Century Bancorp®

2019 Annual Report

Customer centric.
Digitally enhanced.

In Remembrance

“Boston has lost a one-of-a-kind leader who was always looking to do good and bring people together.“
~ Louis J. Woolf, President & CEO of Hebrew SeniorLife

“Marshall Sloane was a role model for everyone in the way he lived his life and gave back to the community.”
~ President Antoinette M. Hays, Regis College

“Marshall Sloane exemplified the best qualities of a person dedicated to his family, his friends, including the people of the Century Bank family, and his local community.”
~ Cardinal Sean P. O’Malley, Archbishop of Boston

“Massachusetts lost a banking icon… remembered for his philanthropy, his relentless work ethic and his contributions to the industry.”
~ Banker & Tradesman

“A great example of what a community banker should be.”
~ Former Comptroller of the Currency Thomas J. Curry

“He was an incredible gentleman and he ran a very, very well-run community bank.”
~ Neal J. Curtin, Veteran Boston Banking Attorney

Marshall M. Sloane was much more than the visionary architect of Century Bank. He was our Dad. He taught us the value of working hard, doing the right thing, and serving the community. He always wanted the bank he founded to live long beyond his generation — and he insisted we do it in a way he would be proud of. Dad’s wisdom, compassion, generosity and kindness will be remembered by his family, the thousands of employees who worked at Century over the past 50 years, and the countless people whose lives he touched over his long and extraordinary life.

Barry R. Sloane   *Linda Sloane Kay*

Marshall M. Sloane
Founder & Chairman
April 15, 1926 – April 6, 2019

Chairman's Message

Dear Fellow Shareholders:

2019 was a year of excellent financial results but much sadness with the death in April of my Dad and our Founder, Marshall, at age 92. He had a life of profound accomplishments, and we begin every day with a devotion to building on his superb legacy. He would have been very proud to know that 2019 was the tenth consecutive year of record setting for assets, earnings, and loans, and the record size of capital. Dad missed the celebration of our 50th Anniversary of our founding on May 1, 1969. It was a much subdued event without him. So many factors have contributed to our success, but most importantly the unwavering strategic discipline devised and implemented by our Founder.

Net earnings were $39.7 million, an increase of 10% over 2018 earnings, and our capital grew to $333 million. We ended 2019 at a milestone: $5.5 billion in assets, significant growth of 6.4%, achieved when many of our peers were flat. Century earned $7.13 per share in 2019, as compared to $6.50 in 2018. Our stock closed the year at $89.96, an increase of 33% over the prior year, outpacing our peers. Our stock, symbol CNBKA, has a three-year cumulative total return of 52%, and a five-year cumulative total return of 131%.

All three principal business units again performed extremely well in 2019.

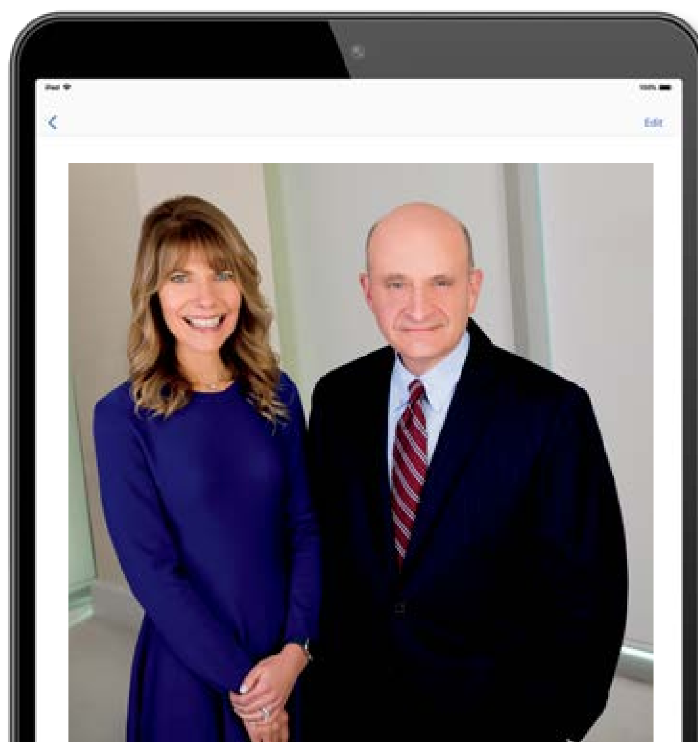
Through up and down business and interest rate cycles of varying duration and severity, we have produced consistent and superior results. We continued that trend in 2019.

Our Family's Bank. And Yours.

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.

Our theme this year is "Customer Centric/Digitally Enhanced." It represents the essential challenge of regional and community banks, to utilize the power of the digital platform to improve customer relationship management through officer contact, rather than the reverse strategy practiced by our giant competitors to substitute computers for people.

The following examines the multiple elements of Century's results that have contributed to our success in 2019:



Vice Chair Linda Sloane Kay and
Chairman, President & CEO Barry R. Sloane

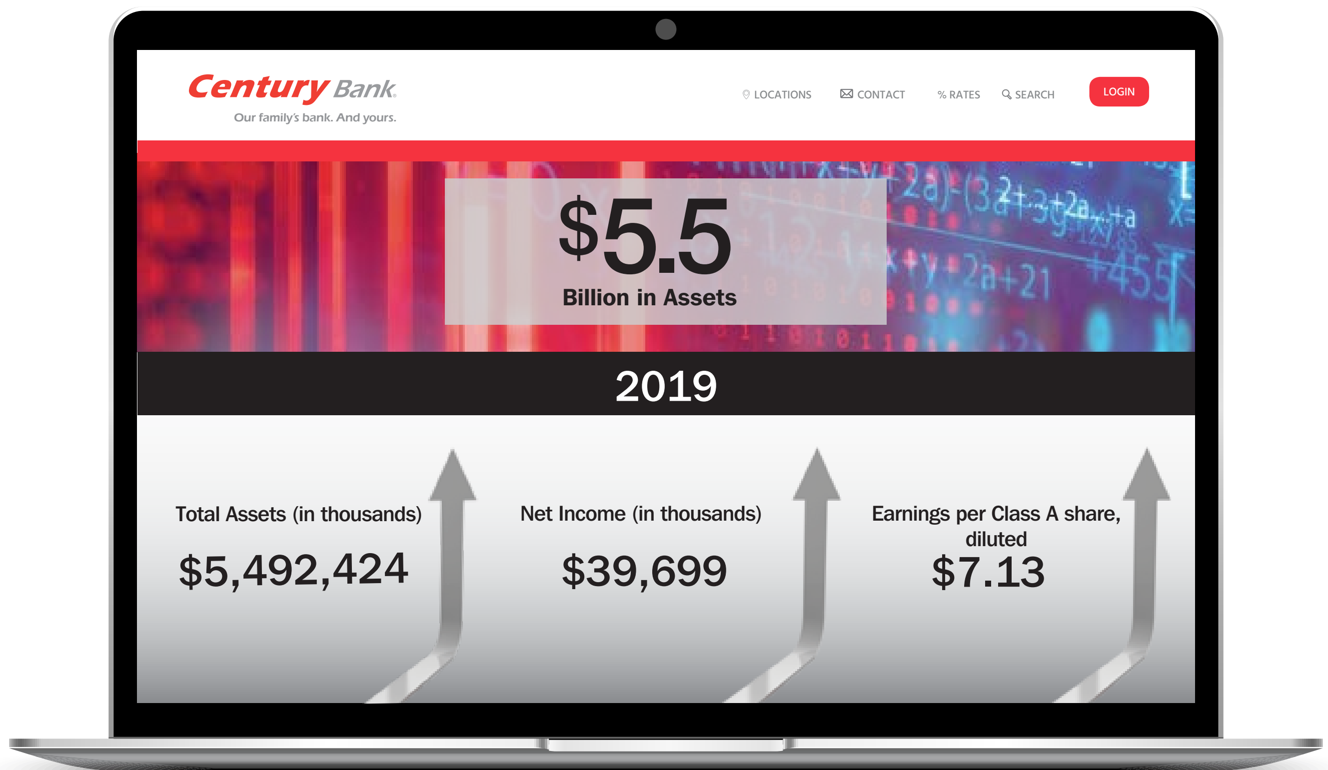
Customer Centric through Centralized Hands on Management

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 10 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.

Net Earnings Growth and Return on Equity

Net earnings increased by 10% to $39.7 million, for the year ended December 31, 2019, as compared to earnings of $36.2 million for 2018. Century's return on average equity (ROE) was 12.44% for 2019, as compared to 2018's 13.05%. 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. We received an S&P/CFRA "A" quality rating, one of 49 banks in America, and one of only four in Massachusetts, to receive this rating or higher. It is a strong external contributing confidence factor.



Medford Public Library Ground Breaking Ceremony
Pictured from left: Senator Patricia D. Jehlen; Erin DiBenedetto; Mayor Breanna Lungo-Koehn; Ann Frenning Kossuth; Former Mayor Stephanie M. Burke; Councillor Michael J. Marks; Barry R. Sloane; Linda Sloane Kay; Council President John C. Falco, Jr.; Representative Sean Garballey; Representative Paul J. Donato; Councillor Adam Knight; Council Vice President Richard Caraviello and Representative Christine Barber

In addition, our efficiency ratio of overhead to revenue, the key comparative metric of non-interest expense decreased slightly from 59% in 2018 to 58% in 2019. We watch our expenses carefully and are very proud of the efficiency ratio remaining below 60%, an industry threshold target, for the past three years.

Customer Centric Significant Asset Growth

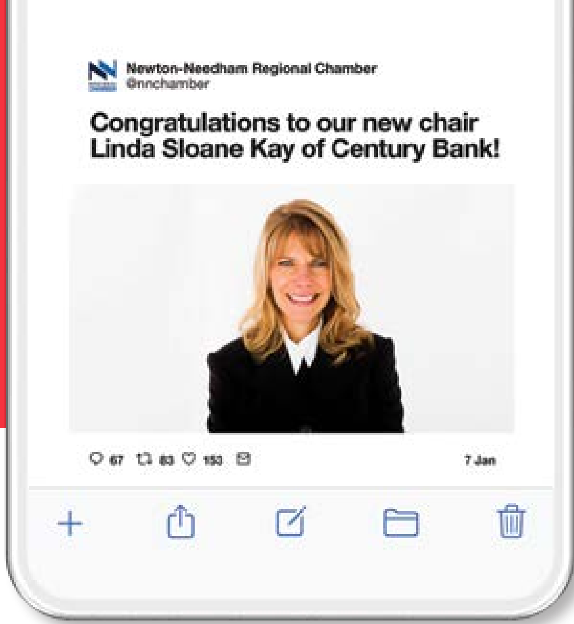
Total assets grew 6.4% to a record of $5.5 billion on December 31, 2019, up from $5.2 billion on December 31, 2018, an increase of $328 million. We experienced significant growth in 2019 for all three of our business lines: consumer, business, and institutional services. We are proud to have dozens of depositors who each routinely keep tens of millions at Century with confidence in our high performing earnings and asset growth.

Customer Centric Record Capital

Total equity was $332.6 million on December 31, 2019, an increase of $32 million or 10.7% from $300.4 million on December 31, 2018. Book value per share increased to $59.73 at December 31, 2019, up by $5.77 from $53.96 at December 31, 2018. Century is “well capitalized” by all regulatory standards, and we have passed all “Basel III” requirements through organic capital generation from earnings.

Customer Centric Record Loan Portfolio Size

Our unique loan portfolio strategy continues to work exceptionally well. Total loans grew by $141 million or 6% to a record $2.4 billion on December 31, 2019, our largest loan portfolio ever, and a loan to deposit ratio of 55.1%. Non-performing assets continued to be minimal for a portfolio of our size, decreasing from $3.5 million at December 31, 2018 to $2.0 million at December 31, 2019. The education and healthcare sectors continue to anchor our loan portfolio. We are, by any standard, one of the leading experts in tax-exempt financing in New England. We believe the magnetism and quality of Massachusetts’ colleges and universities validate our decade-long strategic conclusion that education and healthcare were, and are, the future of our region.



Linda Sloane Kay elected as the Chair of the Newton-Needham Chamber of Commerce

We constantly evaluate industry developments to look for warning signs for our portfolio. We constantly incorporate risk management techniques in our loan approval and monitoring discipline.

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 and pricing 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 the loan portfolio. 2019 was a productive year in which we closed $84 million in residential first mortgages, and $198 million in home equity loans. We extended 290 energy conservation loans through the Mass Save loan program, which helped us do our part for conservation while originating many new long-term relationships. In addition, we have begun a residential solar energy lending program. We acknowledge the important role of solar energy in our generating future and will attempt to grow that business line.

Customer Centric Results in our Branch System

We are proud that five of our twenty-seven branches hold over $100 million in deposits, and total branch deposits exceed $2.3 billion. In late 2020 we will open branch #28, our first branch in southern New Hampshire in Salem. The New Hampshire market is an important geographic expansion for our consumer business, as it is only 10 miles north of our Andover branch. The low tax climate of New Hampshire makes it particularly attractive to closely held businesses, and we expect to see significant relationship originations in Salem.

We are very discerning in the search for our next branch, #29. We are on the lookout for further high visibility market-extending locations; small size and manageable cost is paramount. In addition, we now operate 51 ATMs, processing over 500,000 annual transactions.

We are in the early stages of implementing a CRM (customer relationship management) system across all of our client facing businesses. When fully operational it will assist our communication and responsiveness to our thousands of clients.

In 2020, we'll expand our geographic footprint by opening a branch in Salem, NH

Customer Centric 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 43 million check and payment items in 2019, 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.

For the seventh consecutive year, the audit of our automated lockbox services and its operative effectiveness of controls was without any finding of deficiency.

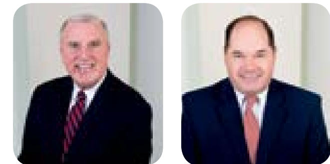
We believe our service, execution, and reputation is without peer in New England. We will do our utmost to ensure it is always true.

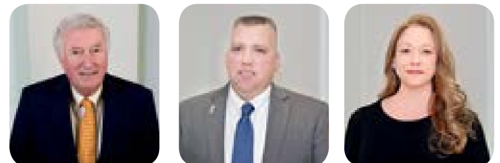
Customer Centric Record Size in Wealth Management

2019 was the fifth full year of our wealth management function. Our assets under management grew 20.2% to over $157 million. Our wealth management business is a great opportunity to serve the generational transition challenges of our private clients while providing our not-for-profit clients an institutional quality offering that embraces industry best practices. We specialize in growth and income “defensive” portfolios that we believe are particularly relevant when equity markets continue to behave with meaningful volatility.

Customer Centric - Our Brand

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, radio, and now regional television, promotes our consistent message of local family control, permanence, approachability, and personal service. Linda and I keep taking the time to personally sign each welcome note thanking every new client of Century. This level of personal touch is unique from all others in the industry.





Pictured from top:
Gerald S. Algere, EVP; Richard L. Billig, SVP; Bradford J. Buckley, SVP; Peter R. Castiglia, SVP; Gracine Copithorne, SVP; Susan B. Delahunt, SVP; Paul A. Evangelista, EVP; Brian J. Feeney, EVP; James M. Flynn, Jr., SVP; William J. Gambon, Jr., SVP; Timothy L. Glynn, SVP; Anna M. Gorska, SVP; William P. Hornby, CFO & Treasurer; Anthony C. LaRosa, SVP; Cary E. Lynch, SVP; Shipley C. Mason, SVP; Jason J. Melius, SVP; Nancy R. Miller, SVP; Thomas E. Piemontese, SVP; Deborah R. Rush, SVP; Kenneth A. Samuelian, SVP; Yasmin D. Whipple, SVP; and David B. Woonton, EVP

Customer Centric Digitally Enhanced Results in Information Systems

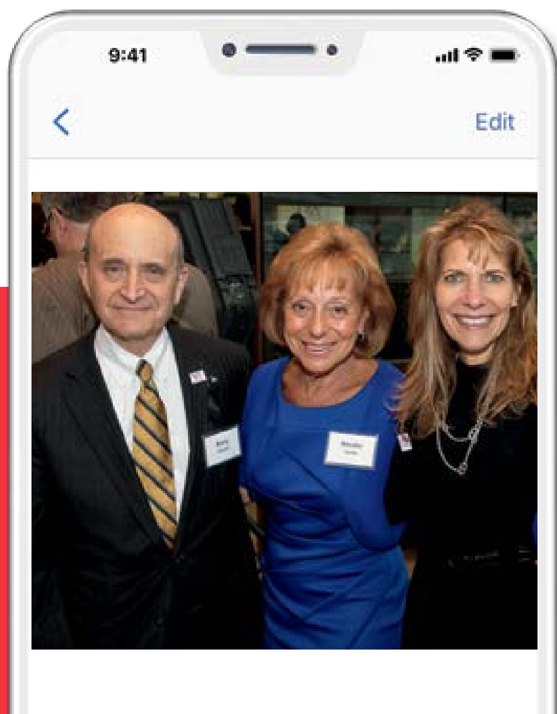
We pride ourselves on a technology platform of redundancy and expertise that our clients can rely on for financial inquiry, transactions, and high-quality service. We are proud to say that Information Systems met all of its operational and service goals in 2019. We are constantly monitoring our systems' reliability, and when customers encounter problems at night or on weekends, we're always reachable.

In connection to storm and flood resiliency, in 2019 we took the important step of moving our backup internet servers from Quincy to a level three data center at high elevation in Northborough. We believe this step significantly strengthens our backup redundancy and reliability.

Customer Centric Digital Services Platform Transformation

A metamorphosis is underway in banking from face to face to digital customer service. A most effective partnership of our Marketing and Information Systems departments began two years ago to perform a strategic analysis of the full realm of digital banking services. Our goal is to provide the menu of digital services offered by our most advanced giant competitors, yet ALWAYS enable the intervention of live bankers to assist and educate customers in their relationship needs. We are well down this road, with the offering of 10 digital services, on a par with our largest peers. The challenge is to seamlessly integrate these new services into our highly reliable legacy platform systems.

It's what we call a "digitally enhanced relationship." We believe it's our version of the future of banking. The next step in the digital enhancement process is what's called the "conversation" (shown on the cover of this report). Using this capability, a client would, through our mobile app, touch an icon of their favorite banker. Once activated, a live conversation would ensue by voice, email, or text with the customer. If the banker was unavailable, the app would default to the next in the chain. The "conversation" could redefine client communication in banking. We have purchased the system and will debut the first elements later this year.

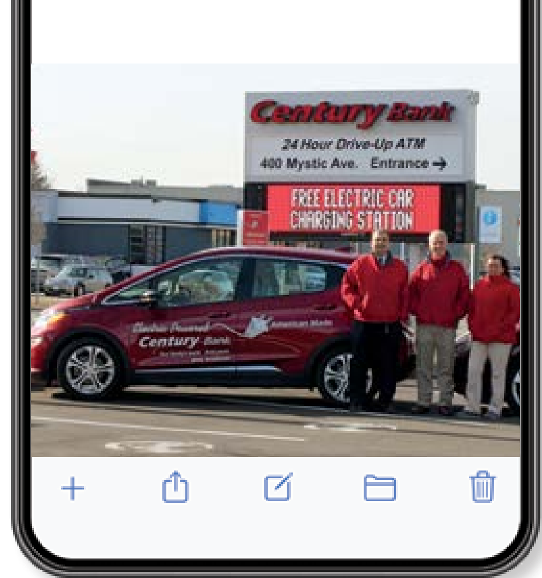


Century Celebrates Rosalie A. Cunio
Our first employee retired after working more than 50 years at the Bank

Our Client Centric 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 proud that our most recent completed Massachusetts CRA audit was ranked a "High Satisfactory." We diligently try to better serve our minority and lower income communities with home ownership opportunities and access to traditional banking services. We are very proud that we are the lead lender to a new affordable housing project in Jamaica Plain of four two-family homes occupied in 2019. We are also proud to be one of the leaders raising the endowment to construct the new Medford Public Library.

Century's commitment to sustainability continues to grow. In addition to electric messenger vehicles and highly efficient HVAC systems throughout our network, we ensured that all efficient measures were implemented in the construction of our new operations building on Hicks Avenue in Medford. These included repurposing an existing foundation system and constructing the new building shell in full compliance with the enhanced 2015 IECC energy code.



Our Commitment to Sustainability
We use electric vehicles for our courier services and extend use of our charging station to our customers and local residents for free.

Celebrating our Customer Centric People and our Values

We can't say enough about the commitment and capability of our over 450 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. Thank you to our shareholders, our clients, our associates, and our communities, for their confidence and relationships. We will endeavor to make 2020 another year of superior results through our diligence and resourcefulness, in Dad's memory.

Sincerely,

Barry R. Sloane
Chairman, President & CEO

This year, we continued to invest in our communities, supporting 286 organizations.

First District of Omega Psi Phi Fraternity, Inc.
AbilityPLUS Adaptive Sports
Action for Boston Community Development, Inc.
Adopt-A-Student Foundation
AFSCME Council 93
Alzheimer's Association
American Foundation for Suicide Prevention
Andover Business Community Association
Andover Center for History & Culture
Andover Rotary Club
Andover Senior Community Friends
Andover Youth Foundation
Animal Rescue League of Boston
Archdiocese of Boston
Armenian Heritage Foundation
Asian Community Development Corporation
Associazione Gizio
At Home on the Sound
Babson College
Back Bay Association
Bais Yaakov of Boston High School for Girls
Best Buddies
Beth Israel Deaconess Medical Center-Milton
Bigelow Middle School
Billerica Pop Warner
Bishop Fenwick High School
Boston Architectural College
Boston Ballet
Boston Children's Hospital
Boston Chinatown Neighborhood Center, Inc.
Boston College High School
Boston Harbor Now
Boston Jewish Film Festival
Boston Landmarks Orchestra
Boy Scout Troop 205 Newton
Boy Scout Troop 513 Stoneham
Boy Scout Troop 9 Weymouth
Boys & Girls Club of Greater Salem
Boys & Girls Clubs of Boston
Boys and Girls Clubs of Stoneham & Wakefield
Brandeis University
Bread of Life
Brendan M. Curtin Scholarship Fund
Brookline Chamber of Commerce
Brookline Community Foundation
Brookline Food Pantry
Brookline High School Innovation Fund
Brookline Senior Center
Cam Coye Memorial Scholarship Fund
Cambridge Athletic Hall of Fame
Cambridge Camping
Cambridge College
Cambridge Montessori School
Cambridge School Volunteers
Cambridge YWCA
Camp Harbor View Foundation, Inc.
Cardinal Cushing Centers, Inc.
Cardinal Spellman High School
Catholic Charities of Boston
Catholic Schools Foundation, Inc./Inner-City Scholarship Fund
Challenge Unlimited
Children's Trust
Christians and Jews United for Israel
City of Beverly
City of Chicopee
City of Everett
City of Medford
City of Peabody
City of Somerville
Colby-Sawyer College
Colleen E. Ritzer Memorial Scholarship Fund
Combined Jewish Philanthropies
Community Dispute Settlement Center
Congregation B'nai B'rith
Congregation Kehillath Israel
Congregation Shirat Hayam
Coolidge Corner Community Chorus
Creative Living Inc.
Cristo Rey Boston High School
Cyrus E. Dallin Art Museum, Inc.
Cystic Fibrosis Foundation
Dana-Farber Cancer Institute
Dante Alighieri Society of Massachusetts
Deutsches Altenheim, Inc.
Dimock Community Health Centers
DONNE 2000
Eliot School
Elizabeth Peabody House
Emerge
Epstein Hillel School
Essex North Shore Agricultural Technical Foundation, Inc.
Facing Cancer Together
Fisher Center for Alzheimer's Research Fund
Fontbonne Academy
James L. McKeown Boys & Girls Club of Woburn
Jeanne Geiger Crisis Center
Jewish Big Brothers Big Sisters
Jewish Cemetery Association of Massachusetts
Jewish Community Centers of Greater Boston
Jewish Family Service
John T. Forcellese Memorial Fund
Joseph N. Hermann Youth Center
Joslin Diabetes Center
Knights of Pythias, Local 158
Koleinu Boston's Jewish Community Chorus
Kosher Dental Study
Ladies Ancient Order of Hibernians
Lawrence CommunityWorks
Lazarus House Ministries
LimmudBoston
Lynn Chamber of Commerce
Lynn Housing Authority & Neighborhood Development
Lynn Museum & Historical Society
Lynn Police Association
Malden YMCA
Mary Ann Brett Food Pantry-Dorchester Catholic
Massachusetts Association of Mental Health
Massachusetts Eye and Ear Infirmary

Team Century participated in the Rodman Ride for Kids

Foundation for MetroWest
Foundation for Racial, Ethnic & Religious Harmony
Francis X. Irwin Class of 1952 Scholarship Fund
Franciscan Children's
Friends of Christopher Columbus Park
Gann Academy
German International School Boston
Girl Scouts of Eastern Massachusetts
Greater Beverly Chamber of Commerce
Greater Boston Real Estate Board
Greater Lawrence Family Health Center
Habitat for Humanity Greater Boston
Harvard Club of Boston
Heart Warrior Foundation
Hebrew SeniorLife
Hillel House at Boston University
Hospice & Palliative Care Federation of Massachusetts
Hospitality Homes, Inc.
Housing Families, Inc.
Independence House, Inc.
Initiative for a Competitive Inner City
Interfaithfamily.com
Irish International Immigrant Center
Italian American Association
Italian Home for Children
Massachusetts General Hospital
Massachusetts Network of Foster Care Alumni
Massachusetts Production Coalition
Matignon High School
May Institute
Medford Babe Ruth Baseball
Medford Chamber of Commerce
Medford Jingle Bell Festival
Medford Public Library Foundation
Medford Public Schools
Medford Rotary Club
Medical Mission Sisters and Associates
Merrimack Valley Catholic Charities
Merrimack Valley YMCA
MetroWest Jewish Day School
Monsignor Neagle Apartments
Morgan Memorial Goodwill Industries
My Brother's Table
Mystic Learning Center, Inc.
Mystic Valley Elder Services
NAIOP Massachusetts
Nashua Senior Activity Center
National Brain Tumor Society
National Institute for Children's Heath Quality
National Kidney Foundation
National Tay-Sachs & Allied Diseases Association

Nativity Preparatory School
Needham History Center & Museum
Neighborhood House Charter School
Neighbors in Need
New England Commission of Higher Education
New England Conservatory
New England Friends of Bosnia and Herzegovina
New England Yachad
Newbury Street League
Newton Little League
Newton North High School
Newton-Needham Chamber of Commerce
Newton-Wellesley Hospital Charitable Foundation
North Andover Housing Authority
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
Northern Essex Community College
On the Rise
Our Lady of Cedars of Lebanon Church
Pan-Mass Challenge
Parenting Journey
Parkinson's Foundation
Peabody Institute Library Foundation
Plummer Youth Promise
Prospect Hill Academy Charter School
Quincy College
Quincy School Community Partnership
Redemptoris Mater Seminary
Regis College
RESPOND, Inc.
Ridgefield Academy
Rodman Ride for Kids
Rosie's Place
Run for the Troops
Sacred Heart Parish
Sacred Heart School
Sail Cape Cod
Saint Anthony's Society
Saint John School
Saint Leonard Parish
Saint Peter School
Salem Academy Charter School
Salem Rotary Club
Salve Regina University
Save the Children

Scholar Athletes
Service Club of Andover
Shakespeare & Company
Sisterhood Temple Emanuel of Newton

Suzuki School of Newton
Teamsters Local 25, Autism Fund Inc.
Temple Beth Shalom
Temple Beth Zion

The Sloane Family and Associates celebrated the Bank's 50th anniversary

Sisters of St. Joseph of Boston
Social Law Library
Somerville Chamber of Commerce
Somerville Council on Aging
Somerville High School
Somerville Media Center
Somerville Museum
Somerville Police Department
Somerville Pop Warner
Somerville Rotary Club
South End Community Health Center
South Shore Chamber of Commerce
Spirit of Adventure Council, Boy Scouts of America
Sportsmen's Tennis & Enrichment Center
St. Anthony Shrine
St. John the Evangelist Church
St. Joseph Parish
St. Vincent DePaul Society
Stonehill College

Temple Emanuel Andover
Temple Emanuel Newton
Temple Israel Boston
Temple Ohabei Shalom
Temple Reyim
Temple Sinai Sharon
The Arc of the South Shore
The Cam Neely Foundation
The Carroll Center For The Blind
The Forest Park Project
The Genesis Fund
The Jimmy Fund
The Joey Fund
The Kennek Foundation
The Progeria Research Foundation
The Skating Club of Boston
The Soldiers Fund
Threads Unbroken
Torah Academy
Town of Acton
Town of Burlington
Town of Groveland
Town of Swampscott
Town of Winchester
Travis Roy Foundation
Tufts University Dental Alumni Association
UNICO Merrimack Valley
Usher Syndrome Society
USS Constitution Museum
Visiting Nurse & Community Care
VNA Hospice Care
Ward 7 Improvement Association
Wellesley Rotary Club
Whittier Street Health Center
Winchester Rotary Club
Woburn Kiwanis Club
Woburn Middlesex Lions Club
Wounded Warrior Project
YouthConnect

Century Bank presented the Marshall M. Sloane Memorial Scholarship

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Baldwin & Company

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Linda Sloane Kay
Vice Chair

William P. Hornby, CPA
Chief Financial Officer & Treasurer

Judith Sinclair
Clerk

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James M. Flynn, Jr.
Senior Vice President

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Senior Vice President

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Gracine Copithorne
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Anna M. Gorska
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Daisy S. Siddiqui
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Amanda A. Leitz
David M. Leung
Paula A. Malley
Kimberly J. Matsumoto
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Cheryl L. Miller
Lisa M. Ramos
Pratik Rana
Christopher M. Ross
Cynthia E. Sarnie
Biljana Savic
Michael E. Serieka
Maria R. Serrentino
Robert J. Silva
Judith Sinclair
Lyndsey H. Starks
Matthew Sullivan
Elizabeth A. Theriault

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

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Financial Highlights

	2019	2018	2017	2016	2015
(dollars in thousands, except share data)					
FOR THE YEAR					
Interest income	$ 159,139	$ 137,056	$ 113,436	$ 96,699	$ 90,093
Interest expense	63,350	44,480	27,820	22,617	20,134
Net interest income	95,789	92,576	85,616	74,082	69,959
Provision for loan losses	1,250	1,350	1,790	1,375	200
Net interest income after provision for loan losses	94,539	91,226	83,826	72,707	69,759
Other operating income	18,399	16,248	16,552	16,222	15,993
Operating expenses	72,129	69,693	67,119	64,757	62,198
Income before income taxes	40,809	37,781	33,259	24,172	23,554
Provision for income taxes	1,110	1,568	10,958	(362)	533
Net income	$ 39,699	$ 36,213	$ 22,301	$ 24,534	$ 23,021
Core earnings—Non-GAAP [1]	$ 39,699	$ 36,213	$ 30,749	$ 24,534	$ 23,021
Average shares outstanding Class A, basic	3,633,044	3,608,179	3,604,029	3,600,729	3,600,729
Average shares outstanding Class B, basic	1,934,865	1,959,730	1,963,880	1,967,180	1,967,180
Average shares outstanding Class A, diluted	5,567,909	5,567,909	5,567,909	5,567,909	5,567,909
Average shares outstanding Class B, diluted	1,934,865	1,959,730	1,963,880	1,967,180	1,967,180
Total shares outstanding at year-end	5,567,909	5,567,909	5,567,909	5,567,909	5,567,909
Earnings per share:					
Basic, Class A	$ 8.63	$ 7.89	$ 4.86	$ 5.35	$ 5.02
Basic, Class B	$ 4.31	$ 3.95	$ 2.43	$ 2.68	$ 2.51
Diluted, Class A	$ 7.13	$ 6.50	$ 4.01	$ 4.41	$ 4.13
Diluted, Class B	$ 4.31	$ 3.95	$ 2.43	$ 2.68	$ 2.51
Dividend payout ratio—Non-GAAP [1]	5.6 %	6.1 %	9.9 %	9.0 %	9.6 %
AT YEAR-END					
Assets	$ 5,492,424	$ 5,163,935	$ 4,785,572	$ 4,462,608	$ 3,947,441
Loans	2,426,119	2,285,578	2,175,944	1,923,933	1,731,536
Deposits	4,400,111	4,406,964	3,916,967	3,653,218	3,075,060
Stockholders' equity	332,581	300,439	260,297	240,041	214,544
Book value per share	$ 59.73	$ 53.96	$ 46.75	$ 43.11	$ 38.53
SELECTED FINANCIAL PERCENTAGES					
Return on average assets	0.76 %	0.74 %	0.48 %	0.57 %	0.59 %
Return on average stockholders' equity	12.44 %	13.05 %	8.75 %	10.80 %	11.26 %
Net interest margin, taxable equivalent	2.10 %	2.18 %	2.25 %	2.12 %	2.18 %
Net charge-offs (recoveries) as a percent of average loans	0.01 %	(0.04) %	0.00 %	0.00 %	(0.04) %
Average stockholders' equity to average assets	6.12 %	5.71 %	5.50 %	5.29 %	5.25 %
Efficiency ratio—Non-GAAP [1]	58.4 %	59.2 %	57.8 %	62.7 %	64.1 %

[1] Non-GAAP Financial Measures are reconciled in the following tables:

	2019	2018	2017	2016	2015
Calculation of Efficiency Ratio:					
Total Operating Expenses	$ 72,129	$ 69,693	$ 67,119	$ 64,757	$ 62,198
Less: Other Real Estate Owned Expenses	(134)	(59)	—	—	—
Total Adjusted Operating Expenses (numerator)	$ 71,995	$ 69,634	$ 67,119	$ 64,757	$ 62,198
Net Interest Income	95,789	92,576	85,616	74,082	69,959
Total Other Operating Income	18,399	16,248	16,552	16,222	15,993
Tax Equivalent Adjustment	9,068	8,854	13,979	12,917	11,140
Total Income (denominator)	$ 123,256	$ 117,678	$ 116,147	$ 103,221	$ 97,092
Efficiency Ratio, Year—Non-GAAP	58.4 %	59.2 %	57.8 %	62.7 %	64.1 %

	2019	2018	2017	2016	2015
Calculation of Dividend Payout Ratio:					
Dividends Paid (numerator)	$ 2,207	$ 2,203	$ 2,200	$ 2,201	$ 2,200
Net Income (denominator)	$ 39,699	$ 36,213	$ 22,301	$ 24,534	$ 23,021
Dividend Payout Ratio—Non-GAAP	5.6 %	6.1 %	9.9 %	9.0 %	9.6 %

	2019	2018	2017	2016	2015
Calculation of Core Earnings:					
Net Income	$ 39,699	$ 36,213	$ 22,301	$ 24,534	$ 23,021
Add: Deferred Tax Remeasurement Charge	—	—	8,448	—	—
Core earnings—Non-GAAP	$ 39,699	$ 36,213	$ 30,749	$ 24,534	$ 23,021

The stock performance graph below compares the cumulative total shareholder return of the Company's Class A Common Stock from December 31, 2014 to December 31, 2019 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, 2014 at:	2015	2016	2017	2018	**2019**
Century Bancorp, Inc.	$ 109.76	$ 153.14	$ 201.10	$ 175.20	**$ 234.04**
NASDAQ Banks	102.21	129.34	153.13	128.02	**175.61**
NASDAQ U.S.	106.96	116.45	150.96	146.67	**200.49**

*Assumes that the value of the investment in the Company's Common Stock and each index was $100 on December 31, 2014 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

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "D-F Act") became law. The D-F 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 D-F 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 D-F 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 D-F 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 D-F 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" was 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. The federal banking agencies have issued amendments to the Rule to provide greater clarity and certainty about what activities are prohibited and to improve the effective allocation of compliance resources, and to conform the Rule to the EGRRCPA (discussed below). The federal banking agencies have also issued a notice of proposed rulemaking to liberalize the covered fund rules.

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.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was enacted, which represents the most comprehensive reform to the U.S. tax code in over thirty years. The majority of the provisions of the Tax Act took effect on January 1, 2018. The Tax Act lowered the Company's federal tax rate from 34% to 21%. Also, for tax years beginning after December 31, 2017, the corporate Alternative Minimum Tax ("AMT") has been repealed. For 2018 through 2021, the AMT credit carryforward can offset regular tax liability and is refundable in an amount equal to 50% (100% for 2021) of the excess of the minimum tax credit for the tax year over the amount of the credit allowable for the year against regular tax liability. Accordingly, it is anticipated that the full amount of the alternative minimum tax credit carryforward will be recovered in tax years beginning before 2022. The Tax Act also contains other provisions that may affect the Company currently or in future years. Among these are changes to the deductibility of meals and entertainment, the deductibility of executive compensation, the dividend received deduction and net operating loss carryforwards. Tax Act changes for individuals include lower tax rates, mortgage interest and state and local tax limitations as well as an increase in the standard deduction, among others.

On May 24, 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act, or the EGRRCPA, became law. This is arguably the most significant financial institution legislation since the D-F Act. The EGRRCPA changes certain of the regulatory requirements of the D-F Act and includes provisions intended to relieve the regulatory burden on "community banks." Among other things, for qualifying community banks with less than $10 billion in total consolidated assets, the EGRRCPA contains a safe harbor from the D-F Act "ability to repay" mortgage requirements, an exemption from the Volcker Rule, may permit filing of simplified Call Reports, and potentially will result in some alleviation of the D-F Act and U.S. Basel III capital mandates. The EGRRCPA requires the federal banking agencies to develop a community bank leverage ratio (defined as the ratio of tangible equity capital to average total consolidated assets) for banks and holding companies with total consolidated assets of less than $10 billion and an appropriate risk profile. The required regulations must specify a minimum community bank leverage ratio of not less than 8% and not more than 10%. The federal banking agencies jointly issued a final rule, effective January 1, 2020, which set the minimum ratio at 9%. Qualifying banks that exceed the minimum community bank leverage ratio will be deemed to be in compliance with all other capital and leverage requirements including the capital ratio requirements that are required to be considered well capitalized under Section 38 of Federal Deposit Insurance Act.

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, 2019, the Company had total assets of $5.5 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 large healthcare and higher education 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 comprising of approximately 298 government entities.

The Company had net income of $39,699,000 for the year ended December 31, 2019, compared with net income of $36,213,000 for the year ended December 31, 2018, and net income of $22,301,000 for the year ended December 31, 2017. Class A diluted earnings per share were $7.13 in 2019 compared to $6.50 in 2018 and compared to $4.01 in 2017.

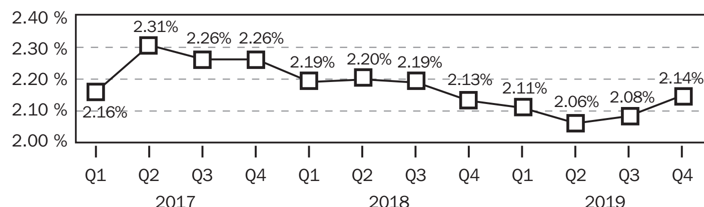
During 2017, the Company's earnings were negatively impacted by a reduction in the value of its net deferred tax asset resulting in a charge of $8.4 million to income tax expense. This was the result of the enactment of the Tax Act on December 22, 2017, which lowered the Company's federal tax rate from 34% to 21%. During 2019 and 2018, 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.

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

	2019	2018	2017
Basic EPS—Class A common	**$ 8.63**	$ 7.89	$ 4.86
Basic EPS—Class B common	**$ 4.31**	$ 3.95	$ 2.43
Diluted EPS—Class A common	**$ 7.13**	$ 6.50	$ 4.01
Diluted EPS—Class B common	**$ 4.31**	$ 3.95	$ 2.43

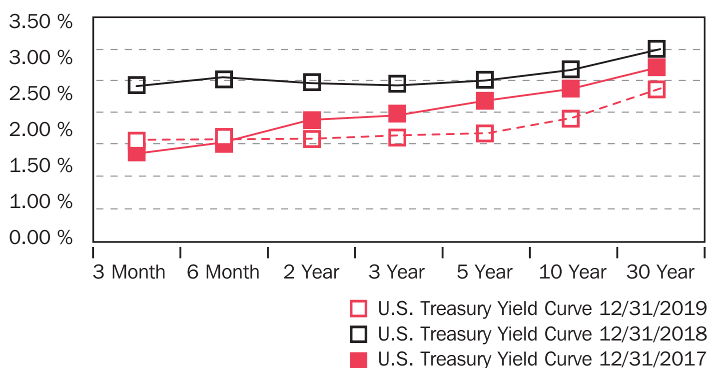
The trends in the net interest margin are illustrated in the graph below:

Net Interest Margin



The margin increased during 2017 primarily as a result of an increase in rates on earning assets. This increase was primarily the result of the yield on floating rate assets increasing as a result of recent increases in short term interest rates as well as an increase in prepayment penalties collected during the second quarter of 2017. Prepayment penalties collected amounted to $825,000 and contributed approximately seven basis points to the net interest margin for the second quarter of 2017. During 2017, the Company did not see a corresponding increase in short term rates on interest bearing liabilities. The margin decreased for 2018 mainly as a result of a decrease in the corporate tax rate from 34% to 21%. This decrease results in a lower tax equivalent yield on tax-exempt assets. During the fourth quarter of 2018 and first and second quarters of 2019, the Company increased its average interest-bearing deposits. These deposits increased net interest income but decreased the net interest margin. During the third quarter of 2019, the net interest margin increased mainly as a result of deposit rate decreases. These deposits increased net interest income and the net interest margin. During the fourth quarter of 2019, the net interest margin increased mainly as a result of prepayment penalties collected. Prepayment penalties collected amounted to $1.4 million and contributed approximately eleven basis points to the net interest margin for the fourth quarter of 2019. 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 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 2018, short-term rates increased more than longer-term rates resulting in a flattening of the yield curve. During 2019, short-term rates decreased more than longer-term rates resulting in a steepening of the yield curve.

Total assets were $5,492,424,000 at December 31, 2019, an increase of 6.4% from total assets of $5,163,935,000 at December 31, 2018.D

On December 31, 2019, stockholders' equity totaled $332,581,000, compared with $300,439,000 on December 31, 2018. Book value per share increased to $59.73 at December 31, 2019, from $53.96 on December 31, 2018.

During the third quarter of 2019, the Company purchased the existing Brookline branch location that the Company was leasing. Also, during the third quarter, the Company purchased a future branch location in Salem, New Hampshire. The Company plans to open this branch during the fourth quarter of 2020.

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 allowance for loan losses to be its critical accounting policy.

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.

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 2018, the Company further enhanced its methodology to the allowance for loan losses by including additional metrics for qualitative factors on certain loan portfolios. Further enhancements and refinements include adding qualitative factors to certain loan portfolios to enhance granularity. The Company also updated and added data sources to measure present and forecasted economic conditions. 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.

FINANCIAL CONDITION

Investment Securities

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

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; and other debt securities.

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, 2019 totaled $260,502,000 and included gross unrealized gains of $274,000 and gross unrealized losses of $696,000. A year earlier, the fair value of securities available-for-sale was $336,759,000 including gross unrealized gains of $635,000 and gross unrealized losses of $627,000. In 2019, the Company recognized gains of $13,000 on the sale of available-for-sale securities. In 2018 and 2017, the Company recognized gains of $302,000 and $47,000, 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, 2019 are carried at their amortized cost of $2,351,120,000. A year earlier, securities held-to-maturity totaled $2,046,647,000. In 2019, 2018, and 2017, the company recognized gains of $48,000 and $0, and $0 respectively, on the sale of held-to-maturity securities. The sale 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.

Equity securities are reported at fair value with unrealized gains and losses included in earnings. The fair value of equity securities at December 31, 2019 and December 31, 2018, amounted to $1,688,000 and $1,596,000, respectively.

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,	2019		2018		2017	
	Amount	**Percent**	Amount	Percent	Amount	Percent
(dollars in thousands)						
U.S. Treasury	$ —	0.0 %	$ 1,992	0.6 %	$ 1,984	0.5 %
U.S. Government Sponsored Enterprises	—	0.0 %	3,915	1.2 %	—	0.0 %
SBA Backed Securities	54,211	20.8 %	70,194	20.9 %	80,950	20.5 %
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	184,187	70.7 %	162,890	48.4 %	225,775	57.0 %
Privately Issued Residential Mortgage-Backed Securities	396	0.2 %	672	0.2 %	892	0.2 %
Obligations Issued by States and Political Subdivisions	18,076	6.9 %	93,503	27.7 %	82,600	20.9 %
Other Debt Securities	3,632	1.4 %	3,593	1.0 %	3,629	0.9 %
Total	$ 260,502	100.0 %	$ 336,759	100.0 %	$ 395,830	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, 2019.

Securities available-for-sale totaling $13,301,000, or 0.2% 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,	2019		2018		2017	
	Amount	**Percent**	Amount	Percent	Amount	Percent
(dollars in thousands)						
U.S. Treasury	$ —	0.0 %	$ 9,960	0.5 %	$ —	0.0 %
U.S. Government Sponsored Enterprises	98,867	4.2 %	234,228	11.5 %	104,653	6.2 %
SBA Backed Securities	44,379	1.9 %	52,051	2.5 %	57,235	3.4 %
U.S. Government Sponsored Enterprise Mortgage-Backed Securities	2,207,874	93.9 %	1,750,408	85.5 %	1,539,345	90.4 %
Total	$ 2,351,120	100.0 %	$ 2,046,647	100.0 %	$ 1,701,233	100.0 %

The following two tables set forth contractual maturities of the Bank's securities portfolio at December 31, 2019. 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

(dollars in thousands)	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
U.S. Treasury	$ —	0.0 %	0.00 %	$ —	0.0 %	0.00 %	$ —	0.0 %	0.00 %	$ —	0.0 %	0.00 %	$ —	0.0 %	0.00 %
U.S. Government Sponsored Enterprises													—	0.0 %	
SBA Backed Securities	—	0.0 %	0.00 %	33,796	13.0 %	1.97 %	15,598	6.0 %	2.23 %	4,817	1.8 %	2.26 %	54,211	20.8 %	2.07 %
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	164	0.1 %	2.14 %	77,472	29.7 %	2.16 %	106,551	40.9 %	2.27 %	—	0.0 %	0.00 %	184,187	70.7 %	2.22 %
Privately Issued Residential Mortgage-Backed Securities	396	0.2 %	2.20 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %	396	0.2 %	2.20 %
Obligations of States and Political Subdivisions	17,616	6.7 %	2.48 %	385	0.1 %	3.92 %	75	0.1 %	4.04 %	—	0.0 %	0.00 %	18,076	6.9 %	2.24 %
Other Debt Securities	300	0.1 %	1.92 %	1,282	0.6 %	2.08 %	2,050	0.7 %	6.00 %	—	0.0 %	0.00 %	3,632	1.4 %	4.24 %
Total	$ 18,476	7.1 %	2.46 %	$ 112,935	43.4 %	2.11 %	$ 124,274	47.7 %	2.33 %	$ 4,817	1.8 %	2.26 %	$ 260,502	100.0 %	2.22 %

Amortized Cost of Securities Held-to-Maturity Amounts Maturing

(dollars in thousands)	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
U.S. Treasury	$ —	0.0 %	0.00 %	$ —	0.0 %	0.00 %	$ —	0.0 %	0.00 %	$ —	0.0 %	0.00 %	$ —	0.0 %	0.00 %
U.S. Government Sponsored Enterprises	34,934	1.5 %	2.33 %	63,933	2.7 %	2.48 %	—	0.0 %	0.00 %	—	0.0 %	0.00 %	98,867	4.2 %	2.43 %
SBA Backed Securities	—	0.0 %	0.00 %	6,782	0.3 %	1.82 %	37,597	1.6 %	2.40 %	—	0.0 %	0.00 %	44,379	1.9 %	2.31 %
U.S. Government Sponsored Enterprise Mortgage-Backed Securities	38,642	1.6 %	2.51 %	1,820,328	77.5 %	2.60 %	336,474	14.3 %	2.60 %	12,430	0.5 %	2.81 %	2,207,874	93.9 %	2.60 %
Total	$ 73,576	3.1 %	2.42 %	$ 1,891,043	80.5 %	2.59 %	$ 374,071	15.9 %	2.58 %	$ 12,430	0.5 %	2.81 %	$ 2,351,120	100.0 %	2.59 %

At December 31, 2019 and 2018, the Bank had no investments in obligations of individual states, counties, municipalities or nongovernment corporate entities which exceeded 10% of stockholders' equity. In 2019, sales of securities totaling $17,478,000 in gross proceeds resulted in a net realized gain of $61,000. In 2018, sales of securities totaling $27,517,000 in gross proceeds resulted in a net realized gain of $302,000. There were no sales of state, county or municipal securities during 2019, 2018 and 2017.

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,	2019		2018		2017		2016		2015	
	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	**$ 8,992**	**0.4 %**	$ 13,628	0.6 %	$ 18,931	0.9 %	$ 14,928	0.8 %	$ 27,421	1.6 %
Commercial and industrial	**812,417**	**33.5 %**	761,625	33.3 %	763,807	35.1 %	612,503	31.8 %	452,235	26.1 %
Municipal	**120,455**	**5.0 %**	97,290	4.3 %	106,599	4.9 %	135,418	7.0 %	85,685	4.9 %
Commercial real estate	**786,102**	**32.4 %**	750,362	32.8 %	732,491	33.7 %	696,173	36.2 %	721,506	41.7 %
Residential real estate	**371,897**	**15.3 %**	348,250	15.2 %	287,731	13.2 %	241,357	12.5 %	255,346	14.7 %
Consumer	**21,071**	**0.9 %**	21,359	0.9 %	18,458	0.8 %	11,013	0.6 %	10,744	0.6 %
Home equity	**304,363**	**12.5 %**	292,340	12.9 %	247,345	11.4 %	211,857	11.0 %	178,020	10.3 %
Overdrafts	**822**	**0.0 %**	724	0.0 %	582	0.0 %	684	0.1 %	579	0.1 %
Total	**$ 2,426,119**	**100.0 %**	$ 2,285,578	100.0 %	$ 2,175,944	100.0 %	$ 1,923,933	100.0 %	$ 1,731,536	100.0 %

At December 31, 2019, 2018, 2017, 2016 and 2015, loans were carried net of (premiums) discounts of $(292,000), $(364,000), $46,000, $313,000 and $360,000, respectively. Net deferred loan fees of $220,000, $496,000, $588,000, $641,000 and $988,000 were carried in 2019, 2018, 2017, 2016 and 2015, respectively.

The following table summarizes the remaining maturity distribution of certain components of the Company's loan portfolio on December 31, 2019. 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, 2019			
	One Year or Less	**One to Five Years**	**Over Five Years**	**Total**
(dollars in thousands)				
Construction and land development	$ 568	$ —	$ 8,424	$ 8,992
Commercial and industrial	45,963	33,963	732,491	812,417
Commercial real estate	31,485	105,580	649,037	786,102
Total	$ 78,016	$ 139,543	$ 1,389,952	$ 1,607,511

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

December 31, 2019	One to Five Years	Over Five Years	Total
(dollars in thousands)			
Predetermined interest rates	$ 99,014	$ 378,347	$ 477,361
Floating or adjustable interest rates	40,529	1,011,605	1,052,134
Total	$ 139,543	$ 1,389,952	$ 1,529,495

The Company's commercial and industrial ("C&I") loan customers include large healthcare and higher education institutions. During 2017, the Company increased its lending activities to these types of organizations. This increase may expose the Company to concentration risks inherent in financings based upon analysis of credit risk, the value of underlying collateral, and other more intangible factors, which are considered in originating commercial loans. The percentage of these types of organizations to total C&I loans has remained stable at 87% at December 31, 2019, compared to 86% at December 31, 2018.

C&I loan customers also include various small and middle-market established businesses involved in manufacturing, distribution, retailing and services. Most clients are privately owned with markets that range from local to national in scope. Many of the loans to this segment are secured by liens on corporate assets and the personal guarantees of the principals. The regional economic strength or weakness impacts the relative risks in this loan category. There is little concentration in any one business sector, and loan risks are generally diversified among many borrowers.

Commercial real estate loans are extended to 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. Also included in commercial real estate loans are loans 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.

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 had increased its lending activities to municipalities through 2016. Municipal loans decreased during 2017 and 2018 as a result of loan payoffs. Municipal loans increased during 2019 as a result of increased loan originations.

Residential real estate (1–4 family) includes two categories of loans. Included in residential real estate are approximately $48,023,000 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, 2019, the Company was obligated to advance a total of $11,062,000 to complete projects under construction.

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.D

Nonaccrual loans remained relatively stable from 2016 through 2019. Nonaccrual loans decreased during 2016, primarily as a result of a decrease in home equity and residential real estate nonperforming loans.

The composition of nonperforming assets is as follows:

December 31,	2019	2018	2017	2016	2015
(dollars in thousands)					
Total nonperforming loans	$ 2,014	$ 1,313	$ 1,684	$ 1,084	$ 2,336
Other real estate owned	—	2,225	—	—	—
Total nonperforming assets	$ 2,014	$ 3,538	$ 1,684	$ 1,084	$ 2,336
Accruing troubled debt restructured loans	$ 2,361	$ 2,559	$ 2,749	$ 3,526	$ 2,893
Loans past due 90 and still accruing	—	—	—	—	—
Nonperforming loans as a percent of gross loans	0.08 %	0.15 %	0.08 %	0.06 %	0.13 %
Nonperforming assets as a percent of total assets	0.04 %	0.07 %	0.04 %	0.02 %	0.06 %

The composition of impaired loans is as follows:

	2019	2018	2017	2016	2015
Residential real estate, multi-family	$ —	$ —	$ 4,212	$ 198	$ 916
Home equity	—	—	—	—	90
Commercial real estate	2,346	2,650	2,554	3,149	1,678
Construction and land development	—	—	—	94	98
Commercial and industrial	906	401	348	389	443
Total impaired loans	$ 3,252	$ 3,051	$ 7,114	$ 3,830	$ 3,225

At December 31, 2019, 2018, 2017, 2016 and 2015 impaired loans had specific reserves of $102,000, $145,000, $164,000, $173,000 and $250,000, respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately $204,690,000, $209,160,000, $229,533,000, $229,730,000 and $185,299,000 at December 31, 2019, 2018, 2017, 2016 and 2015, respectively. The Company had no loans held for sale at December 31, 2019, 2018, 2017, 2016 and 2015.

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 $1,202,000 at December 31, 2019, $1,226,000 at December 31, 2018, $1,525,000 at December 31, 2017, $1,629,000 at December 31, 2016 and $1,305,000 at December 31, 2015.

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 Company continues to monitor closely $31,631,000 and $31,728,000 at December 31, 2019 and 2018, 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, 2019, although such values may fluctuate with changes in the economy and the real estate market. The decrease is primarily attributable to two loan relationships 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,	2019	2018	2017	2016	2015
(dollars in thousands)					
Year-end loans outstanding (net of unearned discount and deferred loan fees)	$ 2,426,119	$ 2,285,578	$ 2,175,944	$ 1,923,933	$ 1,731,536
Average loans outstanding (net of unearned discount and deferred loan fees)	$ 2,341,190	$ 2,222,946	$ 2,059,797	$ 1,838,136	$ 1,507,546
Balance of allowance for loan losses at the beginning of year	$ 28,543	$ 26,255	$ 24,406	$ 23,075	$ 22,318
Loans charged-off:					
Commercial and industrial	137	67	49	—	—
Construction	—	—	—	—	172
Commercial real estate	—	—	—	—	298
Residential real estate	22	450	—	27	—
Consumer	295	316	341	362	311
Total loans charged-off	454	833	390	389	781
Recovery of loans previously charged-off:					
Commercial and industrial	60	57	110	132	212
Construction	—	1,436	—	—	780
Real estate	—	75	84	6	91
Consumer	186	203	255	296	255
Total recoveries of loans previously charged-off:	246	1,771	449	434	1,338
Net loan charge-offs (recoveries)	208	(938)	(59)	(45)	(557)
Provision charged to operating expense	1,250	1,350	1,790	1,375	200
Reclassification to other liabilities	—	—	—	(89)	—
Balance at end of year	$ 29,585	$ 28,543	$ 26,255	$ 24,406	$ 23,075
Ratio of net charge-offs (recoveries) during the year to average loans outstanding	0.01 %	(0.04) %	0.00 %	0.00 %	(0.04) %
Ratio of allowance for loan losses to loans outstanding	1.22 %	1.25 %	1.21 %	1.27 %	1.33 %

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 level 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 2015 and 2016 as a result of the overall decrease in the level of nonaccrual loans. Charge-offs increased in 2018 primarily as a result of one residential real estate loan. During 2018, there was also a large recovery of a construction loan that was previously charged-off. The dollar amount of the allowance for loan losses increased primarily as a result of an increase in loan balances offset, somewhat, by lower historical loss factors.

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 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. For 2016 and 2017, the change in the ratio of the allowance for loan losses to loans outstanding, was primarily due to changes in portfolio composition, lower historical loss rates, and qualitative factor adjustments. For 2018, the ratio increased, primarily as a result of changes in qualitative factors related to general economic factors pertaining to certain industries. For 2019, the ratio decreased primarily as a result of improvements in historical loss factors.

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, 2019.

	Commercial and Industrial	**Municipal**	**Commercial Real Estate**	**Total**
(in thousands)				
Credit Rating:				
Aaa-Aa3	**$ 523,644**	**$ 53,273**	**$ 40,437**	**$ 617,354**
A1-A3	**186,044**	**7,354**	**148,346**	**341,744**
Baa1-Baa3	**—**	**51,133**	**144,711**	**195,844**
Ba2	**—**	**5,895**	**—**	**5,895**
Total	**$ 709,688**	**$ 117,655**	**$ 333,494**	**$ 1,160,837**

Credit ratings issued by national organizations were utilized as credit quality indicators as presented in the following table at December 31, 2018.

	Commercial and Industrial	Municipal	Commercial Real Estate	Total
(in thousands)				
Credit Rating:				
Aaa-Aa3	$ 491,247	$ 54,105	$ 42,790	$ 588,142
A1-A3	172,472	7,605	151,381	331,458
Baa1-Baa3	—	26,970	118,197	145,167
Ba2	—	6,810	—	6,810
Total	$ 663,719	$ 95,490	$ 312,368	$ 1,071,577

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:

	2019		2018		2017		2016		2015	
	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	**$ 331**	**0.4 %**	$ 1,092	0.6 %	$ 1,645	0.9 %	$ 1,012	0.8 %	$ 2,041	1.6 %
Commercial and industrial	**11,596**	**33.5 %**	10,998	33.3 %	9,651	35.1 %	6,972	31.8 %	5,899	26.1 %
Municipal	**2,566**	**5.0 %**	1,838	4.3 %	1,720	4.9 %	1,612	7.1 %	994	4.9 %
Commercial real estate	**11,464**	**32.4 %**	10,663	32.8 %	9,728	33.7 %	11,135	36.2 %	10,589	41.7 %
Residential real estate	**2,194**	**15.3 %**	2,190	15.2 %	1,873	13.2 %	1,698	12.5 %	1,320	14.7 %
Consumer and other	**312**	**0.9 %**	365	0.9 %	373	0.8 %	582	0.6 %	644	0.7 %
Home equity	**1,065**	**12.5 %**	1,111	12.9 %	989	11.4 %	1,102	11.0 %	1,077	10.3 %
Unallocated	**57**		286		276		293		511	
Total	**$ 29,585**	**100.0 %**	$ 28,543	100.0 %	$ 26,255	100.0 %	$ 24,406	100.0 %	$ 23,075	100.0 %

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.

	2019		2018		2017	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
Demand Deposits	$ 760,420	17.4 %	$ 753,604	18.5 %	$ 687,853	18.0 %
Savings and Interest Checking	1,810,481	41.5 %	1,514,259	37.1 %	1,457,872	38.2 %
Money Market	1,273,389	29.2 %	1,230,010	30.2 %	1,105,072	28.9 %
Time Certificates of Deposit	519,761	11.9 %	577,975	14.2 %	566,940	14.9 %
Total	$ 4,364,051	100.0 %	$ 4,075,848	100.0 %	$ 3,817,737	100.0 %

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

	2019	2018
(dollars in thousands)		
Three months or less	$ 84,940	$ 141,500
Three months through six months	94,562	110,189
Six months through twelve months	146,830	100,446
Over twelve months	130,719	107,182
Total	$ 457,051	$ 459,317

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 $370,955,000, an increase of $168,577,000 from the prior year. The Bank's remaining term borrowing capacity at the FHLBB at December 31, 2019, was approximately $245,138,000. In addition, the Bank has a $14,500,000 line of credit with the FHLBB. See Note 12 of the notes to consolidated financial statements, "Other Borrowed Funds and Subordinated Debentures," for a schedule, including related interest rates and other information.D

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 3.76% at December 31, 2019. 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 $266,045,000, an increase of $111,805,000 from the prior year. See Note 11 of the notes to consolidated financial statements, "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 3.4% in 2019 to $104,857,000, compared with $101,430,000 in 2018. The increase in net interest income for 2019 was mainly due to a 7.2% increase in the average balances of earning assets, combined with a similar increase in deposits and prepayment penalties collected. The increase in net interest income for 2018 was mainly due to a 5.1% 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 2.10% in 2019 and decreased to 2.18% in 2018 from 2.25% in 2017. The decrease in the net interest margin for 2019 was primarily attributable to an increase in rates paid on deposits. The decrease in the net interest margin for 2018 was primarily the result of a decrease in the federal corporate tax rate from 34% to 21% as well as lower prepayment penalties collected during 2018. The decrease in the tax rate results in a lower tax equivalent yield on tax-exempt assets. The Company collected approximately $1,456,000, $39,000 and $907,000, respectively, of prepayment penalties, which are included in interest income on loans, for 2019, 2018 and 2017, 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.

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,	2019			2018			2017		
	Average Balance	Interest Income/ Expense[1]	Rate Earned/ Paid[1]	Average Balance	Interest Income/ Expense[1]	Rate Earned/ Paid[1]	Average Balance	Interest Income/ Expense[2]	Rate Earned/ Paid[2]
(dollars in thousands)									
ASSETS									
Interest-earning assets:									
Loans[3]									
Taxable	$ 1,207,896	$ 54,720	4.53 %	$ 1,102,390	$ 46,615	4.23 %	$ 978,593	$ 39,103	4.00 %
Tax-exempt	1,133,294	41,998	3.71 %	1,120,556	40,439	3.61 %	1,081,204	40,420	3.74 %
Securities available-for-sale:[4]									
Taxable	268,516	8,078	3.01 %	310,071	7,864	2.54 %	354,918	5,859	1.65 %
Tax-exempt	45,088	1,324	2.94 %	90,027	1,938	2.15 %	106,717	1,588	1.49 %
Securities held-to-maturity:									
Taxable	2,152,580	58,036	2.70 %	1,854,328	45,556	2.46 %	1,725,280	38,348	2.22 %
Interest-bearing deposits in other banks	189,710	4,051	2.14 %	183,903	3,498	1.90 %	189,193	2,097	1.11 %
Total interest-earning assets	4,997,084	168,207	3.37 %	4,661,275	145,910	3.13 %	4,435,905	127,415	2.87 %
Noninterest-earning assets	250,864			229,244			221,628		
Allowance for loan losses	(29,004)			(27,531)			(25,329)		
Total assets	$ 5,218,944			$ 4,862,988			$ 4,632,204		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing deposits:									
NOW accounts	$ 940,998	$ 9,357	0.99 %	$ 926,143	$ 6,579	0.71 %	$ 949,924	$ 3,669	0.39 %
Savings accounts	869,483	11,826	1.36 %	588,116	5,178	0.88 %	507,948	2,627	0.52 %
Money market accounts	1,273,389	21,170	1.66 %	1,230,010	13,922	1.13 %	1,105,071	5,626	0.51 %
Time deposits	519,761	11,804	2.27 %	577,975	10,208	1.77 %	566,941	7,919	1.40 %
Total interest-bearing deposits	3,603,631	54,157	1.50 %	3,322,244	35,887	1.08 %	3,129,884	19,841	0.63 %
Securities sold under agreements to repurchase	224,361	2,347	1.05 %	147,944	976	0.66 %	189,684	496	0.26 %
Other borrowed funds and subordinated debentures	231,926	6,846	2.95 %	291,674	7,617	2.61 %	309,102	7,483	2.42 %
Total interest-bearing liabilities	4,059,918	63,350	1.56 %	3,761,862	44,480	1.18 %	3,628,670	27,820	0.77 %
Noninterest-bearing liabilities									
Demand deposits	760,420			753,604			687,853		
Other liabilities	79,437			70,020			60,925		
Total liabilities	4,899,775			4,585,486			4,377,448		
Stockholders' equity	319,169			277,502			254,756		
Total liabilities and stockholders' equity	$ 5,218,944			$ 4,862,988			$ 4,632,204		
Net interest income on a fully taxable equivalent basis		$ 104,857			$ 101,430			$ 99,595	
Less taxable equivalent adjustment		(9,068)			(8,854)			(13,979)	
Net interest income		$ 95,789			$ 92,576			$ 85,616	
Net interest spread			1.81 %			1.95 %			2.10 %
Net interest margin			2.10 %			2.18 %			2.25 %

(1) On a fully taxable equivalent basis calculated using a federal tax rate of 21%.
(2) On a fully taxable equivalent basis calculated using a federal tax rate of 34%.
(3) Nonaccrual loans are included in average amounts outstanding.
(4) 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,	2019 Compared with 2018 Increase/(Decrease) Due to Change in			2018 Compared with 2017 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
(dollars in thousands)						
Interest income:						
Loans						
Taxable	$ 4,644	$ 3,461	$ 8,105	$ 5,144	$ 2,368	$ 7,512
Tax-exempt	463	1,096	1,559	1,445	(1,426)	19
Securities available-for-sale:						
Taxable	(1,136)	1,350	214	(816)	2,821	2,005
Tax-exempt	(1,171)	557	(614)	(277)	627	350
Securities held-to-maturity:						
Taxable	7,772	4,708	12,480	2,994	4,214	7,208
Interest-bearing deposits in other banks	113	440	553	(61)	1,462	1,401
Total interest income	10,685	11,612	22,297	8,429	10,066	18,495
Interest expense:						
Deposits:						
NOW accounts	107	2,671	2,778	(94)	3,004	2,910
Savings accounts	3,108	3,540	6,648	468	2,083	2,551
Money market accounts	507	6,741	7,248	702	7,594	8,296
Time deposits	(1,105)	2,701	1,596	157	2,132	2,289
Total interest-bearing deposits	2,617	15,653	18,270	1,233	14,813	16,046
Securities sold under agreements to repurchase	642	729	1,371	(130)	610	480
Other borrowed funds and subordinated debentures	(1,685)	914	(771)	(437)	571	134
Total interest expense	1,574	17,296	18,870	666	15,994	16,660
Change in net interest income	$ 9,111	$ (5,684)	$ 3,427	$ 7,763	$ (5,928)	$ 1,835

Average earning assets were $4,997,084,000 in 2019, an increase of $335,809,000 or 7.2% from the average in 2018, which was 5.1% higher than the average in 2017. Total average securities, including securities available-for-sale and securities held-to-maturity, were $2,466,184,000, an increase of 9.4% from the average in 2018. The increase in securities volume was mainly attributable to an increase in taxable securities held-to-maturity. An increase in securities volume and rates resulted in higher securities income, which increased 21.8% to $67,438,000 on a fully taxable equivalent basis. Total average loans increased 5.3% to $2,341,190,000 after increasing $163,149,000 in 2018. The primary reason for the increase in loans was due in large part to an increase in taxable commercial real estate and residential mortgage lending. The increase in loan volume resulted in higher loan income. Loan income increased by 11.1% or $9,664,000 to $96,718,000 in 2019 compared to 2018. This was mainly the result of an increase in rates and average balances. Total loan income was $79,523,000 in 2017.

The Company's sources of funds include deposits and borrowed funds. On average, deposits increased 7.1%, or $288,203,000, in 2019 after increasing by 6.8%, or $258,111,000, in 2018. Deposits increased in 2019, primarily as a result of increases in savings, NOW, demand deposits, and money market accounts. This was offset, somewhat, by a decrease in time deposits. Deposits increased in 2018, primarily as a result of increases in time deposits, savings, demand deposits, and money market accounts. Borrowed funds and subordinated debentures decreased by 3.8% in 2019, following a decrease of 11.9% in 2018. 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 $59,748,000, and average retail repurchase agreements increased by $76,417,000 in 2019. Interest expense totaled $63,350,000 in 2019, an increase of $18,870,000, or 42.4%, from 2018 when interest expense increased 59.9% from 2017. The increase in interest expense, for 2019, is primarily due to increases in the rates on deposits and borrowed funds as well as an increase in average balances of deposits and repurchase agreements. The increase in interest expense, for 2018, is primarily due to increases in the rates on deposits as well as an increase in average balances of deposits.

Provision for Loan Losses

The provision for loan losses was $1,250,000 in 2019, compared with $1,350,000 in 2018 and $1,790,000 in 2017. 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 decreased during 2019, primarily as a result improvements in historical loss factors. The provision for loan losses decreased during 2018, primarily as a result of net recoveries of $938,000 offset by changes in qualitative factors.

Other Operating Income

During 2019, 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, utilities, 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 2019 was $18,399,000, an increase of $2,151,000, or 13.2%, compared to 2018. This increase followed a decrease of $304,000, or 1.8%, in 2018, compared to 2017. Included in other operating income are net gains on sales of securities of $61,000, $302,000 and $47,000 in 2019, 2018 and 2017, respectively. Also included in other operating income are net gains on sales of mortgage loans of $412,000, $0 and $370,000 in 2019, 2018 and 2017, respectively. Service charge income, which continues to be a major source of other operating income, totaling $9,220,000 in 2019, increased $660,000 compared to 2018. This followed a decrease of $26,000 in 2018 compared to 2017. The increase in fees, in 2019, was mainly attributable to an increase processing activities and an increase in debit card fees. The decrease in fees, in 2018, was mainly attributable to an increase earnings credit rates paid to customers used to offset fees charged for processing activities. This was offset somewhat by an increase in debit card fees. Lockbox revenues totaled $3,973,000, an increase of $699,000 in 2019 following a decrease of $16,000 in 2018. Lockbox revenues increased during 2019 primarily as a result of the addition of a large lockbox customer. Other income totaled $4,456,000, up $692,000 in 2019 following a decrease of $142,000 in 2018. The increase in 2019 was primarily the result of a death benefit received from life insurance policies as well as increases in wealth management fees. The decrease in 2018 was primarily the result of decreases in the returns on life insurance policies offset, somewhat by increase in wealth management fees, and merchant card sales royalties.

Operating Expenses

Total operating expenses were $72,129,000 in 2019, compared to $69,693,000 in 2018 and $67,119,000 in 2017.

Salaries and employee benefits expenses increased by $1,304,000 or 3.1% in 2019, after increasing by 5.4% in 2018. The increase in 2019 and 2018 was mainly attributable to merit increases in salaries. Occupancy expense increased by $154,000, or 2.5%, in 2019, following a decrease of $48,000, or 0.8%, in 2018. The increase in 2019 was primarily attributable to an increase in rent and real estate tax expense. The decrease in 2018 was primarily attributable to a decrease in depreciation expense.

Equipment expense increased by $106,000, or 3.4%, in 2019, following an increase of $240,000, or 8.3%, in 2018. The increase in 2019 was primarily attributable to an increase in service contracts expense. The increase in 2018 was primarily attributable to an increase in depreciation expense.

FDIC assessments decreased by $742,000, or 50.4%, in 2019, following a decrease of $110,000, or 7.0%, in 2018. FDIC assessments decreased in 2019 mainly as a result of FDIC assessment credits recognized during 2019. FDIC assessments decreased in 2018 mainly as a result of a decrease in the assessment rate.

Other operating expenses increased by $1,614,000 in 2019, which followed a $299,000 increase in 2018. The increase in 2019 was primarily attributable to an increase in pension and software maintenance expense. The increase in 2018 was primarily attributable to an increase in consultants' expense and software maintenance expense.

Provision for Income Taxes

Income tax expense was $1,110,000 in 2019, $1,568,000 in 2018, and $10,958,000 in 2017. The effective tax rate was 2.7% in 2019, 4.2% in 2018, and 32.9% in 2017. The decrease for 2019 was primarily as a result of a reduction in tax accruals related to sequestration of the refundable portion of our alternative minimum tax (AMT) credit carryforward. On January 14, 2019, the IRS updated its announcement "Effect of Sequestration on the Alternative Minimum Tax Credit for Corporations" to clarify that refundable AMT credits under Section 53(e) of the Internal Revenue Code are not subject to sequestration for taxable years beginning after December 31, 2017. Therefore, the full amount of the AMT credit carryover will be refunded to the Company. The decrease for 2018 was primarily as a result of a reduction in the value of its net deferred tax asset resulting in a charge of $8,448,000 to 2017 income tax expense as a result of the Tax Act as previously discussed. On December 22, 2017, the Tax Act was enacted, which lowered the Company's federal tax rate from 34% to 21%. As a result of the rate reduction, the Company recorded a reduction in the value of its net deferred tax asset. The federal tax rate was 21% in 2019 and 2018, and 34% in 2017.

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[(1)]
+400	(13.0)
+300	(10.8)
+200	(6.3)
+100	(4.3)
–100	2.7
–200	4.6

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

The 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 $258,693,000 on December 31, 2019, compared with $342,503,000 on December 31, 2018. 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.D

Capital AdequacyM

Total stockholders' equity was $332,581,000 at December 31, 2019, compared with $300,439,000 at December 31, 2018. The Company's equity increased primarily as a result of earnings, offset somewhat by an increase in other comprehensive loss, net of taxes, and by dividends paid. Other comprehensive loss, net of taxes, increased primarily as a result of an increase in the pension liability, net of taxes, and an increase in unrealized losses on securities available-for-sale, net of taxes, offset somewhat by a decrease in unrealized losses on securities transferred from available-for-sale to held-to-maturity, net of taxes.D

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 %	7.01 %	7.25 %
Common equity tier 1 risk weighted capital ratios	4.50 %	12.57 %	11.80 %
Tier 1 risk weighted capital ratios	6.00 %	12.57 %	12.98 %
Total risk weighted capital ratios	8.00 %	13.57 %	13.97 %

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, 2019.

Contractual Obligations and Commitments by Maturity
(dollars in thousands)

		Payments Due—By Period			
CONTRACTUAL OBLIGATIONS	Total	Less Than One Year	One to Three Years	Three to Five Years	After Five Years
FHLBB advances	$ 370,955	$ 218,000	$ 46,000	$ 70,000	$ 36,955
Subordinated debentures	36,083	—	—	—	36,083
Retirement benefit obligations	56,651	4,171	8,907	10,551	33,022
Lease obligations	8,446	2,300	3,421	2,144	581
Customer repurchase agreements	266,045	266,045	—	—	—
Total contractual cash obligations	$ 738,180	$ 490,516	$ 58,328	$ 82,695	$ 106,641

		Amount of Commitment Expiring—By Period			
OTHER COMMITMENTS	Total	Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Lines of credit	$ 625,524	$ 71,336	$ 32,191	$ 80,346	$ 441,651
Standby and commercial letters of credit	5,779	4,547	371	768	93
Other commitments	40,669	18,277	2,521	5,804	14,067
Total commitments	$ 671,972	$ 94,160	$ 35,083	$ 86,918	$ 455,811

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	2019	2018
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk:		
Commitments to originate 1–4 family mortgages	$ 13,806	$ 5,075
Standby and commercial letters of credit	5,779	4,258
Unused lines of credit	625,524	553,045
Unadvanced portions of construction loans	11,062	28,746
Unadvanced portions of other loans	15,801	20,305

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 2019 and 2018, respectively.

Recent Accounting Developments

Accounting Standards Issued but not yet Adopted

The following list identifies ASUs applicable to the Company that have been issued by the FASB but are not yet effective:

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The effect of this ASU 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 (CECL). 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.

To implement the new standard the Company has purchased a software solution and has captured the information needed to implement this ASU. As part of the FASB ASC 326 implementation process, the company is using two models: a rating migration model and a probability of default model. The ratings migration model, which will be used for our larger loans made to institutions with available credit ratings, is designed to estimate loss reserves according to the CECL standard for rated loans or similar instruments. The model structure follows a grade migration approach, where the default rate is based on the probability of each grade transition which is modelled using historical data. The probability of default model, which will be used for our remaining commercial loans and our consumer loans, is based primarily on four components: loss history, product lifecycle, behavioural attributes and the economic environment. During the fourth quarter of 2019, the Company has been testing the two CECL credit models in parallel with the existing incurred loss models. The Company is currently refining the qualitative framework that overlays the two models. In addition, the Company is continuing to work on finalizing the CECL accounting policies and the CECL processes and related controls. The Company does not expect a material impact to the financial statements upon implementation on January 1, 2020; however, the final impact is subject to change as the Company refines its calculation.

The securities held-to-maturity include U.S. Treasury, U.S. Government Sponsored Enterprises, BSA Backed Securities and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities. The Company expects no impact from ASU 2016-13 to arise from this portfolio.

Since ASU 2016-13, the FASB has issued amendments intended on improving the clarification of the amendment, ASU 2018-19 Codification Improvements to Topic 326, Financial Instruments—Credit Losses and ASU 2019-04 Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging. The amendment in ASU 2018-19 was issued in November 2018 and was intended to clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with Topic 842, Leases. The amendment in ASU 2019-04 was issued in April 2019 and was intended to clarify stakeholders' specific issues about certain aspects of the amendments in ASU 2016-13. ASU 2019-05 Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief was also issued in May 2019. This ASU provides entities the option to irrevocably elect the fair value option for certain financial assets previously measured at amortized costs basis. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently apply the guidance in Subtopics 820-10, Fair Value Measurement—Overall. The amendments in this ASU should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the statement of financial position as of the date that an entity early adopted the amendments in ASU 2016-13. In November 2019, the FASB issued ASU 2019-11, Codification Improvements to Topic 326, Financial Instruments—Credit Losses. The amendments in this ASU affect a variety of Topics in the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance. This ASU is effective for annual reporting periods beginning after December 15, 2019. The effects of these ASUs are not expected to have a material impact on the Company's consolidated financial position.

In August 2018, FASB issued ASU 2018-15, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (a consensus of the FASB Emerging Issues Task Force). The amendments in this ASU align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). This ASU is effective for annual reporting periods beginning after December 15, 2019. The effect of this ASU is not expected to have a material impact on the Company's consolidated financial position.

In August 2018, FASB issued ASU 2018-14, Compensation-Retirement Benefits-Defined Benefit Plans-General (Subtopic 715-20): Disclosure Framework-Changes to the Disclosure Requirements for Defined Benefit Plans. The amendmentsD in this ASU remove disclosures that no longer are considered cost beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. This ASU is effective for annual reporting periods beginning after December 15, 2020. The effect of this update is not expected to have a material impact on the Company's consolidated financial position.

In August 2018, FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework-Changes to the Disclosure Requirements for Fair Value. The amendments in this ASU modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. This ASU is effective for annual reporting periods beginning after December 15, 2019. The effect of this update is not expected to have a material impact on the Company's disclosures.

In January 2017, the FASB issued ASU 2017-04, Intangibles—Goodwill and Other (Topic 350). This ASU was issued to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted, and application should be on a prospective basis. The effect of this update is not expected to have a material impact on the Company's consolidated financial position.

December 31,	2019	2018
(dollars in thousands except share data)		
ASSETS		
Cash and due from banks (Note 2)	$ 44,420	$ 89,540
Federal funds sold and interest-bearing deposits in other banks	214,273	252,963
Total cash and cash equivalents	258,693	342,503
Securities available-for-sale, amortized cost $260,924 in 2019 and $336,751 in 2018 (Notes 3, 9 and 11)	260,502	336,759
Securities held-to-maturity, fair value $2,361,304 in 2019 and $1,991,421 in 2018 (Notes 4 and 11)	2,351,120	2,046,647
Federal Home Loan Bank of Boston, stock at cost	19,471	17,974
Equity securities, amortized cost $1,635 in 2019 and $1,635 in 2018, respectively	1,688	1,596
Loans, net (Note 5)	2,426,119	2,285,578
Less: allowance for loan losses (Note 6)	29,585	28,543
Net loans	2,396,534	2,257,035
Bank premises and equipment (Note 7)	33,952	23,921
Accrued interest receivable	13,110	14,406
Other assets (Notes 5, 6, 8, 16, 23)	157,354	123,094
Total assets	$ 5,492,424	$ 5,163,935
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	$ 712,842	$ 813,478
Savings and NOW deposits	1,678,250	1,707,019
Money market accounts	1,453,572	1,325,888
Time deposits (Note 10)	555,447	560,579
Total deposits	4,400,111	4,406,964
Securities sold under agreements to repurchase (Note 11)	266,045	154,240
Other borrowed funds (Note 12)	370,955	202,378
Subordinated debentures (Note 12)	36,083	36,083
Other liabilities	86,649	63,831
Total liabilities	5,159,843	4,863,496
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 3,650,949 shares in 2019 and 3,608,329 shares in 2018	3,651	3,608
Common stock, Class B, $1.00 par value per share; authorized 5,000,000 shares; issued 1,916,960 in 2019 and 1,959,580 shares in 2018	1,917	1,960
Additional paid-in capital	12,292	12,292
Retained earnings	338,980	301,488
	356,840	319,348
Unrealized (losses) gains on securities available-for-sale, net of taxes	(308)	6
Unrealized losses on securities transferred to held-to maturity, net of taxes	(1,812)	(2,565)
Pension liability, net of taxes	(22,139)	(16,350)
Total accumulated other comprehensive loss, net of taxes (Notes 3 and 13)	(24,259)	(18,909)
Total stockholders' equity	332,581	300,439
Total liabilities and stockholders' equity	$ 5,492,424	$ 5,163,935

See accompanying "Notes to Consolidated Financial Statements."

Consolidated Statements of Income

Year Ended December 31,	2019	2018	2017
(dollars in thousands except share data)			
INTEREST INCOME			
Loans, taxable	$ 54,720	$ 46,615	$ 39,103
Loans, non-taxable	33,167	31,936	26,910
Securities available-for-sale, taxable	7,125	6,748	4,987
Securities available-for-sale, non-taxable	1,087	1,587	1,119
Federal Home Loan Bank of Boston dividends	953	1,116	872
Securities held-to-maturity	58,036	45,556	38,348
Federal funds sold, interest-bearing deposits in other banks and short-term investments	4,051	3,498	2,097
Total interest income	159,139	137,056	113,436
INTEREST EXPENSE			
Savings and NOW deposits	21,183	11,757	6,296
Money market accounts	21,170	13,922	5,626
Time deposits	11,804	10,208	7,919
Securities sold under agreements to repurchase	2,347	976	496
Other borrowed funds and subordinated debentures	6,846	7,617	7,483
Total interest expense	63,350	44,480	27,820
Net interest income	95,789	92,576	85,616
Provision for loan losses (Note 6)	1,250	1,350	1,790
Net interest income after provision for loan losses	94,539	91,226	83,826
OTHER OPERATING INCOME			
Service charges on deposit accounts	9,220	8,560	8,586
Lockbox fees	3,973	3,274	3,290
Brokerage commissions	277	348	353
Net gains on sales of securities	61	302	47
Gains on sales of mortgage loans	412	—	370
Other income	4,456	3,764	3,906
Total other operating income	18,399	16,248	16,552
OPERATING EXPENSES			
Salaries and employee benefits (Note 17)	44,014	42,710	40,517
Occupancy	6,246	6,092	6,140
Equipment	3,238	3,132	2,892
FDIC assessments	729	1,471	1,581
Other (Note 20)	17,902	16,288	15,989
Total operating expenses	72,129	69,693	67,119
Income before income taxes	40,809	37,781	33,259
Provision for income taxes (Note 16)	1,110	1,568	10,958
Net income	$ 39,699	$ 36,213	$ 22,301
SHARE DATA (Note 14)			
Weighted average number of shares outstanding, basic			
Class A	3,633,044	3,608,179	3,604,029
Class B	1,934,865	1,959,730	1,963,880
Weighted average number of shares outstanding, diluted			
Class A	5,567,909	5,567,909	5,567,909
Class B	1,934,865	1,959,730	1,963,880
Basic earnings per share			
Class A	$ 8.63	$ 7.89	$ 4.86
Class B	$ 4.31	$ 3.95	$ 2.43
Diluted earnings per share			
Class A	$ 7.13	$ 6.50	$ 4.01
Class B	$ 4.31	$ 3.95	$ 2.43

See accompanying "Notes to Consolidated Financial Statements."

Year Ended December 31,	2019	2018	2017
(dollars in thousands)			
NET INCOME	$ 39,699	$ 36,213	$ 22,301
Other comprehensive (loss) income, net of tax:			
Unrealized (losses) gains on securities:			
Unrealized holding (losses) gains arising during period	(270)	326	533
Less: reclassification adjustment for gains included in net income	(44)	(217)	(28)
Total unrealized (losses) gains on securities	(314)	109	505
Accretion of net unrealized losses transferred during period	753	1,086	1,034
Defined benefit pension plans:			
Pension liability adjustment:			
Net (loss) gain	(6,842)	3,770	(2,315)
Amortization of prior service cost and loss included in net periodic benefit cost	1,053	1,167	931
Total pension liability adjustment	(5,789)	4,937	(1,384)
Other comprehensive (loss) income	(5,350)	6,132	155
Comprehensive income (loss)	$ 34,349	$ 42,345	$ 22,456

See accompanying "Notes to Consolidated Financial Statements."

(dollars in thousands except share data)	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
BALANCE, DECEMBER 31, 2016	$ 3,601	$ 1,967	$ 12,292	$ 243,565	$ (21,384)	$ 240,041
Net income	—	—	—	22,301	—	22,301
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $331 in taxes and $47 in realized net gains	—	—	—	—	505	505
Accretion of net unrealized losses transferred during the period, net of $1,258 in taxes	—	—	—	—	1,034	1,034
Pension liability adjustment, net of $286 in taxes	—	—	—	—	(1,384)	(1,384)
Conversion of Class B Common Stock to Class A Common Stock, 5,100 shares	5	(5)	—	—	—	—
Cash dividends, Class A Common Stock, $0.48 per share	—	—	—	(1,729)	—	(1,729)
Cash dividends, Class B Common Stock, $0.24 per share	—	—	—	(471)	—	(471)
BALANCE, DECEMBER 31, 2017	$ 3,606	$ 1,962	$ 12,292	$ 263,666	$ (21,229)	$ 260,297
Net income	—	—	—	36,213	—	36,213
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $16 in taxes and $302 in realized net gains	—	—	—	—	109	109
Accretion of net unrealized losses transferred during the period, net of $391 in taxes	—	—	—	—	1,086	1,086
Pension liability adjustment, net of $1,930 in taxes	—	—	—	—	4,937	4,937
Adoption of ASU 2018-2, Income Statement-Reporting Comprehensive Income (Topic 220)-Reclassification of Certain Tax Effects from AOCI	—	—	—	3,783	(3,783)	—
Adoption of ASU 2016-1, Financial Instruments-Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities	—	—	—	29	(29)	—
Conversion of Class B Common Stock to Class A Common Stock, 2,500 shares	2	(2)	—	—	—	—
Cash dividends, Class A Common Stock, $0.48 per share	—	—	—	(1,732)	—	(1,732)
Cash dividends, Class B Common Stock, $0.24 per share	—	—	—	(471)	—	(471)
BALANCE, DECEMBER 31, 2018	$ 3,608	$ 1,960	$ 12,292	$ 301,488	$ (18,909)	$ 300,439
Net income	—	—	—	39,699	—	39,699
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $116 in taxes and $61 in realized net gains	—	—	—	—	(314)	(314)
Accretion of net unrealized losses transferred during the period, net of $269 in taxes	—	—	—	—	753	753
Pension liability adjustment, net of $2,263 in taxes	—	—	—	—	(5,789)	(5,789)
Conversion of Class B Common Stock to Class A Common Stock, 42,620 shares	43	(43)	—	—	—	—
Cash dividends, Class A Common Stock, $0.48 per share	—	—	—	(1,742)	—	(1,742)
Cash dividends, Class B Common Stock, $0.24 per share	—	—	—	(465)	—	(465)
BALANCE, DECEMBER 31, 2019	$ 3,651	$ 1,917	$ 12,292	$ 338,980	$ (24,259)	$ 332,581

See accompanying "Notes to Consolidated Financial Statements."

Year Ended December 31,	2019	2018	2017
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 39,699	$ 36,213	$ 22,301
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sales of portfolio loans	(412)	—	(370)
Gain on sale of fixed assets	—	—	(11)
Net loss on other real estate owned	79	—	—
Net gains on sales of securities	(61)	(302)	(47)
Net (gain) loss on equity securities	(92)	67	—
Provision for loan losses	1,250	1,350	1,790
Deferred tax (expense) benefit	(2,135)	(1,766)	6,918
Net depreciation and amortization	(2,382)	885	3,047
Decrease (increase) in accrued interest receivable	1,296	(3,227)	(1,534)
(Increase) decrease in other assets	8,532	2,326	(16,310)
Increase in other liabilities	2,075	5,242	5,802
Net cash provided by operating activities	47,849	40,788	21,586
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of short-term investments	—	—	5,284
Purchase of short-term investments	—	—	(2,101)
Proceeds from redemptions of Federal Home Loan Bank of Boston stock	14,380	18,388	10,127
Purchase of Federal Home Loan Bank of Boston stock	(15,877)	(14,583)	(10,864)
Proceeds from calls/maturities of securities available-for-sale	144,739	215,406	259,388
Proceeds from sales of securities available-for-sale	16,285	27,517	18,180
Purchase of securities available-for-sale	(85,123)	(183,588)	(175,147)
Proceeds from calls/maturities of securities held-to-maturity	458,915	234,741	293,221
Proceeds from sales of securities held-to-maturity	1,193	—	—
Purchase of securities held-to-maturity	(757,997)	(576,140)	(337,773)
Proceeds from life insurance policies	5,461	375	115
Proceeds from sales of portfolio loans	22,120	—	26,701
Net increase in loans	(162,415)	(110,874)	(278,242)
Bank owned life insurance purchases	(33,664)	—	—
Proceeds from sales of other real estate owned	2,146	—	—
Proceeds from sales of fixed assets	—	—	11
Capital expenditures	(13,144)	(3,601)	(3,244)
Net cash used in investing activities	(402,981)	(392,359)	(194,344)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (decrease) increase in time deposit accounts	(5,132)	(64,782)	147,002
Net (decrease) increase in demand, savings, money market and NOW deposits	(1,721)	554,779	116,747
Cash dividends	(2,207)	(2,203)	(2,200)
Net increase (decrease) in securities sold under agreements to repurchase	111,805	(4,750)	(23,290)
Net increase (decrease) in other borrowed funds	168,577	(145,400)	54,778
Net cash provided by financing activities	271,322	337,644	293,037
Net (decrease) increase in cash and cash equivalents	(83,810)	(13,927)	120,279
Cash and cash equivalents at beginning of year	342,503	356,430	236,151
Cash and cash equivalents at end of year	$ 258,693	$ 342,503	$ 356,430
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid (received) during the year for:			
Interest	$ 63,345	$ 44,289	$ 27,731
Income taxes	$ (6,504)	$ 590	$ 5,330
Change in unrealized losses on securities available-for-sale, net of taxes	$ (314)	$ 109	$ 505
Change in unrealized losses on securities transferred to held-to-maturity, net of taxes	$ 753	$ 1,086	$ 1,034
Pension liability adjustment, net of taxes	$ (5,789)	$ 4,937	$ (1,384)
Transfer of loans to other real estate owned	$ —	$ 2,225	$ —

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 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 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

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 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 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. Equity securities are reported at fair value with unrealized gains and losses included in earnings. 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. Other-than-temporary-impairment (OTTI) arises when a security's fair value is less than its amortized cost and, based on specific factors, the loss is considered OTTI. 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 has been paid. This may be due either to prepayments on the debt security or to scheduled payments on the debt security that is 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, 2019, no impairment has been recognized.D

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

Loans are stated at the principal amount outstanding, net of amounts charged off, unamortized premiums or discounts, and deferred loan fees or costs. 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. 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.

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 the lower of cost or the 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 Troubled Debt Restructuring ("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, 2019.

The Company uses the fair value method to account for stock options. There were no options granted during 2019 and 2018.

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.

For tax years beginning after December 31, 2017, the corporate alternative minimum tax ("AMT") has been repealed. For 2018 through 2021, the AMT credit carryforward can offset regular tax liability and is refundable in an amount equal to 50% (100% for 2021) of the excess of the minimum tax credit for the tax year over the amount of the credit allowable for the year against regular tax liability. Accordingly, the full amount of the AMT credit carryforward will be recovered in tax years beginning before 2022. As a result of the change, the Company has classified its AMT credit carryforward as currently receivable.

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.

Prior to December 31, 2018, the Company utilized 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.

Effective December 31, 2018, the discount rate is determined by preparing an analysis of the respective plan's expected future cash flows and high-quality fixed-income investments currently available and expected to be available during the period to maturity of the benefits.

LEASING

A right-of-use (ROU) asset and corresponding lease liability is recognized at the lease commencement date when the Company is a lessee. ROU lease assets are included in other assets on the consolidated balance sheet. A ROU asset reflects the present value of the future minimum lease payments adjusted for any initial direct costs, incentives, or other payments prior to the lease commencement date. A lease liability represents a legal obligation to make lease payments and is determined by the present value of the future minimum lease payments discounted using the rate implicit in the lease, or the Company's incremental borrowing rate. Variable lease payments that are dependent on an index, or rate, are initially measured using the index or rate at the commencement date and are included in the measurement of the lease liability. Renewal options are not included as part of the ROU asset or lease liability unless the option is deemed reasonably certain to exercise.

For real estate leases, lease components and non-lease components are accounted for as a single lease component. Operating lease expense is comprised of operating lease costs and variable lease costs, net of sublease income, and is reflected as part of occupancy within non-interest expense in the consolidated statement of income. Operating lease expense is recorded on a straight-line basis. Refer to Note 23: Leasing for further information.

RECENT ACCOUNTING DEVELOPMENTS

Recently Adopted Accounting Standards Updates

In March 2017, the FASB issued ASU 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20) Premium Amortization of Purchased Callable Debt. The FASB is issuing this ASU to amend the amortization period for certain purchased callable debt securities held at a premium. The FASB is shortening the amortization period for the premium to the earliest call date. Under current generally accepted accounting principles (GAAP), entities generally amortize the premium as an adjustment of yield over the contractual life of the instrument. For public business entities, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The effect of this update did not have a material impact on the Company's consolidated financial position.

In February 2016, the FASB issued ASU 2016-02, Leases. This ASU required 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 eliminated today's real estate-specific provisions for all companies. For lessors, this ASU modified 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. The Company also reviewed contracts to determine if they contain embedded leases. The Company's balance sheet impact was $15.1 million as of January 1, 2019. This amount was recorded as a right of use asset, included in other assets, with a corresponding lease liability, included in other liabilities.

In July 2018, ASU 2018-10, "Codification Improvements to Topic 842, Leases" ("ASU 2018-10") was issued to provide more detailed guidance and additional clarification for implementing ASU 2016-02. Also in July 2018, ASU 2018-11, "Targeted Improvements" ("ASU 2018-11") was issued and allows for an optional transition method in which the provisions of Topic 842 would be applied upon the adoption date and would not have to be retroactively applied to the earliest reporting period presented in the consolidated financial statements." The Company used this optional transition method for the adoption of Topic 842.

Securities and Exchange Commission (SEC) Ruling:

In August 2018, the SEC issued a final rule that amends certain of the Commission's disclosure requirements "that have become redundant, duplicative, overlapping, outdated, or superseded, in light of other Commission disclosure requirements, U.S. GAAP, or changes in the information environment." The financial reporting implications of the final rule's amendments may vary by company, but the changes are generally expected to reduce or eliminate some of an SEC registrant's disclosure requirements. In limited circumstances, however, the amendments may expand those requirements, including those related to interim disclosures about changes in stockholders' equity. Under the requirements, registrants must now analyze changes in stockholders' equity, in the form of a reconciliation, for "the current and comparative year-to-date periods, with subtotals for each interim period." Beginning with its March 31, 2019 filing, the Company included a reconciliation for the current quarter and year-to-date interim periods as well as the comparative periods of the prior years (i.e., a reconciliation covering each period for which an income statement is presented).

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, 2019, and $0 at December 31, 2018.

3. Securities Available-for-Sale

	December 31, 2019				December 31, 2018			
	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	$ —	$ 8	$ 1,992
U. S. Government Sponsored Enterprises	—	—	—	—	3,946	—	31	3,915
SBA Backed Securities	54,331	23	143	54,211	70,477	1	284	70,194
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	184,580	139	532	184,187	162,604	536	250	162,890
Privately Issued Residential Mortgage-Backed Securities	397	1	2	396	679	3	10	672
Obligations Issued by States and Political Subdivisions	18,016	60	—	18,076	93,445	58	—	93,503
Other Debt Securities	3,600	51	19	3,632	3,600	37	44	3,593
Total	$ 260,924	$ 274	$ 696	$ 260,502	$ 336,751	$ 635	$ 627	$ 336,759

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 $186,245,000 and $197,304,000 at December 31, 2019 and 2018, respectively. Also included in securities available-for-sale at fair value are securities pledged for borrowing at the Federal Home Loan Bank amounting to $32,297,000 and $34,787,000 at December 31, 2019 and 2018, respectively. The Company realized gains on sales of securities of $13,000, $302,000 and $47,000 from the proceeds of sales of available-for-sale securities of $16,285,000, $27,517,000 and $18,180,000 for the years ended December 31, 2019, 2018, and 2017, 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, 2019.

	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	$ 18,417	$ 18,476
After one but within five years	113,192	112,935
After five but within ten years	124,489	124,274
More than ten years	4,826	4,817
Total	$ 260,924	$ 260,502

The weighted average remaining life of investment securities available-for-sale at December 31, 2019, was 5.4 years. 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, $244,688,000 of the securities are floating rate or adjustable rate and reprice prior to maturity.

As of December 31, 2019 and December 31, 2018, 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. 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, 2019 and December 31, 2018.

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.

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2019. 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 45 and 18 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 122 holdings at December 31, 2019.

Temporarily Impaired Investments	December 31, 2019					
	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	—	—	—	—	—	—
SBA Backed Securities	14,560	30	22,092	113	36,652	143
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	108,806	379	29,178	153	137,984	532
Privately Issued Residential Mortgage-Backed Securities	252	2	—	—	252	2
Obligations Issued by States and Political Subdivisions	—	—	—	—	—	—
Other Debt Securities	800	1	481	18	1,281	19
Total temporarily impaired securities	$ 124,418	$ 412	$ 51,751	$ 284	$ 176,169	$ 696

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2018. 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 10 and 30 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 190 holdings at December 31, 2018.

Temporarily Impaired Investments	December 31, 2018					
	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	$ —	$ —	$ 1,992	$ 8	$ 1,992	$ 8
U.S. Government Sponsored Enterprises	3,914	31	—	—	3,914	31
SBA Backed Securities	17,950	28	44,323	256	62,273	284
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	19,244	21	45,782	229	65,026	250
Privately Issued Residential Mortgage-Backed Securities	—	—	495	10	495	10
Obligations Issued by States and Political Subdivisions	—	—	—	—	—	—
Other Debt Securities	—	—	455	44	455	44
Total temporarily impaired securities	$ 41,108	$ 80	$ 93,047	$ 547	$ 134,155	$ 627

4. Investment Securities Held-to-Maturity

	December 31, 2019				December 31, 2018			
	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	$ —	$ —	$ —	$ —	$ 9,960	$ —	$ 2	$ 9,958
U.S. Government Sponsored Enterprises	98,867	527	96	99,298	234,228	336	803	233,761
SBA Backed Securities	44,379	182	303	44,258	52,051	—	2,065	49,986
U.S. Government Sponsored Enterprises Mortgage-Backed Securities	2,207,874	20,720	10,846	2,217,748	1,750,408	2,324	55,016	1,697,716
Total	$ 2,351,120	$ 21,429	$ 11,245	$ 2,361,304	$ 2,046,647	$ 2,660	$ 57,886	$ 1,991,421

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 $1,776,399,000 and $1,441,059,000 at December 31, 2019, and 2018, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank at fair value amounting to $399,646,000 and $291,190,000 at December 31, 2019, and 2018, respectively. The Company realized gains on sales of securities of $48,000 from the proceeds of sales of held-to-maturity securities of $1,193,000. 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 did not realize any gains of sales of securities for the year ending December 31, 2018 and 2017.

At December 31, 2019 and 2018, 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, 2019.

(dollars in thousands)	Amortized Cost	Fair Value
Within one year	$ 73,576	$ 73,841
After one but within five years	1,891,043	1,900,050
After five but within ten years	374,071	374,688
More than ten years	12,430	12,725
Total	$2,351,120	$2,361,304

The weighted average remaining life of investment securities held-to-maturity at December 31, 2019, was 3.7 years. Included in the weighted average remaining life calculation at December 31, 2019, were $33,491,000 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, $107,000 of the securities are floating rate or adjustable rate and reprice prior to maturity.

As of December 31, 2019 and December 31, 2018, 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, SBA Backed Securities 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, 2019 and December 31, 2018.

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, 2019. 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 114 and 103 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 531 holdings at December 31, 2019.

Temporarily Impaired Investments	December 31, 2019					
	Less Than 12 Months		12 Months or Longer		Total	
(dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$ —	$ —	$ —	$ —	$ —	$ —
U.S. Government Sponsored Enterprises	24,420	72	9,976	24	34,396	96
SBA Backed Securities	25,251	303	—	—	25,251	303
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	613,905	3,949	389,919	6,897	1,003,824	10,846
Total temporarily impaired securities	$663,576	$ 4,324	$ 399,895	$ 6,921	$1,063,471	$ 11,245

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2018. 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 56 and 315 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 475 holdings at December 31, 2018.

Temporarily Impaired Investments	December 31, 2018					
	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	$ 9,958	$ 2	$ —	$ —	$ 9,958	$ 2
U.S. Government Sponsored Enterprises	9,849	42	69,499	761	79,348	803
SBA Backed Securities	—	—	49,987	2,065	49,987	2,065
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	188,125	2,032	1,249,689	52,984	1,437,814	55,016
Total temporarily impaired securities	$ 207,932	$ 2,076	$ 1,369,175	$ 55,810	$ 1,577,107	$ 57,886

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,	**2019**	2018
(dollars in thousands)		
Construction and land development	**$ 8,992**	$ 13,628
Commercial and industrial	**812,417**	761,625
Municipal	**120,455**	97,290
Commercial real estate	**786,102**	750,362
Residential real estate	**371,897**	348,250
Consumer	**21,071**	21,359
Home equity	**304,363**	292,340
Overdrafts	**822**	724
Total	**$ 2,426,119**	$ 2,285,578

At December 31, 2019, and December 31, 2018, loans were carried net of (premiums) discounts of $(292,000) and $(364,000), respectively. Net deferred fees included in loans at December 31, 2019, and December 31, 2018, were $220,000 and $496,000, respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately $204,690,000 and $209,160,000 at December 31, 2019, and December 31, 2018, respectively. The Company had no residential real estate loans held for sale at December 31, 2019 and December 31, 2018. The Company's mortgage servicing rights totaled $1,202,000 and $1,226,000 at December 31, 2019 and December 31, 2018, respectively.D

As of December 31, 2019, and 2018, the Company's recorded investment in impaired loans was $3,252,000 and $3,051,000, 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, 2019, there were $2,322,000 of impaired loans with specific reserves of $102,000. At December 31, 2018, there were $2,774,000 of impaired loans with specific reserves of $145,000.

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,	2019	2018	2017
(dollars in thousands)			
Loans on nonaccrual	$ 2,014	$ 1,313	$ 1,684
Loans 90 days past due and still accruing	—	—	—
Impaired loans on nonaccrual included above	—	296	254
Total recorded investment in impaired loans	3,252	3,051	7,114
Average recorded investment of impaired loans	3,161	5,491	5,608
Accruing troubled debt restructures	2,361	2,559	2,749
Interest income not recorded on nonaccrual loans according to their original terms	67	64	51
Interest income on nonaccrual loans actually recorded	—	—	—
Interest income recognized on impaired loans	103	196	182

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 2019.

Balance at December 31, 2018	Additions	Repayments and Deletions	Balance at December 31, 2019
(dollars in thousands)			
$ 12,547	$ 706	$ 1,222	$ 12,031

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, 2019, 2018 and 2017 is as follows:

	2019	2018	2017
(dollars in thousands)			
Allowance for loan losses, beginning of year	$ 28,543	$ 26,255	$ 24,406
Loans charged-off	(454)	(833)	(390)
Recoveries on loans previously charged-off	246	1,771	449
Net recoveries (charge-offs)	(208)	938	59
Provision charged to expense	1,250	1,350	1,790
Allowance for loan losses, end of year	$ 29,585	$ 28,543	$ 26,255

Further information pertaining to the allowance for loan losses at December 31, 2019 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:									
Ending balance at December 31, 2018	$ 1,092	$ 10,998	$ 1,838	$ 10,663	$ 2,190	$ 365	$ 1,111	$ 286	$ 28,543
Charge-offs	—	(137)	—	—	—	(295)	(22)	—	(454)
Recoveries	—	60	—	—	—	186	—	—	246
Provision	(761)	675	728	801	4	56	(24)	(229)	1,250
Ending balance at December 31, 2019	$ 331	$ 11,596	$ 2,566	$ 11,464	$ 2,194	$ 312	$ 1,065	$ 57	$ 29,585
Amount of allowance for loan losses for loans deemed to be impaired	$ —	$ 15	$ —	$ 87	$ —	$ —	$ —	$ —	$ 102
Amount of allowance for loan losses for loans not deemed to be impaired	$ 331	$ 11,581	$ 2,566	$ 11,377	$ 2,194	$ 312	$ 1,065	$ 57	$ 29,483
Loans:									
Ending balance	$ 8,992	$ 812,417	$ 120,455	$ 786,102	$ 371,897	$ 21,893	$304,363	$ —	$ 2,426,119
Loans deemed to be impaired	$ —	$ 906	$ —	$ 2,346	$ —	$ —	$ —	$ —	$ 3,252
Loans not deemed to be impaired	$ 8,992	$ 811,511	$ 120,455	$ 783,756	$ 371,897	$ 21,893	$304,363	$ —	$ 2,422,867

Further information pertaining to the allowance for loan losses at December 31, 2018 follows:

(dollars in thousands)	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
Allowance for Loan Losses:									
Balance at December 31, 2017	$ 1,645	$ 9,651	$ 1,720	$ 9,728	$ 1,873	$ 373	$ 989	$ 276	$ 26,255
Charge-offs	—	(67)	—	—	(450)	(316)	—	—	(833)
Recoveries	1,436	57	—	—	75	203	—	—	1,771
Provision	(1,989)	1,357	118	935	692	105	122	10	1,350
Ending balance at December 31, 2018	$ 1,092	$ 10,998	$ 1,838	$ 10,663	$ 2,190	$ 365	$ 1,111	$ 286	$ 28,543
Amount of allowance for loan losses for loans deemed to be impaired	$ —	$ 54	$ —	$ 91	$ —	$ —	$ —	$ —	$ 145
Amount of allowance for loan losses for loans not deemed to be impaired	$ 1,092	$ 10,944	$ 1,838	$ 10,572	$ 2,190	$ 365	$ 1,111	$ 286	$ 28,398
Loans:									
Ending balance	$ 13,628	$ 761,625	$ 97,290	$ 750,362	$ 348,250	$ 22,083	$ 292,340	$ —	$ 2,285,578
Loans deemed to be impaired	$ —	$ 401	$ —	$ 2,650	$ —	$ —	$ —	$ —	$ 3,051
Loans not deemed to be impaired	$ 13,628	$ 761,224	$ 97,290	$ 747,712	$ 348,250	$ 22,083	$ 292,340	$ —	$ 2,282,527

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, 2019.D

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, 2019.D

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, 2019 and are doubtful for full collection.D

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, 2019.

(dollars in thousands)	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
Grade:				
1-3 (Pass)	$ 8,992	$ 807,486	$ 120,455	$ 759,402
4 (Monitor)	—	4,025	—	24,354
5 (Substandard)	—	—	—	—
6 (Doubtful)	—	—	—	—
Impaired	—	906	—	2,346
Total	$ 8,992	$ 812,417	$ 120,455	$ 786,102

The Company has increased its exposure to larger loans to large institutions with publicly available credit ratings. 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, 2019.D

(dollars in thousands)	Commercial and Industrial	Municipal	Commercial Real Estate	Total
Credit Rating:				
Aaa-Aa3	$ 523,644	$ 53,273	$ 40,437	$ 617,354
A1-A3	186,044	7,354	148,346	341,744
Baa1-Baa3	—	51,133	144,711	195,844
Ba1	—	5,895	—	5,895
Total	$ 709,688	$ 117,655	$ 333,494	$ 1,160,837

The following table presents the Company's loans by risk rating at December 31, 2018.D

(dollars in thousands)	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
Grade:				
1-3 (Pass)	$ 13,628	$ 757,089	$ 97,290	$ 723,170
4 (Monitor)	—	4,135	—	24,542
5 (Substandard)	—	—	—	—
6 (Doubtful)	—	—	—	—
Impaired	—	401	—	2,650
Total	$ 13,628	$ 761,625	$ 97,290	$ 750,362

The following table presents the Company's loans by credit rating at December 31, 2018.D

(dollars in thousands)	Commercial and Industrial	Municipal	Commercial Real Estate	Total
Credit Rating:				
Aaa-Aa3	$ 491,247	$ 54,105	$ 42,790	$ 588,142
A1-A3	172,472	7,605	151,381	331,458
Baa1-Baa3	—	26,970	118,197	145,167
Ba1	—	6,810	—	6,810
Total	$ 663,719	$ 95,490	$ 312,368	$ 1,071,577

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, 2019 the aging of past due loans are as follows:

(dollars in thousands)	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total
Construction and land development	$ —	$ —	$ —	$ —	$ 8,992	$ 8,992
Commercial and industrial	227	400	—	627	811,790	812,417
Municipal	—	—	—	—	120,455	120,455
Commercial real estate	840	492	—	1,332	784,770	786,102
Residential real estate	1,563	683	—	2,246	369,651	371,897
Consumer and overdrafts	18	4	—	22	21,871	21,893
Home equity	603	435	—	1,038	303,325	304,363
Total	$ 3,251	$ 2,014	$ —	$ 5,265	$ 2,420,854	$ 2,426,119

At December 31, 2018 the aging of past due loans are as follows:

(dollars in thousands)	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total
Construction and land development	$ —	$ —	$ —	$ —	$ 13,628	$ 13,628
Commercial and industrial	187	115	—	302	761,323	761,625
Municipal	—	—	—	—	97,290	97,290
Commercial real estate	774	190	—	964	749,398	750,362
Residential real estate	2,554	569	—	3,123	345,127	348,250
Consumer and overdrafts	24	14	—	38	22,045	22,083
Home equity	1,108	425	—	1,533	290,807	292,340
Total	$ 4,647	$ 1,313	$ —	$ 5,960	$ 2,279,618	$ 2,285,578

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, 2019:

(dollars in thousands)	Carrying Value	Unpaid Balance Principal	Required Reserve	Average Carrying Value Recognized	Interest Income
With no required reserve recorded:					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	770	976	—	138	6
Municipal	—	—	—	—	—
Commercial real estate	160	189	—	445	—
Residential real estate	—	—	—	—	—
Consumer	—	—	—	—	—
Home equity	—	—	—	—	—
Total	$ 930	$ 1,165	$ —	$ 583	$ 6
With required reserve recorded:					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	136	137	15	264	7
Municipal	—	—	—	—	—
Commercial real estate	2,186	2,306	87	2,314	90
Residential real estate	—	—	—	—	—
Consumer	—	—	—	—	—
Home equity	—	—	—	—	—
Total	$ 2,322	$ 2,443	$ 102	$ 2,578	$ 97
Total					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	906	1,113	15	402	13
Municipal	—	—	—	—	—
Commercial real estate	2,346	2,495	87	2,759	90
Residential real estate	—	—	—	—	—
Consumer	—	—	—	—	—
Home equity	—	—	—	—	—
Total	$ 3,252	$ 3,608	$ 102	$ 3,161	$ 103

The following is information pertaining to impaired loans at December 31, 2018:

(dollars in thousands)	Carrying Value	Unpaid Balance Principal	Required Reserve	Average Carrying Value Recognized	Interest Income
With no required reserve recorded:					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	87	291	—	46	5
Municipal	—	—	—	—	—
Commercial real estate	189	212	—	249	—
Residential real estate	—	—	—	—	—
Consumer	—	—	—	—	—
Home equity	—	—	—	—	—
Total	$ 276	$ 503	$ —	$ 295	$ 5
With required reserve recorded:					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	314	315	54	462	13
Municipal	—	—	—	—	—
Commercial real estate	2,461	2,575	91	2,322	97
Residential real estate	—	—	—	2,412	81
Consumer	—	—	—	—	—
Home equity	—	—	—	—	—
Total	$ 2,775	$ 2,890	$ 145	$ 5,196	$ 191
Total					
Construction and land development	$ —	$ —	$ —	$ —	$ —
Commercial and industrial	401	606	54	508	18
Municipal	—	—	—	—	—
Commercial real estate	2,650	2,787	91	2,571	97
Residential real estate	—	—	—	2,412	81
Consumer	—	—	—	—	—
Home equity	—	—	—	—	—
Total	$ 3,051	$ 3,393	$ 145	$ 5,491	$ 196

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 and industrial loan that was modified during the first quarter of 2019. The loan was modified by reducing the interest rates as well as extending the term on the loan. The pre-modification and post-modification outstanding recorded investment was $39,000. The financial impact for the modification was not material. This loan was subsequently charged off during the third quarter of 2019. Also, there were no commitments to lend additional funds to troubled debt restructuring borrowers.

There was one residential real estate loan and one consumer loan that were modified during the first quarter of 2018. The loans were modified by reducing the interest rates as well as extending the terms on both loans. The pre-modification and post-modification outstanding recorded investment was $2,675,000 for the residential real estate loan that was not accruing interest. The pre-modification and post-modification outstanding recorded investment was $17,000 for the consumer loan that was accruing interest. The financial impact for the modifications was not material. Both troubled debt restructurings subsequently defaulted during 2018. The residential real estate loan was partially charged off for $450,000 and was recorded as other real estate owned for $2,225,000 during the fourth quarter of 2018. This property was subsequently sold during the third quarter of 2019. Other real estate owned is included in other assets on the balance sheet. The consumer loan was fully charged off during the fourth quarter of 2018.

7. Bank Premises and Equipment

December 31,	2019	2018	Estimated Useful Life
(dollars in thousands)			
Land	$ 7,246	$ 3,850	—
Bank premises	28,175	21,659	30-39 years
Furniture and equipment	33,259	30,088	3-10 years
Leasehold improvements	12,674	12,674	30-39 years or lease term
	81,354	68,271	
Accumulated depreciation and amortization	(47,402)	(44,350)	
Total	$ 33,952	$ 23,921	

Depreciation and amortization amounted to $3,235,000, $3,206,000, and $3,135,000 at December 31, 2019, 2018 and 2017, respectively.D

8. Goodwill and Identifiable Intangible Assets

At December 31, 2019 and 2018, 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, 2019 and 2018 are shown in the table below.

Carrying Amount of Goodwill and Intangibles	Goodwill	Mortgage Servicing Rights	Total
(dollars in thousands)			
Balance at December 31, 2017	$ 2,714	$ 1,525	$ 4,239
Additions	—	—	—
Amortization Expense	—	(299)	(299)
Balance at December 31, 2018	$ 2,714	$ 1,226	$ 3,940
Additions	—	237	237
Amortization Expense	—	(261)	(261)
Balance at December 31, 2019	**$ 2,714**	**$ 1,202**	**$ 3,916**

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, 2019, 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	$ —	$ —	$ —	$ —
U.S. Government Agency Sponsored Enterprises	—	—	—	—
SBA Backed Securities	54,211	—	54,211	—
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	184,187	—	184,187	—
Privately Issued Residential Mortgage-Backed Securities	396	—	396	—
Obligations Issued by States and Political Subdivisions	18,076	—	4,775	13,301
Other Debt Securities	3,632	—	3,632	—
Total	$ 260,502	$ —	$ 247,201	$ 13,301
Equity Securities	$ 1,688	$ 343	$ 1,345	$ —
Financial Instruments Measured at Fair Value on a Non-recurring Basis				
Impaired Loans	$ 877	$ —	$ —	$ 877

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 relate to impaired loans recognized for 2019 for the estimated credit loss amounted to $79,000.

There were no transfers between level 1, 2 and 3 for the year ended December 31, 2019. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the year ended December 31, 2019.

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, 2019. 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[(1)]	$ 13,301	Discounted cash flow	Discount rate	1.5%-3.2%[(2)]
Impaired Loans	877	Appraisal of collateral[(3)]	Appraisal adjustments[(4)]	0%-30% discount

(1) Municipal securities generally have maturities of one year or less and, therefore, the amortized cost equates to the fair value.
(2) Weighted averages.
(3) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.
(4) 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, 2019 are as shown in the table below:

(dollars in thousands)	Auction Rate Securities	Obligations Issued by States and Political Subdivisions	Total
Balance at December 31, 2018	$ —	$ 88,728	$ 88,728
Purchases	—	21,408	21,408
Maturities/redemptions	—	(96,812)	(96,812)
Transfer to Level 2	—	—	—
Amortization	—	(23)	(23)
Change in fair value	—	—	—
Balance at December 31, 2019	$ —	$ 13,301	$ 13,301

The amortized cost of Level 3 securities was $13,301,000 with an unrealized loss of $0 at December 31, 2019. The securities in this category are generally 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, 2018, are as follows:

		Fair Value Measurements Using		
(dollars in thousands)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Instruments Measured at Fair Value on a Recurring Basis				
Securities AFS				
U.S. Treasury	$ 1,992	$ —	$ 1,992	$ —
U.S. Government Agency Sponsored Enterprises	3,915	—	3,915	—
SBA Backed Securities	70,194	—	70,194	—
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	162,890	—	162,890	—
Privately Issued Residential Mortgage-Backed Securities	672	—	672	—
Obligations Issued by States and Political Subdivisions	93,503	—	4,775	88,728
Other Debt Securities	3,593	—	3,593	—
Total	$ 336,759	$ —	$ 248,031	$ 88,728
Equity Securities	$ 1,596	$ 293	$ 1,303	$ —
Financial Instruments Measured at Fair Value on a Non-recurring Basis				
Impaired Loans	$ 251	$ —	$ —	$ 251
Other Real Estate Owned	$ 2,225	$ —	$ —	$ 2,225

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 relate to impaired loans recognized for 2018 for the estimated credit loss amounted to $540,000.

There was a transfer of an auction rate security during 2018 from level 3 to level 2. Quoted prices on the auction rate security became available but traded infrequently. There were no other transfers between level 1, 2 and 3 for the year ended December 31, 2018. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the year ended December 31, 2018.

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, 2018. 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[(1)]	$ 88,728	Discounted cash flow	Discount rate	2.1%-4.1%[(2)]
Other Real Estate Owned	2,225	Appraisal of collateral[(3)]	Appraisal adjustments (4)	30% discount
Impaired Loans	251	Appraisal of collateral[(3)]	Appraisal adjustments (4)	0%-30% discount

(1) Municipal securities generally have maturities of one year or less and, therefore, the amortized cost equates to the fair value.
(2) Weighted averages.
(3) Fair value is generally determined through independent appraisals of the underlying collateral, which generally include various Level 3 inputs which are not identifiable.
(4) 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, 2018 are as shown in the table below:

	Auction Rate Securities	Obligations Issued by States and Political Subdivisions	Total
(dollars in thousands)			
Balance at December 31, 2017	$ 4,459	$ 78,141	$ 82,600
Purchases	—	132,470	132,470
Maturities/redemptions	—	(121,753)	(121,753)
Transfer to Level 2	(4,459)	—	(4,459)
Amortization	—	(130)	(130)
Change in fair value	—	—	—
Balance at December 31, 2018	$ —	$ 88,728	$ 88,728

The amortized cost of Level 3 securities was $88,728,000 with an unrealized loss of $0 at December 31, 2018. The securities in this category are generally 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,

	2019	**Percent**	2018	Percent
(dollars in thousands)				
Within one year	**$ 383,497**	**69 %**	$ 413,297	74 %
Over one year to two years	**123,016**	**22 %**	88,815	16 %
Over two years to three years	**27,223**	**5 %**	39,924	7 %
Over three years to five years	**21,711**	**4 %**	18,543	3 %
Total	**$ 555,447**	**100 %**	$ 560,579	100 %

Time deposits of more than $250,000 totaled $342,809,000 and $293,046,000 in 2019 and 2018, respectively.

Deposits totaling $34,964,000 and $36,794,000 were attributable to related parties at December 31, 2019 and December 31, 2018, respectively.

11. Securities Sold Under Agreements to Repurchase

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

	2019	2018	2017
(dollars in thousands)			
Amount outstanding at December 31	**$ 266,045**	$ 154,240	$ 158,990
Weighted average rate at December 31	**0.96 %**	0.82 %	0.32 %
Maximum amount outstanding at any month end	**$ 307,235**	$ 174,150	$ 228,848
Daily average balance outstanding during the year	**$ 224,361**	$ 147,944	$ 189,684
Weighted average rate during the year	**1.05 %**	0.66 %	0.26 %

Amounts outstanding at December 31, 2019, 2018 and 2017 carried maturity dates of the next business day. U.S. Government Sponsored Enterprise securities with a total amortized cost of $264,737,000, $160,576,000, and $162,927,000 were pledged as collateral and held by custodians to secure the agreements at December 31, 2019, 2018 and 2017, respectively. The approximate fair value of the collateral at those dates was $265,687,000, $156,369,000, and $159,051,000, respectively.

12. Other Borrowed Funds and Subordinated Debentures

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

	2019	2018	2017
(dollars in thousands)			
Amount outstanding at December 31	$ 407,038	$ 238,461	$ 383,861
Weighted average rate at December 31	2.37 %	2.76 %	2.26 %
Maximum amount outstanding at any month end	$ 487,502	$ 542,913	$ 491,583
Daily average balance outstanding during the year	$ 231,926	$ 291,674	$ 309,102
Weighted average rate during the year	2.95 %	2.61 %	2.42 %

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, 2019, was approximately $245,138,000. 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,	2019		2018		2017	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
(dollars in thousands)						
Within one year	$ 218,000	1.86 %	$ 63,000	2.17 %	$ 164,500	1.82 %
Over one year to two years	$ 42,500	2.58 %	$ 28,000	2.29 %	$ 63,000	2.17 %
Over two years to three years	$ 3,500	2.15 %	$ 25,000	3.34 %	$ 28,000	2.29 %
Over three years to five years	$ 70,000	2.85 %	$ 33,500	2.23 %	$ 28,500	3.19 %
Over five years	$ 36,955	2.88 %	$ 52,878	2.47 %	$ 63,778	2.38 %
Total	$ 370,955	2.23 %	$ 202,378	2.42 %	$ 347,778	2.13 %

Included in the table above are $40,000,000, $40,000,000, and $20,000,000, respectively, of FHLBB advances at December 31, 2019, 2018 and 2017, that are puttable at the discretion of FHLBB. These put dates were not utilized in the table above.

During 2019, the Company restructured $15,000,000 of FHLBB advances. Prior to the restructure, the weighted average rate on these advances was 3.33% and the weighted average maturity was 14 months. Subsequent to the restructure, the weighted average rate was 2.37% and the weighted average maturity was 60 months.

SUBORDINATED DEBENTURES

Subordinated debentures totaled $36,083,000 at December 31, 2019 and 2018.D

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 3.76% at December 31, 2019 and 4.66% at December 31, 2018.D

OTHER BORROWED FUNDS

There were no overnight federal funds purchased at December 31, 2019 and 2018.

13. Reclassifications Out of Accumulated Other Comprehensive Income[a]

Details About Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income: Year Ended December 31, 2019[a]	Year Ended December 31, 2018[a]	Affected Line Item in the Statement Where Net Income is Presented
Unrealized gains and losses on available-for-sale securities	$ 61	$ 302	Net gains on sales of investments
	(17)	(85)	Provision for income taxes
	$ 44	$ 217	Net income
Accretion of unrealized losses transferred	$ (1,022)	$ (1,477)	Securities held-to-maturity
	269	391	Provision for income taxes
	$ (753)	$ (1,086)	Net income
Amortization of defined benefit pension items			
Prior-service costs	$ (114)	$ (14)	Salaries and employee benefits[b]
Actuarial gains (losses)	(1,351)	(1,610)	Salaries and employee benefits[b]
Total before tax	(1,465)	(1,624)	Income before taxes
Tax (expense) or benefit	412	457	Provision for income taxes
Net of tax	$ (1,053)	$ (1,167)	Net income

[a] Amounts in parentheses indicate decreases to profit/loss.
[b] 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. There were no common stock equivalents for 2019, 2018 and 2017, respectively.

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

Year Ended December 31,	2019	2018	2017
(in thousands except share and per share data)			
BASIC EPS COMPUTATION			
Numerator:			
Net income, Class A	$ 31,351	$ 28,479	$ 17,526
Net income, Class B	8,348	7,734	4,775
Denominator:			
Weighted average shares outstanding, Class A	3,633,044	3,608,179	3,604,029
Weighted average shares outstanding, Class B	1,934,865	1,959,730	1,963,880
Basic EPS, Class A	$ 8.63	$ 7.89	$ 4.86
Basic EPS, Class B	$ 4.31	$ 3.95	$ 2.43
DILUTED EPS COMPUTATION			
Numerator:			
Net income, Class A	$ 31,351	$ 28,479	$ 17,526
Net income, Class B	8,348	7,734	4,775
Total net income, for diluted EPS, Class A computation	39,699	36,213	22,301
Denominator:			
Weighted average shares outstanding, basic, Class A	3,633,044	3,608,179	3,604,029
Weighted average shares outstanding, Class B	1,934,865	1,959,730	1,963,880
Weighted average shares outstanding diluted, Class A	5,567,909	5,567,909	5,567,909
Weighted average shares outstanding, Class B	1,934,865	1,959,730	1,963,880
Diluted EPS, Class A	$ 7.13	$ 6.50	$ 4.01
Diluted EPS, Class B	$ 4.31	$ 3.95	$ 2.43

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, 2019 and December 31, 2018.D

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, 2019, that the Bank and the Company meet all capital adequacy requirements to which they are subject.

The Basel Committee has issued capital standards entitled "Basel 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, 2019 (Basel III)						
Total Capital (to Risk-Weighted Assets)	**$ 401,850**	**13.57 %**	**$ 236,830**	**8.00 %**	**$ 296,037**	**10.00 %**
Tier 1 Capital (to Risk-Weighted Assets)	**372,265**	**12.57 %**	**177,622**	**6.00 %**	**236,830**	**8.00 %**
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	**372,265**	**12.57 %**	**133,217**	**4.50 %**	**192,424**	**6.50 %**
Tier 1 Capital (to 4th Qtr. Average Assets)	**372,265**	**7.01 %**	**212,549**	**4.00 %**	**265,686**	**5.00 %**
As of December 31, 2018 (Basel III)						
Total Capital (to Risk-Weighted Assets)	$ 364,744	13.24 %	$ 220,335	8.00 %	$ 275,419	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	336,201	12.21 %	165,251	6.00 %	220,335	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	336,201	12.21 %	123,938	4.50 %	179,022	6.50 %
Tier 1 Capital (to 4th Qtr. Average Assets)	336,201	6.68 %	201,228	4.00 %	251,535	5.00 %

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2019 (Basel III)						
Total Capital (to Risk-Weighted Assets)	**$ 415,863**	**13.97 %**	**$ 238,132**	**8.00 %**	**$ 297,665**	**10.00 %**
Tier 1 Capital (to Risk-Weighted Assets)	**386,308**	**12.98 %**	**178,599**	**6.00 %**	**238,132**	**8.00 %**
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	**351,308**	**11.80 %**	**133,949**	**4.50 %**	**193,482**	**6.50 %**
Tier 1 Capital (to 4th Qtr. Average Assets)	**386,308**	**7.25 %**	**213,222**	**4.00 %**	**266,528**	**5.00 %**
As of December 31, 2018 (Basel III)						
Total Capital (to Risk-Weighted Assets)	$ 377,359	13.62 %	$ 221,690	8.00 %	$ 277,113	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	348,816	12.59 %	166,268	6.00 %	221,690	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	313,816	11.32 %	124,701	4.50 %	180,123	6.50 %
Tier 1 Capital (to 4th Qtr. Average Assets)	348,816	6.91 %	201,913	4.00 %	252,391	5.00 %

16. Income Taxes

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

(dollars in thousands)	2019	2018	2017
Current expense:			
Federal	**$ 2,548**	$ 2,637	$ 3,628
State	**697**	697	412
Total current expense	**3,245**	3,334	4,040
Deferred (benefit) expense:			
Federal	**(1,660)**	(1,238)	6,496
State	**(367)**	(528)	422
Valuation allowance reversal	**(108)**	—	—
Total deferred (benefit) expense	**(2,135)**	(1,766)	6,918
Provision for income taxes	**$ 1,110**	$ 1,568	$ 10,958

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

(dollars in thousands)	2019	2018
Current receivable	**$ 3,446**	$ 13,194
Deferred income tax asset, net	**24,566**	20,321
Total	**$ 28,012**	$ 33,515

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

(dollars in thousands)	2019	2018	2017
Federal income tax expense at statutory rates	**$ 8,570**	$ 7,934	$ 11,308
State income tax, net of federal income tax benefit	**261**	134	550
Insurance income	**(265)**	(176)	(371)
Effect of tax-exempt interest	**(6,737)**	(6,510)	(8,683)
Net tax credit	**(292)**	(349)	(341)
Valuation allowance reversal	**(108)**	—	—
Sequestration (reversal) accrual	**(438)**	438	—
Deferred tax remeasurement	**—**	—	8,448
Other	**119**	97	47
Total	**$ 1,110**	$ 1,568	$ 10,958
Effective tax rate	**2.72 %**	4.15 %	32.95 %

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

(dollars in thousands)	2019	2018
Deferred income tax assets:		
Allowance for loan losses	$ 8,354	$ 8,058
Deferred compensation	8,910	8,184
Pension and SERP liability	8,770	6,506
Operating lease liabilities	3,567	—
Unrealized losses on securities transferred to held-to-maturity	643	912
Depreciation	1,060	908
QZAB credit	812	—
Accrued bonus	708	717
Charitable contributions carryforward	276	389
Nonaccrual interest	115	109
Unrealized (gains) losses on securities available-for-sale	114	(2)
Other	206	181
Gross deferred income tax asset	33,535	25,962
Valuation allowance	—	(108)
Gross deferred income tax asset, net of valuation allowance	33,535	25,854
Deferred income tax liabilities:		
Pension liability	(4,258)	(4,436)
Operating lease right-of-use assets	(3,520)	—
Deferred origination costs	(516)	(524)
Prepaid expenses	(337)	(228)
Mortgage servicing rights	(338)	(345)
Gross deferred income tax liability	(8,969)	(5,533)
Deferred income tax asset net	$ 24,566	$ 20,321

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, 2019. During 2019, the valuation allowance on a charitable contribution carryforward was reversed. 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.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Act”) was enacted. The majority of the provisions of the Tax Act took effect on January 1, 2018. The Tax Act lowers the Company’s federal tax rate from 34% to 21%. The Company remeasured its deferred taxes at 21% as of the enactment date and recorded additional tax expense of $8,448,000. Also, for tax years beginning after December 31, 2018, the corporate Alternative Minimum Tax (“AMT”) has been repealed. For 2017 through 2021, the AMT credit carryforward can offset regular tax liability and is refundable in an amount equal to 50% (100% for 2021) of the excess of the minimum tax credit for the tax year over the amount of the credit allowable for the year against regular tax liability. Accordingly, the full amount of the alternative minimum tax credit carryforward will be recovered in tax years beginning before 2022. The Tax Act also contains other provisions that may affect the Company currently or in future years. Among these are changes to the deductibility of meals and entertainment, the deductibility of executive compensation, the dividend received deduction and net operating loss carryforwards.

The Company is in an Alternative Minimum Tax (“AMT”) credit position. As the AMT has been repealed and the existing credit is refundable, the AMT credit, totaling $5,664,000, has been reclassified to currently receivable. Of this amount, the Company expects to recover $4,069,000 with the filing of its 2019 federal tax return. The Company and its subsidiaries file a consolidated federal tax return. The Company is subject to federal and state examinations for tax years after December 31, 2015.D

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 43% to 57% 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 15% to 31%.

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 2020 to 2024 are $1,798,000, $2,023,000, $2,157,000, $2,270,000, and $2,451,000, respectively. The aggregate benefits expected to be paid in the five years from 2025 to 2029 are $15,005,000.

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The three levels of the fair value hierarchy under Topic 820 are described as follows:

LEVEL 1
Inputs to the valuation methodology are quoted market prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date.

LEVEL 2
Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly, such as: quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other that quoted prices that are observable for the asset or liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

LEVEL 3
Inputs that are unobservable inputs for the asset or liability.

Below is a description of the valuation methodologies used for assets measured at fair value.

Collective Funds
Valued at either the closing price reported on the active market on which the individual securities are traded or valued at the net asset value (NAV) of units of a collective trust. The NAV, as provided by the trustee, is used as a practical expedient to estimate fair value. The NAV is based on the fair value of the underlying investments held by the fund less its liabilities. This practical expedient is not used when it is determined to be probable that the fund will sell the investment for an amount different than the reported NAV. Participant transactions (purchases and sales) may occur daily. Were SBERA to initiate a full redemption of the collective trust, the investment advisor reserves the right to temporarily delay withdrawal from the trust in order to ensure that securities liquidations will be carried out in an orderly business manner.

Equity Securities
Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds
Valued at the daily closing price as reported by the fund. Mutual funds held open-end mutual funds that are registered with the U.S. Securities and Exchange Commission. The funds are required to publish their daily NAV and to transact at that price.

The mutual funds held are deemed to be actively traded.

Limited Partnerships and Hedge Funds
The funds are valued at NAV, without further adjustment, as calculated by the fund's manager based upon the terms and conditions of the organization documents of the underlying investments, with further consideration to portfolio risks.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value. Classification within the fair value hierarchy table is based upon the lowest level of any input that is significant to the fair value measurement:

The fair value of plan assets and major categories as of December 31, 2019, is as follows:D

Description	Percent	NAV	Level 1	Level 2	Level 3	Total
(dollars in thousands)						
Collective Funds	8.3 %	$ —	$ 4,289	$ —	$ —	$ 4,289
Equity Securities	9.7 %	—	5,016	—	—	5,016
Diversified Mutual Funds	31.1 %	—	16,081	—	—	16,081
Total investments measured in the fair value hierarchy	49.1 %	—	25,386	—	—	25,386
Investments measured at net asset value[1]	50.9 %	26,274	—	—	—	26,274
	100.0 %	$ 26,274	$ 25,386	$ —	$ —	$ 51,660

[1] In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

The fair value of plan assets and major categories as of December 31, 2018, is as follows:D

Description	Percent	NAV	Level 1	Level 2	Level 3	Total
(dollars in thousands)						
Collective Funds	5.6 %	$ —	$ 2,504	$ —	$ —	$ 2,504
Equity Securities	10.9 %	—	4,863	—	—	4,863
Diversified Mutual Funds	30.7 %	—	13,612	—	—	13,612
Short-term investments	0.1 %	—	60	—	—	60
Total investments measured in the fair value hierarchy	47.3 %	—	21,039	—	—	21,039
Investments measured at net asset value[1]	52.7 %	23,398	—	—	—	23,398
	100.0 %	$ 23,398	$ 21,039	$ —	$ —	$ 44,437

[1] In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy.

INVESTMENTS MEASURED USING THE NET ASSET VALUE PER SHARE PRACTICAL EXPEDIENT

The following table summarizes investments for which fair value is measured using the net asset value per share practical expedient.

There are no participant redemption restrictions for these investments.

The investments measured using the net asset value per share practical expedient as of December 31, 2019, is as follows:

	Percent	Fair Value
(dollars in thousands)		
Collective Funds by Category:		
Equity	19.3 %	$ 9,932
US debt securities	15.2 %	7,874
International equities	10.1 %	5,208
Limited Partnerships by Category:		
Emerging markets	3.2 %	1,635
Multi-strategy	1.2 %	644
Hedge Funds by Category:		
Global opportunities[2]	0.5 %	259
Private investment entities and/or separately managed accounts[3]	1.4 %	722
	50.9 %	$ 26,274

The investments measured using the net asset value per share practical expedient as of December 31, 2018, is as follows:

	Percent	Fair Value
(dollars in thousands)		
Collective Funds by Category:		
Equity	20.8 %	$ 9,204
Diversified	0.0 %	—
US debt securities	12.1 %	5,386
International equities	9.7 %	4,311
Limited Partnerships by Category:		
Emerging markets	2.9 %	1,289
Multi-strategy	1.9 %	826
Hedge Funds by Category:		
Multi-strategy[1]	3.6 %	1,593
Global opportunities[2]	0.3 %	150
Private investment entities and/or separately managed accounts[3]	1.4 %	639
	52.7 %	$ 23,398

[1] This category includes investments in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. Fund objectives are to seek above-average rates of return and long-term capital growth through in-vestments, which are fund of funds with a diversified portfolio of private investment entities and/or separately managed accounts managed by investment managers or achieve superior risk-adjusted capital appreciation over the long-term, generally through an investment, which invests in private investment funds and discretional managed accounts, structured notes, swaps or other similar products. The fair values of the investments in this category have been determined using the net asset value per share of the fund(s).

[2] This category has an investment strategy to pursue a hybrid absolute return via portfolio managers, secondaries, and co-investments with a flexible and opportunistic mandate tactically allocating capital to look to capitalize on market dislocations and inefficiencies. The opportunities are expected to fall within the following strategies: Niche Alternatives and Private Credit and Hedge Fund secondaries. The fair value of the investments in this category have been determined using the last sales price, for listed securities, and in accordance with the agreement terms for portfolio-managed investments, notes, swaps, and other similar products.

[3] The Fund's investment objective is to invest in highly attractive, select investment opportunities by maintaining investments through private investment entities and/or separately managed accounts (each, an Investment or a Portfolio and collectively, the Investments or the Portfolios) with investment management professionals (each a Manager and collectively, the Managers) specializing in various alternative investment strategies. The Managers have broad investment experience and the ability to leverage their existing relationships with corporate management teams, investment banks and other institutions to gain access to certain investment opportunities. As such, the Manager is presented with "best idea" investment opportunities, typically in asset classes where market dislocations or other events have created attractive investment opportunities. The Managers are not restricted in the investment strategies that they may employ across different asset classes and regions. The Manager anticipates that any number of strategies will be eligible for consideration for investment by the Fund and the Fund reserves the right to invest in any particular strategy or asset class it deems appropriate.

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 2020 to 2024 are $2,373,000, $2,318,000, $2,409,000, $2,692,000 and $3,138,000, respectively. The aggregate benefits expected to be paid in the five years from 2025 to 2029 are $18,017,000.

	Defined Benefit Pension Plan		Supplemental Insurance/ Retirement Plan	
	2019	2018	**2019**	2018
(dollars in thousands)				
Change projected in benefit obligation				
Benefit obligation at beginning of year	**$ 40,509**	$ 47,065	**$ 40,405**	$ 42,579
Service cost	**1,103**	1,411	**1,024**	1,107
Interest cost	**1,892**	1,481	**1,926**	1,386
Actuarial (gain)/loss	**7,099**	(8,263)	**7,537**	(3,591)
Benefits paid	**(1,169)**	(1,185)	**(916)**	(1,076)
Projected benefit obligation at end of year	**$ 49,434**	$ 40,509	**$ 49,976**	$ 40,405
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 44,437**	$ 48,422		
Actual return (loss) on plan assets	**8,392**	(2,800)		
Employer contributions	**—**	—		
Benefits paid	**(1,169)**	(1,185)		
Fair value of plan assets at end of year	**$ 51,660**	$ 44,437		
(Unfunded) Funded status	**$ 2,226**	$ 3,928	**$ (49,976)**	$ (40,405)
Accumulated benefit obligation	**$ 49,434**	$ 40,509	**$ 45,238**	$ 36,984
Weighted-average assumptions as of December 31				
Discount rate—Liability	**3.71 %**	4.76 %	**3.71 %**	4.79 %
Discount rate—Expense	**4.76 %**	3.49 %	**4.79 %**	3.42 %
Expected return on plan assets	**7.50 %**	8.00 %	**NA**	NA
Rate of compensation increase	**4.00 %**	4.00 %	**4.00 %**	4.00 %
Components of net periodic benefit cost				
Service cost	**$ 1,103**	$ 1,411	**$ 1,024**	$ 1,107
Interest cost	**1,892**	1,481	**1,926**	1,386
Expected return on plan assets	**(3,275)**	(3,813)	**—**	—
Recognized prior service cost	**—**	(100)	**114**	114
Recognized net losses	**916**	904	**435**	706
Net periodic cost (benefit)	**$ 636**	$ (117)	**$ 3,499**	$ 3,313
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Amortization of prior service cost	**$ —**	$ 100	**$ (114)**	$ (114)
Net (gain) loss	**1,066**	(2,554)	**7,101**	(4,298)
Total recognized in other comprehensive income	**1,066**	(2,454)	**6,987**	(4,412)
Total recognized in net periodic benefit cost and other comprehensive income	**$ 1,702**	$ (2,571)	**$ 10,486**	$ (1,099)

	December 31, 2019			December 31, 2018		
	Plan	**Supplemental Plan**	**Total**	Plan	Supplemental Plan	Total
(dollars in thousands)						
Prior service cost	**$ —**	**$ (307)**	**$ (307)**	$ —	$ (421)	$ (421)
Net actuarial loss	**(12,920)**	**(17,971)**	**(30,891)**	(11,854)	(10,870)	(22,724)
Total	**$ (12,920)**	**$ (18,278)**	**$ (31,198)**	$ (11,854)	$ (11,291)	$ (23,145)

The following table summarizes the amounts included in Accumulated Other Comprehensive Loss at December 31, 2019, 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 2020	$ —	$ 114
Amortization of loss to be recognized in 2020	1,041	$ 849

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.

Prior to December 31, 2018, the Company utilized a full yield curve approach in the estimation of the service and interest components of the net periodic pensionable cost by applying the specific spot rates along the yield curve used in the determination of the benefit obligation to their underlying projected cash flows.

Beginning December 31, 2018, the discount rate was determined by preparing an analysis of the respective plan's expected future cash flows and high-quality fixed-income investments currently available and expected to be available during the period to maturity of the benefits. Mortality assumptions are based on the RP 2015 Mortality Table projected with Scale MP 2016.

This methodology more accurately matches yields to the expected benefit payments than the previous method. The discount rate used is an estimate of the rate at which the plans could settle their obligations. Rather than using a rate and curve developed using a bond portfolio, this method selects individual bonds to match to the expected cash flows of the Plans. This provides a more accurate depiction of the true cost to the plans to settle the obligations as the Plans could theoretically go into the marketplace and purchase the specific bonds used in the analysis in order to settle the obligations of the Plans.

The financial impact of the enhanced estimate to the discount rate amounted to approximately $6,800,000 decrease in the projected benefit obligations for the combined plans at December 31, 2018.

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 $458,000 for 2019, $454,000 for 2018 and $445,000 for 2017. 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 $2,364,000, $2,355,000 and $1,859,000 in 2019, 2018, and 2017, 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, 2019. 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

	2019	2018
(dollars in thousands)		
Financial instruments whose contract amount represents credit risk		
Commitments to originate 1–4 family mortgages	**$ 13,806**	$ 5,075
Standby and commercial letters of credit	**5,779**	4,258
Unused lines of credit	**625,524**	553,045
Unadvanced portions of construction loans	**11,062**	28,746
Unadvanced portions of other loans	**15,801**	20,305

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,	**2019**	2018	2017
(dollars in thousands)			
Marketing	**$ 2,132**	$ 2,346	$ 2,315
Software maintenance/amortization	**2,409**	2,002	1,859
Legal and audit	**1,514**	1,444	1,543
Contributions	**813**	1,077	993
Processing services	**1,875**	1,740	1,160
Consulting	**1,552**	1,464	1,199
Postage and delivery	**1,002**	1,021	966
Supplies	**985**	987	945
Telephone	**956**	946	1,020
Directors' fees	**414**	438	440
Insurance	**456**	420	308
Pension	**2,008**	678	1,396
Other	**1,786**	1,725	1,845
Total	**$ 17,902**	$ 16,288	$ 15,989

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

The fair value of loans is estimated using the exit price notion consistent with Topic 820, Fair Value Measurement. Fair value is determined based on a discounted cash flow analysis. The discounted cash flow analysis was based on the contractual maturity of the loan and market indications of rates, prepayment speeds, defaults and credit risk. For certain non-performing assets fair value is determined based on the estimated values of the underlying collateral of individual analysis of receipts.

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, 2019 and December 31, 2018. 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.

			Fair Value Measurements		
	Carrying Amount	Estimated Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
(dollars in thousands)					
December 31, 2019					
Financial assets:					
Securities held-to-maturity	**$ 2,351,120**	**$ 2,361,304**	**$ —**	**$ 2,361,304**	**$ —**
Loans[1]	**2,396,534**	**2,424,770**	**—**	**—**	**2,424,770**
Financial liabilities:					
Time deposits	**555,447**	**560,746**	**—**	**560,746**	**—**
Other borrowed funds	**370,955**	**374,531**	**—**	**374,531**	**—**
Subordinated debentures	**36,083**	**36,083**	**—**	**36,083**	**—**
December 31, 2018					
Financial assets:					
Securities held-to-maturity	$ 2,046,647	$ 1,991,421	$ —	$ 1,991,421	$ —
Loans[1]	2,257,035	2,279,712	—	—	2,279,712
Financial liabilities:					
Time deposits	560,579	559,988	—	559,988	—
Other borrowed funds	202,378	203,122	—	203,122	—
Subordinated debentures	36,083	36,083	—	36,083	—

[1] 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. Revenue from Contracts with Customers

Revenue from contracts with customers in the scope of ASC Topic 606 is measured based on the consideration specified in the contract with a customer, and excludes amounts collected on behalf of third parties. The Company recognizes revenue from contracts with customers when it satisfies its performance obligations.D

The Company's performance obligations are typically satisfied as services are rendered, and our contracts do not include multiple performance obligations. Payment is generally collected at the time services are rendered, or monthly. Unsatisfied performance obligations at the report date are not material to our consolidated financial statements.

The Company pays sales commissions to its employees in accordance with certain incentive plans. The Company expenses sales commissions when incurred if we do not expect to recover these costs from the terms of the contract with the customer. Sales commissions are included in compensation expense.

In certain cases, other parties are involved with providing products and services to our customers. If the Company is a principal in the transaction (providing goods or services itself), revenues are reported based on the gross consideration received from the customer and any related expenses are reported gross in noninterest expense. If the Company is an agent in the transaction (arranging for another party to provide goods or services), the Company reports its net fee or commission retained as revenue.

Waivers and reversals are recorded as a reduction of revenue either when the revenue is recognized by the Company or at the time the waiver or reversal is earned by the customer.

A. Change in Accounting Policy

The Company adopted Topic 606 Revenue from Contracts with Customers with a date of initial application of January 1, 2018 and has applied the guidance to all contracts within the scope of Topic 606 as of that date. As a result, the Company has changed its accounting policy for revenue recognition as detailed in this footnote.

The Company applied Topic 606 using the cumulative effect method. Therefore, the comparative information has not been adjusted and continues to be reported under Topic 605. There was no cumulative effect adjustment as of January 1, 2018, and there were no material changes to the financial statements at or for the years ended December 31, 2018, and 2017 as a result of adopting Topic 606.

B. Practical Expedients

The Company applies the practical expedient in paragraph 606-10-50-14 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

The Company applies the practical expedient in paragraph 606-10-32-18 and does not adjust the consideration from customers for the effects of a significant financing component if at contract inception the period between when the entity transfers the goods or services and when the customer pays for that good or service will be one year or less.

C. Nature of Goods and Services

The vast majority of the Company's revenue is specifically out-of-scope of Topic 606. For the revenue in-scope, the following is a description of principal activities, separated by the timing of revenue recognition, from which the Company generates its revenue from contracts with customers.

1. Revenue earned at a point in time—Examples of revenue earned at a point in time are ATM transaction fees, wire transfer fees, NSF fees, credit and debit card interchange fees and foreign exchange transaction fees. Revenue is generally derived from transactional information accumulated by our systems and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer's transaction. The Company is the principal in each of these contracts, with the exception of credit and debit card interchange fees, in which case we are acting as the agent and record revenue net of expenses paid to the principal.

2. Revenue earned over time—The Company earns revenue from contracts with customers in a variety of ways in which the revenue is earned over a period of time—generally monthly or quarterly. Examples of this type of revenue are deposit account service fees, lockbox fees, investment management fees, merchant referral services, and safe de-posit box fees. Account service charges, management fees and referral fees are recognized on a monthly basis while any transaction based income is recorded as the activity occurs. Revenue is primarily based on the number and type of transactions or assets managed and is generally derived from transactional information accumulated by our systems. Revenue is recorded in the same period as the related transactions occur or services are rendered to the customer.

D. Disaggregation of Revenue

The following table presents total revenues as presented in the Consolidated Statements of Income and the related amounts which are from contracts with customers within the scope of Topic 606. As illustrated here, the vast majority of our revenues are specifically excluded from the scope of Topic 606.

(dollars in thousands)	**Year ended December 31, 2019**	**Revenue from Contracts in Scope of Topic 606**	Year ended December 31, 2018	Revenue from Contracts in Scope of Topic 606	Year ended December 31, 2017	Revenue from Contracts in Scope of Topic 606
Total net interest income	**$ 95,789**	**$ —**	$ 92,576	$ —	$ 85,616	$ —
Noninterest income:						
Service charges on deposit accounts	**9,220**	**9,220**	8,560	8,560	8,586	8,586
Lockbox fees	**3,973**	**3,973**	3,274	3,274	3,290	3,290
Brokerage commissions	**277**	**—**	348	—	353	—
Net gains on sales of securities	**61**	**—**	302	—	47	—
Gains on sales of mortgage loans	**412**	**—**	—	—	370	—
Other income	**4,456**	**2,799**	3,764	2,536	3,906	2,429
Total noninterest income	**18,399**	**15,992**	16,248	14,370	16,552	14,305
Total revenues	**$ 114,188**	**$ 15,992**	$ 108,824	$ 14,370	$ 102,168	$ 14,305

The following table provides information about receivables with customers.

December 31,	**2019**	2018	2017
(dollars in thousands)			
Receivables, which are included in "Other assets"	**$ 1,200**	$ 1,205	$ 1,009

23. Leases

The Company has operating leases primarily for branch locations as well as data processing centers. The Company's operating leases have remaining lease terms of 1 year to 32 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within 1 year. The Company also has one sublease for part of a data processing center that the Company currently leases from a lessor. The sublease expires in 2022 with an option to terminate and no option to extend. Lease income, for the sublease, totaled approximately $39,000 for the year ended December 31, 2019. Variable lease costs include costs that are not included in the lease liability.

The components of lease expense were as follows:

Year Ended December 31,	2019
(in thousands)	
Operating lease cost	$ 2,216
Variable lease cost	528
Total lease cost	$ 2,744

Supplemental cash flow information related to leases was as follows:

Year Ended December 31,	2019
(in thousands)	
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 2,130
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	$ 1,745

Supplemental balance sheet information related to leases was as follows:

Year Ended December 31,	2019
(in thousands, except lease term and discount rate)	
Operating Leases:	
Operating lease right-of-use assets	$ 12,521
Operating lease liabilities	$ 12,690
Weighted Average Remaining Lease Term:	
Operating Leases	11 Years
Weighted Average Discount Rate:	
Operating Leases	3.5 %

The Company is obligated under a number of non-cancelable operating leases for premises and equipment expiring in various years through 2028. Total lease expense approximated $2,744,000, $2,601,000 and $2,608,000 for the years ended December 31, 2019, 2018 and 2017, respectively. Included in lease expense are amounts paid to a company affiliated with Barry R. Sloane, Chairman, President and CEO, and Linda Sloane Kay, Vice Chair, amounting to $458,000, $444,000 and $439,000, respectively. Rental income approximated $419,000, $373,000 and $321,000 in 2019, 2018 and 2017, respectively.

A summary of future payments of lease liabilities were as follows:

Year Ending December 31,	2019	2018
(in thousands)		
2019	$ —	$ 2,490
2020	2,030	2,170
2021	1,754	1,694
2022	1,603	1,331
2023	1,545	1,104
2024	1,277	—
Thereafter	7,312	1,074
Total lease payments	$ 15,521	$ 9,863
Less imputed interest	(2,831)	
Present value of lease liability	$ 12,690	

24. Quarterly Results of Operations (unaudited)

2019 Quarters	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	$ 40,518	$ 39,852	$ 39,692	$ 39,077
Interest expense	15,187	16,082	16,442	15,639
Net interest income	25,331	23,770	23,250	23,438
Provision for loan losses	550	75	250	375
Net interest income after provision for loan losses	24,781	23,695	23,000	23,063
Other operating income	4,689	4,286	4,997	4,427
Operating expenses	18,212	17,462	18,264	18,190
Income before income taxes	11,258	10,519	9,733	9,300
Provision for income taxes	526	435	267	(118)
Net income	$ 10,732	$ 10,084	$ 9,466	$ 9,418
Share data:				
Average shares outstanding, basic				
Class A	3,650,949	3,650,449	3,620,449	3,610,329
Class B	1,916,960	1,917,460	1,947,460	1,957,580
Average shares outstanding, diluted				
Class A	5,567,909	5,567,909	5,567,909	5,567,909
Class B	1,916,960	1,917,460	1,947,460	1,957,580
Earnings per share, basic				
Class A	$ 2.33	$ 2.19	$ 2.06	$ 2.05
Class B	$ 1.16	$ 1.09	$ 1.03	$ 1.03
Earnings per share, diluted				
Class A	$ 1.93	$ 1.81	$ 1.70	$ 1.69
Class B	$ 1.16	$ 1.09	$ 1.03	$ 1.03

2018 Quarters	Fourth	Third	Second	First
(in thousands, except share data)				
Interest income	$ 37,453	$ 34,765	$ 33,408	$ 31,430
Interest expense	13,748	11,561	10,209	8,962
Net interest income	23,705	23,204	23,199	22,468
Provision for loan losses	450	—	450	450
Net interest income after provision for loan losses	23,255	23,204	22,749	22,018
Other operating income	4,164	4,169	3,722	4,193
Operating expenses	17,185	17,348	17,159	18,001
Income before income taxes	10,234	10,025	9,312	8,210
Provision for income taxes	309	444	314	501
Net income	$ 9,925	$ 9,581	$ 8,998	$ 7,709
Share data:				
Average shares outstanding, basic				
Class A	3,608,329	3,608,329	3,608,029	3,608,029
Class B	1,959,580	1,959,580	1,959,880	1,959,880
Average shares outstanding, diluted				
Class A	5,567,909	5,567,909	5,567,909	5,567,909
Class B	1,959,580	1,959,580	1,959,880	1,959,880
Earnings per share, basic				
Class A	$ 2.16	$ 2.09	$ 1.96	$ 1.68
Class B	$ 1.08	$ 1.04	$ 0.98	$ 0.84
Earnings per share, diluted				
Class A	$ 1.78	$ 1.72	$ 1.62	$ 1.38
Class B	$ 1.08	$ 1.04	$ 0.98	$ 0.84

25. Parent Company Financial Statements

The balance sheets of Century Bancorp, Inc. ("Parent Company") as of December 31, 2019 and 2018 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2019, 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,	2019	2018
(dollars in thousands)		
ASSETS:		
Cash	$ 3,177	$ 1,263
Investment in subsidiary, at equity	353,489	322,775
Other assets	16,325	16,991
Total assets	$ 372,991	$ 341,029
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities	$ 4,327	$ 4,507
Subordinated debentures	36,083	36,083
Stockholders' equity	332,581	300,439
Total liabilities and stockholders' equity	$ 372,991	$ 341,029

STATEMENTS OF INCOME

Year Ended December 31,	2019	2018	2017
(dollars in thousands)			
Income:			
Dividends from subsidiary	$ 5,000	$ 4,750	$ 2,500
Interest income from deposits in bank	—	—	1
Other income	65	53	34
Total income	5,065	4,803	2,535
Interest expense	1,577	1,474	1,121
Operating expenses	215	225	209
Income before income taxes and equity in undistributed income of subsidiary	3,273	3,104	1,205
Benefit from income taxes	(363)	(347)	(440)
Income before equity in undistributed income of subsidiary	3,636	3,451	1,645
Equity in undistributed income of subsidiary	36,063	32,762	20,656
Net income	$ 39,699	$ 36,213	$ 22,301

STATEMENTS OF CASH FLOWS

December 31,	2019	2018	2017
(dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 39,699	$ 36,213	$ 22,301
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed income of subsidiary	(36,063)	(32,762)	(20,656)
Decrease (increase) in other assets	665	(158)	(6,498)
(Decrease) increase in liabilities	(180)	(1,808)	6,266
Net cash provided by (used in) operating activities	4,121	1,485	1,413
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash dividends paid	(2,207)	(2,203)	(2,200)
Net cash used in financing activities	(2,207)	(2,203)	(2,200)
Net increase (decrease) in cash	1,914	(718)	(787)
Cash at beginning of year	1,263	1,981	2,768
Cash at end of year	$ 3,177	$ 1,263	$ 1,981

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.:

Opinion on the Consolidated Financial Statements
We have audited the accompanying consolidated balance sheets of Century Bancorp, Inc. and its subsidiary (the “Company”) as of December 31, 2019 and 2018, 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, 2019, and the related notes, collectively, the consolidated financial statements. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, 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) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2020 expressed an unqualified opinion on the effectiveness of the Company’s internal control over financial reporting.

Basis for Opinion
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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

We have served as the Company’s auditor since 1982.

Boston, Massachusetts

March 13, 2020

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.:

Opinion on Internal Control Over Financial Reporting

We have audited Century Bancorp, Inc. and its subsidiary's (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, 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, 2019, and the related notes, collectively, the consolidated financial statements, and our report dated March 13, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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 of internal control over financial reporting 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.

Definition and Limitations of Internal Control Over Financial Reporting

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.

KPMG LLP

Boston, Massachusetts

March 13, 2020

CENTURY BANCORP, INC.

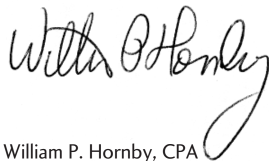
400 Mystic Avenue
Medford, Massachusetts 02155

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, 2019. 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).w* Based on our assessment, we believe that, as of December 31, 2019, 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 57.



Barry R. Sloane
Chairman, President & CEO

William P. Hornby, CPA
Chief Financial Officer & Treasurer

March 13, 2020

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 505000
Louisville, KY 40233
TEL (781) 575-3400
Computershare.com

Annual Meeting

The annual meeting of stockholders will be held on Tuesday, April 14, 2020, 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 $5.5 billion banking and financial services company headquartered in Medford, Massachusetts. The Company operates 28 banking offices and provides a full range of business, personal, and institutional services.

Headquarters – Medford
400 Mystic Avenue
(781) 393-4160

Allston
300 Western Avenue
(617) 562-1700

Andover
15 Elm Street
(978) 474-4191

Back Bay
437 Boylston Street
(617) 424-1644

Beverly
428 Rantoul Street
(978) 921-2300

Braintree
703 Granite Street
(781) 356-3400

Brookline
1184-1186 Boylston Street/Rte 9
(617) 713-4910

Burlington
134 Cambridge Street/Rte 3A
(781) 238-8700

Cambridge
2309 Massachusetts Avenue
(617) 349-5300

Chestnut Hill Square
210 Boylston Street/Rte 9
(617) 582-0920

Coolidge Corner
1354 Beacon Street
(617) 713-1890

Everett
1763 Revere Beach Parkway/Rte 16
(617) 381-6300

Federal Street
24 Federal Street
(617) 423-1490

Fellsway
503 Riverside Avenue
(781) 393-6520

Lynn
2 State Street
(781) 586-8700

Malden
140 Ferry Street at Eastern Avenue
(781) 388-2100

Medford Square
One Salem Street
(781) 391-9830

Newton Centre
32 Langley Road
(617) 641-2300

North End
275 Hanover Street
(617) 557-2950

Peabody
12 Peabody Square
(978) 977-4900

Quincy
651 Hancock Street
(617) 376-8100

Salem, MA
37 Central Street
(978) 740-6900

Salem, NH (Coming Soon)
365 South Broadway

Somerville
102 Fellsway West at Mystic Avenue
(617) 629-0929

State Street
136 State Street
(617) 367-3712

Wellesley
258 Washington Street
(781) 235-6500

Winchester
522 Main Street
(781) 756-3480

Woburn
299 Mishawum Road
(781) 932-5612

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