as well as extending the term on the loan. The financial impact for the modification was \$16,000 reduction in principal payments and \$5,000 reduction in interest payments for 2016.

There were no troubled debt restructurings occurring during the year ended December 31, 2015. Also, there were no commitments to lend additional funds to troubled debt restructuring borrowers. There were no troubled debt restructurings that subsequently defaulted during 2015 and 2016.

## Notes to Consolidated Financial Statements

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### 7. Bank Premises and Equipment

December 31,	2016	2015	Estimated Useful Life
(dollars in thousands)			
Land	\$ 3,478	\$ 3,478	—
Bank premises	19,272	19,272	30-39 years
Furniture and equipment	26,271	24,131	3-10 years
Leasehold improvements	12,802	12,892	30-39 years or lease term
	<b>61,823</b>	<b>59,773</b>	
Accumulated depreciation and amortization	<b>(38,406)</b>	<b>(35,667)</b>	
Total	<b>\$ 23,417</b>	<b>\$ 24,106</b>	

The Company is obligated under a number of non-cancelable operating leases for premises and equipment expiring in various years through 2026. Total lease expense approximated \$2,834,000, \$2,755,000 and \$2,465,000 for the years ended December 31, 2016, 2015 and 2014, respectively. Included in lease expense are amounts paid to a company affiliated with Marshall M. Sloane, Chairman of the Board, amounting to \$424,000, \$413,000, and \$208,000, respectively. Rental income approximated \$318,000, \$314,000 and \$307,000 in 2016, 2015 and 2014, respectively. Depreciation and amortization amounted to \$3,099,000, \$2,728,000, and \$2,322,000 at December 31, 2016, 2015 and 2014 respectively.

Future minimum rental commitments for non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2016, were as follows:

Year	Amount
(dollars in thousands)	
2017	\$ 2,408
2018	2,222
2019	2,054
2020	1,777
2021	1,326
Thereafter	2,526
	<b>\$ 12,313</b>

### 8. Goodwill and Identifiable Intangible Assets

At December 31, 2016 and 2015, the Company concluded that it is not more likely than not that fair value of the reporting unit is less than its carrying value, and goodwill is not considered to be impaired.

The changes in goodwill and identifiable intangible assets for the years ended December 31, 2016 and 2015 are shown in the table below.

Carrying Amount of Goodwill and Intangibles	Mortgage		Total
	Goodwill	Servicing Rights	
(dollars in thousands)			
Balance at December 31, 2014	\$ 2,714	\$ 941	\$ 3,655
Additions	—	626	626
Amortization Expense	—	(262)	(262)
Balance at December 31, 2015	\$ 2,714	\$ 1,305	\$ 4,019
Additions	—	708	708
Amortization Expense	—	(384)	(384)
Balance at December 31, 2016	<b>\$ 2,714</b>	<b>\$ 1,629</b>	<b>\$ 4,343</b>

### 9. Fair Value Measurements

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures*, which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. 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 — These instruments 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, 2016, 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)				
Financial Instruments Measured at Fair Value on a Recurring Basis – Securities AFS				
U.S. Treasury	\$ 2,000	\$ —	\$ 2,000	\$ —
U.S. Government Agency Sponsored Enterprises	24,952	—	24,952	—
SBA Backed Securities	57,767	—	57,767	—
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	243,325	—	243,325	—
Privately Issued Residential Mortgage-Backed Securities	1,109	—	1,109	—
Obligations Issued by States and Political Subdivisions	164,876	—	—	164,876
Other Debt Securities	4,924	—	4,924	—
Equity Securities	344	344	—	—
<b>Total</b>	<b>\$ 499,297</b>	<b>\$ 344</b>	<b>\$ 334,077</b>	<b>\$ 164,876</b>
Financial Instruments Measured at Fair Value on a Non-recurring Basis				
Impaired Loans	\$ 260	\$ —	\$ —	\$ 260

Impaired loan balances in the table above represent those collateral dependent loans where management has estimated the credit loss by comparing the loan's carrying value against the expected realizable fair value of the collateral. Fair value is generally determined through a review process that includes independent appraisals, discounted cash flows, or other external assessments of the underlying collateral, which generally include various Level 3 inputs which are not identifiable. The Company discounts the fair values, as appropriate, based on management's observations of the local real estate market for loans in this category.

Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management's estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis or other type of real estate tax assessment. The types of adjustments that are made to specific provisions (credits) relate to impaired loans recognized for 2016 for the estimated credit loss amounted to (\$135,000).

There were no transfers between level 1, 2 and 3 for the year ended December 31, 2016. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the year ended December 31, 2016.

The following table presents additional information about assets measured at fair value on a recurring and nonrecurring basis for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands) at December 31, 2016. Management continues to monitor the assumptions used to value the assets listed below.

Asset	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Securities AFS <sup>(1)</sup>	\$ 164,876	Discounted cash flow	Discount rate	0%-1% <sup>(2)</sup>
Impaired Loans	260	Appraisal of collateral <sup>(3)</sup>	Appraisal adjustments <sup>(4)</sup>	0%-30% discount

<sup>(1)</sup> Municipal securities generally have maturities of one year or less and, therefore, the amortized cost equates to the fair value.

<sup>(2)</sup> Weighted averages.

<sup>(3)</sup> Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

<sup>(4)</sup> Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated expenses.

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The changes in Level 3 securities for the year ended December 31, 2016 are as 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, 2015	\$ 3,820	\$ 153,140	\$ 37	\$ 156,997
Purchases	—	216,646	—	216,646
Maturities/redemptions	—	(208,990)	(37)	(209,027)
Amortization	—	(218)	—	(218)
Change in fair value	478	—	—	478
Balance at December 31, 2016	\$ 4,298	\$ 160,578	\$ —	\$ 164,876

The amortized cost of Level 3 securities was \$165,281,000 with an unrealized loss of \$405,000 at December 31, 2016. 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.

The results of the fair value hierarchy as of December 31, 2015, 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	\$ 1,989	\$ —	\$ 1,989	\$ —
SBA Backed Securities	5,989	—	5,989	—
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	233,526	—	233,526	—
Privately Issued Residential Mortgage-Backed Securities	1,434	—	1,434	—
Obligations Issued by States and Political Subdivisions	156,960	—	—	156,960
Other Debt Securities	4,473	—	4,473	—
Equity Securities	252	215	—	37
Total	\$ 404,623	\$ 215	\$ 247,411	\$ 156,997
Financial Instruments Measured at Fair Value on a Non-recurring Basis				
Impaired Loans	\$ 1,056	\$ —	\$ —	\$ 1,056

Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management's estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis or other type of real estate tax assessment. The types of adjustments that are made to specific provisions (credits) relate to impaired loans recognized for 2016 for the estimated credit loss amounted to (\$165,000).

There were no transfers between level 1 and 2 for the year ended December 31, 2015. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the year ended December 31, 2015.

The following table presents additional information about assets measured at fair value on a recurring and nonrecurring basis for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands) at December 31, 2015. Management continues to monitor the assumptions used to value the assets listed below.

Asset	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Securities AFS <sup>(1)</sup>	\$ 156,997	Discounted cash flow	Discount rate	0%-1% <sup>(2)</sup>
Impaired Loans	1,056	Appraisal of collateral <sup>(3)</sup>	Appraisal adjustments <sup>(4)</sup>	0%-30% discount

<sup>(1)</sup> Municipal securities generally have maturities of one year or less and, therefore, the amortized cost equates to the fair value.

<sup>(2)</sup> Weighted averages.

<sup>(3)</sup> Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.

<sup>(4)</sup> Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated expenses.

The changes in Level 3 securities for the year ended December 31, 2015 are as 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, 2014	\$ 3,820	\$ 92,964	\$ 102	\$ 96,886
Purchases	—	207,509	—	207,509
Maturities/redemptions	—	(147,277)	(65)	(147,342)
Amortization	—	(56)	—	(56)
Change in fair value	—	—	—	—
Balance at December 31, 2015	\$ 3,820	\$ 153,140	\$ 37	\$ 156,997

The amortized cost of Level 3 securities was \$157,874,000 with an unrealized loss of \$877,000 at December 31, 2015. 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.

## 10. Deposits

The following is a summary of remaining maturities or re-pricing of time deposits as of December 31,

	2016	Percent	2015	Percent
(dollars in thousands)				
Within one year	\$ 262,406	55 %	\$ 315,559	67 %
Over one year to two years	87,952	18 %	44,838	9 %
Over two years to three years	83,067	17 %	49,538	10 %
Over three years to five years	44,934	10 %	63,491	14 %
Total	\$ 478,359	100 %	\$ 473,426	100 %

Time deposits of more than \$250,000 totaled \$250,476,000 and \$193,598,000 in 2016 and 2015, respectively.

Deposits totaling \$26,191,000 and \$21,970,000 were attributable to related parties at December 31, 2016 and December 31, 2015, respectively.

## 11. Securities Sold Under Agreements to Repurchase

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

	2016	2015	2014
(dollars in thousands)			
Amount outstanding at December 31	\$ 182,280	\$ 197,850	\$ 212,360
Weighted average rate at December 31	0.21 %	0.21 %	0.18 %
Maximum amount outstanding at any month end	\$ 241,110	\$ 299,890	\$ 243,750
Daily average balance outstanding during the year	\$ 222,956	\$ 245,276	\$ 216,937
Weighted average rate during the year	0.21 %	0.20 %	0.18 %

Amounts outstanding at December 31, 2016, 2015 and 2014 carried maturity dates of the next business day. U.S. Government Sponsored Enterprise securities with a total amortized cost of \$183,829,000, \$199,152,000, and \$213,817,000 were pledged as collateral and held by custodians to secure the agreements at December 31, 2016, 2015 and 2014, respectively. The approximate fair value of the collateral at those dates was \$182,074,000, \$197,318,000, and \$212,255,000, respectively.

## 12. Other Borrowed Funds and Subordinated Debentures

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

	2016	2015	2014
(dollars in thousands)			
Amount outstanding at December 31	\$ 329,083	\$ 404,083	\$ 431,583
Weighted average rate at December 31	2.39 %	2.29 %	1.91 %
Maximum amount outstanding at any month end	\$ 467,083	\$ 521,583	\$ 431,583
Daily average balance outstanding during the year	\$ 357,974	\$ 374,109	\$ 271,710
Weighted average rate during the year	2.48 %	2.38 %	3.34 %

**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, 2016, was approximately \$239,163,000. 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,	2016		2015		2014	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(dollars in thousands)						
Within one year	\$ 77,500	2.21 %	\$ 100,000	1.89 %	\$ 169,500	0.51 %
Over one year to two years	\$ 54,500	2.25 %	\$ 57,500	2.72 %	\$ 55,000	3.07 %
Over two years to three years	\$ 58,000	1.87 %	\$ 54,500	2.25 %	\$ 45,000	3.18 %
Over three years to five years	\$ 58,000	2.68 %	\$ 91,000	1.85 %	\$ 70,000	2.43 %
Over five years	\$ 45,000	2.85 %	\$ 65,000	3.23 %	\$ 56,000	3.16 %
Total	<b>\$293,000</b>	<b>2.34 %</b>	<b>\$ 368,000</b>	<b>2.30 %</b>	<b>\$ 395,500</b>	<b>1.89 %</b>

Included in the table above are \$45,000,000, \$55,000,000 and \$35,000,000 respectively, of FHLBB advances at December 31, 2016, 2015 and 2014, that are payable at the discretion of FHLBB. These put dates were not utilized in the table above.

**SUBORDINATED DEBENTURES**

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

Century Bancorp Capital Trust II then issued 35,000 shares of Cumulative Trust Preferred Securities with a liquidation value of \$1,000 per share. These securities paid dividends at an annualized rate of 6.65% for the first ten years and then converted to the three-month LIBOR rate plus 1.87% for the remaining 20 years. The coupon rate on these securities was 2.83% at December 31, 2016.

**OTHER BORROWED FUNDS**

There were no overnight federal funds purchased at December 31, 2016 and 2015.

**13. Reclassifications Out of Accumulated Other Comprehensive Income<sup>(a)</sup>**

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected line item in the Statement Where Net Income is Presented	
	Year ended December 31, 2016 <sup>(a)</sup>	Year ended December 31, 2015 <sup>(a)</sup>		
Unrealized gains and losses on available-for-sale securities	\$ 52	\$ 594	Net gains on sales of investments	
	(20)	(233)	Provision for income taxes	
	<b>\$ 32</b>	<b>\$ 361</b>	Net income	
Accretion of unrealized losses transferred	\$ (4,317)	\$ (5,502)	Securities held-to-maturity	
	1,505	1,919	Provision for income taxes	
	<b>\$ (2,812)</b>	<b>\$ (3,583)</b>	Net income	
Amortization of defined benefit pension items				
	Prior-service costs	\$ (10)	\$ (10)	Salaries and employee benefits <sup>(b)</sup>
	Actuarial gains (losses)	(1,606)	(1,411)	Salaries and employee benefits <sup>(b)</sup>
	Total before tax	(1,616)	(1,421)	Income before taxes
	Tax (expense) or benefit	646	568	Provision for income taxes
	Net of tax	<b>\$ (970)</b>	<b>\$ (853)</b>	Net income

<sup>(a)</sup> Amounts in parentheses indicate decreases to profit/loss.

<sup>(b)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see employee benefits footnote (Note 17) for additional details).

**14. Earnings per share ("EPS")**

Class A and Class B shares participate equally in undistributed earnings. Under the Company's Articles of Organization, the holders of Class A Common Stock are entitled to receive dividends per share equal to at least 200% of dividends paid, if any, from time to time, on each share of Class B Common Stock.

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 2016, 2015 and 2014 was an increase of 0, 0, and 1,447 shares, respectively.

The following table is a reconciliation of basic EPS and diluted EPS:

Year Ended December 31,	2016	2015	2014
(in thousands except share and per share data)			
<b>BASIC EPS COMPUTATION</b>			
Numerator:			
Net income, Class A	\$ 19,270	\$ 18,081	\$ 17,157
Net income, Class B	5,264	4,940	4,703
Denominator:			
Weighted average shares outstanding, Class A	3,600,729	3,600,729	3,591,732
Weighted average shares outstanding, Class B	1,967,180	1,967,180	1,969,030
Basic EPS, Class A	\$ 5.35	\$ 5.02	\$ 4.78
Basic EPS, Class B	\$ 2.68	\$ 2.51	\$ 2.39
<b>DILUTED EPS COMPUTATION</b>			
Numerator:			
Net income, Class A	\$ 19,270	\$ 18,081	\$ 17,157
Net income, Class B	5,264	4,940	4,703
Total net income, for diluted EPS, Class A computation	24,534	23,021	21,860
Denominator:			
Weighted average shares outstanding, basic, Class A	3,600,729	3,600,729	3,591,732
Weighted average shares outstanding, Class B	1,967,180	1,967,180	1,969,030
Dilutive effect of Class A stock options	—	—	1,447
Weighted average shares outstanding diluted, Class A	5,567,909	5,567,909	5,562,209
Weighted average shares outstanding, Class B	1,967,180	1,967,180	1,969,030
Diluted EPS, Class A	\$ 4.41	\$ 4.13	\$ 3.93
Diluted EPS, Class B	\$ 2.68	\$ 2.51	\$ 2.39

**15. 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.

**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 no options outstanding at December 31, 2016 and December 31, 2015.

Stock option activity under the plan is as follows:

	December 31, 2016		December 31, 2015		December 31, 2014	
	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	—	\$ —	—	\$ —	20,375	\$ 31.82
Forfeited	—	—	—	—	(9,050)	31.83
Exercised	—	—	—	—	(11,325)	31.81
Outstanding at end of year	—	\$ —	—	\$ —	—	\$ —
Exercisable at end of year	—	\$ —	—	\$ —	—	\$ —
Available to be granted at end of year	<b>233,934</b>		<b>233,934</b>		<b>233,934</b>	

The weighted average intrinsic value of options exercised for the period ended December 31, 2014, was \$8.76 per share with an aggregate value of \$99,217.

**CAPITAL RATIOS**

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, 2016, that the Bank and the Company meet all capital adequacy requirements to which they are subject.

The Basel Committee has issued capital standards entitled "Base III: A global framework for more resilient banks and banking systems" (Basel III). The Federal Reserve has finalized its rule implementing the Basel III regulatory capital framework. The rule was effective in January 2015 and sets the Basel III minimum Regulatory capital requirements. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Common Equity tier 1, tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes would cause a change in the Bank's categorization.



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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total Capital (to Risk-Weighted Assets)	\$ 293,143	12.27 %	\$ 191,081	8.00 %	\$ 238,851	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	268,737	11.25 %	143,311	6.00 %	191,081	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	268,737	11.25 %	107,483	4.50 %	155,253	6.50 %
Tier 1 Capital (to 4th Qtr. Average Assets)	268,737	6.02 %	178,469	4.00 %	223,086	5.00 %
As of December 31, 2015						
Total Capital (to Risk-Weighted Assets)	\$ 278,769	12.03 %	\$ 185,320	8.00 %	\$ 231,650	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	255,694	11.04 %	138,990	6.00 %	185,320	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	255,694	11.04 %	104,242	4.50 %	150,572	6.50 %
Tier 1 Capital (to 4th Qtr. Average Assets)	255,964	6.48 %	157,734	4.00 %	197,167	5.00 %

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total Capital (to Risk-Weighted Assets)	\$ 305,065	12.72 %	\$ 191,904	8.00 %	\$ 239,880	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	280,659	11.70 %	143,928	6.00 %	191,904	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	249,753	10.41 %	107,946	4.50 %	155,922	6.50 %
Tier 1 Capital (to 4th Qtr. Average Assets)	280,659	6.28 %	178,903	4.00 %	223,628	5.00 %
As of December 31, 2015						
Total Capital (to Risk-Weighted Assets)	\$ 291,635	12.54 %	\$ 186,021	8.00 %	\$ 232,526	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	268,560	11.55 %	139,515	6.00 %	186,021	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	233,560	10.04 %	104,637	4.50 %	151,142	6.50 %
Tier 1 Capital (to 4th Qtr. Average Assets)	268,560	6.79 %	158,114	4.00 %	197,642	5.00 %

## 16. Income Taxes

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

	2016	2015	2014
(dollars in thousands)			
Current expense:			
Federal	\$ 3,875	\$ 3,393	\$ 3,981
State	439	399	498
Total current expense	4,314	3,792	4,479
Deferred (benefit) expense:			
Federal	(4,450)	(3,098)	(3,179)
State	(334)	(161)	(434)
Valuation allowance	108	—	—
Total deferred benefit	(4,676)	(3,259)	(3,613)
Provision for income taxes	\$ (362)	\$ 533	\$ 866

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

	2016	2015
(dollars in thousands)		
Currently receivable	\$ 633	\$ 1,217
Deferred income tax asset, net	43,129	40,157
Total	\$ 43,762	\$ 41,374

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

	2016	2015	2014
(dollars in thousands)			
Federal income tax expense at statutory rates	\$ 8,218	\$ 8,008	\$ 7,727
State income tax, net of federal income tax benefit	69	157	42
Insurance income	(406)	(375)	(353)
Effect of tax-exempt interest	(8,259)	(6,915)	(6,097)
Net tax credit	(395)	(460)	(517)
Valuation allowance	108	—	—
Other	303	118	64
Total	\$ (362)	\$ 533	\$ 866
Effective tax rate	(1.50) %	2.30 %	3.80 %

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

	2016	2015
(dollars in thousands)		
Deferred income tax assets:		
Allowance for loan losses	\$ 10,419	\$ 9,852
AMT credit	10,234	7,041
Deferred compensation	9,684	8,495
Pension and SERP liability	7,658	8,714
Unrealized losses on securities transferred to held-to-maturity	3,161	4,667
Depreciation	968	673
Accrued bonus	612	508
Unrealized (gains) losses on securities available-for-sale	357	108
Charitable contributions carryforward	266	—
Acquisition premium	128	231
Nonaccrual interest	125	138
Limited partnerships	30	52
Investments write down	26	26
Other	220	173
Gross deferred income tax asset	43,888	40,678
Valuation allowance	(108)	—
Gross deferred income tax asset, net of valuation allowance	43,780	40,678
Deferred income tax liabilities:		
Mortgage servicing rights	(651)	(521)
Gross deferred income tax liability	(651)	(521)
Deferred income tax asset net	\$ 43,129	\$ 40,157

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, 2016, with the exception of a \$108,000 valuation allowance on a charitable contribution carryforward that has a remaining carryforward period of four years. 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 is in an Alternative Minimum Tax ("AMT") credit position. The AMT credit is carried as a deferred asset and has an indefinite life. The Company's intent is not to perpetually remain an AMT taxpayer and has potential tax planning strategies available which support the deferred AMT credit and, at this time, no valuation allowance is needed. The Company and its subsidiaries file a consolidated federal tax return. The Company is subject to federal examinations for tax years after December 31, 2013, and state examinations for the tax years after December 31, 2012.

## 17. 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.

The measurement date for the Plan is December 31 for each year. The benefits expected to be paid in each year from 2017 to 2021 are \$1,457,000, \$1,481,000, \$1,516,000, \$1,671,000, and \$1,863,000, respectively. The aggregate benefits expected to be paid in the five years from 2022 to 2026 are \$10,650,000. The Company plans to contribute \$1,000,000 to the Plan in 2017.

The fair value of plan assets and major categories as of December 31, 2016, is as follows:

Asset Category	Percent	Total	Level 1	Level 2	Level 3
(dollars in thousands)					
Collective fund	59.3 %	\$ 22,209	\$ 4,708	\$ 17,501	\$ —
Equity securities	19.7 %	7,363	7,363	—	—
Mutual funds	12.3 %	4,615	4,615	—	—
Hedge funds	7.4 %	2,786	—	—	2,786
Short-term investments	1.3 %	474	474	—	—
	100.0 %	\$ 37,447	\$ 17,160	\$ 17,501	\$ 2,786

The fair value of plan assets and major categories as of December 31, 2015, is as follows:

Asset Category	Percent	Total	Level 1	Level 2	Level 3
(dollars in thousands)					
Collective fund	61.20 %	\$ 20,627	\$ 4,307	\$ 16,320	\$ —
Equity securities	17.70 %	5,990	5,990	—	—
Mutual funds	11.90 %	4,001	4,001	—	—
Hedge funds	7.50 %	2,524	—	—	2,524
Short-term investments	1.70 %	575	575	—	—
	100.00 %	\$ 33,717	\$ 14,873	\$ 16,320	\$ 2,524

#### 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 asset or liability's fair value measurement level within fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Below is a description of the valuation methodologies used for assets measured at fair value.

The Trust reports bonds and other obligations, short-term investments and equity securities at fair values based on published quotations, Collective funds and hedge funds (Funds) are valued in accordance with valuations provided by such Funds, which generally value marketable securities at the last reported sales price on the valuation date and other investments at fair value, as determined by each Fund's manager.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Trust believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The changes in Level 3 securities are shown in the table below:

Year Ended December 31,	2016	2015
(dollars in thousands)		
Balance at beginning of year	\$ 2,524	\$ 2,360
Purchases	114	224
Redemptions	(309)	(40)
Actual return – assets still being held	457	(20)
Balance at end of year	\$ 2,786	\$ 2,524

There were no transfers in or out of level 3 during the year ended December 31, 2016 and 2015.

## Notes to Consolidated Financial Statements

Century Bancorp, Inc. AR '16

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. Under the Supplemental Plan, each participant will receive a retirement benefit based on compensation and length of service. Life insurance policies, which are owned by the Company, are purchased covering the lives of each participant.

The benefits expected to be paid in each year from 2017 to 2021 are \$2,031,000, \$1,990,000, \$1,964,000, \$1,906,000 and \$1,830,000, respectively. The aggregate benefits expected to be paid in the five years from 2022 to 2026 are \$11,972,000.

	Defined Benefit Pension Plan		Supplemental Insurance/ Retirement Plan	
	2016	2015	2016	2015
(dollars in thousands)				
Change projected in benefit obligation				
Benefit obligation at beginning of year	\$ 38,597	\$ 40,011	\$ 38,204	\$ 31,989
Service cost	1,273	1,343	1,820	1,589
Interest cost	1,358	1,576	1,334	1,365
Actuarial (gain)/loss	2,593	(3,424)	(1,653)	4,304
Benefits paid	(1,566)	(909)	(1,095)	(1,043)
Projected benefit obligation at end of year	\$ 42,255	\$ 38,597	\$ 38,610	\$ 38,204
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 33,717	\$ 33,812		
Actual return on plan assets	3,221	(1,186)		
Employer contributions	2,075	2,000		
Benefits paid	(1,566)	(909)		
Fair value of plan assets at end of year	\$ 37,447	\$ 33,717		
(Unfunded) Funded status	\$ (4,808)	\$ (4,880)	\$ (38,610)	\$ (38,204)
Accumulated benefit obligation	\$ 42,255	\$ 38,597	\$ 36,392	\$ 34,884
Weighted-average assumptions as of December 31				
Discount rate – Liability	3.99 %	4.18 %	3.85 %	4.03 %
Discount rate – Expense	4.18 %	4.00 %	4.01 %	4.00 %
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	\$ 1,273	\$ 1,343	\$ 1,820	\$ 1,589
Interest cost	1,358	1,576	1,334	1,365
Expected return on plan assets	(2,776)	(2,749)	—	—
Recognized prior service cost	(104)	(104)	114	114
Recognized net losses	801	812	805	599
Net periodic cost (benefit)	\$ 552	\$ 878	\$ 4,073	\$ 3,667
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Amortization of prior service cost	\$ 104	\$ 104	\$ (114)	\$ (114)
Net (gain) loss	1,347	(301)	(2,458)	3,705
Total recognized in other comprehensive income	1,451	(197)	(2,572)	3,591
Total recognized in net periodic benefit cost and other comprehensive income	\$ 2,003	\$ 681	\$ 1,501	\$ 7,258

	December 31, 2016			December 31, 2015		
	Plan	Supplemental Plan	Total	Plan	Supplemental Plan	Total
(dollars in thousands)						
Prior service cost	\$ 204	\$ (649)	\$ (445)	\$ 308	\$ (763)	\$ (455)
Net actuarial loss	(13,999)	(13,416)	(27,415)	(12,652)	(15,874)	(28,526)
Total	\$ (13,795)	\$ (14,065)	\$ (27,860)	\$ (12,344)	\$ (16,637)	\$ (28,981)

The following table summarizes the amounts included in Accumulated Other Comprehensive Loss at December 31, 2016, 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 2017	\$ (104)	\$ 114
Amortization of loss to be recognized in 2017	903	636

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.

Effective January 1, 2016, the Company changed its estimate of the service and interest components of the net periodic benefit cost. Previously, the Company estimated the service and interest cost components utilizing a single weighted-average discount rate derived from the yield curve used to measure the benefit obligation. The new estimate utilizes a full yield curve approach in the estimation of these components by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to their underlying projected cash flows. The new estimate provided a more precise measurement of service and interests costs by improving the correlation between projected benefit cash flows and their corresponding spot rates. The change does not affect the measurement of the Company's benefit obligations and it is accounted for as a change in accounting estimate, which is applied prospectively. For 2016, the change in estimate reduced periodic plan cost by \$859,000 compared to the prior estimate. Mortality assumptions are based on the RP 2015 Mortality Table projected with Scale MP 2016.

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 \$418,000 for 2016, \$403,000 for 2015 and \$346,000 for 2014. 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. Discretionary bonus expense amounted to \$1,418,000, \$1,178,000 and \$1,434,000 in 2016, 2015, and 2014, respectively.

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

#### 18. Commitments and Contingencies

A number of legal claims against the Company arising in the normal course of business were outstanding at December 31, 2016. 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.

#### 19. 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 notional 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 Notional Amount	2016	2015
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate		
1-4 family mortgages	\$ 13,877	\$ 5,638
Standby and commercial letters of credit	6,796	4,936
Unused lines of credit	362,357	320,874
Unadvanced portions of construction loans	22,049	11,589
Unadvanced portions of other loans	52,224	41,717

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.

#### 20. Other Operating Expenses

Year ended December 31,	2016	2015	2014
(dollars in thousands)			
Marketing	\$ 2,185	\$ 1,849	\$ 1,793
Software maintenance/amortization	1,863	1,670	1,524
Legal and audit	1,255	1,269	1,072
Contributions	789	690	735
Processing services	1,040	1,002	944
Consulting	1,168	1,050	964
Postage and delivery	987	905	964
Supplies	948	965	870
Telephone	1,032	804	753
Directors' fees	413	377	389
Insurance	323	301	304
Other	1,812	1,826	1,520
Total	\$ 13,815	\$ 12,708	\$ 11,832

**21. 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 non-financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The assumptions used below are expected to approximate those that market participants would use in valuing these financial instruments.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial instrument, including estimates of timing, amount of expected future cash flows and the credit standing of the issuer. Such estimates do not consider the tax impact of the realization of unrealized gains or losses. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair value may not be realized in the immediate settlement of the financial instrument. Care should be exercised in deriving conclusions about our business, its value or financial position based on the fair value information of financial instruments presented below.

**SECURITIES HELD-TO-MATURITY**

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

**TIME DEPOSITS**

The fair value of time deposits was estimated using a discounted cash flow approach that applies prevailing market interest rates for similar maturity instruments. The fair values of the Company's time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

**OTHER BORROWED FUNDS**

The fair value of 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.

The following presents (in thousands) the carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2016 and December 31, 2015. This table excludes financial instruments for which the carrying amount approximates fair value. Financial assets for which the fair value approximates carrying value include cash and cash equivalents, short-term investments, FHLBB stock and accrued interest receivable. Financial liabilities for which the fair value approximates carrying value include non-maturity deposits, short-term borrowings and accrued interest payable.

	Carrying Amount	Estimated Fair Value	Fair Value Measurements		
			Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
(dollars in thousands)					
<b>December 31, 2016</b>					
Financial assets:					
Securities held-to-maturity	\$ 1,653,986	\$ 1,635,808	\$ —	\$ 1,635,808	\$ —
Loans <sup>(1)</sup>	1,899,527	1,873,703	—	—	1,873,703
Financial liabilities:					
Time deposits	478,359	480,133	—	480,133	—
Other borrowed funds	293,000	294,940	—	294,940	—
Subordinated debentures	36,083	36,083	—	—	36,083
<b>December 31, 2015</b>					
Financial assets:					
Securities held-to-maturity	\$ 1,438,903	\$ 1,438,960	\$ —	\$ 1,438,960	\$ —
Loans <sup>(1)</sup>	1,708,461	1,677,270	—	—	1,677,270
Financial liabilities:					
Time deposits	473,426	474,046	—	474,046	—
Other borrowed funds	368,000	372,209	—	372,209	—
Subordinated debentures	36,083	36,083	—	—	36,083

<sup>(1)</sup> Comprised of loans (including collateral dependent impaired loans), net of deferred loan costs and the allowance for loan losses.

**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.

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

2016 Quarters	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	\$ 24,689	\$ 25,005	\$ 23,742	\$ 23,263
Interest expense	5,927	5,791	5,486	5,413
Net interest income	18,762	19,214	18,256	17,850
Provision for loan losses	200	375	350	450
Net interest income after provision for loan losses	18,562	18,839	17,906	17,400
Other operating income	3,700	4,225	4,643	3,654
Operating expenses	16,156	16,630	16,288	15,683
Income before income taxes	6,106	6,434	6,261	5,371
Provision for income taxes	(394)	(52)	20	64
Net income	\$ 6,500	\$ 6,486	\$ 6,241	\$ 5,307

## Share data:

Average shares outstanding, basic				
Class A	3,600,729	3,600,729	3,600,729	3,600,729
Class B	1,967,180	1,967,180	1,967,180	1,967,180
Average shares outstanding, diluted				
Class A	5,567,909	5,567,909	5,567,909	5,567,909
Class B	1,967,180	1,967,180	1,967,180	1,967,180
Earnings per share, basic				
Class A	\$ 1.42	\$ 1.41	\$ 1.36	\$ 1.16
Class B	\$ 0.71	\$ 0.71	\$ 0.68	\$ 0.58
Earnings per share, diluted				
Class A	\$ 1.17	\$ 1.16	\$ 1.12	\$ 0.95
Class B	\$ 0.71	\$ 0.71	\$ 0.68	\$ 0.58

2015 Quarters	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	\$ 22,496	\$ 23,750	\$ 22,675	\$ 21,172
Interest expense	5,274	5,134	4,961	4,765
Net interest income	17,222	18,616	17,714	16,407
Provision for loan losses	—	—	—	200
Net interest income after provision for loan losses	17,222	18,616	17,714	16,207
Other operating income	4,448	3,830	4,210	3,505
Operating expenses	15,794	16,100	15,766	14,538
Income before income taxes	5,876	6,346	6,158	5,174
Provision for income taxes	(95)	180	233	215
Net income	\$ 5,971	\$ 6,166	\$ 5,925	\$ 4,959

## Share data:

Average shares outstanding, basic				
Class A	3,600,729	3,600,729	3,600,729	3,600,729
Class B	1,967,180	1,967,180	1,967,180	1,967,180
Average shares outstanding, diluted				
Class A	5,567,909	5,567,909	5,567,909	5,567,909
Class B	1,976,180	1,967,180	1,967,180	1,967,180
Earnings per share, basic				
Class A	\$ 1.30	\$ 1.35	\$ 1.29	\$ 1.08
Class B	\$ 0.65	\$ 0.67	\$ 0.65	\$ 0.54
Earnings per share, diluted				
Class A	\$ 1.07	\$ 1.11	\$ 1.06	\$ 0.89
Class B	\$ 0.65	\$ 0.67	\$ 0.65	\$ 0.54

**23. Parent Company Financial Statements**

The balance sheets of Century Bancorp, Inc. ("Parent Company") as of December 31, 2016 and 2015 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2016, 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,	2016	2015
(dollars in thousands)		
<b>ASSETS:</b>		
Cash	\$ 2,768	\$ 5,230
Investment in subsidiary, at equity	263,070	236,629
Other assets	10,335	8,808
Total assets	<u>\$ 276,173</u>	<u>\$ 250,667</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY:</b>		
Liabilities	\$ 49	\$ 40
Subordinated debentures	36,083	36,083
Stockholders' equity	240,041	214,544
Total liabilities and stockholders' equity	<u>\$ 276,173</u>	<u>\$ 250,667</u>

**STATEMENTS OF INCOME**

Year Ended December 31,	2016	2015	2014
(dollars in thousands)			
<b>Income:</b>			
Dividends from subsidiary	\$ 2,000	\$ 1,500	\$ —
Interest income from deposits in bank	3	13	21
Other income	28	24	72
Total income	2,031	1,537	93
Interest expense	937	792	2,329
Operating expenses	220	212	204
Income before income taxes and equity in undistributed income of subsidiary	874	533	(2,440)
Benefit from income taxes	(383)	(328)	(830)
Income before equity in undistributed income of subsidiary	1,257	861	(1,610)
Equity in undistributed income of subsidiary	23,277	22,160	23,470
Net income	<u>\$ 24,534</u>	<u>\$ 23,021</u>	<u>\$ 21,860</u>

**STATEMENTS OF CASH FLOWS**

December 31,	2016	2015	2014
(dollars in thousands)			
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 24,534	\$ 23,021	\$ 21,860
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed income of subsidiary	(23,277)	(22,160)	(23,470)
Depreciation and amortization	—	3	12
Increase in other assets	(1,527)	(1,112)	(1,067)
Decrease in liabilities	9	4	(71)
Net cash (used in) operating activities	<u>(261)</u>	<u>(244)</u>	<u>(2,736)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net proceeds from the exercise of stock options	—	—	361
Cash dividends paid	(2,201)	(2,200)	(2,196)
Net cash used in financing activities	<u>(2,201)</u>	<u>(2,200)</u>	<u>(1,835)</u>
Net (decrease) in cash	<u>(2,462)</u>	<u>(2,444)</u>	<u>(4,571)</u>
Cash at beginning of year	5,230	7,674	12,245
Cash at end of year	<u>\$ 2,768</u>	<u>\$ 5,230</u>	<u>\$ 7,674</u>



**KPMG LLP**

Independent Registered Public Accounting Firm  
Two Financial Center  
60 South Street  
Boston, Massachusetts 02111-2759

**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, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. 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, 2016 and 2015 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, 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, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2017, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.



Boston, Massachusetts

March 15, 2017

## Report of Independent Registered Public Accounting Firm

Century Bancorp, Inc. AR '16

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### KPMG LLP

Independent Registered Public Accounting Firm  
Two Financial Center  
60 South Street  
Boston, Massachusetts 02111-2759

### 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, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* 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, 2016, based on criteria established in *Internal Control—Integrated Framework (2013)* 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, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 15, 2017, expressed an unqualified opinion on those consolidated financial statements.

**KPMG LLP**

Boston, Massachusetts

March 15, 2017

**CENTURY BANCORP, INC.**

400 Mystic Avenue  
Medford, Massachusetts 02155

We, together with the other members of executive management 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.

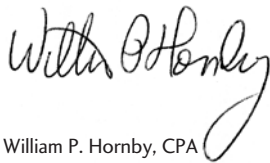
All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2016. 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 (2013)*. Based on our assessment, we believe that, as of December 31, 2016, 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 53.



Barry R. Sloane  
President & CEO



William P. Hornby, CPA  
Chief Financial Officer & Treasurer

March 15, 2017

## **Stockholder Information**

### **Corporate Headquarters**

Century Bank  
400 Mystic Avenue  
Medford, MA 02155-6316  
TEL (866) 823-6887  
CenturyBank.com

### **Transfer Agent and Registrar**

Computershare Investor Services  
P.O. Box 30170  
College Station, TX 77842-3170  
TEL (781) 575-3400  
Computershare.com

### **Annual Meeting**

The annual meeting of stockholders will be held on Tuesday, April 11, 2017, 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.centurybank.com/about/investorrelations>.



### About Century

Century Bancorp, Inc. is a \$4.5 billion banking and financial services company headquartered in Medford, Massachusetts. The Company operates 27 banking offices in 20 cities and towns in Massachusetts and provides a full range of business, personal, and institutional services.

Headquarters



Allston



Andover



Back Bay



Beverly



Braintree



Brookline



Burlington



Cambridge



Chestnut Hill Square



Coolidge Corner



Everett



Federal Street



Fellsway



Lynn



Malden



Medford Square



Newton Centre



North End



Peabody



Quincy



Salem



Somerville



State Street



Wellesley



Winchester



Woburn

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Our family's bank. And yours.

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