

CENTURY BANCORP INC
Form 10-K
March 12, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

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

(State or other jurisdiction of

incorporation or organization)

400 MYSTIC AVENUE, MEDFORD, MA

(Address of principal executive offices)

04-2498617

(I.R.S. Employer

Identification number)

02155

(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

(Title of class)

Nasdaq Global Market

(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 No

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 No

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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 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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

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, 2014 was \$126,730,689.

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of February 28, 2015:

Class A Common Stock, \$1.00 par value 3,600,729 Shares

Class B Common Stock, \$1.00 par value 1,967,180 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, 2014 are incorporated into Part II, Items 5-8 of this Form 10-K.

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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. At December 31, 2014, the Company had total assets of \$3.6 billion. Currently, the Company operates 26 banking offices in 20 cities and towns in Massachusetts, ranging from Braintree in the south to Andover in the north. The Bank's customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

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

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

The Company provides financial services, including cash management, lockbox processing and short-term and long-term financing, to municipalities in Massachusetts, New Hampshire and Rhode Island. The Company has client engagements with approximately 235 government entities throughout the region.

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 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.centurybank.com.

Employees

As of December 31, 2014, the Company had 361 full-time and 79 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,

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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 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. The Company does not currently conduct activities through a financial subsidiary.

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 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 regulatory authority over holding company activities and performed a review of the Company and its subsidiaries as of June 2014.

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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 Treasury to adopt rules to further encourage cooperation and information-sharing. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Holding Company Act or 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 Chief Executive Officer 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.

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act became law. The Act was intended to address many issues arising in the recent financial crisis and is exceedingly broad in scope affecting many aspects of bank and financial market regulation. The Act requires, or permits by implementing regulation, enhanced prudential standards for banks and bank holding companies inclusive of capital, leverage, liquidity, concentration and exposure measures. In addition, traditional bank regulatory principles such as restrictions on transactions with affiliates and insiders were enhanced. The Act also contains reforms of consumer mortgage lending practices and creates a Bureau of Consumer Financial Protection which is granted broad authority over consumer financial practices of banks and others. It is expected as the specific new or incremental requirements applicable to the company become effective that the costs and difficulties of remaining compliant with all such requirements will increase. The Act broadens the base for FDIC assessments to average consolidated assets less tangible equity of financial institutions and also permanently raises the current standard maximum FDIC deposit insurance amount to \$250,000. The Act extended unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012. In addition, the Act added a new Section 13 to

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the Holding Company Act, the so-called Volcker Rule, (the Rule) which generally restricts certain banking entities such as the Company and its subsidiaries or affiliates, from engaging in proprietary trading activities and owning equity in or sponsoring any private equity or hedge fund. The Rule became effective July 21, 2012. The final implementing regulations for the Rule were issued by various regulatory agencies in December, 2013, and under an extended conformance regulation, compliance must be achieved by July 21, 2015 and with the covered funds restrictions by July 21, 2017. Under the Rule, the Company may be restricted from engaging in proprietary trading, investing in third party hedge or private equity funds or sponsoring new funds unless it qualifies for an exemption from the rule. The Company has little involvement in prohibited proprietary trading or investment activities in covered funds and the Company does not expect that complying with the requirements of the Rule will have any material effect on the Company's financial condition or results of operation.

Deposit Insurance Premiums

The Bank's deposits have the benefit of FDIC insurance up to applicable limits. The FDIC's Deposit Insurance Fund is funded by assessments on insured depository institutions, which depend on the risk category of an institution and the amount of assets that it holds. The FDIC may increase or decrease the assessment rate schedule on a semi-annual basis.

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking (NPR) that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period from seven to eight years. This rule was finalized on November 2, 2009. The Company's quarterly risk-based deposit insurance assessments were paid from this amount until June 30, 2013. The Company received a refund of \$2.4 million of prepaid FDIC assessments in June 2013.

In February 2011, the FDIC approved a rule to change the assessment base from adjusted domestic deposits to average consolidated total assets minus average tangible equity. The rule has kept the overall amount collected from the industry very close to the amount collected prior to the new calculation.

Risk-Based Capital Guidelines

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

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 reference to a future period or periods, or by the use of forward-looking terminology, such as may, will,

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believe, expect, estimate, anticipate, continue or similar terms or variations on those terms, or the negative of these terms. Actual results could differ materially from those set forth in forward-looking statements due to a variety of factors, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, the financial and securities markets, and the availability of and costs associated with sources of liquidity.

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

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, New Hampshire and Rhode Island. The national and local economies may adversely affect the Company's performance and results of operations;
- (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, New Hampshire, and Rhode Island, 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, 2014, approximately 63.5% 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, 2014, approximately 30.7% of the Company's loan portfolio was comprised of residential real estate and home equity 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's 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) economic conditions and interest rate risk could adversely impact the fair value and the ultimate collectibility of the Company's investments. Should an investment be deemed other than temporarily impaired, the Company would be required to writedown the carrying value of the investment through earnings. Such writedown(s) may have a material adverse effect on the Company's financial condition and results of operations;
- (vii) writedown of goodwill and other identifiable intangible assets would negatively impact our financial condition and results of operations. At December 31, 2014, our goodwill and other identifiable intangible assets were approximately \$2.7 million;
- (viii) 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;
- (ix) 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;

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(x) 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; and

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.

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 25 other facilities in which its branch offices are located. The remaining offices are occupied under leases expiring on various dates from 2015 to 2026. The Company believes that its banking offices are in good condition.

During July 2012, the Company received state regulatory approval to close a branch at Chestnut Hill in Newton, Massachusetts. The branch closed on September 21, 2012 and the accounts were temporarily moved to the Brookline, Massachusetts branch. During July 2012, the Company entered into a lease agreement and received regulatory approval to open a branch at a new location at Chestnut Hill in Newton, Massachusetts. The branch opened on November 7, 2013 and the majority of the accounts that were temporarily moved to the Brookline, Massachusetts branch were moved to the new branch at Chestnut Hill in Newton, Massachusetts.

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

During March 2014, the Company entered into a lease agreement to open a branch located on Boylston Street in Boston, Massachusetts. This property is leased from an entity affiliated with Marshall M. Sloane, Chairman of the Board of the Company. This agreement was approved by the Board of Directors in the absence of the Chairman of the Board. The branch is scheduled to open during the first quarter of 2015. The deposits from the Kenmore Square, Boston Massachusetts branch, which closed on September 30, 2014, will be moved to the new Boylston Street branch.

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. MINE SAFETY DISCLOSURES

Not applicable.

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(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, 2013 is shown on page 12. The Company's Class B Common Stock is not traded on any national securities exchange or other public trading market.

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, 2014:

Title of Class	Approximate Number of Record Holders
Class A Common Stock	1,067
Class B Common Stock	39

(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
2013		
First quarter	\$.12	\$.06
Second quarter	.12	.06
Third quarter	.12	.06
Fourth quarter	.12	.06
2014		
First quarter	\$.12	\$.06
Second quarter	.12	.06
Third quarter	.12	.06
Fourth quarter	.12	.06

The Company's ability to pay dividends on its shares depends generally on dividends it receives from the Bank. Both Massachusetts and federal law limit the payment of dividends by the Bank to the Company. Under FDIC regulations and applicable Massachusetts law, the dollar amount of dividends and any other capital distributions that the Bank may make depends upon its capital position and recent net income. Generally, so long as the Bank remains adequately capitalized, it may potentially make capital distributions during any calendar year equal to up to 100% of net income for the year to date plus retained net income for the two preceding years. However, if the Bank's capital becomes impaired or the FDIC or Commissioner otherwise determines that the Bank should conserve capital, the Bank may be prohibited or otherwise limited from paying any dividends or making any other capital distributions.

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The Federal Reserve Board also has authority to prohibit dividends by bank holding companies such as the Company, if their actions constitute unsafe or unsound practices. Prior to the recent financial crisis, the Federal Reserve Board issued a policy statement and supervisory guidance on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that, (1) the company's net income for the past year is sufficient to cover the cash dividends, (2) the rate of earnings retention is consistent with the company's capital needs, asset quality, and overall financial condition, and (3) the minimum regulatory capital adequacy ratios are met. It is also the Federal Reserve Board's policy that bank holding companies should not maintain dividend levels that undermine their ability to serve as a source of strength to their banking subsidiaries. It is expected that the Federal Reserve Board will be more rather than less restrictive for the foreseeable future about dividend practices.

(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, 2014:

Plan Category	Equity Compensation Plan Information		
	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		\$	233,934
Equity compensation plans not approved by security holders			
Total		\$	233,934

(e) The performance graph information required herein is shown on page 12.

ITEM 6. SELECTED FINANCIAL DATA

The information required herein is shown on pages 11 and 12.

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

The information required herein is shown on pages 13 through 36.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required herein is shown on pages 32 and 33.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required herein is shown on pages 37 through 87.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE
None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company's principal executive officer and principal financial officer have evaluated the Company's disclosure controls and procedures as of December 31, 2014. Based on this evaluation, the principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective. The Company's disclosure controls and procedures also effectively ensure that information required to be disclosed in the Company's filings and submissions with the Securities and Exchange Commission under the Securities Exchange Act of 1934 is accumulated and reported to Company management (including the principal

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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 changes that occurred during the fourth fiscal quarter that have materially affected, or are reasonably likely to materially affect its internal control over financial reporting or in other factors that could significantly affect its internal control over financial reporting.

On May 14, 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) released an updated version of its Internal Control – Integrated Framework (2013) (2013 Framework). The 2013 Framework’s internal control components (i.e., control environment, risk assessment, control activities, information and communication, and monitoring activities) remain predominantly the same as those in the 1992 Framework. However, the 2013 Framework was expanded to include 17 principles which must be present and functioning in order to have an effective system of internal controls. The Company implemented the 2013 Framework effective December 31, 2014.

Management’s report on internal control over financial reporting is shown on page 90. The audit report of the registered public accounting firm is shown on page 89.

ITEM 9B. OTHER INFORMATION

None.

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	2014	2013	2012	2011	2010
(dollars in thousands, except share data)					
FOR THE YEAR					
Interest income	\$ 85,371	\$ 79,765	\$ 81,494	\$ 78,065	\$ 76,583
Interest expense	19,136	18,805	19,540	22,766	24,817
Net interest income	66,235	60,960	61,954	55,299	51,766
Provision for loan losses	2,050	2,710	4,150	4,550	5,575
Net interest income after provision for loan losses	64,185	58,250	57,804	50,749	46,191
Other operating income	15,271	18,615	15,865	16,240	15,999
Operating expenses	56,730	55,812	53,238	48,742	47,372
Income before income taxes	22,726	21,053	20,431	18,247	14,818
Provision for income taxes	866	1,007	1,392	1,554	1,244
Net income	\$ 21,860	\$ 20,046	\$ 19,039	\$ 16,693	\$ 13,574
Average shares outstanding Class A, basic	3,591,732	3,575,683	3,557,693	3,543,233	3,521,179
Average shares outstanding Class B, basic	1,969,030	1,980,855	1,990,474	1,997,411	2,012,327
Average shares outstanding Class A, diluted	5,562,209	5,557,693	5,549,191	5,541,794	5,535,742
Average shares outstanding Class B, diluted	1,969,030	1,980,855	1,990,474	1,997,411	2,012,327
Total shares outstanding at year-end	5,567,909	5,556,584	5,554,959	5,542,697	5,540,247
Earnings per share:					
Basic, Class A	\$ 4.78	\$ 4.39	\$ 4.18	\$ 3.68	\$ 3.00
Basic, Class B	\$ 2.39	\$ 2.19	\$ 2.09	\$ 1.84	\$ 1.50
Diluted, Class A	\$ 3.93	\$ 3.61	\$ 3.43	\$ 3.01	\$ 2.45
Diluted, Class B	\$ 2.39	\$ 2.19	\$ 2.09	\$ 1.84	\$ 1.50
Dividend payout ratio	10.1%	10.9%	11.5%	13.1%	16.0%
AT YEAR-END					
Assets	\$ 3,624,036	\$ 3,431,154	\$ 3,086,209	\$ 2,743,225	\$ 2,441,684
Loans	1,331,366	1,264,763	1,111,788	984,492	906,164
Deposits	2,737,591	2,715,839	2,445,073	2,124,584	1,902,023
Stockholders equity	192,500	176,472	179,990	160,649	145,025
Book value per share	\$ 34.57	\$ 31.76	\$ 32.40	\$ 28.98	\$ 26.18
SELECTED FINANCIAL PERCENTAGES					
Return on average assets	0.61%	0.60%	0.65%	0.63%	0.56%
Return on average stockholders equity	11.57%	11.58%	11.06%	10.72%	9.52%
Net interest margin, taxable equivalent	2.22%	2.21%	2.51%	2.48%	2.52%
Net charge-offs as a percent of average loans	0.05%	0.08%	0.15%	0.21%	0.44%
Average stockholders equity to average assets	5.27%	5.22%	5.85%	5.88%	5.93%
Efficiency ratio	62.0%	63.0%	62.1%	62.2%	65.0%

Table of Contents**Financial Highlights (Continued)****Per Share Data**

2014, Quarter Ended	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 40.50	\$ 38.88	\$ 37.68	\$ 37.00
Low	34.26	34.10	33.05	32.95
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.06	0.06	0.06	0.06

2013, Quarter Ended	December 31,	September 30,	June 30,	March 31,
Market price range (Class A)				
High	\$ 35.98	\$ 37.80	\$ 35.75	\$ 35.40
Low	29.67	31.22	31.11	30.41
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.06	0.06	0.06	0.06

The stock performance graph below compares the cumulative total shareholder return of the Company's Class A Common Stock from December 31, 2009 to December 31, 2014 with the cumulative total return of the NASDAQ Market Index (U.S. Companies) and the NASDAQ Bank Stock Index. The lines in the graph represent monthly index levels derived from compounded daily returns that include all dividends. If the monthly interval, based on the fiscal year-end, was not a trading day, the preceding trading day was used.

Comparison of Five-Year**Cumulative Total Return***

Value of \$100 Invested on December 31, 2009 at:	2010	2011	2012	2013	2014
Century Bancorp, Inc.	\$ 124.20	\$ 133.36	\$ 158.08	\$ 161.79	\$ 197.55
NASDAQ Banks	111.35	83.04	111.88	152.85	170.93
NASDAQ U.S.	118.02	117.04	137.47	192.62	221.02

* Assumes that the value of the investment in the Company's Common Stock and each index was \$100 on December 31, 2009 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 policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset/liability management, the financial and securities markets, and the availability of and costs associated with sources of liquidity.

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

RECENT MARKET DEVELOPMENTS

The financial services industry continues to face challenges in the aftermath of the recent national and global economic crisis. Since June 2009, the U.S. economy has been recovering from the most severe recession and financial crisis since the Great Depression. There have been some improvements in private sector employment, industrial production and U.S. exports; nevertheless, the pace of economic recovery has been slow. Financial markets have improved since the depths of the crisis but are still unsettled and volatile. There is continued concern about the U.S. economic outlook.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Act) became law. The Act was intended to address many issues arising in the recent financial crisis and is exceedingly broad in scope, affecting many aspects of bank and financial market regulation. The Act requires, or permits by implementing regulation, enhanced prudential standards for banks and bank holding companies inclusive of capital, leverage, liquidity, concentration and exposure measures. In addition, traditional bank regulatory principles such as restrictions on transactions with affiliates and insiders were enhanced. The Act also contains reforms of consumer mortgage lending practices and creates a Bureau of Consumer Financial Protection, which is granted broad authority over consumer financial practices of banks and others. It is expected that as the specific new or incremental requirements applicable to the Company become effective, the costs and difficulties of remaining compliant with all such requirements will increase. The Act broadens the base for FDIC assessments to average consolidated assets less tangible equity of financial institutions and also permanently raises the current standard maximum FDIC deposit insurance amount to \$250,000. The Act extended unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012. In addition, the Act added a new Section 13 to the Bank Holding Company Act, the so-called Volcker Rule, (the Rule) which generally restricts certain banking entities such as the Company and its subsidiaries or affiliates, from engaging in proprietary trading activities and owning equity in or sponsoring any private equity or hedge fund. The Rule became effective July 21, 2012. The final implementing regulations for the Rule were issued by various regulatory agencies in December, 2013 and under an extended conformance regulation compliance, must be achieved by July 21, 2015 and with the covered funds restrictions by July 21, 2017. Under the Rule, the Company may be restricted from engaging in proprietary trading, investing in third party hedge or private equity funds or sponsoring new funds unless it qualifies for an exemption from the rule. The Company has little involvement in prohibited proprietary trading or investment activities in covered funds and the Company does not expect that complying with the requirements of the Rule will have any material effect on the Company's financial condition or results of operation.

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Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)

On September 29, 2009, the FDIC adopted a Notice of Proposed Rulemaking (NPR) that would require insured institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012. The FDIC Board voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and extend the restoration period from seven to eight years. This rule was finalized on November 2, 2009. The Company's quarterly risk-based deposit insurance assessments were paid from this amount until June 30, 2013. The Company received a refund of \$2.4 million of prepaid FDIC assessments in June 2013.

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

OVERVIEW

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the "Company") is a Massachusetts state-chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the "Bank"): Century Bank and Trust Company formed in 1969. At December 31, 2014, the Company had total assets of \$3.6 billion. Currently, the Company operates 26 banking offices in 20 cities and towns in Massachusetts, ranging from Braintree in the south to Andover in the north. The Bank's customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts.

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

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

The Company has client engagements in Massachusetts, New Hampshire and Rhode Island with approximately 235 government entities throughout the region.

The Company had net income of \$21,860,000 for the year ended December 31, 2014, compared with net income of \$20,046,000 for the year ended December 31, 2013, and net income of \$19,039,000 for the year ended December 31, 2012. Class A diluted earnings per share were \$3.93 in 2014, compared to \$3.61 in 2013 and \$3.43 in 2012.

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)**

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

	2014	2013	2012
Basic EPS Class A common	\$ 4.78	\$ 4.39	\$ 4.18
Basic EPS Class B common	\$ 2.39	\$ 2.19	\$ 2.09
Diluted EPS Class A common	\$ 3.93	\$ 3.61	\$ 3.43
Diluted EPS Class B common	\$ 2.39	\$ 2.19	\$ 2.09

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

Net Interest Margin

From the beginning of 2012 through the third quarter of 2012, management stabilized the net interest margin by continuing to lower the cost of funds, and by deploying excess liquidity through expansion of the investment portfolio. Also, the Company collected approximately \$3,253,000 of prepayment penalties during 2012. The primary factor accounting for the decrease in the net interest margin for the fourth quarter of 2012 and through the fourth quarter of 2013 was an additional large influx of deposits. Management invested the funds in shorter term securities. The net interest margin has declined slightly throughout 2014.

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

Historical U.S. Treasury Yield Curve

A yield curve is a line that typically plots the interest rates of U.S. Treasury Debt, which have different maturity dates but the same credit quality, at a specific point in time. The three main types of yield curve shapes are normal, inverted and flat. Over the past three years, the U.S. economy has experienced low short-term rates. During 2013, longer-term rates increased resulting in a steepening of the yield curve. During 2014, longer-term rates decreased resulting in a flattening of the yield curve.

During 2014, the Company's earnings were positively impacted primarily by an increase in net interest income. This increase was primarily due to an increase in earning assets. During 2013, the Company's earnings were positively impacted primarily by an increase in other operating income and a decrease in provision for loan

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Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)

losses. This increase in other operating income was primarily due to an increase in net gains on sales of loans and net gains on sales of securities. The decrease in the provision for loan losses was primarily attributable to a lower level of charge-off activity and changes in portfolio composition. During 2014, 2013 and 2012, the U.S. economy experienced a lower short-term rate environment. The lower short-term rates negatively impacted the net interest margin as the rate at which short-term deposits could be invested declined more than the rates offered on those deposits. The net interest margin was positively impacted in 2012 as a result of prepayment penalties that were collected during the year.

Total assets were \$3,624,036,000 at December 31, 2014, an increase of 5.6% from total assets of \$3,431,154,000 at December 31, 2013.

On December 31, 2014, stockholders' equity totaled \$192,500,000, compared with \$176,472,000 on December 31, 2013. Book value per share increased to \$34.57 at December 31, 2014, from \$31.76 on December 31, 2013.

During July 2012, the Company received state regulatory approval to close a branch at Chestnut Hill in Newton, Massachusetts. The branch closed on September 21, 2012 and the accounts were temporarily moved to the Brookline, Massachusetts branch. During July 2012, the Company entered into a lease agreement and received regulatory approval to open a branch at a new location at Chestnut Hill in Newton, Massachusetts. The branch opened on November 7, 2013 and the majority of the accounts that were temporarily moved to the Brookline, Massachusetts branch were moved to the new branch at Chestnut Hill in Newton, Massachusetts.

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

During March 2014, the Company entered into a lease agreement to open a branch located on Boylston Street in Boston, Massachusetts. This property is leased from an entity affiliated with Marshall M. Sloane, Chairman of the Board of the Company. This agreement was approved by the Board of Directors in the absence of the Chairman of the Board. The branch is scheduled to open during the first quarter of 2015. The deposits from the Kenmore Square, Boston Massachusetts branch, which closed on September 30, 2014, will be moved to the new Boylston Street branch.

CRITICAL ACCOUNTING POLICIES

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

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

Impaired Investment Securities

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

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Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)

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

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. Management maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on assessments of the probable estimated losses inherent in the loan portfolio. Management's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the 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. Specific allowances for loan losses entail the assignment of allowance amounts to individual loans on the basis of loan impairment. The formula allowance and specific allowances also include management's evaluation of various factors, including business and economic conditions, delinquency trends, charge-off experience and other qualitative factors. Further information regarding the Company's methodology for assessing the appropriateness of the allowance is contained within Note 1 of the Notes to Consolidated Financial Statements.

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

FINANCIAL CONDITION

Investment Securities

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

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

These securities are carried at fair value, and unrealized gains and losses, net of applicable income taxes, are recognized as a separate component of stockholders' equity. The fair value of securities available-for-sale at December 31, 2014 totaled \$448,390,000 and included gross unrealized gains of \$1,630,000 and gross unrealized losses of \$1,450,000. A year earlier, the fair value of securities available-for-sale was \$464,245,000 including gross unrealized gains of \$821,000 and gross unrealized losses of \$2,519,000. In 2014, the Company recognized gains of \$450,000 on the sale of available-for-sale securities. In 2013 and 2012, the Company recognized gains of \$3,019,000 and \$1,843,000, respectively.

Securities classified as held-to-maturity consist of U.S. Government Sponsored Enterprises and mortgage-backed securities. Securities held-to-maturity as of December 31, 2014 are carried at their amortized cost of \$1,406,792,000. A year earlier, securities held-to-maturity totaled \$1,487,884,000.

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

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)**

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

Fair Value of Securities Available-for-Sale

At December 31, (dollars in thousands)	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. Treasury	\$ 2,000	0.4%	\$ 1,998	0.4%	\$ 2,004	0.1%
U.S. Government Sponsored Enterprises		0.0%	10,004	2.2%	130,340	9.1%
SBA Backed Securities	6,717	1.5%	7,302	1.6%	8,156	0.6%
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	337,093	75.2%	403,189	86.8%	1,233,357	86.0%
Privately Issued Residential Mortgage-Backed Securities	1,874	0.4%	2,277	0.5%	2,947	0.2%
Obligations Issued by States and Political Subdivisions	96,784	21.6%	36,723	7.9%	55,174	3.8%
Other Debt Securities	3,524	0.8%	2,176	0.5%	2,253	0.2%
Equity Securities	398	0.1%	576	0.1%	570	0.0%
Total	\$ 448,390	100.0%	\$ 464,245	100.0%	\$ 1,434,801	100.0%

The majority of the Company's securities AFS are classified as Level 2, as defined in Note 1 of the Notes to Consolidated Financial Statements. The fair values of these securities are obtained from a pricing service, which provides the Company with a description of the inputs generally utilized for each type of security. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Management's understanding of a pricing service's pricing methodologies includes obtaining an understanding of the valuation risks, assessing its qualification, verification of sources of information and processes used to develop prices and identifying, documenting, and testing controls. Management's validation of a vendor's pricing methodology includes establishing internal controls to determine that the pricing information received by a pricing service and used by management in the valuation process is relevant and reliable. Market indicators and industry and economic events are also monitored. The decline in fair value from amortized cost for individual available-for-sale securities that are temporarily impaired is not attributable to changes in credit quality. Because the Company does not intend to sell any of its debt securities and it is not more likely than not that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2014.

Securities available-for-sale totaling \$96,886,000, or 2.67% of assets, are classified as Level 3, as defined in Note 1 of the Notes to Consolidated Financial Statements. These securities are generally equity investments or municipal securities with no readily determinable fair value. The securities are carried at fair value with periodic review of underlying financial statements and credit ratings to assess the appropriateness of these valuations.

Debt securities of Government Sponsored Enterprises refer primarily to debt securities of Fannie Mae and Freddie Mac.

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)**

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, (dollars in thousands)	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
U.S. Government Sponsored Enterprises	\$ 251,617	17.9%	\$ 291,779	19.6%	\$ 17,747	6.4%
U.S. Government Sponsored Enterprise Mortgage-Backed Securities	1,155,175	82.1%	1,196,105	80.4%	257,760	93.6%
Total	\$ 1,406,792	100.0%	\$ 1,487,884	100.0%	\$ 275,507	100.0%

The following two tables set forth contractual maturities of the Bank's securities portfolio at December 31, 2014. 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

(dollars in thousands)	Within	Weighted	One	Weighted	Five	Weighted	Over	%	Weighted
	One	% of	Year to	% of	Years to	% of	Ten	of	Average
	Year	Total	Five	Total	Ten	Total	Years	Total	Yield
			Years		Years				
U.S. Treasury	\$ 2,000	0.4%	0.23%	\$ 0.0%	0.00%	\$ 0.0%	0.00%	\$ 0.0%	0.00%
SBA Backed Securities		0.0%	0.00%		0.0%	0.00%	4,560	1.0%	0.84%
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	344	0.1%	3.74%	205,354	45.8%	0.60%	131,173	29.3%	0.55%
Privately Issued Residential Mortgage-Backed Securities	1,874	0.4%	1.54%		0.0%	0.00%		0.0%	0.00%
Obligations of States and Political Subdivisions	90,700	20.2%	0.68%	2,264	0.5%	2.73%		0.0%	0.00%
Other Debt Securities	200	0.1%	0.98%	900	0.2%	1.11%		0.0%	0.00%
Equity Securities		0.0%	0.00%		0.0%	0.00%		0.0%	0.00%
Total	\$ 95,118	21.2%	0.70%	\$ 208,518	46.5%	0.63%	\$ 135,733	30.3%	0.56%

(dollars in thousands)	Non-Maturing	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
U.S. Treasury	\$	0.0%	0.00%	\$ 2,000	0.4%	0.23%
SBA Backed Securities		0.0%	0.00%	6,717	1.5%	0.87%
U.S. Government Agency and Sponsored						

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Enterprise Mortgage-Backed Securities		0.0%	0.00%	337,093	75.2%	0.59%
Privately Issued Residential Mortgage-Backed Securities		0.0%	0.00%	1,874	0.4%	1.54%
Obligations of States and Political Subdivisions		0.0%	0.00%	96,784	21.6%	0.72%
Other Debt Securities	1,399	0.3%	3.24%	3,524	0.8%	2.08%
Equity Securities	398	0.1%	3.09%	398	0.1%	3.09%
Total	\$ 1,797	0.4%	3.21%	\$ 448,390	100.0%	0.64%

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)****Amortized Cost of Securities Held-to-Maturity Amounts Maturing**

	Within One Year	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield	Over Ten Years	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
(dollars in thousands)															
U.S. Government Sponsored Enterprises	\$	0.0%	0.00%	\$ 103,044	7.3%	1.19%	\$ 148,573	10.6%	1.85%	\$	0.0%	0.00%	\$ 251,617	17.9%	1.58%
U.S. Government Sponsored Enterprise Mortgage-Backed Securities	3,837	0.3%	3.16%	992,434	70.5%	2.34%	157,117	11.2%	2.31%	1,787	0.1%	3.36%	1,155,175	82.1%	2.34%
Total	\$ 3,837	0.3%	3.16%	\$ 1,095,478	77.8%	2.23%	\$ 305,690	21.8%	2.09%	\$ 1,787	0.1%	3.36%	\$ 1,406,792	100.0%	2.20%

At December 31, 2014 and 2013, the Bank had no investments in obligations of individual states, counties, municipalities or nongovernment corporate entities which exceeded 10% of stockholders' equity. In 2014, sales of securities totaling \$40,285,000 in gross proceeds resulted in a net realized gain of \$450,000. There were no sales of state, county or municipal securities during 2014 and 2013. In 2013, sales of securities totaling \$224,045,000 in gross proceeds resulted in net realized gains of \$3,019,000. In 2012, sales of securities totaling \$294,881,000 in gross proceeds resulted in net realized gains of \$1,843,000.

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

Loans

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

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

December 31, (dollars in thousands)	2014		2013		2012		2011		2010	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Construction and land development	\$ 22,744	1.7%	\$ 33,058	2.6%	\$ 38,618	3.5%	\$ 56,819	5.7%	\$ 53,583	5.9%
Commercial and industrial	149,732	11.2%	76,675	6.1%	88,475	8.0%	82,404	8.4%	90,654	10.0%
Municipal	41,850	3.1%	32,737	2.6%	1,446	0.1%		0.0%		0.0%
Commercial real estate	696,272	52.3%	696,317	55.0%	575,019	51.7%	487,495	49.5%	433,337	47.8%
Residential real estate	257,305	19.3%	286,041	22.6%	281,857	25.3%	239,307	24.3%	207,787	22.9%

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Consumer	10,925	0.8%	8,824	0.7%	6,823	0.6%	6,197	0.6%	5,957	0.7%
Home equity	151,275	11.4%	130,277	10.3%	118,923	10.7%	110,786	11.3%	114,209	12.6%
Overdrafts	1,263	0.2%	834	0.1%	627	0.1%	1,484	0.2%	637	0.1%
Total	\$ 1,331,366	100.0%	\$ 1,264,763	100.0%	\$ 1,111,788	100.0%	\$ 984,492	100.0%	\$ 906,164	100.0%

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At December 31, 2014, 2013, 2012, 2011 and 2010, loans were carried net of discounts of \$407,000, \$454,000, \$498,000, \$550,000 and \$598,000, respectively. Net deferred loan fees of \$908,000, \$174,000, \$369,000, \$666,000 and \$186,000 were carried in 2014, 2013, 2012, 2011 and 2010, respectively.

The following table summarizes the remaining maturity distribution of certain components of the Company's loan portfolio on December 31, 2014. 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, 2014

(dollars in thousands)	One Year or Less	One to Five Years	Over Five Years	Total
Construction and land development	\$ 7,229	\$ 440	\$ 15,075	\$ 22,744
Commercial and industrial	24,902	24,129	100,701	149,732
Commercial real estate	27,455	70,144	598,673	696,272
Total	\$ 59,586	\$ 94,713	\$ 714,449	\$ 868,748

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

December 31, 2014 (dollars in thousands)	One to Five Years	Over Five Years	Total
Predetermined interest rates	\$ 50,223	\$ 238,012	\$ 288,235
Floating or adjustable interest rates	44,490	476,437	520,927
Total	\$ 94,713	\$ 714,449	\$ 809,162

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

Commercial real estate loans are extended to finance various manufacturing, warehouse, light industrial, office, retail and residential properties in the Bank's market area, which generally includes Massachusetts, New Hampshire, and Rhode Island. Also included are loans to educational institutions, hospitals and other non-profit organizations. Loans are normally extended in amounts up to a maximum of 80% of appraised value and normally for terms between three and thirty years.

Amortization schedules are long term and thus a balloon payment is generally due at maturity. Under most circumstances, the Bank will offer to rewrite or otherwise extend the loan at prevailing interest rates. During recent years, the Bank has emphasized nonresidential-type owner-occupied properties. This complements our C&I emphasis placed on the operating business entities and will continue. The regional economic environment affects the risk of both nonresidential and residential mortgages.

Residential real estate (1-4 family) includes two categories of loans. Included in residential real estate are approximately \$20,766,000 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.

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The other category of residential real estate loans is mostly 1-4 family residential properties located in the Bank's market area. General underwriting criteria are largely the same as those used by Fannie Mae. The Bank utilizes mortgage insurance to provide lower down payment products and has provided a First Time Homebuyer product to encourage new home ownership. Residential real estate loan volume has increased and remains a core consumer product. The economic environment impacts the risks associated with this category.

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

Bank officers evaluate the feasibility of construction projects based on independent appraisals of the project, architects' or engineers' evaluations of the cost of construction and other relevant data. As of December 31, 2014, the Company was obligated to advance a total of \$3,035,000 to complete projects under construction.

The composition of nonperforming assets is as follows:

December 31, (dollars in thousands)	2014	2013	2012	2011	2010
Total nonperforming loans	\$ 4,146	\$ 2,549	\$ 4,471	\$ 5,827	\$ 8,068
Other real estate owned				1,182	
Total nonperforming assets	\$ 4,146	\$ 2,549	\$ 4,471	\$ 7,009	\$ 8,068
Accruing troubled debt restructured loans	\$ 3,296	\$ 5,969	\$ 3,048	\$ 4,634	\$ 1,248
Loans past due 90 and still accruing				18	50
Nonperforming loans as a percent of gross loans	0.31%	0.20%	0.40%	0.59%	0.89%
Nonperforming assets as a percent of total assets	0.11%	0.07%	0.14%	0.26%	0.33%

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

	2014	2013	2012	2011	2010
Residential real estate, multi-family	\$ 1,054	\$ 1,293	\$ 862	\$ 516	\$
Commercial real estate	4,318	4,520	2,281	4,561	2,492
Construction and land development	103	608	1,500	1,500	4,000
Commercial and industrial	852	1,367	1,282	1,525	1,471
Municipals					
Total impaired loans	\$ 6,327	\$ 7,788	\$ 5,925	\$ 8,102	\$ 7,963

At December 31, 2014, 2013, 2012, 2011 and 2010, impaired loans had specific reserves of \$904,000, \$1,019,000, \$1,732,000, \$741,000 and \$317,000 respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately \$143,696,000, \$109,301,000, \$26,786,000, \$18,196,000 and \$983,000 at December 31, 2014, 2013, 2012, 2011, and 2010, respectively. The Company had no loans held for sale at December 31, 2014 and December 31, 2013, \$9,378,000 at December 31, 2012, \$3,389,000 at December 31, 2011, and none for December 31, 2010.

Servicing assets are recorded at fair value and recognized as separate assets when rights are acquired through sale of loans with servicing rights retained. Mortgage servicing assets (MSA) are amortized into non-interest income in proportion to, and over the period of, the estimated net

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servicing income. Upon sale, the mortgage servicing asset is established, which represents the then-current estimated fair value based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model

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Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)

incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Servicing rights are recorded in other assets and are amortized in proportion to, and over the period of estimated net servicing income and are assessed for impairment based on fair value at each reporting date. MSAs are reported in other assets in the consolidated balance sheets. MSAs totaled \$941,000 at December 31, 2014, \$703,000 for December 31, 2013, and \$137,000 for December 31, 2012.

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

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

Nonaccrual loans increased during 2014 primarily as a result of a large commercial real estate loan. Nonaccrual loans decreased during 2013 primarily as a result of a charge-off of a construction loan and a decrease in residential real estate nonperforming loans. Nonaccrual loans decreased during 2012, primarily as a result of a decrease in home equity and residential real estate nonperforming loans.

Nonaccrual loans decreased during 2011, primarily as a result of \$1,200,000 in charge-offs from two construction loans as well as the subsequent foreclosure of \$1,300,000 of one of the construction loans.

The Company continues to monitor closely \$14,558,000 and \$16,918,000 at December 31, 2014 and 2013, respectively, of loans for which management has concerns regarding the ability of the borrowers to perform. The majority of the loans are secured by real estate and are considered to have adequate collateral value to cover the loan balances at December 31, 2014, although such values may fluctuate with changes in the economy and the real estate market.

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)****Allowance for Loan Losses**

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

Year Ended December 31, (dollars in thousands)	2014	2013	2012	2011	2010
Year-end loans outstanding (net of unearned discount and deferred loan fees)	\$ 1,331,366	\$ 1,264,763	\$ 1,111,788	\$ 984,492	\$ 906,164
Average loans outstanding (net of unearned discount and deferred loan fees)	\$ 1,307,888	\$ 1,184,912	\$ 1,036,296	\$ 948,883	\$ 877,858
Balance of allowance for loan losses at the beginning of year	\$ 20,941	\$ 19,197	\$ 16,574	\$ 14,053	\$ 12,373
Loans charged-off:					
Commercial	333	234	1,253	676	1,559
Construction	500	1,000		1,200	900
Commercial real estate					922
Residential real estate	24		351	341	515
Consumer	525	579	697	607	547
Total loans charged-off	1,382	1,813	2,301	2,824	4,443
Recovery of loans previously charged-off:					
Commercial	201	389	307	293	172
Construction					
Real estate	117	31	45	35	8
Consumer	391	427	422	467	368
Total recoveries of loans previously charged-off:	709	847	774	795	548
Net loan charge-offs	673	966	1,527	2,029	3,895
Provision charged to operating expense	2,050	2,710	4,150	4,550	5,575
Balance at end of year	\$ 22,318	\$ 20,941	\$ 19,197	\$ 16,574	\$ 14,053
Ratio of net charge-offs during the year to average loans outstanding	0.05%	0.08%	0.15%	0.21%	0.44%
Ratio of allowance for loan losses to loans outstanding	1.68%	1.66%	1.73%	1.68%	1.55%

The amount of the allowance for loan losses results from management's evaluation of the quality of the loan portfolio considering such factors as loan status, specific reserves on impaired loans, collateral values, financial condition of the borrower, the state of the economy and other relevant information. The pace of the charge-offs depends on many factors, including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels. Charge-offs declined in 2011, 2012, 2013, and 2014 as a result of the overall decrease in

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the level of nonaccrual loans. The dollar amount of the allowance for loan losses and the level of the allowance for loan losses to total loans increased primarily as a result of a lower level of charge-off activity combined with changes in the portfolio composition.

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Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)

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

Construction loans The outstanding loan balance of construction loans at December 31, 2014 is \$22,744,000. A major portion in nonaccrual loans is one construction loan. Based on this fact, and the general local construction conditions, management closely monitors all construction loans and considers this type of loan to be higher risk.

Higher-balance loans Loans greater than \$1.0 million are considered high-balance loans. The balance of these loans is \$785,521,000 at December 31, 2014, as compared to \$701,103,000 at December 31, 2013. These loans are considered higher risk due to the concentration in individual loans. Additional allowance allocations are made based upon the level of high-balance loans. Included in high-balance loans are loans greater than \$10.0 million. The balance of these loans is \$482,624,000 at December 31, 2014, as compared to \$377,915,000 at December 31, 2013. Additional allowance allocations are made based upon the level of this type of high balance loans that is separate and greater than the \$1.0 million allocation. Also included in high-balance loans are loans greater than \$25.0 million. The balance of these loans is \$211,519,000 at December 31, 2014, as compared to \$131,834,000 at December 31, 2013. Additional allowance allocations are made based upon the level of this type of high-balance loans that is separate and greater than the \$1.0 million and \$10.0 million allocation.

Small business loans The outstanding loan balances of small business loans is \$35,312,000 at December 31, 2014. These are considered higher risk loans because small businesses have been negatively impacted by the current economic conditions. In a liquidation scenario, the collateral, if any, is often not sufficient to fully recover the outstanding balance of the loan. As a result, the Company often seeks additional collateral prior to renewing maturing small business loans. In addition, the payment status of the loans is monitored closely in order to initiate collection efforts in a timely fashion.

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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 is comprised of the following:

	2014		2013		2012		2011		2010	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
(dollars in thousands)										
Construction and land development	\$ 1,592	1.7%	\$ 2,174	2.6%	\$ 3,041	3.5%	\$ 2,893	5.7%	\$ 1,752	5.9%
Commercial and industrial	4,757	11.2	2,617	6.1	3,118	8.0	3,139	8.4	3,163	10.0
Municipal	1,488	3.1	655	2.6	24	0.1		0.0		0.0
Commercial real estate	11,199	52.3	10,935	55.0	9,041	51.7	6,566	49.5	5,671	47.8
Residential real estate	776	19.3	2,006	22.6	1,994	25.3	1,886	24.3	1,718	22.9
Consumer and other	810	1.0	432	0.8	333	0.7	356	0.8	298	0.8
Home equity	599	11.4	959	10.3	886	10.7	704	11.3	725	12.6
Unallocated	1,097		1,163		760		1,030		726	
Total	\$ 22,318	100.0%	\$ 20,941	100.0%	\$ 19,197	100.0%	\$ 16,574	100.0%	\$ 14,053	100.0%

Management believes that the allowance for loan losses is adequate. In addition, various regulatory agencies, as part of the examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination. Further information regarding the allocation of the allowance is contained within Note 6 of the Notes to Consolidated Financial Statements.

Deposits

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

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

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

	2014		2013		2012	
	Amount	Percent	Amount	Percent	Amount	Percent
(dollars in thousands)						
Demand Deposits	\$ 481,035	16.8%	\$ 441,193	16.6%	\$ 386,863	16.5%
Savings and Interest Checking	1,096,303	38.2%	1,037,320	38.9%	870,046	37.1%
Money Market	920,485	32.1%	800,052	30.0%	666,949	28.5%
Time Certificates of Deposit	372,699	12.9%	387,514	14.5%	418,789	17.9%
Total	\$ 2,870,522	100.0%	\$ 2,666,079	100.0%	\$ 2,342,647	100.0%

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

	2014
(dollars in thousands)	
Three months or less	\$ 66,690
Three months through six months	50,150
Six months through twelve months	30,320
Over twelve months	111,808
Total	\$ 258,968

Borrowings

The Bank's borrowings consisted primarily of Federal Home Loan Bank of Boston (FHLBB) borrowings collateralized by a blanket pledge agreement on the Bank's FHLBB stock, certain qualified investment securities, deposits at the FHLBB and residential mortgages held in the Bank's portfolios. The Bank's borrowings from the FHLBB totaled \$395,500,000, an increase of \$140,500,000 from the prior year. The Bank's remaining term borrowing capacity at the FHLBB at December 31, 2014, was approximately \$221,384,000. In addition, the Bank has a \$14,500,000 line of credit with the FHLBB. See Note 12, Other Borrowed Funds and Subordinated Debentures, for a schedule, including related interest rates and other information.

Subordinated Debentures

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

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

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 \$212,360,000, a decrease of \$2,080,000 from the prior year. See Note 11, Securities Sold Under Agreements to Repurchase, for a schedule, including related interest rates and other information.

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Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)

RESULTS OF OPERATIONS

Net Interest Income

The Company's operating results depend primarily on net interest income and fees received for providing services. Net interest income on a fully taxable equivalent basis increased 9.0% in 2014 to \$76,268,000, compared with \$69,944,000 in 2013. The increase in net interest income for 2014 was mainly due to an 8.5% increase in the average balances of earning assets, combined with a similar increase in deposits. The increase in net interest income for 2013 was mainly due to an 13.6% increase in the average balances of earning assets, combined with a similar increase in deposits. This was offset, somewhat, by prepayment penalties that were collected during the prior year. The level of interest rates, the ability of the Company's earning assets and liabilities to adjust to changes in interest rates and the mix of the Company's earning assets and liabilities affect net interest income. The net interest margin on a fully taxable equivalent basis increased to 2.22% in 2014 from 2.21% in 2013 and decreased from 2.51% in 2012. The increase in the net interest margin, for 2014, was primarily the result of a decrease in rates paid on deposits and borrowed funds. The decrease in the net interest margin, for 2013, was primarily the result of a decrease in asset yields. The Company collected approximately \$693,000, \$491,000, and \$3,253,000 respectively, of prepayment penalties, which are included in interest income on loans, for 2014, 2013, and 2012, respectively.

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

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)**

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

Year Ended December 31, (dollars in thousands)	Average Balance	2014 Interest Income/ Expense ⁽¹⁾	Rate Earned/ Paid ⁽¹⁾	Average Balance	2013 Interest Income/ Expense ⁽¹⁾	Rate Earned/ Paid ⁽¹⁾	Average Balance	2012 Interest Income/ Expense ⁽¹⁾	Rate Earned/ Paid ⁽¹⁾
ASSETS									
Interest-earning assets:									
Loans ⁽²⁾									
Taxable	\$ 757,088	\$ 32,198	4.25%	\$ 760,435	\$ 33,214	4.37%	\$ 715,553	\$ 34,983	4.89%
Tax-exempt	550,800	27,798	5.05	424,477	24,918	5.87	320,743	24,220	7.55
Securities available-for-sale: ⁽³⁾									
Taxable	445,656	2,883	0.65	951,757	13,083	1.37	1,214,352	22,363	1.84
Tax-exempt	55,272	428	0.77	46,226	434	0.94	49,023	516	1.05
Securities held-to-maturity:									
Taxable	1,499,995	31,745	2.12	812,448	16,615	2.05	270,525	6,746	2.49
Interest-bearing deposits in other banks	129,472	352	0.27	174,264	485	0.28	219,540	630	0.29
Total interest-earning assets	3,438,283	\$ 95,404	2.77%	3,169,607	\$ 88,749	2.80%	2,789,736	\$ 89,458	3.21%
Noninterest-earning assets	166,792			167,000			172,748		
Allowance for loan losses	(21,876)			(20,452)			(18,039)		
Total assets	\$ 3,583,199			\$ 3,316,155			\$ 2,944,445		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest-bearing deposits:									
NOW accounts	\$ 762,280	\$ 1,677	0.22%	\$ 713,677	\$ 1,673	0.23%	\$ 588,500	\$ 1,561	0.27%
Savings accounts	334,023	862	0.26	323,643	912	0.28	281,546	689	0.24
Money market accounts	920,485	2,715	0.29	800,052	2,472	0.31	666,949	2,373	0.36
Time deposits	372,699	4,421	1.19	387,514	4,777	1.23	418,789	6,250	1.49
Total interest-bearing deposits	2,389,487	9,675	0.40	2,224,886	9,834	0.44	1,955,784	10,873	0.56
Securities sold under agreements to repurchase	216,937	391	0.18	203,888	361	0.18	174,624	367	0.21
Other borrowed funds and subordinated debentures	271,710	9,070	3.34	231,032	8,610	3.73	217,542	8,300	3.82
Total interest-bearing liabilities	2,878,134	\$ 19,136	0.66%	2,659,806	\$ 18,805	0.71%	2,347,950	\$ 19,540	0.83%
Noninterest-bearing liabilities									
Demand deposits	481,035			441,193			386,863		
Other liabilities	35,033			42,017			37,497		
Total liabilities	3,394,202			3,143,016			2,772,310		
Stockholders' equity	188,997			173,139			172,135		
Total liabilities and stockholders' equity	\$ 3,583,199			\$ 3,316,155			\$ 2,944,445		
Net interest income on a fully taxable equivalent basis		\$ 76,268			\$ 69,944			\$ 69,918	

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Less taxable equivalent adjustment	(10,033)	(8,984)	(7,964)
Net interest income	\$ 66,235	\$ 60,960	\$ 61,954
Net interest spread	2.11%	2.09%	2.38%
Net interest margin	2.22%	2.21%	2.51%

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- (1) On a fully taxable equivalent basis calculated using a federal tax rate of 34%.
- (2) Nonaccrual loans are included in average amounts outstanding.
- (3) At amortized cost.

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

Year Ended December 31, (dollars in thousands)	2014 Compared with 2013 Increase/(Decrease) Due to Change in			2013 Compared with 2012 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans						
Taxable	\$ (146)	\$ (870)	\$ (1,016)	\$ 2,108	\$ (3,877)	\$ (1,769)
Tax-exempt	6,709	(3,829)	2,880	6,800	(6,102)	698
Securities available-for-sale:						
Taxable	(5,112)	(5,088)	(10,200)	(4,271)	(5,009)	(9,280)
Tax-exempt	77	(83)	(6)	(28)	(54)	(82)
Securities held-to-maturity:						
Taxable	14,531	599	15,130	11,283	(1,414)	9,869
Interest-bearing deposits in other banks	(123)	(10)	(133)	(127)	(18)	(145)
Total interest income	15,936	(9,281)	6,655	15,765	(16,474)	(709)
Interest expense:						
Deposits:						
NOW accounts	110	(106)	4	307	(195)	112
Savings accounts	29	(79)	(50)	111	112	223
Money market accounts	359	(116)	243	436	(337)	99
Time deposits	(179)	(177)	(356)	(442)	(1,031)	(1,473)
Total interest-bearing deposits	319	(478)	(159)	412	(1,451)	(1,039)
Securities sold under agreements to repurchase	23	7	30	57	(63)	(6)
Other borrowed funds and subordinated debentures	1,418	(958)	460	506	(196)	310
Total interest expense	1,760	(1,429)	331	975	(1,710)	(735)
Change in net interest income	\$ 14,176	\$ (7,852)	\$ 6,324	\$ 14,790	\$ (14,764)	\$ 26

Average earning assets were \$3,438,283,000 in 2014, an increase of \$268,676,000 or 8.5% from the average in 2013, which was 13.6% higher than the average in 2012. Total average securities, including securities available-for-sale and securities held-to-maturity, were \$2,000,923,000, an increase of 10.5% from the average in 2013. The increase in securities volume was mainly attributable to an increase in taxable securities. An increase

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in securities balances resulted in higher securities income, which increased 16.3% to \$35,056,000 on a fully tax equivalent basis. Total average loans increased 10.4% to \$1,307,888,000 after increasing \$148,616,000 in 2013. The primary reason for the increase in loans was due in large part to an increase in tax-exempt lending as well as residential second mortgage lending. The increase in loan volume resulted in higher loan income. Loan income increased by 3.2% or \$1,864,000 to \$59,132,000. Total loan income was \$59,203,000 in 2012. Prepayment penalties collected were \$693,000, \$491,000, and \$3,253,000 for 2014, 2013, and 2012, respectively.

The Company's sources of funds include deposits and borrowed funds. On average, deposits increased 7.7%, or \$204,443,000, in 2014 after increasing by 13.8%, or \$323,432,000, in 2013. Deposits increased in 2014, primarily as a result of increases in demand deposits, savings, money market, and NOW accounts. Deposits increased in 2013, primarily as a result of increases in demand deposits, savings, money market, and NOW accounts. Borrowed funds and subordinated debentures increased by 12.4% in 2014, following an increase of 10.9% in 2013. The majority of the Company's borrowed funds are borrowings from the FHLBB and retail repurchase agreements. Average borrowings from the FHLBB increased by approximately \$40,678,000, and average retail repurchase agreements increased by \$13,049,000 in 2014. Interest expense totaled \$19,136,000 in 2014, an increase of \$331,000, or 1.8%, from 2013 when interest expense decreased 3.8% from 2012. The increase in interest expense, for 2014, is primarily due to increases in the average balances of both borrowed funds and money market balances, this was offset, somewhat, by a decrease in rates paid on deposits and other borrowed funds. The decrease in interest expense, for 2013, is primarily due to market decreases in deposit rates and continued deposit pricing discipline. Interest expense on time deposits accounted for a majority of this decrease.

Provision for Loan Losses

The provision for loan losses was \$2,050,000 in 2014, compared with \$2,710,000 in 2013 and \$4,150,000 in 2012. These provisions are the result of management's evaluation of the amounts and credit quality of the loan portfolio considering such factors as loan status, collateral values, financial condition of the borrower, the state of the economy and other relevant information. The provision for loan losses decreased during 2014, primarily as a result of a lower level of charge-off activity, changes in the portfolio composition, and changes in qualitative economic and other risk factors. The provision for loan losses decreased during 2013, primarily as a result of a lower level of charge-off activity and changes in the portfolio composition.

The allowance for loan losses was \$22,318,000 at December 31, 2014, compared with \$20,941,000 at December 31, 2013. Expressed as a percentage of outstanding loans at year-end, the allowance was 1.68% in 2014 and 1.66% in 2013. The allowance for loan losses increased despite a decrease in the provision for loan losses due to the increase in the size and composition changes of the loan portfolio.

Nonperforming loans, which include all non-accruing loans, totaled \$4,146,000 on December 31, 2014, compared with \$2,549,000 on December 31, 2013. Nonperforming loans increased primarily as a result of an increase in commercial real estate nonperforming loans.

Other Operating Income

During 2014, the Company continued to experience strong results in its fee-based services, including fees derived from traditional banking activities such as deposit-related services, its automated lockbox collection system and full-service securities brokerage supported by LPL Financial, a full-service securities brokerage business.

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

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

Total other operating income in 2014 was \$15,271,000, a decrease of \$3,344,000, or 18.0%, compared to 2013. This decrease followed an increase of \$2,750,000, or 17.3%, in 2013, compared to 2012. Included in other operating income are net gains on sales of securities of \$450,000, \$3,019,000 and \$1,843,000 in 2014, 2013 and 2012, respectively. Service charge income, which continues to be a major source of other operating income, totaling \$8,063,000 in 2014, decreased \$50,000 compared to 2013. This followed an increase of \$233,000 in 2013 compared to 2012. The decrease in fees, in 2014, was mainly attributable to a decrease in overdraft fees offset, somewhat, by an increase in fees collected from processing activities as well as an increase in debit card fees. The increase in fees, in 2013, was mainly attributable to an increase in fees collected from processing activities as well as an increase in debit card fees, which was offset, somewhat, by a decrease in overdraft fees. Lockbox revenues totaled \$3,099,000, up \$20,000 in 2014 following an increase of \$149,000 in 2013. Gains on sales of mortgage loans totaled \$757,000, down \$807,000 in 2014 following an increase of \$1,267,000 in 2013. Other income totaled \$2,600,000, down \$17,000 in 2014 following a decrease of \$32,000 in 2013. The decrease in 2013 was mainly attributable to a decrease in ATM fees.

Operating Expenses

Total operating expenses were \$56,730,000 in 2014, compared to \$55,812,000 in 2013 and \$53,238,000 in 2012.

Salaries and employee benefits expenses decreased by \$148,000 or 0.4% in 2014, after increasing by 7.0% in 2013. The decrease in 2014 was mainly attributable to decreases in pension costs, mostly offset by increases in staff levels and merit increases in salaries. The increase in 2013 was mainly attributable to increases in staff levels and merit increases in salaries and increases in health insurance costs.

Occupancy expense increased by \$503,000, or 10.1%, in 2014, following an increase of \$305,000, or 6.5%, in 2013. The increase in 2014 and 2013 was primarily attributable to an increase in rent expense, depreciation expense and building maintenance associated with branch expansion.

Equipment expense increased by \$31,000, or 1.3%, in 2014, following an increase of \$43,000, or 1.9%, in 2013. The increase in 2014 and 2013 was primarily attributable to an increase in service contracts.

FDIC assessments increased by \$180,000, or 10.1%, in 2014, following an increase of \$53,000, or 3.1%, in 2013. FDIC assessments increased in 2014 and 2013 mainly as a result of deposit growth.

Other operating expenses increased by \$352,000 in 2014, which followed a \$128,000 decrease in 2013. The increase in 2014 was primarily attributable to an increase in debit card losses, consultants expense, and software maintenance fees. The decrease in 2013 was primarily attributable to a decrease in charitable contributions and marketing expense offset somewhat by an increase in software maintenance.

Provision for Income Taxes

Income tax expense was \$866,000 in 2014, \$1,007,000 in 2013 and \$1,392,000 in 2012. The effective tax rate was 3.8% in 2014, 4.8% in 2013 and 6.8% in 2012. The decrease in the effective tax rate for 2014 and 2013 was mainly attributable to an increase in tax-exempt interest income as a percentage of taxable income offset slightly by a decrease in tax credits. The federal tax rate was 34% in 2014, 2013 and 2012.

Market Risk and Asset Liability Management

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

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)**

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

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

Change in Interest	
Rates (in Basis Points)	Percentage Change in Net Interest Income(1)
+400	(9.4)
+300	(6.0)
+200	(4.3)
+100	(2.1)
100	0.7
200	0.1

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

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

Liquidity and Capital Resources

Liquidity is provided by maintaining an adequate level of liquid assets that include cash and due from banks, federal funds sold and other temporary investments. Liquid assets totaled \$307,489,000 on December 31, 2014, compared with \$99,295,000 on December 31, 2013. In each of these two years, deposit and borrowing activity has generally been adequate to support asset activity.

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

Capital Adequacy

Total stockholders' equity was \$192,500,000 at December 31, 2014, compared with \$176,472,000 at December 31, 2013. The Company's equity increased primarily as a result of earnings, offset somewhat by an increase in other comprehensive loss, net of taxes, and dividends paid. Other comprehensive loss, net of taxes, increased as a result of an increase in the additional pension liability. The pension liability increased as a result of an increase in the discount rate utilized and the impact of recently updated mortality tables. This was offset somewhat by a decrease in unrealized losses on securities available-for-sale and securities transferred from available-for-sale to held-to-maturity. During the third quarter of 2013, \$987,037,000 of securities available-for-sale with unrealized losses of \$25,333,000 million were transferred to securities held-to-maturity. This was done in response to rising interest rates.

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

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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 13.87% and 13.13%, respectively, and total capital-to-risk assets ratio of 15.12% and 14.38%, respectively, at December 31, 2014. 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, 2014, the Company and the Bank exceeded this requirement with leverage ratios of 6.91% and 6.52%, 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, 2014.

Contractual Obligations and Commitments by Maturity (dollars in thousands)

	Total	Payments Due By Period			
		Less Than One Year	One to Three Years	Three to Five Years	After Five Years
CONTRACTUAL OBLIGATIONS					
FHLBB advances	\$ 395,500	\$ 169,500	\$ 100,000	\$ 70,000	\$ 56,000
Subordinated debentures	36,083				36,083
Retirement benefit obligations	35,579	2,322	6,186	6,803	20,268
Lease obligations	12,751	2,279	3,782	2,743	3,947
Customer repurchase agreements	212,360	212,360			
Total contractual cash obligations	\$ 692,273	\$ 386,461	\$ 109,968	\$ 79,546	\$ 116,298

	Total	Amount of Commitment Expiring By Period			
		Less Than One Year	One to Three Years	Three to Five Years	After Five Years
OTHER COMMITMENTS					
Lines of credit	\$ 298,279	\$ 26,706	\$ 128,542	\$ 13,640	\$ 129,391
Standby and commercial letters of credit	8,057	6,912	918	59	168
Other commitments	23,436	3,456	1,205	350	18,425
Total commitments	\$ 329,772	\$ 37,074	\$ 130,665	\$ 14,049	\$ 147,984

Financial Instruments with Off-Balance-Sheet Risk

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

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)**

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

Contract or Notional Amount (dollars in thousands)	2014	2013
Financial instruments whose contract amount represents credit risk:		
Commitments to originate 1-4 family mortgages	\$ 3,215	\$ 3,373
Standby and commercial letters of credit	8,057	7,930
Unused lines of credit	298,279	249,941
Unadvanced portions of construction loans	3,035	7,026
Unadvanced portions of other loans	17,186	17,750

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The fair value of standby letters of credit was \$62,000 and \$69,000 for 2014 and 2013, respectively.

Recent Accounting Developments

In December 2011, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The Company implemented the provisions of ASU 2011-11 as of January 1, 2013. The adoption of this pronouncement did not have a material effect on the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income or as a separate disclosure in the notes to the financial statements. The new standard is effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. The Company has presented a separate footnote (Note 13) as a result of this pronouncement.

In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property

Table of Contents**Management's Discussion and Analysis of Results of Operations and Financial Condition (Continued)**

to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company has assessed the impact of ASU 2014-04 and the adoption of this amendment will not have a material impact on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860) Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. This ASU eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. In addition, the ASU requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The ASU is effective for annual periods beginning after December 15, 2014 and interim periods beginning after December 15, 2015; early application is not permitted. The Company has assessed the impact of ASU 2014-11 and the adoption of this amendment will not have a material impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40) Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. This ASU which will require creditors to derecognize certain foreclosed government-guaranteed mortgage loans and to recognize a separate other receivable that is measured at the amount the creditor expects to recover from the guarantor, and to treat the guarantee and the receivable as a single unit of account. ASU 2014-14 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the ASU is effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. An entity can elect a prospective or a modified retrospective transition method, but must use the same transition method that it elected under FASB ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. Early adoption, including adoption in an interim period, is permitted if the entity already adopted ASU 2014-04. The Company has assessed the impact of ASU 2014-14 and the adoption of this amendment will not have a material impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosures of Uncertainties About an Entity's Ability to Continue as a Going Concern*. This ASU provides guidance on determining when and how reporting entities must disclose going concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern. The ASU is effective for interim and annual periods beginning after December 15, 2016; early application is permitted. The Company has chosen not to early adopt ASU 2014-15.

Table of Contents**Consolidated Balance Sheets**

December 31, (dollars in thousands except share data)	2014	2013
ASSETS		
Cash and due from banks (Note 2)	\$ 43,367	\$ 59,956
Federal funds sold and interest-bearing deposits in other banks	261,990	34,722
Total cash and cash equivalents	305,357	94,678
Short-term investments	2,131	4,617
Securities available-for-sale, amortized cost \$448,210 in 2014 and \$465,943 in 2013 (Notes 3, 9 and 11)	448,390	464,245
Securities held-to-maturity, fair value \$1,413,603 in 2014 and \$1,464,449 in 2013 (Notes 4 and 11)	1,406,792	1,487,884
Federal Home Loan Bank of Boston, stock at cost	24,916	18,072
Loans, net (Note 5)	1,331,366	1,264,763
Less: allowance for loan losses (Note 6)	22,318	20,941
Net loans	1,309,048	1,243,822
Bank premises and equipment (Note 7)	24,182	23,400
Accrued interest receivable	6,241	6,539
Prepaid FDIC assessments		
Other assets (Notes 8 and 16)	96,979	87,897
Total assets	\$ 3,624,036	\$ 3,431,154
LIABILITIES AND STOCKHOLDERS' EQUITY		
Demand deposits	\$ 484,928	\$ 475,862
Savings and NOW deposits	978,619	992,796
Money market accounts	890,899	864,957
Time deposits (Note 10)	383,145	382,224
Total deposits	2,737,591	2,715,839
Securities sold under agreements to repurchase (Note 11)	212,360	214,440
Other borrowed funds (Note 12)	395,500	255,144
Subordinated debentures (Note 12)	36,083	36,083
Other liabilities	50,002	33,176
Total liabilities	3,431,536	3,254,682
Commitments and contingencies (Notes 7, 18 and 19)		
Stockholders' equity (Note 15):		
Preferred Stock \$1.00 par value; 100,000 shares authorized; no shares issued and outstanding		
Common stock, Class A, \$1.00 par value per share; authorized 10,000,000 shares; issued 3,600,729 shares in 2014 and 3,580,404 shares in 2013	3,601	3,580
Common stock, Class B, \$1.00 par value per share; authorized 5,000,000 shares; issued 1,967,180 shares in 2014 and 1,976,180 shares in 2013	1,967	1,976
Additional paid-in capital	12,292	11,932
Retained earnings	200,411	180,747
	218,271	198,235
Unrealized gains (losses) on securities available-for-sale, net of taxes	77	(1,045)
Unrealized losses on securities transferred to held-to-maturity, net of taxes	(10,479)	(13,667)
Pension liability, net of taxes	(15,369)	(7,051)

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Total accumulated other comprehensive loss, net of taxes (Notes 3, 13 and 15)	(25,771)	(21,763)
Total stockholders' equity	192,500	176,472
Total liabilities and stockholders' equity	\$ 3,624,036	\$ 3,431,154

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Income**

Year Ended December 31, (dollars in thousands except share data)	2014	2013	2012
INTEREST INCOME			
Loans, taxable	\$ 32,198	\$ 33,214	\$ 34,983
Loans, non-taxable	17,910	16,082	16,432
Securities available-for-sale, taxable	2,601	13,024	22,286
Securities available-for-sale, non-taxable	282	286	340
Federal Home Loan Bank of Boston dividends	283	59	77
Securities held-to-maturity	31,745	16,615	6,746
Federal funds sold, interest-bearing deposits in other banks and short-term investments	352	485	630
Total interest income	85,371	79,765	81,494
INTEREST EXPENSE			
Savings and NOW deposits	2,539	2,585	2,250
Money market accounts	2,715	2,472	2,373
Time deposits	4,421	4,777	6,250
Securities sold under agreements to repurchase	391	361	367
Other borrowed funds and subordinated debentures	9,070	8,610	8,300
Total interest expense	19,136	18,805	19,540
Net interest income	66,235	60,960	61,954
Provision for loan losses (Note 6)	2,050	2,710	4,150
Net interest income after provision for loan losses	64,185	58,250	57,804
OTHER OPERATING INCOME			
Service charges on deposit accounts	8,063	8,113	7,880
Lockbox fees	3,099	3,079	2,930
Brokerage commissions	302	257	364
Net gains on sales of securities	450	3,019	1,843
Gains on sales of mortgage loans	757	1,564	297
Other income	2,600	2,583	2,551
Total other operating income	15,271	18,615	15,865
OPERATING EXPENSES			
Salaries and employee benefits (Note 17)	35,096	35,244	32,943
Occupancy	5,503	5,000	4,695
Equipment	2,329	2,298	2,255
FDIC assessments	1,970	1,790	1,737
Other (Note 20)	11,832	11,480	11,608
Total operating expenses	56,730	55,812	53,238
Income before income taxes	22,726	21,053	20,431
Provision for income taxes (Note 16)	866	1,007	1,392
Net income	\$ 21,860	\$ 20,046	\$ 19,039
SHARE DATA (Note 14)			
Weighted average number of shares outstanding, basic Class A	3,591,732	3,575,683	3,557,693

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Class B	1,969,030	1,980,855	1,990,474
Weighted average number of shares outstanding, diluted			
Class A	5,562,209	5,557,693	5,549,191
Class B	1,969,030	1,980,855	1,990,474
Basic earnings per share			
Class A	\$ 4.78	\$ 4.39	\$ 4.18
Class B	\$ 2.39	\$ 2.19	\$ 2.09
Diluted earnings per share			
Class A	\$ 3.93	\$ 3.61	\$ 3.43
Class B	\$ 2.39	\$ 2.19	\$ 2.09

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Comprehensive Income**

Year Ended December 31, (dollars in thousands)	2014	2013	2012
NET INCOME	\$ 21,860	\$ 20,046	\$ 19,039
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	1,572	(25,909)	5,854
Less: reclassification adjustment for gains included in net income	(450)	(3,019)	(1,843)
Total unrealized gains (losses) on securities	1,122	(28,928)	4,011
Accretion of net unrealized losses transferred during period	3,188	1,886	
Defined benefit pension plans:			
Pension liability adjustment:			
Net (loss) gain	(8,544)	4,932	(2,488)
Amortization of prior service cost and loss included in net periodic benefit cost	226	694	649
Total pension liability adjustment	(8,318)	5,626	(1,839)
Other comprehensive (loss) income	(4,008)	(21,416)	2,172
Comprehensive income (loss)	\$ 17,852	\$ (1,370)	\$ 21,211

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Changes in 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, 2011	\$ 3,548	\$ 1,994	\$ 11,587	\$ 146,039	\$ (2,519)	\$ 160,649
Net income				19,039		19,039
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of \$2,491 in taxes and \$1,843 in realized net gains					4,011	4,011
Pension liability adjustment, net of \$1,223 in taxes					(1,839)	(1,839)
Conversion of Class B Common Stock to Class A Common Stock, 7,500 shares	8	(8)				
Stock options exercised, 12,262 shares	12		292			304
Cashless stock options exercised, 6,750 shares			12			12
Cash dividends, Class A Common Stock, \$0.48 per share				(1,708)		(1,708)
Cash dividends, Class B Common Stock, \$0.24 per share				(478)		(478)
BALANCE, DECEMBER 31, 2012	\$ 3,568	\$ 1,986	\$ 11,891	\$ 162,892	\$ (347)	\$ 179,990
Net income				20,046		20,046
Other comprehensive income, net of tax:						
Unrealized holding losses arising during period, net of \$8,527 in taxes and \$3,019 in realized net gains					(13,375)	(13,375)
Unrealized losses on securities transferred to held-to-maturity, net of \$9,781 in taxes					(15,553)	(15,553)
Accretion of net unrealized losses transferred during the period, net of \$1,191 in taxes					1,886	1,886
Pension liability adjustment, net of \$3,741 in taxes					5,626	5,626
Conversion of Class B Common Stock to Class A Common Stock, 10,700 shares	10	(10)				
Stock options exercised, 1,625 shares	2		41			43
Cash dividends, Class A Common Stock, \$0.48 per share				(1,716)		(1,716)
Cash dividends, Class B Common Stock, \$0.24 per share				(475)		(475)
BALANCE, DECEMBER 31, 2013	\$ 3,580	\$ 1,976	\$ 11,932	\$ 180,747	\$ (21,763)	\$ 176,472
Net income				21,860		21,860
Other comprehensive income, net of tax:						
Unrealized holding gains arising during period, net of \$756 in taxes and \$450 in realized net gains					1,122	1,122
Accretion of net unrealized losses transferred during the period, net of \$2,004 in taxes					3,188	3,188
Pension liability adjustment, net of \$5,532 in taxes					(8,318)	(8,318)
Conversion of Class B Common Stock to Class A Common Stock, 9,000 shares	9	(9)				
Stock options exercised, 11,325 shares	12		349			361
Cashless stock options exercised, 7,700 shares			11			11
Cash dividends, Class A Common Stock, \$0.48 per share				(1,723)		(1,723)
Cash dividends, Class B Common Stock, \$0.24 per share				(473)		(473)
BALANCE, DECEMBER 31, 2014	\$ 3,601	\$ 1,967	\$ 12,292	\$ 200,411	\$ (25,771)	\$ 192,500

See accompanying Notes to Consolidated Financial Statements.

Table of Contents**Consolidated Statements of Cash Flows**

Year Ended December 31, (dollars in thousands)	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 21,860	\$ 20,046	\$ 19,039
Adjustments to reconcile net income to net cash provided by operating activities:			
Gain on sales of mortgage loans held for sale	(757)	(1,564)	(297)
Gain on sale of fixed assets	(5)	(1)	(1)
Net gains on sales of securities	(450)	(3,019)	(1,843)
Provision for loan losses	2,050	2,710	4,150
Deferred tax benefit	(3,613)	(2,929)	(2,104)
Net depreciation and amortization	2,937	5,358	6,445
Decrease (increase) in accrued interest receivable	298	(728)	211
Decrease in prepaid FDIC assessments		2,773	1,562
Gain on sales of other real estate owned	(60)		(1)
Increase in other assets	(2,849)	(5,693)	(3,113)
Increase in other liabilities	2,976	4,043	1,070
Net cash provided by operating activities	22,387	20,996	25,118
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from maturities of short-term investments	4,617	22,367	38,397
Purchase of short-term investments	(2,131)	(9,617)	(37,413)
Proceeds from call of Federal Home Loan Bank of Boston stock	680	284	385
Purchase of Federal Home Loan Bank of Boston stock	(7,524)	(3,210)	
Proceeds from calls/maturities of securities available-for-sale	153,832	256,420	532,734
Proceeds from sales of securities available-for-sale	40,285	224,045	294,881
Purchase of securities available-for-sale	(176,224)	(543,072)	(998,955)
Proceeds from calls/maturities of securities held-to-maturity	267,486	121,121	88,628
Purchase of securities held-to-maturity	(181,411)	(344,455)	(185,346)
Proceeds from sales of portfolio loans	44,501	93,337	14,457
Net increase in loans	(111,528)	(245,670)	(143,332)
Proceeds from sales of other real estate owned	615		1,584
Proceeds from sales of fixed assets	5	1	1
Capital expenditures	(3,104)	(1,820)	(4,300)
Net cash provided by (used in) investing activities	30,099	(430,269)	(398,279)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in time deposit accounts	921	(37,759)	(13,518)
Net increase in demand, savings, money market and NOW deposits	20,831	308,525	334,007
Net proceeds from the exercise of stock options	361	43	304
Cash dividends	(2,196)	(2,191)	(2,186)
Net (decrease) increase in securities sold under agreements to repurchase	(2,080)	23,050	48,070
Net increase (decrease) in other borrowed funds	140,356	60,000	(48,999)
Net cash provided by financing activities	158,193	351,668	317,678
Net increase (decrease) in cash and cash equivalents	210,679	(57,605)	(55,483)
Cash and cash equivalents at beginning of year	94,678	152,283	207,766
Cash and cash equivalents at end of year	\$ 305,357	\$ 94,678	\$ 152,283

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for:

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Interest	\$ 19,168	\$ 18,812	\$ 19,597
Income taxes	4,493	4,008	3,348
Change in unrealized gains on securities available-for-sale, net of taxes	\$ 1,122	\$ (13,375)	\$ 4,011
Change in unrealized losses on securities transferred to held-to-maturity, net of taxes	3,188	(13,667)	
Pension liability adjustment, net of taxes	(8,318)	5,626	(1,839)
Transfer of loans to other real estate owned	555		400
Transfer of securities available-for-sale to held-to-maturity		987,037	

See accompanying Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

BASIS OF FINANCIAL STATEMENT PRESENTATION

The consolidated financial statements include the accounts of Century Bancorp, Inc. (the Company) and its wholly owned subsidiary, Century Bank and Trust Company (the Bank). The consolidated financial statements also include the accounts of the Bank's wholly owned subsidiaries, Century Subsidiary Investments, Inc. (CSII), Century Subsidiary Investments, Inc. II (CSII II), Century Subsidiary Investments, Inc. III (CSII III) and Century Financial Services Inc. (CFSI). CSII, CSII II, and CSII III are engaged in buying, selling and holding investment securities. CFSI has the power to engage in financial agency, securities brokerage, and investment and financial advisory services and related securities credit. The Company also owns 100% of Century Bancorp Capital Trust II (CBCT II). The entity is an unconsolidated subsidiary of the Company.

All significant intercompany accounts and transactions have been eliminated in consolidation. The Company provides a full range of banking services to individual, business and municipal customers in Massachusetts, New Hampshire and Rhode Island. As a bank holding company, the Company is subject to the regulation and supervision of the Federal Reserve Board. The Bank, a state chartered financial institution, is subject to supervision and regulation by applicable state and federal banking agencies, including the Federal Reserve Board, the Federal Deposit Insurance Corporation (the FDIC) and the Commonwealth of Massachusetts Commissioner of Banks. The Bank is also subject to various requirements and restrictions under federal and state law, including requirements to maintain reserves against deposits, restrictions on the types and amounts of loans that may be granted and the interest that may be charged thereon, and limitations on the types of investments that may be made and the types of services that may be offered. Various consumer laws and regulations also affect the operations of the Bank. In addition to the impact of regulation, commercial banks are affected significantly by the actions of the Federal Reserve Board as it attempts to control the money supply and credit availability in order to influence the economy. All aspects of the Company's business are highly competitive. The Company faces aggressive competition from other lending institutions and from numerous other providers of financial services. The Company has one reportable operating segment.

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and general practices within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from those estimates.

Material estimates that are susceptible to change in the near term relate to the allowance for loan losses. Management believes that the allowance for loan losses is adequate based on independent appraisals and review of other factors, including historical charge-off rates with additional allocations based on risk factors for each category and general economic factors. While management uses available information to recognize loan losses, future additions to the allowance for loan losses may be necessary based on changes in economic conditions. In addition, regulatory agencies periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance for loan losses based on their judgments about information available to them at the time of their examination. Certain reclassifications are made to prior-year amounts whenever necessary to conform with the current-year presentation.

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Notes to Consolidated Financial Statements (Continued)

FAIR VALUE MEASUREMENTS

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures* (formerly SFAS 157, Fair Value Measurements), which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. ASC 820-10 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels of the hierarchy are as follows:

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

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

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

CASH AND CASH EQUIVALENTS

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

SHORT-TERM INVESTMENTS

As of December 31, 2014 and 2013, short-term investments include highly liquid certificates of deposit with original maturities of more than 90 days but less than one year.

INVESTMENT SECURITIES

Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity and reported at amortized cost; debt and equity securities that are bought and held principally for the purpose of selling are classified as trading and reported at fair value, with unrealized gains and losses included in earnings; and debt and equity securities not classified as either held-to-maturity or trading are classified as available-for-sale and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders ' equity, net of estimated related income taxes. The Company has no securities held for trading.

Premiums and discounts on investment securities are amortized or accreted into income by use of the level-yield method. If a decline in fair value below the amortized cost basis of an investment is judged to be other-than-temporary, the cost basis of the investment is written down to fair value. The total amount of the impairment charge is recognized in earnings, with an offset for the noncredit component, which is recognized as other comprehensive income. Gains and losses on the sale of investment securities are recognized on the trade date on a specific identification basis.

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Notes to Consolidated Financial Statements (Continued)

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

FEDERAL HOME LOAN BANK STOCK

The Bank, as a member of the Federal Home Loan Bank of Boston (FHLBB), is required to maintain an investment in capital stock of the FHLBB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLBB may declare dividends on the stock. The Company reviews for impairment based on the ultimate recoverability of the cost basis of the stock. As of December 31, 2014, no impairment has been recognized.

LOANS HELD FOR SALE

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

LOANS

Interest on loans is recognized based on the daily principal amount outstanding. Accrual of interest is discontinued when loans become ninety days delinquent unless the collateral is sufficient to cover both principal and interest and the loan is in the process of collection. Past-due status is based on contractual terms of the loan. Loans, including impaired loans, on which the accrual of interest has been discontinued, are designated nonaccrual loans. When a loan is placed on nonaccrual, all income that has been accrued but remains unpaid is reversed against current period income, and all amortization of deferred loan costs and fees is discontinued. Nonaccrual loans may be returned to an accrual status when principal and interest payments are not delinquent or the risk characteristics of the loan have improved to the extent that there no longer exists a concern as to the collectibility of principal and interest. Income received on nonaccrual loans is either recorded in income or applied to the principal balance of the loan, depending on management's evaluation as to the collectibility of principal.

Loan origination fees and related direct loan origination costs are offset, and the resulting net amount is deferred and amortized over the life of the related loans using the level-yield method. Prepayments are not initially considered when amortizing premiums and discounts.

The Bank measures impairment for impaired loans at either the fair value of the loan, the present value of the expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent. This method applies to all loans, uncollateralized as well as collateralized, except large groups of smaller-balance homogeneous loans such as residential real estate and consumer loans that are collectively evaluated for impairment and loans that are measured at fair value. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance when such an amount has been identified definitively as uncollectible. Management considers the payment status, net worth and earnings potential of the borrower, and the value and cash flow of the collateral as factors to determine if a loan will be paid in accordance with its contractual terms. Management does not set any minimum delay of payments as a factor in reviewing for impaired classification. Loans are charged-off when management believes that the collectibility of the loan's principal is not probable. The specific factors that management considers in making the determination that the collectibility of the loan's principal is not probable include the delinquency status of

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

the loan, the fair value of the collateral, if secured, and, the financial strength of the borrower and/or guarantors. In addition, criteria for classification of a loan as in-substance foreclosure has been modified so that such classification need be made only when a lender is in possession of the collateral. The Bank measures the impairment of troubled debt restructurings using the pre-modification rate of interest.

TRANSFERS OF FINANCIAL ASSETS

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

ACQUIRED LOANS

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

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

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

NONPERFORMING ASSETS

In addition to nonperforming loans, nonperforming assets include other real estate owned. Other real estate owned is comprised of properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure. Other real estate owned is recorded initially at estimated fair value less costs to sell. When such assets are acquired, the excess of the loan balance over the estimated fair value of the asset is charged to the allowance for loan losses. An allowance for losses on other real estate owned is established by a charge to earnings when, upon periodic evaluation by management, further declines in the estimated fair value of properties have occurred. Such evaluations are based on an analysis of individual properties as well as a general assessment of current real estate market conditions. Holding costs and rental income on properties are included in current operations, while certain costs to improve such properties are capitalized. Gains and losses from the sale of other real estate owned are reflected in earnings when realized.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is based on management's evaluation of the quality of the loan portfolio and is used to provide for losses resulting from loans that ultimately prove uncollectible. In determining the level of the allowance, periodic evaluations are made of the loan portfolio, which takes into account such factors as the

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

character of the loans, loan status, financial strength of the borrowers, value of collateral securing the loans and other relevant information sufficient to reach an informed judgment. The allowance is increased by provisions charged to income and reduced by loan charge-offs, net of recoveries. Management maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on assessments of the probable estimated losses inherent in the loan portfolio. Management's methodology for assessing the appropriateness of the allowance consists of several key elements, which include the formula allowance, specific allowances, if appropriate, for identified problem loans and the unallocated allowance. Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment.

While management uses available information in establishing the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. Loans are charged-off in whole or in part when, in management's opinion, collectibility is not probable. The specific factors that management considers in making the determination that the collectibility of the loan's principal is not probable include the delinquency status of the loan, the fair value of the collateral and the financial strength of the borrower and/or guarantors. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance when such an amount has been identified definitively as uncollectible.

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

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

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

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. These uncertainties include the effects of loans in new geographical areas and new industries. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

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

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Notes to Consolidated Financial Statements (Continued)

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.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Residential real estate The Company generally does not originate loans with a loan-to-value ratio greater than 80 percent. All loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates, will have an effect on the credit quality in the segment.

Commercial real estate Loans in this segment are primarily income-producing properties. Also included are loans to educational institutions, hospitals and other non-profit organizations. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, will have an effect on the credit quality in this segment. Management monitors the cash flows of these loans.

Construction loans Loans in this segment primarily include real estate development loans for which payment is derived from sale of the property as well as construction projects in which the property will ultimately be used by the borrower. Credit risk is affected by cost overruns, time to sell at an adequate price and market conditions.

Commercial and industrial loans Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, will have an effect on the credit quality in this segment.

BANK PREMISES AND EQUIPMENT

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. Land is stated at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets or the terms of leases, if shorter. It is general practice to charge the cost of maintenance and repairs to operations when incurred; major expenditures for improvements are capitalized and depreciated.

GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

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

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

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

Table of Contents**Notes to Consolidated Financial Statements (Continued)*****SERVICING***

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

STOCK OPTION ACCOUNTING

The Company follows the fair value recognition provisions of FASB ASC 718, *Compensation - Stock Compensation* (formerly SFAS 123R) for all share-based payments, using the modified-prospective transition method. The Company's method of valuation for share-based awards granted utilizes the Black-Scholes option-pricing model, which was also previously used for the Company's pro forma information required under FASB ASC 718. The Company will recognize compensation expense for its awards on a straight-line basis over the requisite service period for the entire award (straight-line attribution method), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date fair value of the award that is vested at that time.

During 2000 and 2004, common stockholders of the Company approved stock option plans (the *Option Plans*) that provide for granting of options to purchase up to 150,000 shares of Class A common stock per plan. Under the *Option Plans*, all officers and key employees of the Company are eligible to receive nonqualified or incentive stock options to purchase shares of Class A common stock. The *Option Plans* are administered by the Compensation Committee of the Board of Directors, whose members are ineligible to participate in the *Option Plans*. Based on management's recommendations, the Committee submits its recommendations to the Board of Directors as to persons to whom options are to be granted, the number of shares granted to each, the option price (which may not be less than 85% of the fair market value for nonqualified stock options, or the fair market value for incentive stock options, of the shares on the date of grant) and the time period over which the options are exercisable (not more than ten years from the date of grant). There were no options to purchase shares of Class A common stock exercisable at December 31, 2014.

On December 30, 2005, the Board of Directors approved the acceleration and immediate vesting of all unvested options with an exercise price of \$31.60 or greater per share. As a consequence, options to purchase 23,950 shares of Class A common stock became exercisable immediately. The average of the high and low price at which the Class A common stock traded on December 30, 2005, the date of the acceleration and vesting, was \$29.28 per share. In connection with this acceleration, the Board of Directors approved a technical amendment to each of the *Option Plans* to eliminate the possibility that the terms of any outstanding or future stock option would require a cash settlement on the occurrence of any circumstance outside the control of the Company.

The Company uses the fair value method to account for stock options. There were no options granted during 2014 and 2013.

INCOME TAXES

The Company uses the asset and liability method in accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective

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Notes to Consolidated Financial Statements (Continued)

tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Under this method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

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

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

TREASURY STOCK

Effective July 1, 2004, companies incorporated in Massachusetts became subject to Chapter 156D of the Massachusetts Business Corporation Act, provisions of which eliminate the concept of treasury stock and provide that shares reacquired by a company are to be treated as authorized but unissued shares.

PENSION

The Company provides pension benefits to its employees under a noncontributory, defined benefit plan, which is funded on a current basis in compliance with the requirements of the Employee Retirement Income Security Act of 1974 (ERISA) and recognizes costs over the estimated employee service period.

The Company also has a Supplemental Executive Insurance/Retirement Plan (the Supplemental Plan), which is limited to certain officers and employees of the Company. The Supplemental Plan is accrued on a current basis and recognizes costs over the estimated employee service period.

Executive officers of the Company or its subsidiaries who have at least one year of service may participate in the Supplemental Plan. The Supplemental Plan is voluntary. Individual life insurance policies, which are owned by the Company, are purchased covering the life of each participant.

RECENT ACCOUNTING DEVELOPMENTS

In December 2011, the Financial Accounting Standards Board (FASB) issued *Accounting Standards Update (ASU) 2011-11, Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities*. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The Company implemented the provisions of ASU 2011-11 as of January 1, 2013. The adoption of this pronouncement did not have a material effect on the consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220) Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income or as a separate disclosure in the notes to the financial statements. The new standard is effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. The Company has presented a separate footnote (Note 13) as a result of this pronouncement.

In January 2014, the FASB issued ASU 2014-04, *Receivables-Troubled Debt Restructurings by Creditors (Subtopic 310-40) Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this update clarify that an in substance

repossession or foreclosure occurs, and a

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The amendments in this update are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company has assessed the impact of ASU 2014-04 and the adoption of this amendment will not have a material impact on the Company's financial statements.

In June 2014, the FASB issued ASU 2014-11, *Transfers and Servicing (Topic 860) Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*. This ASU eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. In addition, the ASU requires a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. The ASU is effective for annual periods beginning after December 15, 2014 and interim periods beginning after December 15, 2015; early application is not permitted. The Company has assessed the impact of ASU 2014-11 and the adoption of this amendment will not have a material impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-14, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure*. This ASU which will require creditors to derecognize certain foreclosed government-guaranteed mortgage loans and to recognize a separate other receivable that is measured at the amount the creditor expects to recover from the guarantor, and to treat the guarantee and the receivable as a single unit of account. ASU 2014-14 is effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. For entities other than public business entities, the ASU is effective for annual periods ending after December 15, 2015, and interim periods beginning after December 15, 2015. An entity can elect a prospective or a modified retrospective transition method, but must use the same transition method that it elected under FASB ASU No. 2014-04, *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. Early adoption, including adoption in an interim period, is permitted if the entity already adopted ASU 2014-04. The Company has assessed the impact of ASU 2014-14 and the adoption of this amendment will not have a material impact on the Company's financial statements.

In August 2014, the FASB issued ASU 2014-15, *Disclosures of Uncertainties About an Entity's Ability to Continue as a Going Concern*. This ASU provides guidance on determining when and how reporting entities must disclose going concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. Further, an entity must provide certain disclosures if there is substantial doubt about the entity's ability to continue as a going concern. The ASU is effective for interim and annual periods beginning after December 15, 2016; early application is permitted. The Company has chosen not to early adopt ASU 2014-15. Management does not expect a material impact, if any, as of December 31, 2014.

2. Cash and Due from Banks

The Company is required to maintain a portion of its cash and due from banks as a reserve balance under the Federal Reserve Act. Such reserve is calculated based upon deposit levels and amounted to \$0 at December 31, 2014, and \$0 at December 31, 2013.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****3. Securities Available-for-Sale**

	December 31, 2014			Estimated Fair Value	December 31, 2013			Estimated Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses		Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
(dollars in thousands)								
U.S. Treasury	\$ 1,999	\$ 1	\$	\$ 2,000	\$ 1,997	\$ 1	\$	\$ 1,998
U.S. Government Sponsored Enterprises					9,995	9		10,004
SBA Backed Securities	6,684	33		6,717	7,270	32		7,302
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	336,158	1,387	452	337,093	404,103	588	1,501	403,190
Privately Issued Residential Mortgage-Backed Securities	1,894	5	25	1,874	2,294	6	23	2,277
Obligations Issued by States and Political Subdivisions	97,657		873	96,784	37,578	15	870	36,723
Other Debt Securities	3,600	24	100	3,524	2,300		125	2,175
Equity Securities	218	180		398	406	170		576
Total	\$ 448,210	\$ 1,630	\$ 1,450	\$ 448,390	\$ 465,943	\$ 821	\$ 2,519	\$ 464,245

Included in U.S. Government Sponsored Enterprise Securities and U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities are securities at fair value pledged to secure public deposits and repurchase agreements amounting to \$301,038,000 and \$368,137,000 at December 31, 2014 and 2013, respectively. Also included in securities available-for-sale at fair value are securities pledged for borrowing at the Federal Home Loan Bank amounting to \$24,810,000 and \$12,214,000 at December 31, 2014 and 2013, respectively. The Company realized gains on sales of securities of \$450,000, \$3,019,000 and \$1,843,000 from the proceeds of sales of available-for-sale securities of \$40,285,000, \$224,045,000 and \$294,881,000 for the years ended December 31, 2014, 2013, and 2012, respectively.

Debt securities of Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.

The following table shows the estimated maturity distribution of the Company's securities available-for-sale at December 31, 2014.

	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	\$ 95,134	\$ 95,118
After one but within five years	207,506	208,518
After five but within ten years	135,803	135,733
More than ten years	8,049	7,224
Nonmaturing	1,718	1,797
Total	\$ 448,210	\$ 448,390

The weighted average remaining life of investment securities available-for-sale at December 31, 2014, was 4.1 years. The contractual maturities, which were used in the table above, of mortgage-backed securities, will differ from the actual maturities due to the ability of the issuers to prepay underlying obligations. Also, \$346,994,000 of the securities are floating rate or adjustable rate and reprice prior to maturity.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The Company transferred \$987,037,000 of securities with unrealized losses of \$25,333,000 from available-for-sale to held-to-maturity during 2013.

As of December 31, 2014 and December 31, 2013, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not more likely than not that it will be required to sell these debt securities before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade. The change in the unrealized losses on the state and municipal securities and the nonagency mortgage-backed securities was primarily caused by changes in credit spreads and liquidity issues in the marketplace.

The unrealized loss on U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprises Mortgage Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2014 and December 31, 2013.

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

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2014. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 3 and 14 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 262 holdings at December 31, 2014.

	Less Than 12 Months		December 31, 2014 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments (dollars in thousands)						
U.S. Government Sponsored Enterprise	\$	\$	\$	\$	\$	\$
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	24,457	85	77,585	367	102,042	452
Privately Issued Residential Mortgage-Backed Securities			678	25	678	25
Obligations Issued by States and Political Subdivisions			3,820	873	3,820	873
Other Debt Securities			1,400	100	1,400	100
Total temporarily impaired securities	\$ 24,457	\$ 85	\$ 83,483	\$ 1,365	\$ 107,940	\$ 1,450

The following table shows the temporarily impaired securities of the Company's available-for-sale portfolio at December 31, 2013. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 47 and 7 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 234 holdings at December 31, 2013.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

	Less Than 12 Months		December 31, 2013 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments (dollars in thousands)						
U.S. Government Sponsored Enterprise	\$	\$	\$	\$	\$	\$
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	289,709	1,352	24,557	149	314,266	1,501
Privately Issued Residential Mortgage-Backed Securities	1,486	23			1,486	23
Obligations Issued by States and Political Subdivisions			3,820	870	3,820	870
Other Debt Securities			1,376	125	1,376	125
Total temporarily impaired securities	\$ 291,195	\$ 1,375	\$ 29,753	\$ 1,144	\$ 320,948	\$ 2,519

4. Investment Securities Held-to-Maturity

	December 31, 2014				December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(dollars in thousands)								
U.S. Government Sponsored Enterprise	\$ 251,617	\$ 2,707	\$ 249	\$ 254,075	\$ 291,779	\$ 185	\$ 5,043	\$ 286,921
U.S. Government Sponsored Enterprise Mortgage-Backed Securities	1,155,175	11,185	6,832	1,159,528	1,196,105	2,239	20,816	1,177,528
Total	\$ 1,406,792	\$ 13,892	\$ 7,081	\$ 1,413,603	\$ 1,487,884	\$ 2,424	\$ 25,859	\$ 1,464,449

Included in U.S. Government and Agency Securities are securities pledged to secure public deposits and repurchase agreements at fair value amounting to \$868,924,000 and \$732,144,000 at December 31, 2014, and 2013, respectively. Also included are securities pledged for borrowing at the Federal Home Loan Bank at fair value amounting to \$458,782,000 and \$510,060,000 at December 31, 2014, and 2013, respectively.

At December 31, 2014 and 2013, all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises. Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.

The following table shows the maturity distribution of the Company's securities held-to-maturity at December 31, 2014.

	Amortized Cost	Fair Value
(dollars in thousands)		
Within one year	\$ 3,837	\$ 3,912
After one but within five years	1,095,478	1,098,957
After five but within ten years	305,690	308,892
More than ten years	1,787	1,842
Total	\$ 1,406,792	\$ 1,413,603

The weighted average remaining life of investment securities held-to-maturity at December 31, 2014, was 4.4 years. Included in the weighted average remaining life calculation at December 31, 2014, were \$178,825,000

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. The actual maturities, which were used in the table above, of mortgage-backed securities, will differ from the contractual maturities due to the ability of the issuers to prepay underlying obligations.

The Company transferred \$987,037,000 of securities with unrealized losses of \$25,333,000 from available-for-sale to held-to-maturity during 2013.

As of December 31, 2014 and December 31, 2013, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not more likely than not that it will be required to sell these debt securities before the anticipated recovery of their remaining amortized costs. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade.

The unrealized loss on U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities related primarily to interest rates and not credit quality, and because the Company does not intend to sell any of these securities and it is not more likely than not that it will be required to sell these securities before the anticipated recovery of the remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2014 and December 31, 2013.

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

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2014. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 34 and 48 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 303 holdings at December 31, 2014.

	Less Than 12 Months		December 31, 2014 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Temporarily Impaired Investments (dollars in thousands)						
U.S. Government Sponsored Enterprises	\$ 22,414	\$ 25	\$ 14,776	\$ 224	\$ 37,190	\$ 249
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	194,119	1,678	308,526	5,154	502,645	6,832
Total temporarily impaired securities	\$ 216,533	\$ 1,703	\$ 323,302	\$ 5,378	\$ 539,835	\$ 7,081

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The following table shows the temporarily impaired securities of the Company's held-to-maturity portfolio at December 31, 2013. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 191 and 13 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 300 holdings at December 31, 2013.

Temporarily Impaired Investments (dollars in thousands)	Less Than 12 Months		December 31, 2013 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Sponsored Enterprises	\$ 232,535	\$ 5,043	\$	\$	\$ 232,535	\$ 5,043
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	931,180	18,654	80,362	2,162	1,011,542	20,816
Total temporarily impaired securities	\$ 1,163,715	\$ 23,697	\$ 80,362	\$ 2,162	\$ 1,244,077	\$ 25,859

5. Loans

The majority of the Bank's lending activities are conducted in Massachusetts with other lending activity in New Hampshire and Rhode Island. The Bank originates construction, commercial and residential real estate loans, commercial and industrial loans, municipal loans, consumer, home equity and other loans for its portfolio.

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

December 31, (dollars in thousands)	2014	2013
Construction and land development	\$ 22,744	\$ 33,058
Commercial and industrial	149,732	76,675
Municipal	41,850	32,737
Commercial real estate	696,272	696,317
Residential real estate	257,305	286,041
Consumer	10,925	8,824
Home equity	151,275	130,277
Overdrafts	1,263	834
Total	\$ 1,331,366	\$ 1,264,763

At December 31, 2014, and December 31, 2013, loans were carried net of discounts of \$407,000 and \$454,000, respectively. Net deferred fees included in loans at December 31, 2014, and December 31, 2013, were \$908,000 and \$174,000, respectively.

The Company was servicing mortgage loans sold to others without recourse of approximately \$143,696,000 and \$109,301,000 at December 31, 2014, and December 31, 2013, respectively. The Company had no residential real estate loans held for sale at December 31, 2014 and December 31, 2013.

As of December 31, 2014 and 2013, the Company's recorded investment in impaired loans was \$6,327,000 and \$7,788,000, respectively. If an impaired loan is placed on nonaccrual, the loan may be returned to an accrual status when principal and interest payments are not delinquent and the risk characteristics have improved to the

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

extent that there no longer exists a concern as to the collectibility of principal and interest. At December 31, 2014, there were \$5,767,000 of impaired loans with a specific reserve of \$904,000. At December 31, 2013, there were \$6,722,000 of impaired loans with a specific reserve of \$1,019,000.

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

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

December 31, (dollars in thousands)	2014	2013	2012
Loans on nonaccrual	\$ 4,146	\$ 2,549	\$ 4,471
Loans 90 days past due and still accruing			
Impaired loans on nonaccrual included above	3,031	1,819	2,878
Total recorded investment in impaired loans	6,327	7,788	5,925
Average recorded investment of impaired loans	7,434	6,776	7,043
Accruing troubled debt restructures	3,296	5,969	3,048
Interest income not recorded on nonaccrual loans according to their original terms	123	711	753
Interest income on nonaccrual loans actually recorded			
Interest income recognized on impaired loans	144	161	180

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

The following table shows the aggregate amount of loans to directors and officers of the Company and their associates during 2014.

Balance at			
December 31, 2013	Additions	Repayments and Deletions	Balance at December 31, 2014
(dollars in thousands)			
\$4,704	\$ 2,876	\$ 1,085	\$ 6,495

6. Allowance for Loan Losses

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

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

An analysis of the allowance for loan losses for each of the three years ending December 31, 2014, 2013 and 2012 is as follows:

	2014	2013	2012
(dollars in thousands)			
Allowance for loan losses, beginning of year	\$ 20,941	\$ 19,197	\$ 16,574
Loans charged-off	(1,382)	(1,813)	(2,301)
Recoveries on loans previously charged-off	709	847	774
Net charge-offs	(673)	(966)	(1,527)
Provision charged to expense	2,050	2,710	4,150
Allowance for loan losses, end of year	\$ 22,318	\$ 20,941	\$ 19,197

ALLOWANCE FOR LOAN LOSSES AND AMOUNT OF INVESTMENTS IN LOANS

Further information pertaining to the allowance for loan losses at December 31, 2014 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
(dollars in thousands)									
Allowance for Loan Losses:									
Balance at December 31, 2013	\$ 2,174	\$ 2,617	\$ 655	\$ 10,935	\$ 2,006	\$ 432	\$ 959	\$ 1,163	\$ 20,941
Charge-offs	(500)	(333)			(24)	(525)			(1,382)
Recoveries		201		7	27	391	83		709
Provision	(82)	2,272	833	257	(1,233)	512	(443)	(66)	2,050
Ending balance at December 31, 2014	\$ 1,592	\$ 4,757	\$ 1,488	\$ 11,199	\$ 776	\$ 810	\$ 599	\$ 1,097	\$ 22,318
Amount of allowance for loan losses for loans deemed to be impaired	\$ 21	\$ 57	\$	\$ 639	\$ 95	\$	\$ 92	\$	\$ 904
Amount of allowance for loan losses for loans not deemed to be impaired	\$ 1,571	\$ 4,700	\$ 1,488	\$ 10,560	\$ 681	\$ 810	\$ 507	\$ 1,097	\$ 21,414
Loans:									
Ending balance	\$ 22,744	\$ 149,732	\$ 41,850	\$ 696,272	\$ 257,305	\$ 12,188	\$ 151,275	\$	\$ 1,331,366
Loans deemed to be impaired	\$ 103	\$ 853	\$	\$ 4,317	\$ 962	\$	\$ 92	\$	\$ 6,327
Loans not deemed to be impaired	\$ 22,641	\$ 148,879	\$ 41,850	\$ 691,955	\$ 256,343	\$ 12,188	\$ 151,183	\$	\$ 1,325,039

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Further information pertaining to the allowance for loan losses at December 31, 2013 follows:

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate	Residential Real Estate	Consumer	Home Equity	Unallocated	Total
(dollars in thousands)									
Allowance for Loan Losses:									
Balance at December 31, 2012	\$ 3,041	\$ 3,118	\$ 24	\$ 9,041	\$ 1,994	\$ 333	\$ 886	\$ 760	\$ 19,197
Charge-offs	(1,000)	(234)				(579)			(1,813)
Recoveries		389		19	11	427	1		847
Provision	133	(656)	631	1,875	1	251	72	403	2,710
Ending balance at December 31, 2013	\$ 2,174	\$ 2,617	\$ 655	\$ 10,935	\$ 2,006	\$ 432	\$ 959	\$ 1,163	\$ 20,941
Amount of allowance for loan losses for loans deemed to be impaired	\$ 12	\$ 367	\$	\$ 417	\$ 129	\$	\$ 94	\$	\$ 1,019
Amount of allowance for loan losses for loans not deemed to be impaired	\$ 2,162	\$ 2,250	\$ 655	\$ 10,518	\$ 1,877	\$ 432	\$ 865	\$ 1,163	\$ 19,922
Loans:									
Ending balance	\$ 33,058	\$ 76,675	\$ 32,737	\$ 696,317	\$ 286,041	\$ 9,658	\$ 130,277	\$	\$ 1,264,763
Loans deemed to be impaired	\$ 608	\$ 1,367	\$	\$ 4,520	\$ 1,199	\$	\$ 94	\$	\$ 7,788
Loans not deemed to be impaired	\$ 32,450	\$ 75,308	\$ 32,737	\$ 691,797	\$ 284,842	\$ 9,658	\$ 130,183	\$	\$ 1,256,975

CREDIT QUALITY INFORMATION

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

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

Loans rated 4 (Monitor) These loans represent classified loans that management is closely monitoring for credit quality. These loans have had or may have minor credit quality deterioration as of December 31, 2014.

Loans rated 5 (Substandard) Substandard loans represent classified loans that management is closely monitoring for credit quality. These loans have had more significant credit quality deterioration as of December 31, 2014.

Loans rated 6 (Doubtful) Doubtful loans represent classified loans that management is closely monitoring for credit quality. These loans had more significant credit quality deterioration as of December 31, 2014, and are doubtful for full collection.

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

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The following table presents the Company's loans by risk rating at December 31, 2014.

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
(dollars in thousands)				
Grade:				
1-3 (Pass)	\$ 15,515	\$ 148,407	\$ 41,850	\$ 691,322
4 (Monitor)	7,126	472		633
5 (Substandard)				
6 (Doubtful)				
Impaired	103	853		4,317
Total	\$ 22,744	\$ 149,732	\$ 41,850	\$ 696,272

The following table presents the Company's loans by risk rating at December 31, 2013.

	Construction and Land Development	Commercial and Industrial	Municipal	Commercial Real Estate
(dollars in thousands)				
Grade:				
1-3 (Pass)	\$ 25,138	\$ 74,836	\$ 32,737	\$ 690,451
4 (Monitor)	7,312	472		1,346
5 (Substandard)				
6 (Doubtful)				
Impaired	608	1,367		4,520
Total	\$ 33,058	\$ 76,675	\$ 32,737	\$ 696,317

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

AGING OF PAST-DUE LOANS

Further information pertaining to the allowance for loan losses at December 31, 2014 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total
(dollars in thousands)						
Construction and land development	\$ 905	\$ 103	\$ 103	\$ 1,062	\$ 22,641	\$ 22,744
Commercial and industrial		157		1,062	148,670	149,732
Municipal					41,850	41,850
Commercial real estate	1,046	2,781		3,827	692,445	696,272

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Residential real estate	632	846	1,478	255,827	257,305
Consumer and overdrafts	6	5	11	12,177	12,188
Home equity	576	254	830	150,445	151,275
Total	\$ 3,165	\$ 4,146	\$ 7,311	\$ 1,324,055	\$ 1,331,366

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Further information pertaining to the allowance for loan losses at December 31, 2013 follows:

	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total
<i>(dollars in thousands)</i>						
Construction and land development	\$	\$ 500	\$	\$ 500	\$ 32,558	\$ 33,058
Commercial and industrial	112	706		818	75,857	76,675
Municipal					32,737	32,737
Commercial real estate	1,496	306		1,802	694,515	696,317
Residential real estate	2,232	1,034		3,266	282,775	286,041
Consumer and overdrafts	11	3		14	9,644	9,658
Home equity	1,710			1,710	128,567	130,277
Total	\$ 5,561	\$ 2,549	\$	\$ 8,110	\$ 1,256,653	\$ 1,264,763

IMPAIRED LOANS

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

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The following is information pertaining to impaired loans at December 31, 2014:

	Carrying Value	Unpaid Balance Principal	Required Reserve	Average Carrying Value Recognized	Interest Income
(dollars in thousands)					
With no required reserve recorded:					
Construction and land development	\$	\$	\$	\$ 173	\$
Commercial and industrial	31	32		46	
Municipal					
Commercial real estate	393	396		225	
Residential real estate	136	219		77	9
Consumer					
Home equity					
Total	\$ 560	\$ 647	\$	\$ 521	\$ 9
With required reserve recorded:					
Construction and land development	\$ 103	\$ 108	\$ 21	\$ 222	\$
Commercial and industrial	822	1,063	57	1,065	31
Municipal					
Commercial real estate	3,924	4,018	639	4,325	103
Residential real estate	826	826	95	1,208	1
Consumer					
Home equity	92	92	92	93	
Total	\$ 5,767	\$ 6,107	\$ 904	\$ 6,913	\$ 135
Total					
Construction and land development	\$ 103	\$ 108	\$ 21	\$ 395	\$
Commercial and industrial	853	1,095	57	1,111	31
Municipal					
Commercial real estate	4,317	4,414	639	4,550	103
Residential real estate	962	1,045	95	1,285	10
Consumer					
Home equity	92	92	92	93	
Total	\$ 6,327	\$ 6,754	\$ 904	\$ 7,434	\$ 144

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The following is information pertaining to impaired loans at December 31, 2013:

	Carrying Value	Unpaid Balance Principal	Required Reserve	Average Carrying Value Recognized	Interest Income
(dollars in thousands)					
With no required reserve recorded:					
Construction and land development	\$ 500	\$ 3,292	\$	\$	\$
Commercial and industrial	238	268		361	1
Municipal					
Commercial real estate	82	82		132	
Residential real estate	246	259		169	
Consumer					
Home equity					
Total	\$ 1,066	\$ 3,901	\$	\$ 662	\$ 1
With required reserve recorded:					
Construction and land development	\$ 108	\$ 108	\$ 12	\$ 1,371	\$ 1
Commercial and industrial	1,129	1,371	367	902	37
Municipal					
Commercial real estate	4,438	4,527	417	2,868	120
Residential real estate	953	1,035	129	878	2
Consumer					
Home equity	94	94	94	95	
Total	\$ 6,722	\$ 7,135	\$ 1,019	\$ 6,114	\$ 160
Total					
Construction and land development	\$ 608	\$ 3,400	\$ 12	\$ 1,371	\$ 1
Commercial and industrial	1,367	1,639	367	1,263	38
Municipal					
Commercial real estate	4,520	4,609	417	3,000	120
Residential real estate	1,199	1,294	129	1,047	2
Consumer					
Home equity	94	94	94	95	
Total	\$ 7,788	\$ 11,036	\$ 1,019	\$ 6,776	\$ 161

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

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The following is information pertaining to troubled debt restructurings occurring during the year ended December 31, 2014:

(dollars in thousands)	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Commercial and industrial	2	\$ 98	\$ 98
Total	2	\$ 98	\$ 98

The loans were modified for 2014, by extending terms on the commercial and industrial loans. There was one commercial real estate troubled debt restructuring, totaling \$2,191,000, which subsequently defaulted during 2014. The financial impact of the modification for the performing commercial and industrial loans was a \$100 increase in principal payments for the year ended 2014.

The following is information pertaining to troubled debt restructurings occurring during the year ended December 31, 2013:

(dollars in thousands)	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Construction and land development	1	\$ 108	\$ 108
Commercial and industrial	2	67	64
Commercial real estate	3	2,376	2,356
Residential real estate	1	285	162
Total	7	\$ 2,836	\$ 2,690

There was one commercial and industrial troubled debt restructuring, that subsequently defaulted amounting to \$6,000 during 2013. The loans were modified for 2013, by reducing interest rates as well as extending term on the commercial and industrial loan. The financial impact of the modifications for performing commercial and industrial loans were \$808 reduction in principal and \$606 reduction in interest payments for the year ended December 31, 2013. The financial impact of the modifications for performing commercial real estate loans were \$5,246 increase in principal and \$23,227 reduction in interest payments for the year ended December 31, 2013. The financial impact of the modifications for performing construction and land development loans were \$1,515 reduction in principal and \$1,098 reduction in interest payments for the year ended December 31, 2013. The financial impact of the modifications for performing residential real estate loans were \$4,704 reduction in principal and \$4,104 reduction in interest payments for the year ended December 31, 2013.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****7. Bank Premises and Equipment**

December 31, (dollars in thousands)	2014	2013	Estimated Useful Life
Land	\$ 3,478	\$ 3,478	
Bank premises	19,272	19,235	30-39 years
Furniture and equipment	22,796	31,965	3-10 years
Leasehold improvements	11,607	10,010	30-39 years or lease term
	57,153	64,688	
Accumulated depreciation and amortization	(32,971)	(41,288)	
Total	\$ 24,182	\$ 23,400	

The Company is obligated under a number of non-cancelable operating leases for premises and equipment expiring in various years through 2026. Total lease expense approximated \$2,465,000, \$2,094,000 and \$2,055,000 for the years ended December 31, 2014, 2013 and 2012, respectively. Rental income approximated \$307,000, \$299,000 and \$329,000 in 2014, 2013 and 2012, respectively.

Future minimum rental commitments for non-cancelable operating leases with initial or remaining terms of one year or more at December 31, 2014, were as follows:

	Year	Amount
	(dollars in thousands)	
	2015	\$ 2,279
	2016	2,123
	2017	1,659
	2018	1,458
	2019	1,285
	Thereafter	3,947
		\$ 12,751

8. Goodwill and Identifiable Intangible Assets

At December 31, 2014 and 2013, the Company concluded that it is not more likely than not that fair value of the reporting unit is less than its carrying value, and goodwill is not considered to be impaired.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The changes in goodwill and identifiable intangible assets for the years ended December 31, 2014 and 2013 are shown in the table below.

Carrying Amount of Goodwill and Intangibles (dollars in thousands)	Goodwill	Mortgage Servicing Rights	Total
Balance at December 31, 2012	\$ 2,714	137	\$ 2,851
Additions		653	653
Amortization Expense		(87)	(87)
Balance at December 31, 2013	\$ 2,714	703	\$ 3,417
Additions		424	424
Amortization Expense		(186)	(186)
Balance at December 31, 2014	\$ 2,714	941	\$ 3,655

9. Fair Value Measurements

The Company follows FASB ASC 820-10, *Fair Value Measurements and Disclosures* (formerly SFAS 157, Fair Value Measurements), which among other things, requires enhanced disclosures about assets and liabilities carried at fair value. ASC 820-10 establishes a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring financial instruments at fair value. The three broad levels of the hierarchy are as follows:

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

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

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

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The results of the fair value hierarchy as of December 31, 2014, are as follows:

	Fair Value Measurements Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
(dollars in thousands)				
Financial Instruments Measured at Fair Value on a Recurring Basis				
Securities AFS				
U.S. Treasury	\$ 2,000	\$	\$ 2,000	\$
U.S. Government Sponsored Enterprises				
SBA Backed Securities	6,717		6,717	
U.S. Government Agency and Sponsored Enterprises				
Mortgage-Backed Securities	337,093		337,093	
Privately Issued Residential Mortgage-Backed Securities	1,874		1,874	
Obligations Issued by States and Political Subdivisions	96,784			96,784
Other Debt Securities	3,524		3,524	
Equity Securities	398	296		102
Total	\$ 448,390	\$ 296	\$ 351,208	\$ 96,886

Financial Instruments Measured at Fair Value on a Non-recurring Basis

Impaired Loans	\$ 3,410	\$	\$	\$ 3,410
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Impaired loan balances in the table above represent those collateral dependent loans where management has estimated the credit loss by comparing the loan's carrying value against the expected realizable fair value of the collateral. Fair value is generally determined through a review process that includes independent appraisals, discounted cash flows, or other external assessments of the underlying collateral, which generally include various Level 3 inputs which are not identifiable. The Company discounts the fair values, as appropriate, based on management's observations of the local real estate market for loans in this category.

Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management's estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis or other type of real estate tax assessment. The types of adjustments that are made to specific provisions (credits) relate to impaired loans recognized for 2014 for the estimated credit loss amounted to \$947,000.

There were no transfers between level 1, 2 and 3 for the year ended December 31, 2014. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the year ended December 31, 2014.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The following table presents additional information about assets measured at fair value on a recurring and nonrecurring basis for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands) at December 31, 2014. Management continues to monitor the assumptions used to value the assets listed below.

Asset	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Securities AFS ⁽¹⁾	\$ 96,886	Discounted cash flow	Discount rate	0%-1% ⁽²⁾
Impaired Loans	3,410	Appraisal of collateral ⁽³⁾	Appraisal adjustments ⁽⁴⁾	0%-30% discount

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

(2) Weighted averages.

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

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

The changes in Level 3 securities for the year ended December 31, 2014 are as shown in the table below:

(dollars in thousands)	Auction Rate Securities	Obligations Issued by States and Political Subdivisions	Equity Securities	Total
Balance at December 31, 2013	\$ 3,820	\$ 32,487	\$ 290	\$ 36,597
Purchases		126,571		126,571
Maturities		(66,088)	(188)	(66,276)
Amortization		(6)		(6)
Change in fair value				
Balance at December 31, 2014	\$ 3,820	\$ 92,964	\$ 102	\$ 96,886

The amortized cost of Level 3 securities was \$97,760,000 with an unrealized loss of \$874,000 at December 31, 2014. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The results of the fair value hierarchy as of December 31, 2013, are as follows:

	Carrying Value	Fair Value Measurements Using		Significant Other Unobservable Inputs (Level 3)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	
(dollars in thousands)				
Financial Instruments Measured at Fair Value on a Recurring Basis				
Securities AFS				
U.S. Treasury	\$ 1,998	\$	\$ 1,998	\$
U.S. Government Sponsored Enterprises	10,004		10,004	
SBA Backed Securities	7,302		7,302	
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities				
Mortgage-Backed Securities	403,189		403,189	
Privately Issued Residential Mortgage-Backed Securities				
Securities	2,277		2,277	
Obligations Issued by States and Political Subdivisions	36,723		416	36,307
Other Debt Securities	2,176		2,176	
Equity Securities	576	286		290
Total	\$ 464,245	\$ 286	\$ 427,362	\$ 36,597

Financial Instruments Measured at Fair Value on a Non-recurring Basis

Impaired Loans \$ 1,747 \$ \$ 1,747

Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management's estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis or other type of real estate tax assessment. Specific provisions relate to impaired loans recognized for 2013 for the estimated credit loss amounted to \$48,000.

There were no transfers between level 1 and 2 for the year ended December 31, 2013. There were no liabilities measured at fair value on a recurring or nonrecurring basis during the year ended December 31, 2013.

The following table presents additional information about assets measured at fair value on a recurring and nonrecurring basis for which the Company has utilized Level 3 inputs to determine fair value (dollars in thousands) at December 31, 2013. Management continues to monitor the assumptions used to value the assets listed below.

Asset	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Securities AFS ⁽¹⁾	\$ 36,597	Discounted cash flow	Discount rate	0%-1% ⁽²⁾
Impaired Loans	1,747	Appraisal of collateral ⁽³⁾	Appraisal adjustments ⁽⁴⁾	0%-30% discount

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

(2) Weighted averages.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

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

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

The changes in Level 3 securities for the year ended December 31, 2013 are as shown in the table below:

(dollars in thousands)	Auction Rate Securities	Obligations Issued by States and Political Subdivisions	Equity Securities	Total
Balance at December 31, 2012	\$ 3,963	\$ 49,477	\$ 342	\$ 53,782
Purchases		50,012		50,012
Maturities		(66,976)	(52)	(67,028)
Amortization		(26)		(26)
Change in fair value	(143)			(143)
Balance at December 31, 2013	\$ 3,820	\$ 32,487	\$ 290	\$ 36,597

The amortized cost of Level 3 securities was \$37,463,000 with an unrealized loss of \$866,000 at December 31, 2013. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

10. Deposits

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

(dollars in thousands)	2014	Percent	2013	Percent
Within one year	\$ 203,125	53%	\$ 248,758	65%
Over one year to two years	66,603	17%	41,533	11%
Over two years to three years	31,071	8%	48,357	13%
Over three years to five years	82,346	22%	43,576	11%
Total	\$ 383,145	100%	\$ 382,224	100%

Time deposits of \$100,000 or more totaled \$258,968,000 and \$259,665,000 in 2014 and 2013, respectively.

11. Securities Sold Under Agreements to Repurchase

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

(dollars in thousands)	2014	2013	2012
Amount outstanding at December 31	\$ 212,360	\$ 214,440	\$ 191,390
Weighted average rate at December 31	0.18%	0.18%	0.17%

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Maximum amount outstanding at any month end	\$ 243,750	\$ 214,440	\$ 213,730
Daily average balance outstanding during the year	\$ 216,937	\$ 203,888	\$ 174,624
Weighted average rate during the year	0.18%	0.18%	0.21%

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Amounts outstanding at December 31, 2014, 2013 and 2012 carried maturity dates of the next business day. U.S. Government Sponsored Enterprise securities with a total amortized cost of \$213,817,000, \$216,747,000 and \$187,995,000 were pledged as collateral and held by custodians to secure the agreements at December 31, 2014, 2013 and 2012, respectively. The approximate fair value of the collateral at those dates was \$212,255,000, \$213,350,000, and \$191,704,000, respectively.

12. Other Borrowed Funds and Subordinated Debentures

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

	2014	2013	2012
<i>(dollars in thousands)</i>			
Amount outstanding at December 31	\$ 431,583	\$ 291,227	\$ 231,227
Weighted average rate at December 31	1.91%	3.04%	3.54%
Maximum amount outstanding at any month end	\$ 431,583	\$ 291,227	\$ 277,226
Daily average balance outstanding during the year	\$ 271,710	\$ 231,032	\$ 217,542
Weighted average rate during the year	3.34%	3.73%	3.82%

FEDERAL HOME LOAN BANK BORROWINGS

Federal Home Loan Bank of Boston (FHLBB) borrowings are collateralized by a blanket pledge agreement on the Bank's FHLBB stock, certain qualified investment securities, deposits at the FHLBB and residential mortgages held in the Bank's portfolios. The Bank's remaining term borrowing capacity at the FHLBB at December 31, 2014, was approximately \$221,384,000. In addition, the Bank has a \$14,500,000 line of credit with the FHLBB. A schedule of the maturity distribution of FHLBB advances with the weighted average interest rates is as follows:

December 31, (dollars in thousands)	2014		2013		2012	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
Within one year	\$ 169,500	0.51%	\$ 53,000	0.40%	\$ 46,000	1.86%
Over one year to two years	55,000	3.07%	19,500	2.42%	17,500	3.01%
Over two years to three years	45,000	3.18%	55,000	3.07%	19,500	2.42%
Over three years to five years	70,000	2.43%	77,000	3.05%	90,000	3.33%
Over five years	56,000	3.16%	50,500	3.39%	22,000	4.19%
Total	\$ 395,500	1.89%	\$ 255,000	2.52%	\$ 195,000	2.96%

Included in the table above are \$35,000,000 of FHLBB advances for each of the years at December 31, 2014, 2013 and 2012, respectively, that are puttable at the discretion of FHLBB. These put dates were not utilized in the table above.

During 2013, the Company restructured \$14,500,000 of FHLBB advances. Prior to restructure, the weighted average rate on these advances was 3.16% and the weighted average remaining maturity was 12 months. Subsequent to restructure, the weighted average rate was 3.24% and the weighted average maturity was 68 months. The restructures were accounted for as modifications.

SUBORDINATED DEBENTURES

Subordinated debentures totaled \$36,083,000 at December 31, 2014 and 2013. 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

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

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

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

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

OTHER BORROWED FUNDS

There were no overnight federal funds purchased at December 31, 2014 and 2013.

The Bank also has an outstanding loan in the amount of \$0 and \$144,000 at December 31, 2014 and 2013, borrowed against the cash value of a whole life insurance policy for a key executive of the Bank.

13. Reclassifications Out of Accumulated Other Comprehensive Income(a)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected line item in the Statement Where Net Income is Presented
	Year ended December 31, 2014 ^(a)	Year ended December 31, 2013 ^(a)	
Unrealized gains and losses on available-for-sale securities	\$ 450 (171)	\$ 3,019 (1,179)	Net gains on sales of investments Provision for income taxes
	\$ 279	\$ 1,840	Net income
Accretion of unrealized losses transferred	\$ 5,192 (2,004)	\$ 3,077 (1,191)	Securities held-to-maturity Provision for income taxes
	\$ 3,188	\$ 1,886	Net income
Amortization of defined benefit pension items			
Prior-service costs	\$ (10)	\$ (10)	Salaries and employee benefits ^(b)
Actuarial gains (losses)	(367)	(1,144)	Salaries and employee benefits ^(b)
Total before tax	(377)	(1,154)	Income before taxes
Tax (expense) or benefit	151	460	Provision for income taxes
Net of tax	\$ (226)	\$ (694)	Net income
Total reclassifications for the period	\$ 3,241	\$ 3,032	Net income

- (a) Amounts in parentheses indicate debits to profit/loss.
- (b) These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see employee benefits footnote (Note 17) for additional details).

Table of Contents**Notes to Consolidated Financial Statements (Continued)****14. Earnings per share (EPS)**

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

Diluted EPS includes the dilutive effect of common stock equivalents; basic EPS excludes all common stock equivalents. The only common stock equivalents for the Company are the stock options discussed below. The dilutive effect of these stock options for 2014, 2013 and 2012 was an increase of 1,447, 1,155 and 1,024 shares, respectively.

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

Year Ended December 31, (in thousands except share and per share data)	2014	2013	2012
BASIC EPS COMPUTATION			
Numerator:			
Net income, Class A	\$ 17,157	\$ 15,698	\$ 14,877
Net income, Class B	4,703	4,348	4,162
Denominator:			
Weighted average shares outstanding, Class A	3,591,732	3,575,683	3,557,693
Weighted average shares outstanding, Class B	1,969,030	1,980,855	1,990,474
Basic EPS, Class A	\$ 4.78	\$ 4.39	\$ 4.18
Basic EPS, Class B	\$ 2.39	\$ 2.19	\$ 2.09
DILUTED EPS COMPUTATION			
Numerator:			
Net income, Class A	\$ 17,157	\$ 15,698	\$ 14,877
Net income, Class B	4,703	4,348	4,162
Total net income, for diluted EPS, Class A computation	21,860	20,046	19,039
Denominator:			
Weighted average shares outstanding, basic, Class A	3,591,732	3,575,683	3,557,693
Weighted average shares outstanding, Class B	1,969,030	1,980,855	1,990,474
Dilutive effect of Class A stock options	1,447	1,155	1,024
Weighted average shares outstanding diluted, Class A	5,562,209	5,557,693	5,549,191
Weighted average shares outstanding, Class B	1,969,030	1,980,855	1,990,474
Diluted EPS, Class A	\$ 3.93	\$ 3.61	\$ 3.43
Diluted EPS, Class B	\$ 2.39	\$ 2.19	\$ 2.09

15. Stockholders Equity***DIVIDENDS***

Holders of the Class A common stock may not vote in the election of directors but may vote as a class to approve certain extraordinary corporate transactions. Holders of Class B common stock may vote in the election of directors. Class A common stockholders are entitled to receive dividends per share equal to at least 200% per share of that paid, if any, on each share of Class B common stock. Class A common stock is publicly traded.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Class B common stock is not publicly traded; however, it can be converted on a per share basis to Class A common stock at any time at the option of the holder. Dividend payments by the Company are dependent in part on the dividends it receives from the Bank, which are subject to certain regulatory restrictions.

STOCK OPTION PLAN

During 2000 and 2004, common stockholders of the Company approved stock option plans (the Option Plans) that provide for granting of options for not more than 150,000 shares of Class A common stock per plan. Under the Option Plans, all officers and key employees of the Company are eligible to receive nonqualified and incentive stock options to purchase shares of Class A common stock. The Option Plans are administered by the Compensation Committee of the Board of Directors, whose members are ineligible to participate in the Option Plans. Based on management's recommendations, the Committee submits its recommendations to the Board of Directors as to persons to whom options are to be granted, the number of shares granted to each, the option price (which may not be less than 85% of the fair market value for nonqualified stock options, or the fair market value for incentive stock options, of the shares on the date of grant) and the time period over which the options are exercisable (not more than ten years from the date of grant). There were no options outstanding at December 31, 2014.

Stock option activity under the plan is as follows:

	December 31, 2014		December 31, 2013		December 31, 2012	
	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price	Amount	Weighted Average Exercise Price
Shares under option:						
Outstanding at beginning of year	20,375	\$ 31.82	23,350	\$ 31.17	36,062	\$ 28.90
Forfeited	(9,050)	31.83	(1,350)	26.68	(450)	22.50
Exercised	(11,325)	31.81	(1,625)	26.76	(12,262)	24.82
Outstanding at end of year		\$	20,375	\$ 31.82	23,350	\$ 31.17
Exercisable at end of year		\$	20,375	\$ 31.82	23,350	\$ 31.17
Available to be granted at end of year	233,934		224,884		223,534	

At December 31, 2013 and 2012, the options outstanding had exercise prices between \$15.06 and \$31.83, and a weighted average remaining contractual life of one year for 2013 and two years for 2012. The weighted average intrinsic value of options exercised for the period ended December 31, 2014, was \$8.76 per share with an aggregate value of \$99,217. The average intrinsic value of options exercisable at December 31, 2013 and 2012 had an aggregate value of \$29,136 and \$41,549, respectively.

CAPITAL RATIOS

The Bank and the Company are subject to various regulatory requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and Company's financial statements. Under capital adequacy guidelines and regulatory framework for prompt corrective action, the Bank and Company must meet specific capital guidelines that involve quantitative measures of the Bank and Company's assets and liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank and Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulation) to risk-weighted assets (as defined) and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014, that the Bank and the Company meet all capital adequacy requirements to which they are subject.

As of December 31, 2014, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes would cause a change in the Bank's categorization.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
Total Capital (to Risk-Weighted Assets)	\$ 254,742	14.38%	\$ 141,747	8.00%	\$ 177,183	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	232,592	13.13%	70,873	4.00%	106,310	6.00%
Tier 1 Capital (to 4th Qtr. Average Assets)	232,592	6.52%	142,630	4.00%	178,287	5.00%
As of December 31, 2013						
Total Capital (to Risk-Weighted Assets)	\$ 230,038	13.91%	\$ 132,338	8.00%	\$ 165,422	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	209,360	12.66%	66,169	4.00%	99,253	6.00%
Tier 1 Capital (to 4th Qtr. Average Assets)	209,360	6.00%	139,467	4.00%	174,334	5.00%

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
Total Capital (to Risk-Weighted Assets)	\$ 269,044	15.12%	\$ 142,366	8.00%	\$ 177,957	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	246,798	13.87%	71,183	4.00%	106,774	6.00%
Tier 1 Capital (to 4th Qtr. Average Assets)	246,798	6.91%	142,930	4.00%	178,663	5.00%
As of December 31, 2013						
Total Capital (to Risk-Weighted Assets)	\$ 247,761	14.92%	\$ 132,870	8.00%	\$ 166,088	10.00%
Tier 1 Capital (to Risk-Weighted Assets)	227,000	13.67%	66,435	4.00%	99,653	6.00%
Tier 1 Capital (to 4th Qtr. Average Assets)	227,000	6.50%	139,769	4.00%	174,711	5.00%

Table of Contents**Notes to Consolidated Financial Statements (Continued)****16. Income Taxes**

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

	2014	2013	2012
(dollars in thousands)			
Current expense:			
Federal	\$ 3,981	\$ 3,520	\$ 3,181
State	498	416	315
Total current expense	4,479	3,936	3,496
Deferred (benefit) expense:			
Federal	(3,179)	(2,564)	(1,833)
State	(434)	(365)	(271)
Total deferred benefit	(3,613)	(2,929)	(2,104)
Provision for income taxes	\$ 866	\$ 1,007	\$ 1,392

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

	2014	2013
(dollars in thousands)		
Currently receivable	\$ 707	\$ 702
Deferred income tax asset, net	37,251	30,857
Total	\$ 37,958	\$ 31,559

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

	2014	2013	2012
(dollars in thousands)			
Federal income tax expense at statutory rates	\$ 7,727	\$ 7,158	\$ 6,946
State income tax, net of federal income tax benefit	42	34	29
Insurance income	(353)	(380)	(396)
Effect of tax-exempt interest	(6,097)	(5,348)	(4,628)
Net tax credit	(517)	(572)	(633)
Other	64	115	74
Total	\$ 866	\$ 1,007	\$ 1,392
Effective tax rate	3.8%	4.8%	6.8%

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

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

	2014	2013
(dollars in thousands)		
Deferred income tax assets:		
Pension and SERP liability	\$ 7,806	\$ 4,880
Allowance for loan losses	9,550	9,199
Deferred compensation	7,447	6,515
Unrealized losses on securities transferred to held-to-maturity	6,586	8,590
AMT credit	4,630	3,164
Accrued bonus	613	
Depreciation	366	109
Acquisition premium	334	438
Nonaccrual interest	148	136
Limited partnerships	88	(2,769)
Investments write down	26	26
Other	136	198
 Gross deferred income tax asset	 37,730	 30,486
Deferred income tax liabilities:		
Mortgage servicing rights	(376)	(281)
Unrealized (gains) losses on securities available-for-sale	(103)	652
 Gross deferred income tax liability	 (479)	 371
 Deferred income tax asset net	 \$ 37,251	 \$ 30,857

Based on the Company's historical and current pre-tax earnings, management believes it is more likely than not that the Company will realize the deferred income tax asset existing at December 31, 2014. Management believes that existing net deductible temporary differences which give rise to the deferred tax asset will reverse during periods in which the Company generates net taxable income. In addition, gross deductible temporary differences are expected to reverse in periods during which offsetting gross taxable temporary differences are expected to reverse. Factors beyond management's control, such as the general state of the economy and real estate values, can affect future levels of taxable income, and no assurance can be given that sufficient taxable income will be generated to fully absorb gross deductible temporary differences. The Company is in an Alternative Minimum Tax (AMT) credit position. The AMT credit is carried as a deferred asset and has an indefinite life. The Company has potential tax planning strategies available which support the deferred AMT credit and, at this time, no valuation allowance is needed. The Company and its subsidiaries file a consolidated federal tax return. For the tax year beginning in 2009, the Commonwealth of Massachusetts requires a combined state tax return, except for security corporations, which file separate tax returns. The Company is subject to federal and state examinations for tax years after December 31, 2010.

17. Employee Benefits

The Company has a Qualified Defined Benefit Pension Plan (the Plan), which had been offered to all employees reaching minimum age and service requirements. In 2006, the Bank became a member of the Savings Bank Employees Retirement Association (SBERA) within which it then began maintaining the Qualified

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

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

The Trustees of SBERA, through its Investment Committee, select investment managers for the common and collective trust portfolio. A professional investment advisory firm is retained by the Investment Committee to provide allocation analysis, performance measurement and to assist with manager searches. The overall investment objective is to diversify investments across a spectrum of investment types to limit risks from large market swings. The Company closed the plan to employees hired after March 31, 2006.

The measurement date for the Plan is December 31 for each year. The benefits expected to be paid in each year from 2015 to 2019 are \$1,212,000, \$1,277,000, \$1,361,000, \$1,398,000, and \$1,456,000, respectively. The aggregate benefits expected to be paid in the five years from 2020 to 2024 are \$9,124,000. The Company plans to contribute \$1,000,000 to the Plan in 2015.

The fair value of plan assets and major categories as of December 31, 2014, is as follows:

Asset Category (dollars in thousands)	Percent	Total	Level 1	Level 2	Level 3
Collective funds	53.4%	\$ 18,069	\$ 2,757	\$ 15,312	\$
Equity securities	23.1%	7,797	7,797		
Mutual funds	15.5%	5,244	4,762	482	
Hedge funds	7.0%	2,360			2,360
Short-term investments	1.0%	342	342		
	100.0%	\$ 33,812	\$ 15,658	\$ 15,794	\$ 2,360

The fair value of plan assets and major categories as of December 31, 2013, is as follows:

Asset Category (dollars in thousands)	Percent	Total	Level 1	Level 2	Level 3
Collective funds	52.9%	\$ 17,092	\$ 856	\$ 16,236	\$
Equity securities	25.9%	8,355	8,355		
Mutual funds	13.1%	4,250	3,832	418	
Hedge funds	7.0%	2,256			2,256
Short-term investments	1.1%	369	249	120	
	100.0%	\$ 32,322	\$ 13,292	\$ 16,774	\$ 2,256

LEVEL 1

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

LEVEL 2

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

Table of Contents**Notes to Consolidated Financial Statements (Continued)****LEVEL 3**

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

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

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

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

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

Year Ended December 31, (dollars in thousands)	2014	2013
Balance at beginning of year	\$ 2,256	\$ 1,691
Purchases	32	55
Redemptions	(58)	
Actual return - assets still being held	130	510
Balance at end of year	\$ 2,360	\$ 2,256

There were no transfers in or out of level 3 during the year ended December 31, 2014 and 2013.

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

The Company has a Supplemental Executive Insurance/Retirement Plan (the Supplemental Plan), which is limited to certain officers and employees of the Company. The Supplemental Plan is voluntary. Under the Supplemental Plan, each participant will receive a retirement benefit based on compensation and length of service. Life insurance policies, which are owned by the Company, are purchased covering the lives of each participant.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The benefits expected to be paid in each year from 2015 to 2019 are \$1,110,000, \$1,544,000, \$2,004,000, \$2,012,000 and \$2,037,000, respectively. The aggregate benefits expected to be paid in the five years from 2020 to 2024 are \$11,144,000.

	Defined Benefit Pension Plan		Supplemental Insurance/ Retirement Plan	
	2014	2013	2014	2013
(dollars in thousands)				
Change projected in benefit obligation				
Benefit obligation at beginning of year	\$ 29,879	\$ 31,910	\$ 25,502	\$ 25,835
Service cost	1,034	1,196	1,555	1,554
Interest cost	1,467	1,257	1,325	1,072
Actuarial (gain)/loss	8,398	(3,734)	4,650	(1,916)
Benefits paid	(767)	(750)	(1,043)	(1,043)
Projected benefit obligation at end of year	\$ 40,011	\$ 29,879	\$ 31,989	\$ 25,502
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 32,322	\$ 23,983		
Actual return on plan assets	1,337	4,619		
Employer contributions	920	4,470		
Benefits paid	(767)	(750)		
Fair value of plan assets at end of year	\$ 33,812	\$ 32,322		
(Unfunded) Funded status	\$ (6,199)	\$ 2,443	\$ (31,989)	\$ (25,502)
Accumulated benefit obligation	\$ 40,011	\$ 29,747	\$ 29,023	\$ 22,278
Weighted-average assumptions as of December 31				
Discount rate Liability	4.00%	5.00%	4.00%	5.00%
Discount rate Expense	5.00%	4.00%	5.00%	4.00%
Expected return on plan assets	8.00%	8.00%	NA	NA
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Components of net periodic benefit cost				
Service cost	\$ 1,034	\$ 1,196	\$ 1,555	\$ 1,554
Interest cost	1,467	1,257	1,325	1,072
Expected return on plan assets	(2,543)	(1,880)		
Recognized prior service cost	(104)	(104)	114	114
Recognized net losses	12	630	355	514
Net periodic cost	\$ (134)	\$ 1,099	\$ 3,349	\$ 3,254
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Amortization of prior service cost	\$ 104	\$ 104	\$ (114)	\$ (114)
Net (gain) loss	9,592	(6,956)	4,268	(2,401)
Total recognized in other comprehensive income	9,696	(6,852)	4,154	(2,515)

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Total recognized in net periodic benefit cost and other comprehensive income	\$ 9,562	\$ (5,753)	\$ 7,503	\$ 739
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Table of Contents**Notes to Consolidated Financial Statements (Continued)**

(dollars in thousands)	December 31, 2014			December 31, 2013		
	Plan	Supplemental Plan	Total	Plan	Supplemental Plan	Total
Prior service cost	\$ 412	\$ (877)	\$ (465)	\$ 516	\$ (991)	\$ (475)
Net actuarial loss	(12,953)	(12,169)	(25,122)	(3,361)	(7,901)	(11,262)
Total	\$ (12,541)	\$ (13,046)	\$ (25,587)	\$ (2,845)	\$ (8,892)	\$ (11,737)

The following table summarizes the amounts included in Accumulated Other Comprehensive Loss at December 31, 2014, expected to be recognized as components of net periodic benefit cost in the next year:

	Plan	Supplemental Plan
Amortization of prior service cost to be recognized in 2015	\$ (104)	\$ 114
Amortization of loss to be recognized in 2015	812	598

Assumptions for the expected return on plan assets and discount rates in the Company's Plan and Supplemental Plan are periodically reviewed. As part of the review, management in consultation with independent consulting actuaries performs an analysis of expected returns based on the plan's asset allocation. This forecast reflects the Company's and actuarial firm's expected return on plan assets for each significant asset class or economic indicator. The range of returns developed relies on forecasts and on broad market historical benchmarks for expected return, correlation and volatility for each asset class. Also, as a part of the review, the Company's management in consultation with independent consulting actuaries performs an analysis of discount rates based on expected returns of high-grade fixed income debt securities. Mortality assumptions are based on the RP 2014 Mortality Table projected with Scale MP 2014.

The Company offers a 401(k) defined contribution plan for all employees reaching minimum age and service requirements. The plan is voluntary and employee contributions are matched by the Company at a rate of 33.3% for the first 6% of compensation contributed by each employee. The Company's match totaled \$346,000 for 2014, \$322,000 for 2013 and \$308,000 for 2012. Administrative costs associated with the plan are absorbed by the Company.

The Company has a cash incentive plan that is designed to reward our executives and officers for the achievement of annual financial performance goals of the Company as well as business line, department and individual performance. The plan supports the philosophy that management be measured for their performance as a team in the attainment of these goals. Discretionary bonus expense amounted to \$1,434,000, \$1,313,000 and \$1,289,000 in 2014, 2013, and 2012, respectively.

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

18. Commitments and Contingencies

A number of legal claims against the Company arising in the normal course of business were outstanding at December 31, 2014. Management, after reviewing these claims with legal counsel, is of the opinion that their resolution will not have a material adverse effect on the Company's consolidated financial position or results of operations.

19. Financial Instruments with Off-Balance-Sheet Risk

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers.

These financial instruments primarily include commitments to originate and sell loans, standby letters of credit, unused lines of credit and unadvanced portions of construction loans. The instruments involve, to varying

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in these particular classes of financial instruments.

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

Contract or Notional Amount

(dollars in thousands)	2014	2013
Financial instruments whose contract amount represents credit risk:		
Commitments to originate 1-4 family mortgages	\$ 3,215	\$ 3,373
Standby and commercial letters of credit	8,057	7,930
Unused lines of credit	298,279	249,941
Unadvanced portions of construction loans	3,035	7,026
Unadvanced portions of other loans	17,186	17,750

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

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

20. Other Operating Expenses

Year ended December 31, (dollars in thousands)	2014	2013	2012
Marketing	\$ 1,793	\$ 1,749	\$ 1,853
Software maintenance/amortization	1,524	1,417	1,256
Legal and audit	1,072	1,281	1,179
Contributions	735	673	1,074
Processing services	944	812	921
Consulting	964	874	890
Postage and delivery	964	939	877
Supplies	870	848	849
Telephone	753	719	750
Directors' fees	389	373	330
Insurance	304	295	279
Core deposit intangible amortization			120
Other	1,520	1,500	1,230
Total	\$ 11,832	\$ 11,480	\$ 11,608

Table of Contents**Notes to Consolidated Financial Statements (Continued)****21. Fair Values of Financial Instruments**

The following methods and assumptions were used by the Company in estimating fair values of its financial instruments. Excluded from this disclosure are all non financial instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

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

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

SECURITIES HELD-TO-MATURITY

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

LOANS

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

TIME DEPOSITS

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

OTHER BORROWED FUNDS

The fair value of other borrowed funds is based on the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for other borrowed funds of similar remaining maturities.

SUBORDINATED DEBENTURES

The fair value of subordinated debentures is based on the discounted value of contractual cash flows. The discount rate used is estimated based on the rates currently offered for other subordinated debentures of similar remaining maturities.

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

The following presents (in thousands) the carrying amount, estimated fair value, and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2014 and December 31, 2013. This table excludes financial instruments for which the carrying amount approximates fair value. Financial assets for which the fair value approximates carrying value include cash and cash equivalents, short-term investments, FHLBB stock and accrued interest receivable. Financial liabilities for which the fair value approximates carrying value include non-maturity deposits, short-term borrowings and accrued interest payable.

	Carrying Amount	Estimated Fair Value	Level 1 Inputs	Fair Value Measurements Level 2 Inputs	Level 3 Inputs
(dollars in thousands)					
December 31, 2014					
Financial assets:					
Securities held-to-maturity	\$ 1,406,792	\$ 1,413,603	\$	\$ 1,413,603	\$
Loans ⁽¹⁾	1,309,048	1,291,550			1,291,550
Financial liabilities:					
Time deposits	383,145	387,919		387,919	
Other borrowed funds	395,500	400,196		400,196	
Subordinated debentures	36,083	36,083			36,083
December 31, 2013					
Financial assets:					
Securities held-to-maturity	\$ 1,487,884	\$ 1,464,449	\$	\$ 1,464,449	\$
Loans ⁽¹⁾	1,243,822	1,214,192			1,214,192
Financial liabilities:					
Time deposits	382,224	386,742		386,742	
Other borrowed funds	255,144	254,736		254,736	
Subordinated debentures	36,083	39,503			39,503

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

LIMITATIONS

Fair value estimates are made at a specific point in time, based on relevant market information and information about the type of financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no active market exists for some of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, cash flows, current economic conditions, risk characteristics and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions and changes in the loan, debt and interest rate markets could significantly affect the estimates. Further, the income tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****22. Quarterly Results of Operations (unaudited)**

2014 Quarters (in thousands, except share data)	Fourth	Third	Second	First
Interest income	\$ 21,062	\$ 21,624	\$ 21,554	\$ 21,131
Interest expense	4,840	4,879	4,800	4,617
Net interest income	16,222	16,745	16,754	16,514
Provision for loan losses	400	600	450	600
Net interest income after provision for loan losses	15,822	16,145	16,304	15,914
Other operating income	4,428	3,758	3,615	3,470
Operating expenses	14,506	13,976	14,089	14,159
Income before income taxes	5,744	5,927	5,830	5,225
Provision for income taxes	121	221	231	293
Net income	\$ 5,623	\$ 5,706	\$ 5,599	\$ 4,932
Share data:				
Average shares outstanding, basic				
Class A	3,600,664	3,594,583	3,589,125	3,582,421
Class B	1,967,180	1,967,180	1,967,580	1,974,180
Average shares outstanding, diluted				
Class A	5,567,855	5,563,278	5,558,032	5,558,177
Class B	1,976,180	1,967,180	1,967,580	1,974,180
Earnings per share, basic				
Class A	\$ 1.23	\$ 1.25	\$ 1.22	\$ 1.08
Class B	\$ 0.61	\$ 0.62	\$ 0.61	\$ 0.54
Earnings per share, diluted				
Class A	\$ 1.01	\$ 1.03	\$ 1.01	\$ 0.89
Class B	\$ 0.61	\$ 0.62	\$ 0.61	\$ 0.54

Table of Contents**Notes to Consolidated Financial Statements (Continued)**

2013 Quarters (in thousands, except share data)	Fourth	Third	Second	First
Interest income	\$ 20,947	\$ 20,549	\$ 19,132	\$ 19,137
Interest expense	4,842	4,751	4,620	4,592
Net interest income	16,105	15,798	14,512	14,545
Provision for loan losses	460	750	750	750
Net interest income after provision for loan losses	15,645	15,048	13,762	13,795
Other operating income	4,186	4,774	5,221	4,434
Operating expenses	14,690	13,995	13,662	13,465
Income before income taxes	5,141	5,827	5,321	4,764
Provision for income taxes	116	308	295	288
Net income	\$ 5,025	\$ 5,519	\$ 5,026	\$ 4,476
Share data:				
Average shares outstanding, basic				
Class A	3,580,404	3,578,400	3,574,379	3,569,546
Class B	1,976,180	1,978,180	1,982,180	1,986,880
Average shares outstanding, diluted				
Class A	5,557,419	5,558,031	5,557,354	5,557,365
Class B	1,976,180	1,978,180	1,982,180	1,986,880
Earnings per share, basic				
Class A	\$ 1.10	\$ 1.21	\$ 1.10	\$ 0.98
Class B	\$ 0.55	\$ 0.60	\$ 0.55	\$ 0.49
Earnings per share, diluted				
Class A	\$ 0.90	\$ 0.99	\$ 0.90	\$ 0.81
Class B	\$ 0.55	\$ 0.60	\$ 0.55	\$ 0.49

Table of Contents**Notes to Consolidated Financial Statements (Continued)****23. Parent Company Financial Statements**

The balance sheets of Century Bancorp, Inc. (Parent Company) as of December 31, 2014 and 2013 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2014, are presented below. The statements of changes in stockholders' equity are identical to the consolidated statements of changes in stockholders' equity and are therefore not presented here.

BALANCE SHEETS

December 31, (dollars in thousands)	2014	2013
ASSETS:		
Cash	\$ 7,674	\$ 12,245
Investment in subsidiary, at equity	213,245	193,783
Other assets	7,700	6,634
Total assets	\$ 228,619	\$ 212,662
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Liabilities	\$ 36	\$ 107
Subordinated debentures	36,083	36,083
Stockholders' equity	192,500	176,472
Total liabilities and stockholders' equity	\$ 228,619	\$ 212,662

STATEMENTS OF INCOME

Year Ended December 31, (dollars in thousands)	2014	2013	2012
Income:			
Interest income from deposits in bank	\$ 21	\$ 28	\$ 33
Other income	72	72	72
Total income	93	100	105
Interest expense	2,329	2,400	2,400
Operating expenses	204	208	198
Income before income taxes and equity in undistributed income of subsidiary	(2,440)	(2,508)	(2,493)
Benefit from income taxes	(830)	(853)	(848)
Income before equity in undistributed income of subsidiary	(1,610)	(1,655)	(1,645)
Equity in undistributed income of subsidiary	23,470	21,701	20,684
Net income	\$ 21,860	\$ 20,046	\$ 19,039

Table of Contents**Notes to Consolidated Financial Statements (Continued)****STATEMENTS OF CASH FLOWS**

December 31, (dollars in thousands)	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 21,860	\$ 20,046	\$ 19,039
Adjustments to reconcile net income to net cash provided by operating activities			
Undistributed income of subsidiary	(23,470)	(21,701)	(20,684)
Depreciation and amortization	12	12	12
Increase in other assets	(1,067)	(3,500)	(416)
Decrease in liabilities	(71)		
Net cash (used in) operating activities	(2,736)	(5,143)	(2,049)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from the exercise of stock options	361	43	304
Cash dividends paid	(2,196)	(2,191)	(2,186)
Net cash used in financing activities	(1,835)	(2,148)	(1,882)
Net (decrease) in cash	(4,571)	(7,291)	(3,931)
Cash at beginning of year	12,245	19,536	23,467
Cash at end of year	\$ 7,674	\$ 12,245	\$ 19,536

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Report of Independent Registered Public Accounting Firm

KPMG LLP

Independent Registered Public Accounting Firm

Two Financial Center

60 South Street

Boston, Massachusetts 02111-2759

The Board of Directors and Stockholders

Century Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Century Bancorp, Inc. and its subsidiary as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Century Bancorp, Inc. and its subsidiary as of December 31, 2014 and 2013 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Century Bancorp, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 10, 2015, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Boston, Massachusetts

March 10, 2015

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Report of Independent Registered Public Accounting Firm

KPMG LLP

Independent Registered Public Accounting Firm

Two Financial Center

60 South Street

Boston, Massachusetts 02111-2759

The Board of Directors and Stockholders

Century Bancorp, Inc.:

We have audited Century Bancorp, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Century Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Century Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Century Bancorp, Inc. as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated March 10, 2015, expressed an unqualified opinion on those consolidated financial statements.

Boston, Massachusetts

March 10, 2015

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Management's Report on Internal Control Over Financial Reporting

CENTURY BANCORP, INC.

400 Mystic Avenue

Medford, Massachusetts 02155

We, together with the other members of executive management of Century Bancorp, Inc. and our subsidiary (the "Company"), are responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and board of directors regarding the preparation and fair presentation of published financial statements.

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

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2014. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control - Integrated Framework (2013)*. Based on our assessment, we believe that, as of December 31, 2014, the Company's internal control over financial reporting is effective based on those criteria.

The Company's independent registered public accounting firm has issued an audit report on the effectiveness of the Company's internal control over financial reporting. Their report appears on page 89.

Barry R. Sloane
President & CEO

William P. Hornby, CPA
Chief Financial Officer & Treasurer

March 10, 2015

Table of Contents**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The directors of the Company and their ages are as follows:

Name	Age	Position
George R. Baldwin	71	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Stephen R. Delinsky	70	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Marshall I. Goldman, Ph.D.	84	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Russell B. Higley, Esquire	75	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Jackie Jenkins-Scott	65	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Linda Sloane Kay	53	Director, Century Bancorp, Inc.; Director and Executive Vice President, Century Bank and Trust Company
Fraser Lemley	74	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Joseph P. Mercurio	66	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Joseph J. Senna, Esquire	75	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Barry R. Sloane	59	Director, President and Chief Executive Officer, Century Bancorp, Inc.; Director, President and Chief Executive Officer, Century Bank and Trust Company
Marshall M. Sloane	88	Chairman of the Board, Century Bancorp, Inc. and Century Bank and Trust Company
Stephanie Sonnabend	61	Director, Century Bancorp, Inc., and Century Bank and Trust Company
George F. Swansburg	72	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Jon Westling	72	Director, Century Bancorp, Inc., and Century Bank and Trust Company

Mr. Baldwin became a director of the Company in 1996. He has been a director of Century Bank and Trust Company since 1995. Mr. Baldwin is President and CEO of G. Baldwin & Co., a financial service firm. He was formerly CEO, Owner and Director of Kaler Carney Liffler, a multi-state regional insurance agency; and subsequently he became Chairman of the New England area of Arthur J. Gallagher & Co., America's third largest insurance broker. Mr. Baldwin's extensive three-decade background in banking and insurance is relevant to Century's insurance and financial customers and qualifies him to continue to serve as a director of the Company.

Mr. Delinsky became a director of the Company and of Century Bank in 2013. He is an attorney with the law firm of Clark, Hunt, Ahearn & Embry. Prior to that, Mr. Delinsky was an attorney at the law firm of Eckert Seamans Cherin & Mellott, LLC. Mr. Delinsky's experience as an attorney, and expertise in civil and criminal trial experience in state and federal courts, has qualified him to serve as director of the Company.

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Dr. Goldman has been a director of the Company since its organization in 1972. He was also a founding director of Century Bank and Trust Company in 1969. He is a Professor Emeritus of Economics at Wellesley College and Senior Scholar of the Davis Center for Russian Studies at Harvard University. Dr. Goldman is also a Trustee of Northeast Investors Trust. Dr. Goldman's experience as a professor and expertise in economics has qualified him to serve as director of the Company. Also, his tenure and experience as a director of the Company has qualified him to continue to serve.

Mr. Higley became a director of the Company in 1996. He has been a director of Century Bank and Trust Company since 1986. Mr. Higley is an attorney in private practice. Mr. Higley's experience as an attorney and expertise in the real estate industry, which is relevant to real estate customers of the Company, has qualified him to serve as director of the Company. Also, his tenure and experience as a director of the Company has qualified him to continue to serve.

Ms. Jenkins-Scott became a director of the Company and of Century Bank and Trust Company in 2006. Ms. Jenkins-Scott is President of Boston's Wheelock College. Ms. Jenkins-Scott's experience as President of a college and expertise in the educational field as well as President and CEO of a non-profit entity, which is relevant to certain customer relationships of the Company, has qualified her to serve as director of the Company. Also, her tenure and experience as a director of the Company has qualified her to continue to serve.

Ms. Kay became a director of the Company in 2005. Ms. Kay joined Century Bank and Trust Company in 1983 as Assistant Vice President and currently serves as Executive Vice President. Ms. Kay's experience in business development, customer relationships and tenure at Century Bank and Trust Company has qualified her to serve as director of the Company.

Mr. Lemley became a director of the Company in 1996. He has been a director of Century Bank and Trust Company since 1988. Mr. Lemley is Chairman of the Board and CEO of Sentry Auto Group. Mr. Lemley's experience as CEO of a company and expertise in the automotive industry, which is relevant to certain other customers in the automotive industry of the Company, has qualified him to serve as director of the Company. Also, his tenure and experience as a director of the Company has qualified him to continue to serve.

Mr. Mercurio became a director of the Company in 1990 and a director of Century Bank and Trust Company in 1995 and voluntarily resigned in 2004. He was then re-elected in 2010. In December, 2010, Mr. Mercurio retired as Executive Vice President of Boston University having completed 38 years of service. He currently serves as Vice President for Administration & Finance at Quincy College. Mr. Mercurio's experience in the educational field, which is relevant to certain customer relationships of the Company, has qualified him to serve as director of the Company. Also, his tenure and experience as a director of the Company has qualified him to continue to serve.

Mr. Senna became a director of the Company in 1986. He has been a director of Century Bank and Trust Company since 1979. Mr. Senna is an attorney and managing partner of C&S Capital Properties, LLC, a real estate management and development firm. Mr. Senna's experience as an attorney and expertise in the real estate industry, which is relevant to real estate related customers in addition to his years of service as Chairman of the Audit Committee, has qualified him to serve as director of the Company. Also, his tenure and experience as a director of the Company has qualified him to continue to serve.

Mr. Barry R. Sloane has been a director of the Company and Century Bank and Trust Company since 1997. Mr. Sloane is President and CEO of Century Bancorp and President and CEO of Century Bank and Trust Company. Mr. Sloane is also a trustee of the Savings Bank Employee Retirement System (SBERA). Mr. Sloane's experience at the Company as well as his experience at other financial services companies and expertise in the financial services industry has qualified him to serve as director of the Company.

Mr. Marshall M. Sloane is the founder of the Company and is currently the Chairman of the Board. He founded Century Bank and Trust Company in 1969 and is currently the Chairman of the Board. Mr. Sloane's extensive banking experience qualifies him to serve as Chairman of the Board.

Ms. Sonnabend became a director of the Company in 1997. She has been a director of Century Bank and Trust Company since 1997. Ms. Sonnabend is principal of Son Hospitality Consulting. She is the former CEO, President and Director of Sonesta International Hotels Corporation. Ms. Sonnabend's experience as CEO of a

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major hotel company and expertise in the real estate and travel and leisure industry, which is relevant to travel and leisure related customers of the Company, has qualified her to serve as a director of the Company. Also, her tenure and experience as a director of the Company has qualified her to continue to serve.

Mr. Swansburg became a director of the Company in 1986. He has been a director of Century Bank and Trust Company since 1992. From 1992 to 1998 he was President and Chief Operating Officer of Century Bank and Trust Company. He is now retired from Century Bank and Trust Company. Mr. Swansburg's experience as President and Chief Operating Officer of Century Bank and Trust Company and expertise in the banking industry has qualified him to serve as a director of the Company. Also, his tenure and experience as a director of the Company has qualified him to continue to serve.

Mr. Westling became a director of the Company in 1996. He has been a director of Century Bank and Trust Company since 1995. Mr. Westling is President Emeritus and Professor of History and Humanities at Boston University. Mr. Westling's experience as president of a University and expertise in the educational field, which is relevant to certain customer relationships of the Company, has qualified him to serve as director of the Company. Also, his tenure and experience as a director of the Company has qualified him to continue to serve.

All of the Company's directors are elected annually and hold office until their successors are duly elected and qualified. A majority of the members of the Company's Board of Directors have been determined by the Company's Board of Directors to be independent within the meaning of current FINRA listing standards. There are no family relationships between any of the directors or executive officers, except that Barry R. Sloane is the son of Marshall M. Sloane and Linda Sloane Kay is the daughter of Marshall M. Sloane.

Executive officers are elected annually by the Board prior to the Annual Meeting of Shareholders to serve for a one year term and until their successors are elected and qualified. The following table sets forth the name and age of each executive officer of the Company and the principal positions and offices he/she holds with the Company.

Marshall M. Sloane	Chairman of the Board of the Company and Century Bank and Trust Company. Mr. Sloane is 88 years old.
Barry R. Sloane	Director, President and CEO; Director, President and CEO, Century Bank and Trust Company. Mr. Sloane is 59 years old.
William P. Hornby	Chief Financial Officer and Treasurer; Chief Financial Officer and Treasurer, Century Bank and Trust Company. Mr. Hornby is 48 years old. He joined the Company in 2007. Formerly he was Senior Vice President at Capital Crossing Bank.
Paul A. Evangelista	Executive Vice President, Century Bank and Trust Company with responsibility for retail, operations and marketing. Mr. Evangelista is 51 years old. He joined the Company in 1999.
Brian J. Feeney	Executive Vice President, Century Bank and Trust Company, Head of Institutional Services Group. Mr. Feeney is 54 years old. He joined the Company in 1989.
Linda Sloane Kay	Executive Vice President, Century Bank and Trust Company with responsibility for business development. Ms. Kay is 53 years old. She joined the Company in 1983.
David B. Woonton	Executive Vice President, Century Bank and Trust Company with responsibility for lending. Mr. Woonton is 59 years old. He joined the Company in 1999.

The Audit Committee

The Audit Committee meets with KPMG LLP, the Company's independent registered public accounting firm, in connection with the annual audit and quarterly reviews of the Company's financial statements. The Audit Committee is composed of four directors, Joseph J. Senna, Chair, Stephen R. Delinsky, Stephanie Sonnabend,

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and Jon Westling, each of whom the Board of Directors has determined is independent under current FINRA listing standards. The Board of Directors has determined that Mr. Senna qualifies as an audit committee financial expert, as that term is defined in Item 407(d)(5) of Regulation S-K promulgated by the SEC. The Audit Committee reviews the findings and recommendations of the FRB, FDIC, and Massachusetts Bank Commissioner's staff in connection with their examinations and the internal audit reports and procedures for the Company and its subsidiaries. The Audit Committee met five times during 2014.

Audit Committee Report

The Audit Committee of the Company's Board of Directors is responsible for providing independent, objective oversight of the Company's accounting functions and internal controls. The Audit Committee reviews: the financial information provided to shareholders and others; the systems of internal controls regarding finance, accounting, legal/regulatory compliance, and ethics; and the audit and financial reporting processes. The Audit Committee operates under a written charter first adopted and approved by the Board of Directors in 2000. The Audit Committee has reviewed and reassessed its Charter. A copy of the Audit Committee Charter was last published in the Form 10-K for the period ending December 31, 2012.

Management is responsible for the Company's internal controls and financial reporting process. The independent registered public accounting firm is responsible for performing an independent audit of the Company's consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States) and to issue their reports thereon. The Audit Committee's responsibility is to monitor and oversee these processes.

The Audit Committee has reviewed and discussed the audited financial statements with management and the independent registered public accounting firm. The Audit Committee has also discussed with KPMG LLP, the independent registered public accounting firm for the Company, the matters required to be discussed by the Public Company Accounting Oversight Board (PCAOB) Auditing Standard No. 16, *Communication with Audit Committees*, and PCAOB AU 380, *Communication with Audit Committees*.

The Audit Committee has also received the written disclosures and the letter from KPMG LLP, the independent registered public accounting firm as required by the PCAOB. The Audit Committee has discussed with KPMG LLP the firm's independence, including a review of audit and non-audit fees and services, and concluded that KPMG LLP is independent.

Based on the review and discussions referred to in the paragraph above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the last fiscal year for filing with the Securities and Exchange Commission.

/s/ Joseph J. Senna, Chair

/s/ Stephen R. Delinsky

/s/ Stephanie Sonnabend

/s/ Jon Westling

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Nominating Committee

The Company's Nominating Committee has four director members, Stephen R. Delinsky, Marshall I. Goldman, Fraser Lemley and Jon Westling, each of whom the Board of Directors has determined to be independent under the NASDAQ current listing standards. The Nominating Committee operates pursuant to a written policy. The nominating committee implements the process by identifying a potential candidate and evaluating whether the candidate is eligible and qualified for service. The Committee has developed criteria for the selection of new directors to the Board, including but not limited to, diversity, age, skills, experience, time availability (including the number of other boards a director candidate sits on), NASDAQ listing standards, applicable federal and state laws and regulations, Board and Company needs and such other criteria as the Committee shall determine to be relevant. The committee's effectiveness is assessed by reviewing existing Board of Directors attendance and performance; experience, skills and contributions that the existing Director brings to the Board; and independence, prior to nominating an existing director for reelection.

Board Leadership Structure

The Company has implemented a careful succession plan by separating the CEO and Chairman's position. The positions were separated to retain Marshall M. Sloane, who is a valuable asset given his history with the Company and his experience, as Chairman. Barry R. Sloane is the CEO. Marshall M. Sloane continues as Chairman of the Board.

Oversight of Risk

The Board oversees risk through various Board Committees which report directly to the Board. Also, various committees comprised of Company management report to the Board.

The principal Board Committees responsible for overseeing the various elements of risk are the Audit Committee, the Asset Liability Committee and the Executive Committee. The Audit Committee is responsible for monitoring all elements of risk, primarily through its oversight of the internal audit program. The Asset Liability Committee monitors interest rate risk principally through management's models and simulations. The Executive Committee monitors credit risk through its review of large originators, classified assets, and the calculation of the allowance for loan losses and concentrations of credits.

The principal committees comprised of management are Management Committee, Corporate Risk Management Committee, Loan Approval Committee and Asset Liability Pricing Committee. Management Committee is comprised of senior management and is responsible for overseeing all elements of risk. The Corporate Risk Management Committee meets quarterly to address specific elements of risk. Loan Approval Committee is responsible for overseeing credit risk. The Asset Liability Committee oversees interest rate risk. The committees comprised of management report to the Board of Directors, as needed, through senior management's attendance and reporting at Board of Directors meetings.

Code of Ethics

The Company has adopted a Code of Ethics that applies to its principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions. A copy of the Company's Code of Ethics may be obtained upon written request to Investor Relations, Century Bancorp, Inc., 400 Mystic Avenue, Medford, Massachusetts 02155.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of the copies of Forms 3, 4 and 5 and amendments thereto, if any, and any written representations furnished to the Company, none of the Company's officers or Directors failed to file on a timely basis reports required by Section 16 of the Securities Exchange Act of 1934 during the fiscal year ended December 31, 2014, or in prior fiscal years.

Based solely on a review of Forms 3 and 4 filed with the SEC, the Company believes a beneficial owner of more than 10% of the Company's Class A Common Stock, James J. Filler, timely filed all reports he was required to file except seven reports covering a total of eight transactions that were filed late by Mr. Filler.

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ITEM 11. EXECUTIVE COMPENSATION

The following is a discussion and analysis of our executive compensation policies and practices with respect to compensation reported for fiscal year 2014.

Introduction

The following discussion and analysis includes separate sections on:

The Composition and Responsibilities of the Compensation Committee

The Company's Executive Compensation Conclusion

Compensation Discussion and Analysis

Philosophy and Objectives of the Company

Compensation Process

Compensation Consultant

Compensation Components

Post-Employment Compensation

Chief Executive Officer Compensation

Executive Officer Compensation

Consulting Services Agreements

Employment Agreements

Report of the Compensation Committee

Composition and Responsibilities of the Compensation Committee

The Compensation Committee is a committee of the Board of Directors composed of Fraser Lemley as Chairman, Joseph Mercurio and Jon Westling, each of whom the Board has determined is independent as defined by the FINRA current listing standards.

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The Compensation Committee oversees compensation programs applicable to employees at all levels of the Company and makes decisions regarding executive compensation that is intended to align total compensation with business objectives and enable the Company to attract, retain and reward individuals who are contributing to the Company's success.

The Compensation Committee reviews the Company's cash incentive, stock incentive, retirement, and benefit plans and makes its recommendations to the Board with respect to these areas.

All decisions with respect to executive and director compensation are approved by the Compensation Committee and recommended to the full Board for ratification.

The Company's Executive Compensation Conclusion

Based upon review, the Compensation Committee and the Board of Directors found the Company's Chief Executive Officer's, the Chief Financial Officer's and the other Named Executive Officers' total compensation to be reasonable. In addition to the other factors noted, the Committee and the Board considered that the Company maintains only one change of control provision and did not award stock incentive awards for fiscal year 2014. It should be noted that when the Committee and the Board considers any component of executive compensation, the mix and aggregate amounts of all components are taken into consideration.

Compensation Discussion and Analysis (CD&A)

Philosophy and Objectives of Company

The Company's executive compensation philosophy is based on the following principles:

Compensation programs should be designed to attract and retain executives, to motivate them to achieve and to reward them appropriately for their performance.

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Compensation should be competitive and equitable in light of the executive's responsibilities, experience, and performance.

Provide annual compensation that takes into account the Company's performance with respect to its financial and strategic objectives, the performance of functions and business areas under the executive's management and the results of established goals;

Align the financial interests of the executive with those of shareholders by providing both short-term and long-term incentives;

Offer a total compensation program for each executive based on (i) the level of responsibility of the executive's position, (ii) the experience and skills necessary relative to the other senior management positions, (iii) comparison of compensation to similarly positioned executives of peer financial institutions; and

Evaluate the overall compensation of our executives in light of general economic and specific company, industry and competitive considerations.

Compensation Process

The Company maintains governance practices to ensure that it can reach its compensation-related decisions in an informed and appropriate manner.

Base salaries, which are the Company's major element of compensation, are reviewed for executive officers and employees at the regularly scheduled fall meeting of the Compensation Committee. At this meeting the Committee also reviews and adopts, as appropriate, proposals for the discretionary officer cash incentive plan for the new fiscal year, stock option grants, additions, amendments, modifications or terminations of retirement and benefit programs.

The Compensation Committee's process incorporates the following:

The Committee operates under a written charter which is periodically reviewed. The Committee amended its charter in 2013 to conform to NASDAQ compensation committee rule amendments.

The Committee meets with representatives of management to review and discuss prepared materials and issues.

The Committee considers recommendations from the Chief Executive Officer with respect to the compensation of the Company's Named Executive Officers.

Our independent compensation consultant attends Committee meetings as requested.

The Committee meets and deliberates privately without management present. Our consultant participates in these sessions as requested.

The Committee may consult with the non-management and independent directors regarding decisions affecting Executive compensation.

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The Committee reports the Committee's major actions to the entire Board at the Board of Directors' meeting in December or the following January.

The Committee recommends for approval to the Board of Directors the fees for our Board and Board Committees.

The Board of Directors then considers the report of the Compensation Committee and accepts or amends and approves or ratifies all matters presented for consideration.

To the extent permitted by applicable law, the Committee or the Board may delegate to management certain of its duties and responsibilities, including with respect to the adoption, amendment, modification or termination of benefit plans and with respect to the awards of stock options under certain stock plans.

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Compensation Consultant

When making determinations regarding the compensation paid to our executives the Compensation Committee and the Board of Directors rely, in part, on the expertise of our independent compensation consultant, Thomas Warren & Associates, to conduct an assessment of our executive compensation. In addition to conferring with certain executives, the consultant works with internal company support staff to obtain compensation and market data. Thomas Warren & Associates identifies a group of peer companies in consideration of such factors as asset size, geography, type of financial services offered and the complexity and scope of operations and makes use of executive compensation comparisons, published surveys and peer analyses.

The Compensation Committee and the Board of Directors took Thomas Warren & Associates' recommendations into consideration when setting base salaries for fiscal 2014.

Compensation Components

With respect to Executive compensation, the Company reviews the mix of base salary, cash and stock based incentive plans and benefits for our individual executives, however, there is no specific formula for allocating between cash and non-cash compensation. The competitiveness of total compensation potential for our executives is reviewed against industry practices and the Company's peers as identified by our independent compensation consultant. The major elements of the Company's executive compensation package (i.e., base salary, cash and stock based incentive plans) are similar to those found in many companies.

Base Salary Compensation:

When evaluating executive base salary compensation, the Company takes into consideration such factors as:

The attainment of business and strategic goals and the financial performance of the Company;

The importance, complexity, and level of responsibility of the executive's position within the organizational structure;

The performance of the executive's business area's goals and the accomplishment of objectives for the previous year;

The difficulty of achieving desired results;

The value of the executive's unique skills, abilities and general management capabilities to support the long-term performance of the Company;

The executive's contribution as a member of the Executive Management Team.

While the Company reviews numerous quantitative and qualitative factors noted above when determining executive base salary compensation, the performance of the Company's stock is not generally considered a factor in this determination as the price of the Company's common stock is subject to various factors beyond the Company's control. The Company believes that the price of the stock in the long-term will reflect the Company's operating performance and how well our executives manage the Company.

Ultimately, the Compensation Committee and the Board of Directors have the authority to use discretion when making executive compensation determinations after review of all the information that they deem relevant.

Cash Incentive Plan:

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The Company has a discretionary cash incentive plan that is designed to reward our executives and officers for the achievement of annual financial performance goals of the Company as well as business line, department and individual performance. The plan supports the philosophy that management be measured for their performance as a team in the attainment of these goals.

Awards are based upon the attainment of established objectives including profitability, expense control, sales volumes and overall job performance. Awards are generally not granted unless the Company achieves certain financial targets.

Upon recommendation of the Compensation Committee, the Board of Directors determines the aggregate amount, if any, to be awarded. In recognition of the Company's solid performance, discretionary awards were

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granted for fiscal 2014. Awards for the Chief Executive Officer and the other Named Executive Officers were reviewed and approved by the Board of Directors and are noted on the Summary Compensation Table.

Stock Option Plans:

During 2000 and 2004, common stockholders of the Company approved stock option plans (the Option Plans) to encourage ownership of Class A common stock of the Company by directors, officers and employees of the Company and its Affiliates and to provide additional incentives for them to promote the success of the Company s business through awards of or relating to shares of the Company s Class A common stock. Under the Option Plans, all officers and key employees of the Company are eligible to receive non-qualified and incentive stock options to purchase shares of Class A common stock. The Option Plans are administered by the Compensation Committee of the Board of Directors, whose members are ineligible to participate in the Option Plans. Based on management s recommendations, the Committee submits its recommendations to the Board of Directors as to persons to whom options are to be granted, the number of shares granted to each, the option price (which may not be less than 85% of the stocks trading value for non-qualified stock options, or the fair market value for incentive stock options, of the shares on the date of grant) and the time period over which the options are exercisable (not more than ten years from the date of the grant).

The Compensation Committee has complete discretion to make or select the manner of making all necessary determinations with respect to each option to be granted by the committee under the Option Plans including the director, employee, or officer to receive an Option. However, in determining the long-term incentive component (stock incentive plan) of executive compensation, the Committee does consider the Company s performance and relative shareholder return, the value of similar incentives awards at peer companies and the awards given in past years. The Committee may take into account the nature of the services provided by the respective officers, employees, and directors, their present and potential contributions to the success of the Company, and any other factors that the Compensation Committee, in its discretion, determines are relevant.

Option grants were not awarded in 2014.

Post-Employment Compensation

Defined Benefit Pension Plan:

The Company had a qualified Defined Benefit Pension Plan which had been offered to all employees reaching a minimum age and service requirement. In 2006 the Bank became a member of the Savings Bank Employee Retirement Association (SBERA) within which it maintains the qualified Defined Benefit Pension Plan. SBERA offers a common and collective trust as the underlying investment structure for pension plans participating in SBERA. The Trustee of SBERA, through SBERA s Investment Committee, selects investment managers for the common and collective trust portfolio. A professional advisory firm is retained by the Investment Committee to provide allocation analysis, performance measurement and to assist with manager searches. The overall investment objective is to diversify equity investments across a spectrum of investment types. (e.g. small cap, large cap, international, etc.) and styles (e.g. growth, value, etc.). The Company has closed the plan to employees hired after March 31, 2006.

Benefits under the plan are based upon an employee s years of service and career average compensation. The 2014 increase in the actuarial present value of each Named Executive Officer s accumulated benefit under the plan is set forth in the Summary Compensation Table which appears on page 102 and the actuarial present value of each Named Executive Officer is set forth in the Pension Benefits Table which appears on page 103.

401(k) Plan:

Our executives are eligible to participate in the Company s 401(k) contributory defined contribution plan. The Company contributes a matching contribution equal to 33.33% on the first 6% of the participant s compensation that has been contributed to the plan. The Chief Executive Officer and five of the Named Executive Officers participated in the 401(k) plan during fiscal 2014 and received matching contributions up to a maximum of \$5,200. The plan is currently administered by SBERA.

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Supplemental Executive Insurance/Retirement Income Plan:

The Company has a Supplemental Executive Insurance/Retirement Plan (the Supplemental Plan) which is limited to select officers and employees of the Company.

Executive officers of the Company or its subsidiaries who have at least one year of service may participate in the Supplemental Plan. The Supplemental Plan is voluntary and participants are required to contribute to its cost. Under the Supplemental Plan, each participant will receive a retirement benefit based on compensation and length of service. Individual life insurance policies, which are owned by the Company, are purchased covering the lives of each participant.

Benefits under the Supplemental Plan are based upon an employee's years of service and highest three year average compensation. The 2014 increase in the actuarial present value of each Named Executive Officer's accumulated benefit under the Supplemental Plan is set forth in the Summary Compensation Table which appears below and the actuarial present value of each Named Executive Officer is set forth in the Supplemental Executive Insurance/Retirement Benefits Table which appears on page 104.

Previously, the Company has entered into an agreement with Mr. Marshall Sloane to freeze his Supplemental Executive/Insurance Retirement Income Plan benefit. In consideration of this frozen benefit, the Company has acquired life insurance policies providing a death benefit of \$25,000,000 upon the death of the survivor of Mr. Sloane or Mrs. Sloane. Mr. Sloane has elected 50% joint and survivor annuity. Under this plan he received \$523,639 in 2014.

Chief Executive Officer Compensation

The Company granted Chief Executive Officer, Barry R. Sloane, a 3% salary increase in 2014. In recognition of the Company's solid financial performance in 2014, the Company also granted a \$165,150 cash bonus payable to Mr. Barry R. Sloane. Total compensation granted to the Chief Executive Officer for 2014 is described in the Summary Compensation Table in the statement.

Executive Officer Compensation

Consistent with the decisions regarding CEO base compensation, the Company determined that the base salary compensation for each of the following Named Executive Officers, Paul Evangelista, William Hornby, David Wootton, Brian Feeney and Linda Kay was increased by 3% in 2014. In light of the Company's financial performance in 2014, cash bonuses were awarded to all of the above Named Executive Officers as noted in the Summary Compensation Table.

The Company based its determinations on its subjective analysis of each individual's performance and contribution to the corporation's goals and objectives and considered the quantitative and qualitative factors referenced above.

Executive Benefits

We limit additional executive benefits that we make available to our executive officers. Where such benefits are provided, they are intended to support other business purposes including facilitating business development efforts.

Consulting Services Agreement

The Company renewed its consulting agreement with Marshall M. Sloane to provide the Company advice on strategic planning and operational management, assist with business development efforts and clients, participate in public relations and community outreach efforts and provides other services as may be requested by the Board of Directors. The Company agreed to pay Mr. Sloane an annual contract fee of \$357,000 per year during 2014 with provisions to reimburse Mr. Sloane for all related business expenses and the expense of obtaining health insurance comparable to that which the Company provided while he was Chief Executive Officer. In recognition of the Company's financial performance, the Company also awarded Mr. Sloane a special Director's bonus for 2014 as noted on the Summary Compensation Table.

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Employment Agreement

The Company has entered into an employment agreement with Mr. David Woonton. The agreement grants two years of service payable upon a change of control of the Company.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the foregoing Report of the Compensation Committee, including the CD&A, with management. In reliance on the reviews and discussions referred to above, the Compensation Committee recommended to the Board, and the Board has approved, that the CD&A be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 for filing with the SEC.

/s/ Fraser Lemley, Chairman

/s/ Joseph Mercurio

/s/ Jon Westling

Table of Contents**Compensation Paid to Executive Officers**

The following table sets forth information for the three year period ended December 31, 2014 concerning the compensation for services in all capacities to Century Bancorp, Inc. and its subsidiaries of our principal executive officers and our principal financial officer as well as our other four most highly compensated executive officers (or executive officers of our subsidiaries). We refer to these individuals throughout this 10-K statement as the Named Executive Officers .

Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Option Awards		Change in Pension Value and Nonqualified Deferred Earnings- Compensation December 31, (\$)	All Other Compensation (\$)(1)	Total (\$)
				Awards (\$)	Awards (\$)			
Marshall M. Sloane (2) <i>Chairman of the Board, Century Bancorp, Inc. and Century Bank and Trust Company</i>	2014					321,375	961,896	1,283,271
	2013						881,420	881,420
	2012					131,548	770,259	901,807
Barry R. Sloane <i>President and CEO, Century Bancorp, Inc. and Century Bank and Trust Company</i>	2014	569,207	165,150			1,657,205	56,423	2,447,985
	2013	557,634	151,375			518,600	59,352	1,286,961
	2012	531,080	144,150			925,960	40,677	1,641,867
David B. Woonton <i>Executive Vice President, Century Bank and Trust Company</i>	2014	337,614	78,552			1,062,188	33,503	1,511,857
	2013	330,750	72,000			219,785	24,264	646,799
	2012	315,000	68,400			630,561	14,942	1,028,903
Paul A. Evangelista <i>Executive Vice President, Century Bank and Trust Company</i>	2014	337,614	78,552			908,094	26,015	1,350,275
	2013	330,750	72,000			40,947	19,107	462,804
	2012	315,000	68,400			522,433	12,097	917,930
Brian J. Feeney <i>Executive Vice President, Century Bank and Trust Company</i>	2014	294,708	68,733			516,380	16,345	896,166
	2013	288,716	63,000			84,596	14,113	450,425
	2012	248,850	59,708			236,536	14,201	559,295
William P. Hornby <i>Chief Financial Officer and Treasurer, Century Bancorp, Inc. and Century Bank and Trust Company</i>	2014	294,708	68,733			275,237	12,775	651,453
	2013	288,716	63,000			46,983	23,259	421,958
	2012	274,969	59,708			111,857	6,667	453,201
Linda Sloane Kay <i>Executive Vice President Century Bank and Trust Company</i>	2014	294,708	68,733			459,929	16,838	840,208
	2013	288,716	63,000			95,269	27,291	474,276
	2012	248,851	59,708			200,875	9,453	518,887

- (1) The amount listed in all other compensation includes amounts attributable to term insurance premiums paid for the Supplemental Executive Insurance/Retirement Plan, matching contribution for the 401(k) plan, excess group life insurance premiums and long-term disability premiums and, as applicable, country club membership dues and taxable expense reimbursements.
- (2) This amount, for 2014, includes \$357,000 for consulting services, \$370,982 amounts attributable to term insurance premiums for the Supplemental Executive Insurance/Retirement Plan, \$38,450 for Director fees, \$165,150 for bonus, as well as country club membership dues, health insurance premiums and Medicare reimbursements.

Table of Contents**Pension Benefits**

The following table sets forth information concerning plans that provide for payments or other benefits at, following, or in connection with, retirement for each Named Executive Officer.

PENSION BENEFITS TABLE

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit 12/31/2014 \$(1)	Payments During Last Fiscal Year 12/31/2014 (\$)
Marshall M. Sloane <i>Chairman of the Board</i>	Defined Benefit Pension Plan	33	657,465	94,261
Barry R. Sloane <i>President and CEO</i>	Defined Benefit Pension Plan	11	225,228	
David B. Woonton <i>Executive Vice President, Century Bank and Trust Company</i>	Defined Benefit Pension Plan	15	587,649	
Paul A. Evangelista <i>Executive Vice President, Century Bank and Trust Company</i>	Defined Benefit Pension Plan	15	436,624	
Brian J. Feeney <i>Executive Vice President, Century Bank and Trust Company</i>	Defined Benefit Pension Plan	25	490,674	
William P. Hornby (2) <i>Chief Financial Officer and Treasurer</i>	Defined Benefit Pension Plan			
Linda Sloane Kay <i>Executive Vice President Century Bank and Trust Company</i>	Defined Benefit Pension Plan	14	238,651	

- (1) The present value of accumulated benefits was calculated with the assumption that retirement occurs at age 65. The benefit is calculated using an interest rate of 4.00% and the mortality table used is the RP 2014 Mortality Table projected with Scale MP 2014.
- (2) Not a member of the Defined Benefit Pension Plan.

Table of Contents**SUPPLEMENTAL EXECUTIVE INSURANCE/RETIREMENT BENEFITS**

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit-12/31/2014 (\$)(1)	Payments During Last Fiscal Year-12/31/2014 (\$)
Marshall M. Sloane (2) <i>Chairman of the Board</i>	Supplemental Executive Insurance/Retirement Plan	33	3,199,536	523,639
Barry R. Sloane (2) <i>President and CEO</i>	Supplemental Executive Insurance/Retirement Plan	13	5,073,347	
David B. Woonton (2) <i>Executive Vice President, Century Bank and Trust Company</i>	Supplemental Executive Insurance/Retirement Plan	15	3,135,058	
Paul A. Evangelista (2) <i>Executive Vice President, Century Bank and Trust Company</i>	Supplemental Executive Insurance/Retirement Plan	15	2,211,245	
Brian J. Feeney (2) <i>Executive Vice President, Century Bank and Trust Company</i>	Supplemental Executive Insurance/Retirement Plan	7	789,571	
William P. Hornby (2) <i>Chief Financial Officer and Treasurer</i>	Supplemental Executive Insurance/Retirement Plan	6	560,484	
Linda Sloane Kay (2) <i>Executive Vice President, Century Bank and Trust Company</i>	Supplemental Executive Insurance/Retirement Plan	6	728,806	

- (1) The present value of accumulated benefits was calculated with the assumption that retirement occurs at age 65. The benefit is calculated using an interest rate of 4.00% and the mortality table used is RP 2014 Mortality Table projected with Scale MP 2014.
- (2) As of January 1, 2014, Messrs. Marshall M. Sloane, Barry R. Sloane, Paul A. Evangelista, David B. Woonton, Brian J. Feeney, Linda Sloane Kay and William P. Hornby were 100%, 77.5%, 100%, 100%, 40%, 32.5% and 32.5% vested, respectively, under the Supplemental Executive Insurance/Retirement Plan.

Table of Contents**Director Compensation**

Directors not employed by the Company receive a \$15,750 retainer per year, \$300 per Company Board meeting attended, \$800 per Bank Board meeting attended and \$700 per committee meeting attended. Joseph Senna receives \$2,000 per Audit Committee meeting as Chairman of the Audit Committee.

DIRECTOR COMPENSATION TABLE 2014

Name	Fees Earned or Paid in Cash (\$)	All Other Compensation (\$)	Total (\$)
George R. Baldwin	36,250		36,250
Stephen R. Delinsky	32,050		32,050
Marshall I. Goldman	28,550		28,550
Russell B. Higley	31,350		31,350
Jackie Jenkins-Scott	34,450		34,450
Linda Sloane Kay			
Fraser Lemley	38,450		38,450
Joseph P. Mercurio	38,450		38,450
Joseph J. Senna	44,850		44,850
Barry R. Sloane			
Marshall M. Sloane(1)			
Stephanie Sonnabend	33,550		33,550
George F. Swansburg(2)	41,250	14,500	55,750
Jon Westling	26,250		26,250

(1) Amounts paid are listed in the Summary Compensation Table.

(2) The amount listed in all other compensation is for serving as Administrator of Century Bancorp Capital Trust II.

Table of Contents**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth certain information as to the number and percentage of shares of Class A and Class B Common Stock beneficially owned as of December 31, 2014, (i) by each person known by the Company to own beneficially more than 5% of the Company's outstanding shares of Class A or Class B Common Stock, (ii) by each of the Company's directors and executive officers; and (iii) by all directors and executive officers as a group. As of December 31, 2014, there were 3,600,729 shares of Class A Common Stock and 1,967,180 shares of Class B Common Stock outstanding.

Name and Address of Beneficial Owner	Class A Owned	% A Owned	Class B Owned	% B Owned
James J. Filler (9) 2964 Shook Hill Parkway, Birmingham, AL 35223	390,101	10.83%		
Maltese Capital Management, LLC (8) 150 East 52nd Street, 30th Floor, New York, NY 10022	302,600	8.40%		
Wellington Management Group, LLP (5) 280 Congress Street, Boston, MA 02210	288,147	8.00%		
Jacobs Asset Management, LLC (6) 11 East 26th Street, Suite 1900, New York, NY 10010	199,196	5.53%		
Marshall M. Sloane(a) 400 Mystic Avenue, Medford, MA 02155	31,432(1)	0.87%	1,721,841(2)	87.53%
George R. Baldwin(a)	5,819	0.16%		
Stephen R. Delinsky(a)	2,955(7)	0.08%		
Paul A. Evangelista(b)	7,225	0.20%		
Brian J. Feeney(b)	1,815	0.05%		
Marshall I. Goldman(a)	7,269(10)	0.20%	30,000(11)	1.53%
Russell B. Higley, Esquire(a)	4,602	0.13%		
William P. Hornby(b)	500	0.01%		
Jackie Jenkins-Scott(a)	40	0.00%		
Linda Sloane Kay(a)(b)	10,668(3)	0.30%	60,000	3.05%
Fraser Lemley(a)	21,494	0.60%		
Joseph P. Mercurio(a)	100	0.00%		
Joseph J. Senna(a)	25,001	0.69%		
Barry R. Sloane(a)(b)	4,457(4)	0.12%		
Stephanie Sonnabend(a)	5,478	0.15%		
George F. Swansburg(a)	32,251	0.90%		
Jon Westling(a)	8,067	0.22%		
David B. Woonton(b)	800	0.02%		
All directors and officers as a group (18 in number)	169,973	4.72%	1,811,841	92.10%

(a) Denotes director of the Company.

(b) Denotes officer of the Company or one of its subsidiaries.

(1) Includes 2,500 shares owned by Mr. Sloane's spouse and also includes 16,675 shares held in trust for Mr. Sloane's grandchildren.

(2) Includes 1,500 shares owned by Mr. Sloane's spouse, 1,694,580 shares held by Sloane Family Enterprises LP, and does not include 94,239 shares owned by Mr. Sloane's children. Mr. Sloane disclaims beneficial ownership of such 94,239 shares and 1,694,580 shares held by Sloane Family Enterprises LP.

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- (3) Includes 9,849 shares owned by Ms. Kay's spouse.
- (4) Includes 40 shares owned by Mr. Barry Sloane's children and 72 shares owned by Mr. Barry Sloane's spouse. Includes 3,111 shares pledged.
- (5) The Company has relied upon the information set forth in the Form 13F filed with the SEC by the Wellington Management Group, LLP on February 13, 2015.
- (6) The Company has relied upon the information set forth in the Form 13F filed with the SEC by Sy Jacobs, c/o Jacobs Asset Management, L.L.C. on February 17, 2015.
- (7) Includes 250 shares owned by Mr. Delinsky's children.
- (8) The Company has relied upon the information set forth in the Form 13F filed with the SEC by the Maltese Capital Management, LLC on February 13, 2015.
- (9) The Company has relied upon the information set forth in the Form 4 with the SEC by James J. Filler on December 31, 2014.
- (10) Does not include 9,000 shares held of record by Mr. Goldman's children; Mr. Goldman disclaims beneficial ownership of such shares.
- (11) Does not include 9,000 shares held of record by Mr. Goldman's children; Mr. Goldman disclaims beneficial ownership of such shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Certain Directors and Officers of the Company and Bank and members of their immediate family are at present, as in the past, customers of the Bank and have transactions with the Bank in the ordinary course of business. In addition, certain of the Directors are at present, as in the past, also Directors, Officers or Stockholders of corporations or members of partnerships that are customers of the Bank and have transactions with the Bank in the ordinary course of business. Such transactions with Directors and Officers of the Company and the Bank and their families and with such corporations and partnerships were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the time for comparable transactions with other persons, and did not involve more than the normal risk of collectibility or present other features unfavorable to the Bank. The Directors annually approve amounts to be paid to related parties for services rendered. The Company reviews related party transactions monthly.

NASDAQ Stock Market (NASDAQ) rules, and our governance principles, require that at least a majority of our Board be composed of independent directors. All of our directors other than Marshall M. Sloane, Barry R. Sloane, Linda Sloane Kay, George F. Swansburg and Russell B. Higley, Esq. are independent within the meaning of both the NASDAQ rules and our own corporate governance principles. Nine of our fourteen directors, therefore, are currently independent directors.

Table of Contents**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The Audit Committee separately pre-approves each of the following services, in compliance with the requirements of the Sarbanes-Oxley Act and SEC regulations, before they are rendered by the auditor: financial statement audit, attestation, preparation of tax returns and audit of 401(k) and pension plans. The Audit Committee's pre-approval procedures, in compliance with the requirements of the Sarbanes-Oxley Act and SEC regulations, allow the Company's auditors to perform certain services without specific permission from the Audit Committee, as long as these services comply with the following requirements: (a) the services consist of special projects relating to strategic tax savings initiatives, corporate tax structure engagements or merger and acquisition consulting; (b) aggregate special project services cannot exceed \$50,000 during the calendar year; and (c) the Audit Committee must be informed about each service at its next scheduled meeting. All other services provided by the Company's auditor must be separately pre-approved before they are rendered.

Description of Fees	Fiscal 2014 Amount	Fiscal 2013 Amount
Audit fees(1)	\$ 400,000	\$ 383,000
Audit-related fees(2)		
Tax fees(3)	67,115	46,750
Other fees		
	\$ 467,115	\$ 429,750

(1) includes fees for annual audit, renewal of quarterly financial statement, internal control attestations.

(2) includes fees for the audit of 401K and pension plans.

(3) includes fees for tax compliance and tax consulting.

PART IV**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) *Financial Statements.*

The following financial statements of the company and its subsidiaries are presented in Item 8:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets December 31, 2014 and 2013

Consolidated Statements of Income Years Ended December 31, 2014, 2013 and 2012

Consolidated Statements of Changes in Stockholders Equity-Years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows-Years Ended December 31, 2014, 2013, and 2012

Notes to Consolidated Financial Statements

(2) *Financial Statement Schedules*

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All schedules are omitted because either the required information is shown in the financial statements or notes incorporated by reference, or they are not applicable, or the data is not significant.

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(3) Exhibits

3.1	Certificate of Incorporation of Century Bancorp, Inc., incorporated by reference previously filed with registrant's initial registration statement on Form S-1 dated May 20, 1987 (Registration No. 33-13281).
3.2	Bylaws of Century Bancorp, Inc., Amended October 9, 2007, incorporated by reference previously filed with the September 30, 2007 10-Q.
3.3	Articles of Amendment of Century Bancorp, Inc. Articles of Organization effective January 9, 2009, incorporated by reference previously filed with an 8-K filed on April 29, 2009.
4.1	Form of Common Stock Certificate of the Company, incorporated by reference previously filed with registrant's initial registration statement on Form S-1 dated May 20, 1987 (Registration No. 33-13281).
4.2	Century Bancorp, Inc. 401(K) Plan, incorporated by reference previously filed with the registrant's Form S-8 filed on June 25, 1997.
4.3	Registration Statement relating to the 8.30% Junior Subordinated Debentures issued by Century Bancorp Capital Trust, incorporated by reference previously filed with the registrant's Form S-2 filed on April 23, 1998.
10.1	2000 Stock Option Plan, as amended on December 30, 2005, incorporated by reference previously filed with the registrant's Annual Report on Form 10-K filed on March 16, 2006.
10.2	Supplemental Executive Retirement Benefit with Marshall M. Sloane, incorporated by reference previously filed with the registrant's Annual Report on Form 10-K filed on March 26, 2003.
10.3	Supplemental Executive Retirement and Insurance Plan, as amended on December 1, 2008, incorporated by reference previously filed with an 8-K filed on January 21, 2009.
10.4	2004 Stock Option Plan, as amended on December 30, 2005, incorporated by reference previously filed with the registrant's Annual Report on Form 10-K filed on March 16, 2006.
10.5	Supplemental Executive Retirement and Insurance plan, as amended on July 14, 2009, incorporated by reference previously filed with an 8-K filed on July 16, 2009.
10.6	Century Bancorp Capital Trust II Purchase Agreement dated November 30, 2004, between Century Bancorp Capital Trust II and the Company and Sandler O'Neill Partners, L.P., First Tennessee Bank National Association and Keefe, Bruyette and Woods, Inc., incorporated by reference previously filed with the registrant's Annual Report on Form 10-K filed on March 15, 2005.
10.7	Century Bancorp Capital Trust II Indenture, dated December 2, 2004, between the Company and Wilmington Trust Company, incorporated by reference previously filed with the registrant's Annual Report on Form 10-K filed on March 15, 2005.
10.8	Century Bancorp Capital Trust II Amended and Restated Declaration of Trust, dated December 2, 2004, between the Trustees of Century Bancorp Capital Trust II, the Administrator, the Company and Sponsors, incorporated by reference previously filed with the registrant's Annual Report on Form 10-K filed on March 15, 2005.
10.9	Century Bancorp, Inc. Guarantee Agreement, dated December 2, 2004, between the Century Bancorp, Inc. and Wilmington Trust Company, incorporated by reference previously filed with the registrant's Annual Report on Form 10-K filed on March 15, 2005.
10.10	Consulting Services Agreement among Century Bancorp, Inc., Century Bank and Trust Company and Marshall M. Sloane dated as of April 14, 2006, incorporated by reference previously filed with an 8-K filed on April 17, 2006.
10.11	Purchase and Sale Agreement, dated as of August 14, 2007, with C&S Capital Properties, LLC, incorporated by reference previously filed with an 8-K filed on August 17, 2007.
10.12	Commercial Lease, dated as of August 14, 2007, with C&S Capital Properties, LLC, incorporated by reference previously filed with an 8-K filed on August 17, 2007.

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10.13	Severance agreement among Century Bancorp, Inc., Century Bank and Trust Company and Jonathan G. Sloane dated April 30, 2010 incorporated by reference previously filed with an 8-K on May 14, 2010.
14	Code of ethics, amended April 13, 2010, incorporated by reference previously filed with an 8-K filed on April 15, 2010.
21	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.
31.2	Certification of Chief Financial Officer of the Company Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14.
32.1 +	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2 +	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase.
101.LAB*	XBRL Taxonomy Extension Label Linkbase.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase.
101.DEF*	XBRL Taxonomy Definition Linkbase.

+ This exhibit shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

* As provided in Rule 406T of Regulation S-T, this information is filed for purposes of Sections 11 and 12 of the Securities Act of 1933 and Section 18 of the Securities Exchange Act of 1934.

(b) Exhibits required by Item 601 of Regulation S-K.

See (a)(3) above for exhibits filed herewith.

(c) Financial Statement required by Regulation S-X.

Schedules to Consolidated Financial Statements required by Regulation S-X are not required under the related instructions or are inapplicable, and therefore have been omitted.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 10th day of March, 2015.

Century Bancorp, Inc.

By: /s/ Marshall M. Sloane
Marshall M. Sloane, Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the date indicated.

/s/ George R. Baldwin
George R. Baldwin, Director

/s/ Joseph Senna
Joseph Senna, Director

/s/ Stephen R. Delinsky
Stephen R. Delinsky, Director

/s/ Stephanie Sonnabend
Stephanie Sonnabend, Director

Marshall I. Goldman, Ph.D., Director

/s/ George F. Swansburg
George F. Swansburg, Director

/s/ Russell B. Higley
Russell B. Higley, Esquire, Director

/s/ Jon Westling
Jon Westling, Director

/s/ Jackie Jenkins-Scott
Jackie Jenkins-Scott, Director

/s/ Marshall M. Sloane
Marshall M. Sloane, Chairman

/s/ Linda Sloane Kay
Linda Sloane Kay, Director
Executive Vice President, Century Bank and
Trust Company

/s/ Barry R. Sloane
Barry R. Sloane, Director,
President and Chief Executive Officer

/s/ Fraser Lemley
Fraser Lemley, Director

/s/ William P. Hornby
William P. Hornby, CPA, Chief Financial
Officer and Treasurer

/s/ Joseph P. Mercurio
Joseph P. Mercurio, Director

/s/ Anthony C. LaRosa
Anthony C. LaRosa, CPA, Senior Vice President,
Century Bank and Trust Company,
Principal Accounting Officer

