CENTURY BANCORP INC
Form 10-K
March 12, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(Mark One)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2007**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission file number 0-15752
CENTURY BANCORP, INC.
(Exact name of registrant as specified in its charter)

COMMONWEALTH OF MASSACHUSETTS	**04-2498617**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification number)*
400 MYSTIC AVENUE, MEDFORD, MA	**02155**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number including area code:
(781) 391-4000
Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock, $1.00 par value	**Nasdaq Global Market**
(Title of class)	*(Name of Exchange)*

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark whether the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

State the aggregate market value of the registrant s voting and nonvoting stock held by nonaffiliates, computed using the closing price as reported on Nasdaq as of June 30, 2007 was $79,860,049.

Indicate the number of shares outstanding of each of the registrant s classes of common stock as of February 29, 2008:

Class A Common Stock, $1.00 par value 3,516,704 Shares
Class B Common Stock, $1.00 par value 2,027,100 Shares

DOCUMENTS INCORPORATED BY REFERENCE

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (c) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

(1) Portions of the Registrant s Annual Report to Stockholders for the fiscal year ended December 31, 2007 are incorporated into Part II, Items 5-8 of this Form 10-K.

CENTURY BANCORP INC.

FORM 10-K

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PART I

ITEM 1. *BUSINESS*

The Company

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company, formed in 1969. The Company had total assets of approximately $1.7 billion on December 31, 2007. The Company presently operates 21 banking offices in 16 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank s customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

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

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

The Company is also a provider of financial services, including cash management, transaction processing and short term financing, to municipalities in Massachusetts and Rhode Island. The Company has deposit relationships with approximately 39% of the 351 cities and towns in Massachusetts.

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

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

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

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

Availability of Company Filings

Under the Securities Exchange Act of 1934, Sections 13 and 15(d), periodic and current reports must be filed with the Securities and Exchange Commission (the SEC). The public may read and copy any materials filed with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0030. The Company electronically files with the SEC its periodic and current reports, as well as other filings it makes with the SEC from

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time to time. The SEC maintains an Internet site that contains reports and other information regarding issuers, including the Company, that file electronically with the SEC, at www.sec.gov, in which all forms filed electronically may be accessed. Additionally, our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and additional shareholder information are available free of charge on the Company s website: www.century-bank.com.

Employees

As of December 31, 2007, the Company had 278 full-time and 95 part-time employees. The Company s employees are not represented by any collective bargaining unit. The Company believes that its employee relations are good.

Financial Services Modernization

On November 12, 1999, President Clinton signed into law The Gramm-Leach-Bliley Act (Gramm-Leach) which significantly altered banking laws in the United States. Gramm Leach enables combinations among banks, securities firms and insurance companies beginning March 11, 2000. As a result of Gramm Leach, many of the depression-era laws that restricted these affiliations and other activities that may be engaged in by banks and bank holding companies were repealed. Under Gramm-Leach, bank holding companies are permitted to offer their customers virtually any type of financial service that is financial in nature or incidental thereto, including banking, securities underwriting, insurance (both underwriting and agency) and merchant banking.

In order to engage in these financial activities, a bank holding company must qualify and register with the Federal Reserve Board as a financial holding company by demonstrating that each of its bank subsidiaries is well capitalized, well managed, and has at least a satisfactory rating under the Community Reinvestment Act of 1977 (the CRA). The Company has not elected to become a financial holding company under Gramm-Leach.

These new financial activities authorized by Gramm-Leach may also be engaged in by a financial subsidiary of a national or state bank, except for insurance or annuity underwriting, insurance company portfolio investments, real estate investment and development and merchant banking, which must be conducted in a financial holding company. In order for the new financial activities to be engaged in by a financial subsidiary of a national or state bank, Gramm-Leach requires each of the parent bank (and any bank affiliates) to be well capitalized and well managed; the aggregate consolidated assets of all of that bank s financial subsidiaries may not exceed the lesser of 45% of its consolidated total assets or $50 billion; the bank must have at least a satisfactory CRA rating; and, if the bank is one of the 100 largest banks, it must meet certain financial rating or other comparable requirements.

Gramm-Leach establishes a system of functional regulation, under which the federal banking agencies will regulate the banking activities of financial holding companies and banks financial subsidiaries, the SEC will regulate their securities activities, and state insurance regulators will regulate their insurance activities. Gramm-Leach also provides new protections against the transfer and use by financial institutions of consumers nonpublic, personal information.

Holding Company Regulation

The Company is a bank holding company as defined by the Bank Holding Company Act of 1956, as amended (the Holding Company Act), and is registered as such with the Board of Governors of the Federal Reserve Bank (the FRB), which is responsible for administration of the Holding Company Act. Although the Company may meet the qualifications for electing to become a financial holding company under Gramm-Leach, the Company has elected to retain its pre-Gramm-Leach status for the present time under the Holding Company Act. As required by the Holding Company Act, the Company files with the FRB an annual report regarding its financial condition and operations, management and intercompany relationships of the Company and the Bank. It is also subject to examination by the

FRB and must obtain FRB approval before (i) acquiring direct or indirect ownership or control of more than 5% of the voting stock of any bank, unless it already owns or controls a majority of the voting stock of that bank, (ii) acquiring all or substantially all of the assets of a bank, except through a subsidiary which is a bank, or (iii) merging or consolidating with any other bank holding company. A bank holding company must also give the FRB prior written notice before purchasing or redeeming its equity securities, if the gross consideration for the

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purchase or redemption, when aggregated with the net consideration paid by the company for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the Company s consolidated net worth.

The Holding Company Act prohibits a bank holding company, with certain exceptions, from (i) acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any company which is not a bank or a bank holding company, or (ii) engaging in any activity other than managing or controlling banks, or furnishing services to or performing services for its subsidiaries. A bank holding company may own, however, shares of a company engaged in activities which the FRB has determined are so closely related to banking or managing or controlling banks as to be a proper incident thereto.

The Company and its subsidiaries are examined by federal and state regulators. The FRB has responsibility for holding company activities and performed a review of the Company and its subsidiaries as of November 2006.

Federal Deposit Insurance Corporation Improvement Act of 1991

On December 19, 1991, the FDIC Improvement Act of 1991 (the 1991 Act) was enacted. This legislation provides for, among other things: enhanced federal supervision of depository institutions, including greater authority for the appointment of a conservator or receiver for undercapitalized institutions; the establishment of risk-based deposit insurance premiums; a requirement that the federal banking agencies amend their risk-based capital requirements to include components for interest-rate risk, concentration of credit risk, and the risk of nontraditional activities; expanded authority for cross-industry mergers and acquisitions; mandated consumer protection disclosures with respect to deposit accounts; and imposed restrictions on the activities of state-chartered banks, including the Bank.

Provisions of the 1991 Act relating to the activities of state-chartered banks significantly impact the way the Company conducts its business. In this regard, the 1991 Act provides that insured state banks, such as the Bank, may not engage as principal in any activity that is not permissible for a national bank, unless the FDIC has determined that the activity would pose no significant risk to the Bank Insurance Fund (BIF) and the state bank is in compliance with applicable capital standards. Activities of subsidiaries of insured state banks are similarly restricted to those activities permissible for subsidiaries of national banks, unless the FDIC has determined that the activity would pose no significant risk to the BIF and the state bank is in compliance with applicable capital standards.

Interstate Banking

The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, as amended (the Interstate Banking Act), generally permits bank holding companies to acquire banks in any state and preempts all state laws restricting the ownership by a bank holding company of banks in more than one state. The Interstate Banking Act also permits a bank to merge with an out-of-state bank and convert any offices into branches of the resulting bank if both states have not opted out of interstate branching; permits a bank to acquire branches from an out-of-state bank if the law of the state where the branches are located permits the interstate branch acquisition; and operated de novo interstate branches whenever the host state opts-in to de novo branching. Bank holding companies and banks seeking to engage in transactions authorized by the Interstate Banking Act must be adequately capitalized and managed.

USA PATRIOT Act

Under Title III of the USA PATRIOT Act, also known as the International Money Laundering Abatement and Anti-Terrorism Act of 2001 , all financial institutions are required in general to identify their customers, adopt formal and comprehensive anti-money laundering programs, scrutinize or prohibit altogether certain transactions of special concern, and be prepared to respond to inquiries from U.S. law enforcement agencies concerning their customers and their transactions. Additional information-sharing among financial institutions, regulators, and law enforcement authorities is encouraged by the presence of an exemption from the privacy provisions of the Gramm-Leach Act for financial institutions that comply with this provision and the authorization of the Secretary of the Treasurer to adopt rules to further encourage cooperation and information-sharing. The effectiveness of a financial

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institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act.

Sarbanes-Oxley Act

The Sarbanes-Oxley Act, signed into law July 30, 2002, addresses, among other issues, corporate governance, auditor independence and accounting standards, executive compensation, insider loans, whistleblower protection and enhanced and timely disclosure of corporate information. The SEC has adopted a substantial number of implementing rules and the Financial Industry Regulatory Authority(FINRA) has adopted corporate governance rules that have been approved by the SEC and are applicable to the Company. The changes are intended to allow stockholders to monitor more effectively the performance of companies and management. As directed by Section 302(a) of the Sarbanes-Oxley Act, the Company s Co-Chief Executive Officers and Chief Financial Officer are each required to certify that the Company s quarterly and annual reports do not contain any untrue statement of a material fact. This requirement has several parts, including certification that these officers are responsible for establishing, maintaining and regularly evaluating the effectiveness of the Company s disclosure controls and procedures and internal controls over financial reporting; that they have made certain disclosures to the Company s auditors and the Board of Directors about the Company s disclosure controls and procedures and internal control over financial reporting, and that they have included information in the Company s quarterly and annual reports about their evaluation of the Company s disclosure controls and procedures and internal control over financial reporting, and whether there have been significant changes in the Company s internal disclosure controls and procedures or in other factors that could significantly affect such controls and procedures subsequent to the evaluation and whether there have been any significant changes in the Company s internal control over financial reporting that have materially affected or reasonably likely to materially affect the Company s internal control over financial reporting, and compliance with certain other disclosure objectives. Section 906 of the Sarbanes-Oxley Act requires an additional certification that each periodic report containing financial statements fully complies with the requirements of Section 13(a) and 15(d) of the Securities Exchange Act of 1934 and that the information in the report fairly presents, in all material respects, the financial conditions and results of operations of the Company.

Deposit Insurance Premiums

Effective January 1, 2007, the FDIC approved new deposit insurance assessment rates that were determined based upon a contribution of financial ratios and supervisory factors. There are four established risk categories under the new assessment rules. The Bank s Risk Category I assessment rate is 5.4 basis points of the deposit assessment base, as defined by the FDIC. The Federal Deposit Insurance Reform Act of 2005 allows eligible insured depository institutions to share in a one-time assessment credit pool of approximately $4.7 billion, effectively reducing the amount these institutions will be required to submit as an overall assessment. The Bank s one-time assessment credit was $848,301. At December 31, 2007, the credit balance was $365,161.

Competition

The Company experiences substantial competition in attracting deposits and making loans from commercial banks, thrift institutions and other enterprises such as insurance companies and mutual funds. These competitors include several major commercial banks whose greater resources may afford them a competitive advantage by enabling them to maintain numerous branch offices and mount extensive advertising campaigns. A number of these competitors are not subject to the regulatory oversight that the Company is subject to, which increases these competitors flexibility.

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 a 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

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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 market 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.

ITEM 1A. *RISK FACTORS*

The risk factors that may affect the Company s performance and results of operations include the following:

(i) the Company s business is dependent upon general economic conditions in Massachusetts;

(ii) the Company s earnings depend to a great extent upon the level of net interest income generated by the Company, and therefore the Company s results of operations may be adversely affected by increases or decreases in interest rates or by the shape of the yield curve;

(iii) the banking business is highly competitive and the profitability of the Company depends upon the Company s ability to attract loans and deposits in Massachusetts, where the Company competes with a variety of traditional banking companies, some of which have vastly greater resources, and nontraditional institutions such as credit unions and finance companies;

(iv) at December 31, 2007, approximately 57.5% of the Company s loan portfolio was comprised of commercial and commercial real estate loans, exposing the Company to the risks inherent in financings based upon analyses of credit risk, the value of underlying collateral, including real estate, and other more intangible factors, which are considered in making commercial loans;

(v) at December 31, 2007, approximately 31.0% of the Company s loan portfolio was comprised of residential real estate loans, exposing the Company to the risks inherent in financings based upon analyses of credit risk and the value of underlying collateral. Accordingly, the Company profitability may be negatively impacted by errors in risk analyses, by loan defaults and the ability of certain borrowers to repay such loans may be adversely affected by any downturn in general economic conditions;

(vi) acts or threats of terrorism and actions taken by the United States or other governments as a result of such acts or threats, including possible military action, could further adversely affect business and economic conditions in the United States of America generally and in the Company s markets, which could adversely affect the Company s financial performance and that of the Company s borrowers and on the financial markets and the price of the Company s Class A common stock;

(vii) changes in the extensive laws, regulations and policies governing bank holding companies and their subsidiaries could alter the Company s business environment or affect the Company s operations; and

(viii) the potential need to adapt to industry changes in information technology systems, on which the Company is highly dependent to secure bank and customer financial information, could present operational issues, require significant capital spending or impact the Company s reputation.

These factors, as well as general economic and market conditions in the United States of America, may materially and adversely affect the Company s performance, results of operations and the market price of shares of the Company s Class A common stock.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

No written comments received by the Company from the SEC regarding the Company s periodic or current reports remain unresolved.

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ITEM 2. *PROPERTIES*

The Company owns its main banking office, headquarters, and operations center in Medford, Massachusetts, which were expanded in 2004, and 11 of the 20 other facilities in which its branch offices are located. The remaining offices are occupied under leases expiring on various dates from 2008 to 2026. The Company believes that its banking offices are in good condition.

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

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

ITEM 3. *LEGAL PROCEEDINGS*

The Company and its subsidiaries are parties to various claims and lawsuits arising in the course of their normal business activities. Although the ultimate outcome of these suits cannot be ascertained at this time, it is the opinion of management that none of these matters, even if it resolved adversely to the Company, will have a material adverse effect on the Company s consolidated financial position.

ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

No matters were submitted to a vote of the Company s Stockholders during the fourth quarter of the fiscal year ended December 31, 2007.

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PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

(a) The Class A Common Stock of the Company is traded on the NASDAQ National Global Market under the symbol CNBKA. The price range of the Company s Class A common stock since January 1, 2006 is shown on page 9. The Company s Class B Common Stock is not traded on any national securities exchange or other public trading market. The Company did not repurchase any stock during 2007.

The shares of Class A Common Stock are generally not entitled to vote on any matter, including in the election of Company Directors, but, in limited circumstances, may be entitled to vote as a class on certain extraordinary transactions, including any merger or consolidation (other than one in which the Company is the surviving corporation or one which by law may be approved by the directors without any stockholder vote) or the sale, lease, or exchange of all or substantially all of the property and assets of the Company. Since the vote of a majority of the shares of the Company s Class B Common Stock, voting as a separate class, is required to approve certain extraordinary corporate transactions, the holders of Class B Common Stock have the power to prevent any takeover of the Company not approved by them.

(b) Approximate number of equity security holders as of December 31, 2007:

Title of Class	**Approximate Number of Record Holders**
Class A Common Stock	1,300
Class B Common Stock	100

(c) 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.

The following table shows the dividends paid by the Company on the Class A and Class B Common Stock for the periods indicated.

	Dividends per Share	
	Class A	**Class B**
2006		
First quarter	$ .12	$ .06
Second quarter	.12	.06
Third quarter	.12	.06
Fourth quarter	.12	.06
2007		

First quarter	$ .12	$ .06
Second quarter	.12	.06
Third quarter	.12	.06
Fourth quarter	.12	.06

As a bank holding company, the Company s ability to pay dividends is dependent in part upon the receipt of dividends from the Bank, which is subject to certain restrictions on the payment of dividends. A Massachusetts trust company may pay dividends out of net profits from time to time, provided that either (i) the trust company s capital stock and surplus account equal an aggregate of at least 10% of its deposit liabilities, or (ii) the amount of its surplus account is equal to at least the amount of its capital account.

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(d) The following schedule provides information with respect to the Company s equity compensation plans under which shares of Class A Common Stock are authorized for issuance as of December 31, 2007:

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	97,487	$ 27.66	176,759
Equity compensation plans not approved by security holders			
Total	97,487	$ 27.66	176,759

(e) The performance graph information required herein is shown on page 10.

ITEM 6. ***SELECTED FINANCIAL DATA***

The information required herein is shown on pages 9 and 10.

ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION***

The information required herein is shown on pages 11 through 29.

ITEM 7a. ***QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

The information required herein is shown on pages 26 and 27.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

The information required herein is shown on pages 30 through 60.

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

The Company s principal executive officers and principal financial officer have evaluated the Company s disclosure controls and procedures as of December 31, 2007. Based on this evaluation, the principal executive officers and principal financial officer have concluded that the Company s disclosure controls and procedures effectively ensure that information required to be disclosed in the Company s filings and submissions with the Securities and Exchange Commission under the Exchange Act is accumulated and reported to Company management (including the principal executive officer and principal financial officer) and is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission. In addition, the Company has reviewed its internal control over financial reporting and there have been no significant changes in its internal control over financial reporting or in other factors that could significantly affect its internal control over financial reporting. Management s report on internal control over financial reporting is shown on page 63. The audit report of the registered public accounting firm is shown on page 62.

ITEM 9B. ***OTHER INFORMATION***

None.

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Financial Highlights

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

Average stockholders equity to average assets					
Efficiency ratio	**77.5%**	83.5%	79.1%	72.7%	61.9%

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

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

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The stock performance graph below compares the cumulative total shareholder return of the Company s Common Stock from December 31, 2002 to December 31, 2007 with the cumulative total return of the NASDAQ Market Index (U.S. Companies) and the NASDAQ Bank Stock index. The lines in the table below represent monthly index levels derived from compounded daily returns that include all dividends. If the monthly interval, based on the fiscal year-end, was not a trading day, the preceding trading day was used.

Comparison of Five-Year
Cumulative Total Return*

Value of $100 Invested on December 31, 2002 at:	**2003**	**2004**	**2005**	**2006**	**2007**
Century Bancorp, Inc.	$ 135.64	$ 114.56	$ 115.51	$ 109.69	$ 82.78
NASDAQ Banks	128.64	147.22	143.82	161.41	127.92
NASDAQ U.S.	149.52	162.72	166.18	182.57	197.98

* Assumes that the value of the investment in the Company s Common Stock and each index was $100 on December 31, 2002 and that all dividends were reinvested.

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

FORWARD-LOOKING STATEMENTS

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

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

OVERVIEW

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company formed in 1969. The Company had total assets of $1.7 billion at December 31, 2007. The Company presently operates 21 banking offices in 16 cities and towns in Massachusetts ranging from Braintree in the south to Beverly in the north. The Bank s customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

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

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

The Company is also a provider of financial services including cash management, transaction processing and short-term financing, to municipalities in Massachusetts and Rhode Island. The Company has deposit relationships with approximately 39% of the 351 cities and towns in Massachusetts.

The Company had net income of $7,864,000 for the year ended December 31, 2007, compared with net income of $4,688,000 for the year ended December 31, 2006 and net income of $6,880,000 for the year ended December 31, 2005. Basic earnings per share were $1.42 in 2007, compared to $0.85 in 2006 and $1.24 in 2005. Diluted earnings per share were $1.42 in 2007, compared to $0.84 in 2006 and $1.24 in 2005. Included in income for 2007 is $1,321,000 pre-tax gain on the sale of the building that houses the Company s Medford Square branch. Included in

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income for 2006 is a pre-tax gain of $600,000 from the sale of the Company s rights to future royalty payments for a portion of its Merchant Credit Card customer base.

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

Net Interest Margin

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

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

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

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

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Historical U.S. Treasury Yield Curve

A yield curve is a line that typically plots the interest rates of U.S. Treasury Debt, which have different maturity dates, but the same credit quality, at a specific point in time. The three main types of yield curve shapes are normal, inverted and flat. During 2005 and 2006, the U.S. economy experienced a flattening and subsequent inversion of the yield curve, which means that the spread between the long-term and short-term yields has decreased or inverted. During 2007, rates have fallen and the yield curve has steepened somewhat. This has positively impacted the net interest margin. During 2006 the Company s earnings were negatively impacted primarily by a decrease in net interest income. This decrease was primarily due to the inverted yield curve during 2006 as well as increased funding costs.

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact income, are considered critical accounting policies.

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The Company considers the following to be its critical accounting policies: allowance for loan losses and impairment of investment securities. There have been no significant changes in the methods or assumptions used in the accounting policies that require material estimates and assumptions.

Allowance for Loan Losses

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

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

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

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

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

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

Impaired Investment Securities

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

The Company has the ability and intent to hold all securities with an unrealized loss until recovery of fair value, which may be maturity.

FINANCIAL CONDITION

Investment Securities

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

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

These securities are carried at fair value and unrealized gains and losses, net of applicable income taxes, are recognized as a separate component of stockholders equity. The fair value of securities available-for-sale at December 31, 2007 totaled $403,635,000 and include gross unrealized gains of $1,728,000 and gross unrealized losses of $2,077,000. A year earlier, securities available-for-sale were $415,481,000 including gross unrealized gains of $221,000 and unrealized losses of $8,447,000. In 2007, the Company recognized gross gains of $153,000 on the sale of one stock. In 2006, the Company recognized no net gains or losses on the sale of available-for-sale securities.

Securities which management intends to hold until maturity consist of U.S. Government Sponsored Enterprises and mortgage-backed securities. Securities held-to-maturity as of December 31, 2007 are carried at their amortized cost of $183,710,000 and exclude gross unrealized gains of $131,000 and gross unrealized losses of $2,137,000. A year earlier, securities held-to-maturity totaled $265,712,000 excluding gross unrealized gains of $76,000 and gross unrealized losses of $7,368,000.

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

Fair Value of Securities Available-for-Sale

	2007		**2006**		**2005**	
At December 31,	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
			(Dollars in thousands)			
U.S. Treasury	**$ 2,036**	**0.5%**	$ 1,991	0.5%	$ 1,979	0.4%
U.S. Government Sponsored Enterprises	**218,729**	**54.2%**	221,037	53.2%	292,153	54.7%
Mortgage-backed securities	**162,162**	**40.2%**	179,076	43.1%	218,552	41.0%
Obligations of states and political subdivisions	**1,678**	**0.4%**		0%	807	0.2%
FHLB Stock	**15,531**	**3.8%**	9,823	2.4%	16,312	3.1%
Other	**3,499**	**0.9%**	3,554	0.8%	3,179	0.6%

Total	**$ 403,635**	**100.0%**	$ 415,481	100.0%	$ 532,982	100.0%

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

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

Amortized Cost of Securities Held-to-Maturity

At December 31,	2007 Amount	2007 Percent	2006 Amount	2006 Percent	2005 Amount	2005 Percent
			(Dollars in thousands)			
U.S. Government Sponsored Enterprises	**$ 94,987**	**51.7%**	$ 159,969	60.2%	$ 159,952	55.8%
Mortgage-backed securities	**88,723**	**48.3%**	105,743	39.8%	126,626	44.2%
Total	**$ 183,710**	**100.0%**	$ 265,712	100.0%	$ 286,578	100.0%

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

The following two tables set forth contractual maturities of the Bank s securities portfolio at December 31, 2007. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fair Value of Securities Available-for-Sale Amounts Maturing

	Within One Year	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield
				(Dollars in thousands)					
.S. Treasury	$ 2,036	0.5%	4.60%	$	0.0%		$	0.0%	
.S. Government Sponsored nterprises	84,581	21.0%	3.20%	98,862	24.5%	4.87%	35,286	8.7%	5.00
ortgage-backed securities	7,017	1.7%	3.51%	148,100	36.7%	4.46%	7,045	1.8%	4.95
bligations of state and litical subdivisions and her	2,424	0.6%	4.00%		0.0%			0.0%	
otal	$ 96,058	23.8%	3.27%	$ 246,962	61.2%	4.62%	$ 42,331	10.5%	4.99

	Non-Maturing	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
			(Dollars in thousands)			

U.S. Treasury	**$**	**0.0%**		**$ 2,036**	**0.5%**	**4.60%**
U.S. Government Sponsored Enterprises		**0.0%**		**218,729**	**54.2%**	**4.24%**
Mortgage-backed securities		**0.0%**		**162,162**	**40.2%**	**4.44%**
Obligations of state and political subdivisions and other	**18,284**	**4.5%**	**6.10%**	**20,708**	**5.1%**	**5.85%**
Total	**$ 18,284**	**4.5%**	**6.10%**	**$ 403,635**	**100.0%**	**4.40%**

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Amortized Cost of Securities Held-to-Maturity Amounts Maturing

	Within One Year	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield	Total	% To
					(Dollars in thousands)						
rises	$ 69,988	38.1%	3.31%	$ 24,999	13.6%	3.92%	$	0.0%		$ 94,987	
securities	1	0.0%	5.29%	88,558	48.2%	4.17%	164	0.1%	4.78%	88,723	
	$ 69,989	38.1%	3.31%	$ 113,557	61.8%	4.11%	$ 164	0.1%	4.78%	$ 183,710	1

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

Loans

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

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

	2007		2006		2005		2004		2003	
nber 31,	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Perc of Tot
					(Dollars in thousands)					
ruction nd opment	**$ 62,412**	**8.6%**	$ 49,709	6.7%	$ 58,846	8.5%	$ 51,918	9.0%	$ 34,121	
nercial dustrial	**117,332**	**16.2%**	117,497	16.0%	94,139	13.7%	71,962	12.4%	39,742	
nercial tate	**299,920**	**41.3%**	327,040	44.5%	302,279	43.8%	258,524	44.6%	293,781	5
	168,204	**23.2%**	167,946	22.8%	146,355	21.2%	118,223	20.4%	86,780	1

ential tate										
mer	**20,149**	**2.8%**	9,881	1.3%	9,977	1.5%	8,607	1.5%	8,025	
Equity	**56,795**	**7.7%**	63,380	8.5%	76,710	11.1%	69,957	12.0%	49,382	
rafts	**1,439**	**0.2%**	1,320	0.2%	1,339	0.2%	812	0.1%	483	
	$ 726,251	**100.0%**	$ 736,773	100.0%	$ 689,645	100.0%	$ 580,003	100.0%	$ 512,314	10

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

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The following table summarizes the remaining maturity distribution of certain components of the Company s loan portfolio on December 31, 2007. The table excludes loans secured by 1-4 family residential real estate and loans for household and family personal expenditures. Maturities are presented as if scheduled principal amortization payments are due on the last contractual payment date.

Remaining Maturities of Selected Loans at December 31, 2007

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

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

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

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

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

Residential real estate (1-4 family) includes two categories of loans. Included in residential real estate are approximately $9,503,000 of C&I type loans secured by 1-4 family real estate. Primarily, these are small businesses with modest capital or shorter operating histories where the collateral mitigates some risk. This category of loans shares similar risk characteristics with the C&I loans, notwithstanding the collateral position.

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

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

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

Bank officers evaluate the feasibility of construction projects, based on independent appraisals of the project, architects or engineers evaluations of the cost of construction, and other relevant data. As of December 31, 2007, the Company was obligated to advance a total of $27,294,000 to complete projects under construction.

The composition of nonperforming assets is as follows:

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

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

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

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

The Company was servicing mortgage loans sold to others without recourse of approximately $559,000, $798,000, $1,078,000, $1,538,000 and $2,397,000 at December 31, 2007, 2006, 2005, 2004 and 2003, respectively. Additionally, the Company services mortgage loans sold to others with limited recourse. The outstanding balance of these loans with limited recourse was approximately $65,000, $72,000, $80,000, $86,000 and $183,000 at December 31, 2007, 2006, 2005, 2004 and 2003, respectively.

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

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

Non-accrual loans increased from 2006 to 2007 primarily as a result of three consumer mortgages totaling $938,000. The relatively low level of nonperforming assets of $135,000 in 2006 and $949,000 in 2005 resulted from fewer additions to nonperforming assets during the year combined with an improvement in the resolution of nonperforming assets including payments on nonperforming loans.

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In addition to the above, the Company continues to monitor closely $14,117,000 and $20,779,000 at December 31, 2007 and 2006, respectively, of potential problem loans for which management has concerns regarding the ability of the borrowers to perform. The majority of the loans are secured by real estate and are considered to have adequate collateral value to cover the loan balances at December 31, 2007, although such values can fluctuate with changes in the economy and the real estate market.

Allowance for Loan Losses

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

Year Ended December 31,	**2007**	**2006**	**2005**	**2004**	**2003**
			(Dollars in thousands)		
Year-end loans outstanding (net of unearned discount and deferred loan fees)	**$ 726,251**	$ 736,773	$ 689,645	$ 580,003	$ 512,314
Average loans outstanding (net of unearned discount and deferred loan fees)	**$ 725,903**	$ 723,825	$ 641,103	$ 546,147	$ 500,723
Balance of allowance for loan losses at the beginning of year	**$ 9,713**	$ 9,340	$ 9,001	$ 8,769	$ 8,506
Loans charged-off:					
Commercial	**1,828**	386	366	1	240
Residential real estate				194	
Consumer	**311**	322	324	113	125
Total loans charged-off	**2,139**	708	690	308	365
Recovery of loans previously charged-off:					
Commercial	**268**	96	75	117	127
Real estate	**149**	49	235	103	29
Consumer	**142**	112	119	20	22
Total recoveries of loans previously charged-off:	**559**	256	429	240	178
Net loan charge-offs	**1,580**	452	261	68	187
Additions to allowance charged to operating expense	**1,500**	825	600	300	450
Balance at end of year	**$ 9,633**	$ 9,713	$ 9,340	$ 9,001	$ 8,769

Ratio of net charge-offs during the year to average loans outstanding	**0.22%**	0.06%	0.04%	0.01%	0.04%
Ratio of allowance for loan losses to loans outstanding	**1.33%**	1.32%	1.35%	1.55%	1.71%

These provisions are the result of management s evaluation of the quality of the loan portfolio considering such factors as loan status, collateral values, financial condition of the borrower, the state of the economy and other relevant information. The pace of the charge-offs depends on many factors including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels. Charge-offs increased during 2007 due to an increase in commercial loan charge-offs.

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

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

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

Deposits

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

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

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

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

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

	2007 (Dollars in thousands)	
Three months or less	$	**74,153**
Three months through six months		**59,677**
Six months through twelve months		**19,602**
Over twelve months		**19,160**
	$	**172,592**

Borrowings

The Bank s borrowings consisted primarily of FHLB borrowings collateralized by a blanket pledge agreement on the Bank s FHLB stock, certain qualified investment securities, deposits at the FHLB and residential mortgages held in the Bank s portfolios. The Bank s borrowing from the FHLB totaled $289,250,000, an increase of $167,500,000 from the prior year. The Bank s remaining term borrowing capacity at the FHLB at December 31, 2007 was approximately $31,452,000. In addition, the Bank has a $14,500,000 line of credit with the FHLB. See note 10 Other Borrowed Funds and Subordinated Debentures for a schedule, their interest rates and other information.

Subordinated Debentures

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

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

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

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

Securities Sold Under Agreements to Repurchase

The Bank s remaining borrowings consist primarily of securities sold under agreements to repurchase. Securities sold under agreements to repurchase totaled $85,990,000, a decrease of $970,000 from the prior year. See note 9 Securities Sold Under Agreements to Repurchase for a schedule, including their interest rates and other information.

RESULTS OF OPERATIONS

Net Interest Income

The Company s operating results depend primarily on net interest income and fees received for providing services. Net interest income increased 6.6% in 2007 to $39,203,000, compared with $36,763,000 in 2006. The increase in net interest income for 2007 was mainly due to a 10.4% or a twenty-five basis point increase in the net interest margin. The level of interest rates, the ability of the Company s earning assets and liabilities to adjust to changes in interest rates and the mix of the Company s earning assets and liabilities affect net interest income. The

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net interest margin on a fully taxable equivalent basis increased to 2.65% in 2007 from 2.40% in 2006, which had decreased from 2.58% in 2005.

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

	2007			2006			2005	
nded December 31,	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid(1)	Average Balance	Interest Income/ Expense(1)	Rate Earned/ Paid(1)	Average Balance	Interest Income/ Expense(1)
	(Dollars in thousands)							
ASSETS								
arning assets:								
	$ 725,903	**$ 52,902**	**7.29%**	$ 723,825	$ 51,466	7.11%	$ 641,103	$ 41,274
s available-for-sale:(3)								
	372,878	**14,466**	**3.88**	497,113	17,182	3.46	580,129	19,518
npt	**330**	**17**	**5.21**	354	18	5.02	878	32
s held-to-maturity:								
	248,338	**9,065**	**3.65**	275,897	10,112	3.67	311,738	11,635
unds sold	**131,737**	**6,661**	**5.06**	37,511	1,955	5.21	15,847	362
earing deposits in ks	**163**	**7**	**4.29**	217	9	4.15	50	
erest-earning assets	**1,479,349**	**83,118**	**5.62%**	1,534,917	80,742	5.26%	1,549,745	72,821
rest-earning assets	**130,652**			123,601			118,325	
ce for loan losses	**(9,719)**			(9,608)			(9,353)	
ets	**$ 1,600,282**			$ 1,648,910			$ 1,658,717	
LIABILITIES AND STOCKHOLDERS EQUITY								
earing deposits:								
counts	**$ 202,761**	**$ 4,235**	**2.09%**	$ 205,645	$ 3,936	1.91%	$ 237,016	$ 3,265
ccounts	**112,200**	**2,477**	**2.21**	84,527	1,013	1.20	76,130	287
arket accounts	**277,482**	**8,901**	**3.21**	327,203	9,804	3.00	366,623	7,018
osits	**335,972**	**15,640**	**4.66**	359,045	16,026	4.46	265,310	8,835
erest-bearing deposits	**928,415**	**31,253**	**3.37**	976,420	30,779	3.15	945,079	19,405
s sold under ts to repurchase	**89,815**	**3,193**	**3.56**	70,862	2,681	3.78	39,746	813
rowed funds and ated debentures	**168,535**	**9,359**	**5.55**	192,143	10,484	5.46	268,878	12,602
erest-bearing liabilities	**1,186,765**	**43,805**	**3.69%**	1,239,425	43,944	3.55%	1,253,703	32,820
rest-bearing liabilities								
deposits	**278,402**			284,295			283,876	
ilities	**23,565**			19,801			16,463	

bilities	**1,488,732**		1,543,521		1,554,042	
lders equity	**111,550**		105,389		104,675	
bilities & stockholders	**$ 1,600,282**		$ 1,648,910		$ 1,658,717	
able equivalent nt		**(110)**		(35)		(10)
est income		**$ 39,203**		$ 36,763		$ 39,991
est spread		**1.93%**		1.71%		
est margin		**2.65%**		2.40%		

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

(2) Non-accrual loans are included in average amounts outstanding.

(3) At amortized cost.

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

	Year Ended December 31,					
	2007 Compared with 2006 Increase/(Decrease) Due to Change in			2006 Compared with 2005 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(Dollars in thousands)					
Interest income:						
Loans	**$ 148**	**$ 1,288**	**$ 1,436**	$ 5,633	$ 4,559	$ 10,192
Securities available-for-sale:						
Taxable	**(4,647)**	**1,931**	**(2,716)**	(2,857)	521	(2,336)
Tax-exempt	**(1)**		**(1)**	(23)	9	(14)
Securities held-to-maturity:						
Taxable	**(1,006)**	**(41)**	**(1,047)**	(1,317)	(206)	(1,523)
Federal funds sold	**4,766**	**(60)**	**4,706**	822	771	1,593
Interest-bearing deposits in other banks	**(2)**		**(2)**	4	5	9
Total interest income	**(742)**	**3,118**	**2,376**	2,262	5,659	7,921
Interest expense:						
Deposits:						
NOW accounts	**(56)**	**355**	**299**	(475)	1,146	671
Savings accounts	**410**	**1,054**	**1,464**	35	691	726
Money market accounts	**(1,562)**	**659**	**(903)**	(823)	3,609	2,786
Time deposits	**(1,056)**	**670**	**(386)**	3,663	3,528	7,191
Total interest-bearing deposits	**(2,264)**	**2,738**	**474**	2,400	8,974	11,374
Securities sold under agreements to repurchase	**682**	**(170)**	**512**	896	972	1,868
Other borrowed funds and subordinated debentures	**(1,308)**	**183**	**(1,125)**	(3,971)	1,853	(2,118)
Total interest expense	**(2,890)**	**2,751**	**(139)**	(675)	11,799	11,124
Change in net interest income	**$ 2,148**	**$ 367**	**$ 2,515**	$ 2,937	$ (6,140)	$ (3,203)

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

The Company s sources of funds include deposits and borrowed funds. On average, deposits showed a decrease of 4.3% or $53,898,000 in 2007 after increasing by 2.6% or $31,760,000 in 2006. Deposits decreased in 2007 primarily as a result of decreases in money market accounts, which decreased by 15.2% or $49,721,000 and time deposits, which decreased by 6.4% or $23,073,000. Borrowed funds and subordinated debentures decreased by

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12.3% in 2007 following a decrease of 14.8% in 2006. The majority of the Company s borrowed funds are borrowings from the FHLB and retail repurchase agreements. Borrowings from the FHLB decreased by approximately $22,801,000 and retail repurchase agreements increased by $18,953,000. Interest expense totaled $43,805,000 in 2007, a slight decrease of $139,000 or 0.3% from 2006 when interest expense increased 33.9% from 2005. The decrease in interest expense is primarily due to deposit pricing discipline.

Provision for Loan Loss

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

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

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

Other Operating Income

During 2007, the Company continued to experience positive results in its fee-based services including fees derived from traditional banking activities such as deposit related services, its automated lockbox collection system and full service securities brokerage offered through Linsco/Private Ledger Corp. (LPL), an unaffiliated registered securities broker-dealer and investment advisor. The brokerage service was previously offered through IFMG, also an unaffiliated registered securities broker-dealer and investment advisor.

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

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

Total other operating income in 2007 was $13,948,000, an increase of $2,583,000 or 22.7% compared to 2006. This increase followed an increase of $392,000 or 3.6% in 2006, compared to 2005. Included in 2007 is the $1,321,000 pre-tax gain on the sale of the building that houses the Company s Medford Square branch. Service charge income, which continues to be a major area of other operating income totaling $7,579,000 in 2007, increased $877,000 compared to 2006. This followed an increase of $856,000 compared to 2005. Service charges on deposit accounts increased mainly because of increases in fees and an increase in overdraft charges. Lockbox revenues totaled $2,956,000, up $184,000 in 2007 following a decrease of $35,000 in 2006. This increase was mainly attributable to an increase in the customer base. Other income totaled $1,687,000, down $55,000 in 2007 following a decrease of

$116,000 in 2006. The decrease in 2007 was mainly attributable to an increase of $217,000 in foreign ATM surcharges and an increase of $183,000 in the growth of cash surrender values on life insurance policies that was attributable to higher returns on life insurance policies offset by a pre-tax gain of $600,000 from the sale of rights to future royalty payments for a portion of the Company s Merchant Credit Card customer base during 2006. Foreign ATM surcharges increased because of an increase in rates charged and the addition of ATM machines. The decrease in 2006 was mainly attributable to a decrease in the growth of cash surrender values by $697,000 due to a decline in the policy returns offset by a pre-tax gain of $600,000 from the sale of rights to future royalty payments for a portion of the Company s Merchant Credit Card customer base.

Operating Expenses

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

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

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

Provision for Income Taxes

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

Market Risk and Asset Liability Management

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

The Company s profitability is affected by fluctuations in interest rates. A sudden and substantial change in interest rates may adversely impact the Company s earnings to the extent that the interest rates borne by assets and liabilities do not change at the same speed, to the same extent, or on the same basis. The Company monitors the impact of changes in interest rates on its net interest income using several tools. One measure of the Company s exposures to differential changes in interest rates between assets and liabilities is an interest rate risk management test.

This test measures the impact on net interest income of an immediate change in interest rates in 100 basis point increments as set forth in the following table:

Change in Interest Rates (in Basis Points)	Percentage Change in Net Interest Income(1)
+300	(0.2)%
+200	(0.4)%

+100	(0.7)%
−100	(2.5)%
−200	(3.8)%
−300	(4.9)%

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

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

Liquidity and Capital Resources

Liquidity is provided by maintaining an adequate level of liquid assets that include cash and due from banks, federal funds sold and other temporary investments. Liquid assets totaled $299,901,000 on December 31, 2007, compared with $159,668,000 on December 31, 2006. In each of these two years, deposit and borrowing activity has generally been adequate to support asset activity.

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

Capital Adequacy

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

Federal banking regulators have issued risk-based capital guidelines, which assign risk factors to asset categories and off-balance sheet items. The current guidelines require a Tier 1 capital-to-risk assets ratio of at least 4.00% and a total capital-to-risk assets ratio of at least 8.00%. The Company and the Bank exceeded these requirements with a Tier 1 capital-to-risk assets ratio of 16.46% and 13.02%, respectively, and total capital-to-risk assets ratio of 17.51% and 14.08%, respectively, at December 31, 2007. Additionally, federal banking regulators have issued leverage ratio guidelines, which supplement the risk-based capital guidelines. The minimum leverage ratio requirement applicable to the Company is 4.00% and at December 31, 2007, the Company and the Bank exceeded this requirement with leverage ratios of 9.56% and 7.56%, respectively.

Contractual Obligations, Commitments, and Contingencies

The Company has entered into contractual obligations and commitments. The following tables summarize the Company s contractual cash obligations and other commitments at December 31, 2007.

Contractual Obligations and Commitments by Maturity

		Payments Due by Period			
Contractual Obligations	**Total**	**Less than One Year**	**One to Three Years**	**Three to Five Years**	**After Five Years**
		(Dollars in thousands)			

FHLB advances	**$ 289,250**	**$ 124,750**	**$ 113,500**	**$ 9,000**	**$ 42,000**
Subordinated debentures	**36,083**				**36,083**
Retirement benefit obligations	**20,467**	**1,637**	**3,478**	**3,789**	**11,563**
Lease obligations	**5,486**	**1,311**	**2,098**	**907**	**1,170**
Other					
Treasury, tax and loan	**489**	**489**			
Customer repurchase agreements and federal funds purchased	**85,990**	**85,990**			
Total contractual cash obligations	**$ 437,765**	**$ 214,177**	**$ 119,076**	**$ 13,696**	**$ 90,816**

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

Financial Instruments with Off-Balance Sheet Risk

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

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

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

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

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

Recent Accounting Developments

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

Level I Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The type of financial instruments included in Level I are highly liquid cash instruments with quoted prices such as

G-7 government, agency securities, listed equities and money market securities, as well as listed derivative instruments.

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

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

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

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

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

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

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CENTURY BANCORP, INC.

Consolidated Balance Sheets

	December 31, 2007	December 31, 2006
	(Dollars in thousands except share data)	
ASSETS		
Cash and due from banks (note 2)	**$ 66,974**	$ 60,465
Federal funds sold and interest-bearing deposits in other banks	**232,927**	99,203
Total cash and cash equivalents	**299,901**	159,668
Securities available-for-sale, amortized cost $403,984 in 2007 and $423,707 in 2006 (note 3)	**403,635**	415,481
Securities held-to-maturity, fair value $181,704 in 2007 and $258,420 in 2006 (notes 4 and 9)	**183,710**	265,712
Loans, net (note 5)	**726,251**	736,773
Less: allowance for loan losses (note 6)	**9,633**	9,713
Net loans	**716,618**	727,060
Bank premises and equipment (note 7)	**21,985**	22,955
Accrued interest receivable	**6,590**	7,372
Other assets (note 12)	**47,842**	46,042
Total assets	**$ 1,680,281**	$ 1,644,290
LIABILITIES AND STOCKHOLDERS EQUITY		
Demand deposits	**$ 289,526**	$ 283,449
Savings and NOW deposits	**310,858**	274,231
Money market accounts	**234,099**	301,188
Time deposits (note 8)	**295,578**	410,097
Total deposits	**1,130,061**	1,268,965
Securities sold under agreements to repurchase (note 9)	**85,990**	86,960
Other borrowed funds (note 10)	**289,885**	123,023
Subordinated debentures (note 10)	**36,083**	36,083
Other liabilities	**19,456**	22,441
Total liabilities	**1,561,475**	1,537,472
Commitments and contingencies (notes 7, 14 and 15)		
Stockholders equity (note 11):		
Common stock, Class A, $1.00 par value per share; authorized 10,000,000 shares; issued 3,516,704 shares in 2007 and 3,498,738 shares in 2006	**3,517**	3,499
Common stock, Class B, $1.00 par value per share; authorized 5,000,000 shares; issued 2,027,100 shares in 2007 and 2,042,450 shares in 2006	**2,027**	2,042

Additional paid-in-capital	**11,553**	11,505
Retained earnings	**105,550**	99,859
	122,647	116,905
Unrealized losses on securities available-for-sale, net of taxes	**(211)**	(5,111)
Additional pension liability, net of taxes	**(3,630)**	(4,976)
Total accumulated other comprehensive loss, net of taxes (note 3)	**(3,841)**	(10,087)
Total stockholders equity	**118,806**	106,818
Total liabilities and stockholders equity	**$ 1,680,281**	$ 1,644,290

See accompanying Notes to Consolidated Financial Statements.

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CENTURY BANCORP, INC.

Consolidated Statements of Income

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

Net income	**$ 7,864**	$ 4,688	$ 6,880
SHARE DATA (note 11)			
Weighted average number of shares outstanding, basic	**5,542,461**	5,540,966	5,535,202
Weighted average number of shares outstanding, diluted	**5,546,707**	5,550,722	5,553,009
Net income per share, basic	**$ 1.42**	$ 0.85	$ 1.24
Net income per share, diluted	**1.42**	0.84	1.24

See accompanying Notes to Consolidated Financial Statements.

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CENTURY BANCORP, INC.

Consolidated Statements of Changes of Stockholders Equity

	Class A Common Stock	Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders Equity
	(Dollars in thousands except share data)					
BALANCE, DECEMBER 31, 2004	$ 3,434	$ 2,099	$ 11,395	$ 92,611	$ (4,766)	$ 104,773
Net income				6,880		6,880
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of $3,357 in taxes					(5,261)	(5,261)
Minimum pension liability adjustment, net of $761 in taxes					(1,061)	(1,061)
Comprehensive income						558
Conversion of Class B Common Stock to Class A Common Stock, 17,400 shares	17	(17)				
Stock options exercised, 1,354 shares	2		21			23
Cash dividends, Class A Common Stock, $0.48 per share				(1,649)		(1,649)
Cash dividends, Class B Common Stock, $0.24 per share				(504)		(504)
BALANCE, DECEMBER 31, 2005	$ 3,453	$ 2,082	$ 11,416	$ 97,338	$ (11,088)	$ 103,201
Net income				4,688		4,688
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $2,156 in taxes					3,159	3,159
Comprehensive income						7,847
Adjustment to initially apply SFAS 158, net of $1,421 in taxes					(2,158)	(2,158)
Conversion of Class B Common Stock to Class A Common Stock, 39,790 shares	40	(40)				
	6		89			95

Stock options exercised, 5,746 shares						
Cash dividends, Class A Common Stock, $0.48 per share				(1,674)		(1,674)
Cash dividends, Class B Common Stock, $0.24 per share				(493)		(493)
BALANCE, DECEMBER 31, 2006	$ 3,499	$ 2,042	$ 11,505	$ 99,859	$ (10,087)	$ 106,818
Net income				**7,864**		**7,864**
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of $2,977 in taxes					**4,900**	**4,900**
Pension liability adjustment, net of $934 in taxes					**1,346**	**1,346**
Comprehensive income						**14,110**
Conversion of Class B Common Stock to Class A Common Stock, 15,350 shares	**15**	**(15)**				
Stock options exercised, 2,616 shares	**3**	**&#15**				