CENTURY BANCORP INC
Form 10-K
March 15, 2017
Table of Contents

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, 2016
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 0-15752

CENTURY BANCORP, INC.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number including area code:

(781) 391-4000

Securities registered pursuant to Section 12(b) of the Act:

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

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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

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, 2016 was $153,423,815.

Indicate the number of shares outstanding of each of the registrant s classes of common stock as of February 28, 2017:

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, 2016 are incorporated into Part II, Items 5-8 of this Form 10-K.

Table of Contents

CENTURY BANCORP INC.

FORM 10-K

TABLE OF CONTENTS

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, 2016, the Company had total assets of $4.5 billion. Currently, the Company operates 27 banking offices in 20 cities and towns in Massachusetts, ranging from Braintree in the south to Andover in the north. The Bank s customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts, New Hampshire, Rhode Island, Connecticut, and New York.

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

The Company offers a wide range of services to commercial enterprises, state and local governments and agencies, non-profit organizations and individuals. It emphasizes service to small and medium-sized businesses and retail customers in its market area. 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 municipal cash management client engagements in Massachusetts, New Hampshire and Rhode Island comprised of approximately 250 government entities.

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, 2016, the Company had 372 full-time and 66 part-time employees. The Company s employees are not represented by any collective bargaining unit. The Company believes that its employee relations are good.

Financial Services Modernization

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

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

These 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.

Table of Contents

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 September 2016.

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 (the Act) became law. The Act was intended to address many issues arising in the recent financial crisis and is exceedingly broad in scope, affecting many aspects of bank and financial market regulation. The Act requires, or permits by implementing regulation, enhanced prudential standards for banks and bank holding companies inclusive of capital, leverage, liquidity, concentration and exposure measures. In addition, traditional bank regulatory principles such as restrictions on transactions with affiliates and insiders were enhanced. The Act also contains reforms of consumer mortgage lending practices and creates a Bureau of Consumer Financial Protection, which is granted broad authority over consumer financial practices of banks and others. It is expected as the specific new or incremental requirements applicable to the Company become effective that the costs and difficulties of remaining compliant with all such requirements will increase. The Act broadened the base for FDIC assessments to average consolidated assets less tangible equity of financial institutions and also permanently raises the current standard maximum FDIC deposit insurance amount to $250,000. The Act extended unlimited deposit insurance on non-interest bearing transaction accounts through December 31, 2012. In addition, the Act added a new Section 13 to the Bank Holding Company Act, the so-called Volcker Rule, (the Rule) which generally restricts certain banking entities such as the Company and its subsidiaries or affiliates, from engaging in proprietary trading activities and owning equity in or sponsoring any private equity or hedge fund. The Rule became effective July 21, 2012. The final implementing regulations for the Rule were issued by various regulatory agencies in December, 2013 and under an extended conformance regulation compliance must be achieved by July 21, 2015. The conformance period for investments in and relationships with certain legacy covered funds has been extended to July 21, 2016 and is expected to be extended further to July 31, 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 implementation of the framework did 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.

Table of Contents

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 res 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, Rhode Island, Connecticut, and New York. 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, Rhode Island, Connecticut, and New York, 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, 2016, approximately 68.0% 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, 2016, approximately 23.6% 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, 2016, our goodwill and other identifiable intangible assets were approximately $2.7 million;

Table of Contents

(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;

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

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

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

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.

Table of Contents

PART II

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

(a) The Class A Common Stock of the Company is traded on the NASDAQ National Global Market under the symbol CNBKA. The price range of the Company s Class A common stock since January 1, 2015 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, 2016:

Title of Class	Approximate Number of Record Holders
Class A Common Stock	1,083
Class B Common Stock	47

(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
2015		
First quarter	$ 0.12	$ 0.06
Second quarter	0.12	0.06
Third quarter	0.12	0.06
Fourth quarter	0.12	0.06
2016		
First quarter	$ 0.12	$ 0.06
Second quarter	0.12	0.06
Third quarter	0.12	0.06
Fourth quarter	0.12	0.06

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.

Table of Contents

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, 2016:

Equity Compensation Plan Information

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options (a)	Weighted-Average Exercise Price of Outstanding Options (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by security holders		$	233,934
Equity compensation plans not approved by security holders			
Total		$	233,934

(e) The performance graph information required herein is shown on page 13.

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

The information required herein is shown on pages 11 through 13.

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

The information required herein is shown on pages 14 through 37.

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

The information required herein is shown on pages 35.

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

The information required herein is shown on pages 38 through 88.

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, 2016. Based on this evaluation, the principal executive officer and principal financial officer have concluded that the Company s disclosure controls and procedures are

8

Table of Contents

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 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 91. The audit report of the registered public accounting firm is shown on page 90.

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

None.

Table of Contents

FINANCIAL STATEMENTS

Table of Contents

Financial Highlights

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

Table of Contents

Financial Highlights (Continued)

(1) Non-GAAP Financial Measures are reconciled in the following tables:

	2016	2015	2014	2013	2012
Calculation of Efficiency Ratio:					
Total Operating Expenses (numerator)	**$ 64,757**	$ 62,198	$ 56,730	$ 55,812	$ 53,238
Net Interest Income	**$ 74,082**	$ 69,959	$ 66,235	$ 60,960	$ 61,954
Total Other Operating Income	**16,222**	15,993	15,271	18,615	15,865
Tax Equivalent Adjustment	**12,917**	11,140	10,033	8,984	7,964
Total Income (denominator)	**$ 103,221**	$ 97,092	$ 91,539	$ 88,559	$ 85,783
Efficiency Ratio, Year Non-GAAP	**62.7%**	64.1%	62.0%	63.0%	62.1%

	2016	2015	2014	2013	2012
Calculation of Dividend Payout Ratio:					
Dividends Paid (numerator)	**$ 2,201**	$ 2,200	$ 2,196	$ 2,191	$ 2,186
Net Income (denominator)	**$ 24,534**	$ 23,021	$ 21,860	$ 20,046	$ 19,039
Dividend Payout Ratio Non-GAAP	**9.0%**	9.6%	10.0%	10.9%	11.5%

Per Share Data

2016, Quarter Ended	**December 31,**	**September 30,**	**June 30,**	**March 31,**
Market price range (Class A)				
High	**$ 62.60**	**$ 45.45**	**$ 43.24**	**$ 43.96**
Low	**44.95**	**41.41**	**38.75**	**38.61**
Dividends Class A	**0.12**	**0.12**	**0.12**	**0.12**
Dividends Class B	**0.06**	**0.06**	**0.06**	**0.06**

2015, Quarter Ended	**December 31,**	**September 30,**	**June 30,**	**March 31,**
Market price range (Class A)				
High	$ 45.09	$ 41.87	$ 41.44	$ 40.50
Low	40.95	38.61	38.37	38.34
Dividends Class A	0.12	0.12	0.12	0.12
Dividends Class B	0.06	0.06	0.06	0.06

The stock performance graph below compares the cumulative total shareholder return of the Company s Class A Common Stock from December 31, 2011 to December 31, 2016 with the cumulative total return of the NASDAQ Market Index (U.S. Companies) and the NASDAQ Bank Stock Index. The lines in the graph represent monthly index levels derived from compounded daily returns that include all dividends. If the monthly interval, based on the fiscal year-end, was not a trading day, the preceding trading day was used.

Table of Contents

Financial Highlights (Continued)

Comparison of Five-Year

Cumulative Total Return*

Value of $100 Invested on December 31, 2011 at:	2012	2013	2014	2015	2016
Century Bancorp, Inc.	$ 118.54	$ 121.32	$ 148.13	$ 162.59	**$ 226.85**
NASDAQ Banks	134.74	184.08	205.85	210.40	**266.24**
NASDAQ U.S.	117.45	164.57	188.84	201.98	**219.89**

* Assumes that the value of the investment in the Company s Common Stock and each index was $100 on December 31, 2011 and that all dividends were reinvested.

Table of Contents

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

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

RECENT MARKET DEVELOPMENTS

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

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

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

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

OVERVIEW

Century Bancorp, Inc. (together with its bank subsidiary, unless the context otherwise requires, the Company) is a Massachusetts state-chartered bank holding company headquartered in Medford, Massachusetts. The Company is a Massachusetts corporation formed in 1972 and has one banking subsidiary (the Bank): Century Bank and Trust Company formed in 1969. At December 31, 2016, the Company had total assets of $4.5 billion. Currently, the Company operates 27 banking offices in 20 cities and towns in Massachusetts, ranging from Braintree in the south to Andover in the north. The Bank s customers consist primarily of small and medium-sized businesses and retail customers in these communities and surrounding areas, as well as local governments and institutions throughout Massachusetts, New Hampshire, Rhode Island, Connecticut and New York.

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

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

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

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

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

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

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

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

Net Interest Margin

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

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

Historical U.S. Treasury Yield Curve

A yield curve is a line that typically plots the interest rates of U.S. Treasury Debt, which have different maturity dates but the same credit quality, at a specific point in time. The three main types of yield curve shapes are normal, inverted and flat. Over the past three years, the U.S. economy has experienced low short-term rates. During 2015 and 2016, short-term rates increased slightly more than longer-term rates resulting in a slight flattening of the yield curve.

During 2016 and 2015, the Company s earnings were positively impacted primarily by an increase in net interest income. This increase was primarily due to an increase in earning assets. Also contributing to the increase in earnings for 2015 was a decrease in the provision for loan losses. This was primarily the result of changes in the risk profile of the Company s new loan originations, related methodology enhancements to address these changes, as well as net recoveries being realized during the year. During 2016, 2015 and 2014, the U.S. economy experienced a low short-term rate environment. The lower short-term rates negatively impacted the net interest margin as the rate at which short-term deposits could be invested declined more than the rates offered on those deposits.

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES

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

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

Impaired Investment Securities

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

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

Allowance for Loan Losses

Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment. Management maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The

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

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

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

During 2015, the Company enhanced its approach to the development of the historical loss factors and qualitative factors used on certain loan portfolios. The enhancement is described within the Allowance for Loan Losses section of Management s Discussion and Analysis of Results of Operations and Financial Condition . During 2016, the Company continued to enhance its methodology to the allowance for loan losses by updating qualitative factors on certain loan portfolios. Management believes that the allowance for loan losses is adequate. In addition, various regulatory agencies, as part of the examination process, periodically review the Company s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Income Taxes

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

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

FINANCIAL CONDITION

Investment Securities

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

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

Table of Contents

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

These securities are carried at fair value, and unrealized gains and losses, net of applicable income taxes, are recognized as a separate component of stockholders equity. The fair value of securities available-for-sale at December 31, 2016 totaled $499,297,000 and included gross unrealized gains of $555,000 and gross unrealized losses of $1,478,000. A year earlier, the fair value of securities available-for-sale was $404,623,000 including gross unrealized gains of $979,000 and gross unrealized losses of $1,333,000. In 2016, the Company recognized gains of $52,000 on the sale of available-for-sale securities. In 2015 and 2014, the Company recognized gains of $289,000 and $450,000, respectively.

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

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

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

Fair Value of Securities Available-for-Sale

	2016		2015		2014	
At December 31,	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
(dollars in thousands)						
U.S. Treasury	**$ 2,000**	**0.4%**	$ 1,989	0.5%	$ 2,000	0.4%
U.S. Government Sponsored Enterprises	**24,952**	**5.0%**		0.0%		0.0%
SBA Backed Securities	**57,767**	**11.6%**	5,989	1.5%	6,717	1.5%
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	**243,325**	**48.7%**	233,526	57.7%	337,093	75.2%
Privately Issued Residential Mortgage-Backed Securities	**1,109**	**0.2%**	1,434	0.4%	1,874	0.4%
Obligations Issued by States and Political Subdivisions	**164,876**	**33.0%**	156,960	38.8%	96,784	21.6%
Other Debt Securities	**4,924**	**1.0%**	4,473	1.1%	3,524	0.8%
Equity Securities	**344**	**0.1%**	252	0.1%	398	0.1%
Total	**$ 499,297**	**100.0%**	$ 404,623	100.0%	$ 448,390	100.0%

The majority of the Company s securities AFS are classified as Level 2, as defined in Note 1 of the Notes to Consolidated Financial Statements. The fair values of these securities are obtained from a pricing service, which provides the Company with a description of the inputs generally utilized for each type of security. These inputs include benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data. Management s understanding of a pricing service s pricing methodologies includes obtaining an understanding of the valuation risks, assessing its qualification, verification of sources of information and processes used to develop prices and identifying, documenting, and testing controls. Management s validation of a vendor s pricing methodology includes establishing internal controls to

Table of Contents

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

determine that the pricing information received by a pricing service and used by management in the valuation process is relevant and reliable. Market indicators and industry and economic events are also monitored. The decline in fair value from amortized cost for individual available-for-sale securities that are temporarily impaired is not attributable to changes in credit quality. Because the Company does not intend to sell any of its debt securities and it is not more likely than not that it will be required to sell the debt securities before the anticipated recovery of their remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

Securities available-for-sale totaling $164,876,000, or 3.7% of assets, are classified as Level 3, as defined in Note 1 of the Notes to Consolidated Financial Statements. These securities are generally municipal securities with no readily determinable fair value. The Company also utilizes internal pricing analysis on various municipal securities using market rates on comparable securities. The securities are carried at fair value with periodic review of underlying financial statements and credit ratings to assess the appropriateness of these valuations.

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

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

Amortized Cost of Securities Held-to-Maturity

	2016		**2015**		**2014**	
At December 31, (dollars in thousands)	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
U.S. Government Sponsored Enterprises	**$ 148,326**	**9.0%**	$ 186,734	13.0%	$ 251,617	17.9%
SBA Backed Securities	**46,140**	**2.8%**				
U.S. Government Sponsored Enterprise Mortgage-Backed Securities	**1,459,520**	**88.2%**	1,252,169	87.0%	1,155,175	82.1%
Total	**$ 1,653,986**	**100.0%**	$ 1,438,903	100.0%	$ 1,406,792	100.0%

20

Table of Contents

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

The following two tables set forth contractual maturities of the Bank s securities portfolio at December 31, 2016. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Fair Value of Securities Available-for-Sale Amounts Maturing

(dollars in thousands)	Within One Year	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield	Over Ten Years	% of Total	Weighted Average Yield
U.S. Treasury	$ 2,000	0.4%	0.54%	$	0.0%	0.00%	$	0.0%	0.00%	$	0.0%	0.00%
U.S. Government Sponsored Enterprises	9,999	2.0%	0.70%	14,953	3.0%	0.83%		0.0%	0.00%		0.0%	0.00%
SBA Backed Securities		0.0%	0.00%		0.0%	0.00%	18,613	3.7%	1.21%	39,154	7.8%	1.14%
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities		0.0%	0.00%	90,157	18.1%	1.17%	148,429	29.6%	1.24%	4,739	1.0%	1.38%
Privately Issued Residential Mortgage-Backed Securities	1,109	0.2%	1.71%		0.0%	0.00%		0.0%	0.00%		0.0%	0.00%
Obligations of States and Political Subdivisions	159,355	31.9%	1.18%	919	0.2%	3.57%	305	0.1%	4.75%	4,297	0.9%	1.80%
Other Debt Securities	800	0.2%	1.59%	753	0.2%	1.88%	1,000	0.2%	6.00%	1,017	0.2%	6.00%
Total	$ 173,263	34.7%	1.15%	$ 106,782	21.5%	1.15%	$ 168,347	33.6%	1.28%	$ 49,207	9.9%	1.32%

(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%	0.54%
U.S. Government Agency Sponsored Enterprises		0.0%	0.00%	24,952	5.0%	0.78%
SBA Backed Securities		0.0%	0.00%	57,767	11.6%	1.16%
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities		0.0%	0.00%	243,325	48.7%	1.22%
Privately Issued Residential Mortgage-Backed Securities		0.0%	0.00%	1,109	0.2%	1.71%
Obligations of States and Political Subdivisions		0.0%	0.00%	164,876	33.0%	1.21%
Other Debt Securities	1,354	0.2%	3.06%	4,924	1.0%	3.85%
Equity Securities	344	0.1%	3.24%	344	0.1%	6.24%
Total	$ 1,698	0.3%	3.21%	$ 499,297	100.0%	1.22%

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

(dollars in thousands)	Within One Year	% of Total	Weighted Average Yield	One Year to Five Years	% of Total	Weighted Average Yield	Five Years to Ten Years	% of Total	Weighted Average Yield	Over Ten Years	% of Total	Weighted Average Yield	Total	% of Total	Weighted Average Yield
U.S. Government Sponsored Enterprises	$ 14,926	0.9%	1.52%	$ 123,405	7.5%	1.70%	$ 9,995	0.6%	2.06%	$	0.0%	0.00%	$ 148,326	9.0%	1.71%
SBA Backed Securities		0.0%	0.00%	7,965	0.5%	1.57%	33,169	2.0%	2.20%	5,006	0.3%	2.56%	46,140	2.8%	2.13%
U.S. Government Sponsored Enterprise Mortgage-Backed Securities	7,876	0.5%	2.80%	991,308	59.9%	2.17%	457,191	27.6%	2.31%	3,145	0.2%	3.02%	1,459,520	88.2%	2.22%
Total	$ 22,802	1.4%	1.96%	$ 1,122,678	67.9%	2.11%	$ 500,355	30.2%	2.30%	$ 8,151	0.5%	2.73%	$ 1,653,986	100.0%	2.17%

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

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

Loans

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

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

	2016		2015		2014		2013		2012	
December 31, (dollars in thousands)	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**
Construction and land development	**$ 14,928**	**0.8%**	$ 27,421	1.6%	$ 22,744	1.7%	$ 33,058	2.6%	$ 38,618	3.5%
Commercial and industrial	**612,503**	**31.8%**	452,235	26.1%	149,732	11.2%	76,675	6.1%	88,475	8.0%
Municipal	**135,418**	**7.0%**	85,685	4.9%	41,850	3.1%	32,737	2.6%	1,446	0.1%
Commercial real estate	**696,173**	**36.2%**	721,506	41.7%	696,272	52.3%	696,317	55.0%	575,019	51.7%

Residential real estate	**241,357**	**12.5%**	255,346	14.7%	257,305	19.3%	286,041	22.6%	281,857	25.3%
Consumer	**11,013**	**0.6%**	10,744	0.6%	10,925	0.8%	8,824	0.7%	6,823	0.6%
Home equity	**211,857**	**11.0%**	178,020	10.3%	151,275	11.4%	130,277	10.3%	118,923	10.7%
Overdrafts	**684**	**0.1%**	579	0.1%	1,263	0.2%	834	0.1%	627	0.1%
Total	**$ 1,923,933**	**100.0%**	$ 1,731,536	100.0%	$ 1,331,366	100.0%	$ 1,264,763	100.0%	$ 1,111,788	100.0%

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

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

The following table summarizes the remaining maturity distribution of certain components of the Company s loan portfolio on December 31, 2016. The table excludes loans secured by 1 4 family residential real estate, loans for household and family personal expenditures, and municipal loans. Maturities are presented as if scheduled principal amortization payments are due on the last contractual payment date.

Remaining Maturities of Selected Loans at December 31, 2016

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

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

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

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

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

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

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

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

Table of Contents

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

Residential real estate (1 4 family) includes two categories of loans. Included in residential real estate are approximately $28,464,000 of C&I type loans secured by 1 4 family real estate. Primarily, these are small businesses with modest capital or shorter operating histories where the collateral mitigates some risk. This category of loans shares similar risk characteristics with the C&I loans, notwithstanding the collateral position.

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

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

Bank officers evaluate the feasibility of construction projects based on independent appraisals of the project, architects or engineers evaluations of the cost of construction and other relevant data. As of December 31, 2016, the Company was obligated to advance a total of $22,049,000 to complete projects under construction.

The composition of nonperforming assets is as follows:

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

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

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

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

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

Servicing assets are recorded at fair value and recognized as separate assets when rights are acquired through sale of loans with servicing rights retained. Mortgage servicing assets (MSA) are amortized into

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

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

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

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

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

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

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

The amount of the allowance for loan losses results from management s evaluation of the quality of the loan portfolio considering such factors as loan status, specific reserves on impaired loans, collateral values, financial condition of the borrower, the state of the economy and other relevant information. The pace of the charge-offs

Table of Contents

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

depends on many factors, including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels. Charge-offs declined in 2013, 2014, 2015 and 2016 as a result of the overall decrease in the level of nonaccrual loans. The dollar amount of the allowance for loan losses increased primarily as a result of a lower level of charge-off activity combined with changes in the portfolio composition and related methodology enhancements to address these changes.

During 2015, the Company enhanced its approach to the development of the historical loss factors and qualitative factors used on certain loan portfolios. The methodology enhancement was in response to the changes in the risk characteristics of the Company s new loan originations, as the Company has continued to increase its exposure to larger loan originations to large institutions with strong credit quality. The Company has limited internal loss history experience with these types of loans, and has determined a more appropriate representation of loss expectation is to utilize external historical loss factors based on public credit ratings, as there is a great deal of default and loss data available on these types of loans from the credit rating agencies. As of June 30, 2015, the Company incorporated this information into the development of the historical loss rates for these loan types. The combination of the enhancements made to the allowance methodology to address the changing risk profile of the Company s new loan originations and the increase in these loan types as a percentage of the overall portfolio, has resulted in a decrease in the ratio of allowance for loan losses to total loans.

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

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

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

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

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

(in thousands)	Commercial and Industrial	Municipal	Commercial Real Estate	Total
Credit Rating:				
Aaa-Aa3	$ 234,733	$ 63,865	$ 7,547	$ 306,145
A1-A3	140,419	7,400	130,872	278,691
Baa1-Baa3		8,890	167,489	176,379

Ba2		4,480		4,480
Total	$ 375,152	$ 84,635	$ 305,908	$ 765,695

Table of Contents

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

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

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

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

Deposits

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

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

Table of Contents

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

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

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

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

(dollars in thousands)	2016	2015
Three months or less	**$ 84,522**	$ 106,268
Three months through six months	**42,736**	86,015
Six months through twelve months	**85,476**	63,409
Over twelve months	**153,243**	99,108
Total	**$ 365,977**	$ 354,800

Borrowings

The Bank s borrowings consisted primarily of Federal Home Loan Bank of Boston (FHLBB) borrowings collateralized by a blanket pledge agreement on the Bank s FHLBB stock, certain qualified investment securities, deposits at the FHLBB and residential mortgages held in the Bank s portfolios. The Bank s borrowings from the FHLBB totaled $293,000,000, a decrease of $75,000,000 from the prior year. The Bank s remaining term borrowing capacity at the FHLBB at December 31, 2016, was approximately $239,163,000. In addition, the Bank has a $14,500,000 line of credit with the FHLBB. See Note 12, Other Borrowed Funds and Subordinated Debentures, for a schedule, including related interest rates and other information.

Subordinated Debentures

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

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

Securities Sold Under Agreements to Repurchase

The Bank s remaining borrowings consist primarily of securities sold under agreements to repurchase. Securities sold under agreements to repurchase totaled $182,280,000, a decrease of $15,570,000 from the prior year. See Note 11, Securities Sold Under Agreements to Repurchase, for a schedule, including related interest rates and other information.

29

Table of Contents

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 7.3% in 2016 to $86,999,000, compared with $81,099,000 in 2015. The increase in net interest income for 2016 was mainly due to a 10.3% increase in the average balances of earning assets, combined with a similar increase in deposits. The increase in net interest income for 2015 was mainly due to an 8.3% increase in the average balances of earning assets, combined with a similar increase in deposits. The level of interest rates, the ability of the Company s earning assets and liabilities to adjust to changes in interest rates and the mix of the Company s earning assets and liabilities affect net interest income. The net interest margin on a fully taxable equivalent basis decreased to 2.12% in 2016 from 2.18% in 2015 and decreased from 2.22% in 2014. The decrease in the net interest margin, for 2016 and 2015, was primarily the result of a decrease in rates on earning assets. This is primarily as a result of originating larger loans to borrowers with high credit quality, some of which are at variable rates. The Company collected approximately $416,000, $945,000 and $693,000 respectively, of prepayment penalties, which are included in interest income on loans, for 2016, 2015, and 2014, respectively.

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

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.

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

Less taxable equivalent adjustment	**(12,917)**	(11,140)	(10,033)
Net interest income	**$ 74,082**	$ 69,959	$ 66,235
Net interest spread	**2.00%**	2.07%	2.11%
Net interest margin	**2.12%**	2.18%	2.22%

(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.

31

Table of Contents

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

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.

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

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

32

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

income increased by 11.5% or $7,269,000 to $70,267,000. Total loan income was $59,996,000 in 2014. Prepayment penalties collected were $416,000, $945,000, and $693,000 for 2016, 2015, and 2014, respectively.

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

Provision for Loan Losses

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

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

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

Other Operating Income

During 2016, the Company continued to experience strong results in its fee-based services, including fees derived from traditional banking activities such as deposit-related services, its automated lockbox collection system and full-service securities brokerage supported by LPL Financial, a full-service securities brokerage business.

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

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

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

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

Operating Expenses

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

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

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

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

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

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

Provision for Income Taxes

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

Table of Contents

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

Market Risk and Asset Liability Management

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

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

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

Change in Interest Rates (in Basis Points)	Percentage Change in Net Interest Income(1)
+400	(9.0)
+300	(6.4)
+200	(4.7)
+100	(2.1)
100	0.8
200	(0.4)

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

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

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

Liquidity and Capital Resources

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

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

Capital Adequacy

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

Table of Contents

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

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

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

Contractual Obligations, Commitments, and Contingencies

The Company has entered into contractual obligations and commitments. The following tables summarize the Company s contractual cash obligations and other commitments at December 31, 2016.

Contractual Obligations and Commitments by Maturity (dollars in thousands)

		Payments Due By Period			
CONTRACTUAL OBLIGATIONS	Total	Less Than One Year	One to Three Years	Three to Five Years	After Five Years
FHLBB advances	**$ 293,000**	**$ 77,500**	**$ 112,500**	**$ 58,000**	**$ 45,000**
Subordinated debentures	**36,083**				**36,083**
Retirement benefit obligations	**40,331**	**3,488**	**6,951**	**7,270**	**22,622**
Lease obligations	**12,313**	**2,408**	**4,276**	**3,103**	**2,526**
Customer repurchase agreements	**182,280**	**182,280**			
Total contractual cash obligations	**$ 564,007**	**$ 265,676**	**$ 123,727**	**$ 68,373**	**$ 106,231**

		Amount of Commitment Expiring By Period			
OTHER COMMITMENTS	Total	Less Than One Year	One to Three Years	Three to Five Years	After Five Years
Lines of credit	**$ 362,357**	**$ 22,348**	**$ 125,912**	**$ 5,698**	**$ 208,399**
Standby and commercial letters of credit	**6,796**	**6,209**	**320**	**106**	**161**
Other commitments	**88,150**	**18,091**	**1,050**	**2,534**	**66,475**
Total commitments	**$ 457,303**	**$ 46,648**	**$ 127,282**	**$ 8,338**	**$ 275,035**

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.

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

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The fair value of standby letters of credit was $44,000 and $51,000 for 2016 and 2015, respectively.

Recent Accounting Developments

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

Table of Contents

Consolidated Balance Sheets

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

Total stockholders equity	**240,041**	214,544
Total liabilities and stockholders equity	**$ 4,462,608**	$ 3,947,441

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Income

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

Class B	**1,967,180**	1,967,180	1,969,030
Weighted average number of shares outstanding, diluted			
Class A	**5,567,909**	5,567,909	5,562,209
Class B	**1,967,180**	1,967,180	1,969,030
Basic earnings per share			
Class A	**$ 5.35**	$ 5.02	$ 4.78
Class B	**$ 2.68**	$ 2.51	$ 2.39
Diluted earnings per share			
Class A	**$ 4.41**	$ 4.13	$ 3.93
Class B	**$ 2.68**	$ 2.51	$ 2.39

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Comprehensive Income

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

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Changes in Stockholders Equity

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

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

Consolidated Statements of Cash Flows

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

Interest	**$ 22,668**	$ 19,979	$ 19,168
Income taxes	**3,730**	4,300	4,493
Change in unrealized losses on securities available-for-sale, net of taxes	**$ (321)**	$ (323)	$ 1,122
Change in unrealized losses on securities transferred to held-to-maturity, net of taxes	**2,812**	3,583	3,188
Pension liability adjustment, net of taxes	**673**	(2,037)	(8,318)
Transfer of loans to other real estate owned		1,916	555

See accompanying Notes to Consolidated Financial Statements.

42

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

BASIS OF FINANCIAL STATEMENT PRESENTATION

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

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

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

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

FAIR VALUE MEASUREMENTS

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

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

CASH AND CASH EQUIVALENTS

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

SHORT-TERM INVESTMENTS

As of December 31, 2016 and 2015, short-term investments include highly liquid certificates of deposit with original maturities of more than 90 days but less than one year.

INVESTMENT SECURITIES

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

Premiums and discounts on investment securities are amortized or accreted into income by use of the level-yield method. Gains and losses on the sale of investment securities are recognized on the trade date on a specific identification basis.

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

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.

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

FEDERAL HOME LOAN BANK STOCK

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

LOANS HELD FOR SALE

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

LOANS

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

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

The Bank measures impairment for impaired loans at either the fair value of the loan, the present value of the expected future cash flows discounted at the loan s effective interest rate or the fair value of the collateral if the loan is collateral dependent. This method applies to all loans, uncollateralized as well as collateralized, except large groups of smaller-balance homogeneous loans such as residential real estate and consumer loans that are collectively evaluated for impairment and loans that are measured at fair value. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance when such an amount has been identified definitively as uncollectible. Management considers the payment status, net worth and earnings potential of the borrower, and the value and cash flow of the collateral as factors to determine if a loan will be

Notes to Consolidated Financial Statements (Continued)

paid in accordance with its contractual terms. Management does not set any minimum delay of payments as a factor in reviewing for impaired classification. Loans are charged-off when management believes that the collectibility of the loan s principal is not probable. The specific factors that management considers in making the determination that the collectibility of the loan s principal is not probable include the delinquency status of the loan, the fair value of the collateral, if secured, and, the financial strength of the borrower and/or guarantors. In addition, criteria for classification of a loan as in-substance foreclosure has been modified so that such classification need be made only when a lender is in possession of the collateral. The Bank measures the impairment of troubled debt restructurings using the pre-modification effective rate of interest.

TRANSFERS OF FINANCIAL ASSETS

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

ACQUIRED LOANS

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

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

When a loan is paid off, the excess of any cash received over the net investment is recorded as interest income. In addition to the amount of purchase discount that is recognized at that time, income may include interest owed by the borrower prior to the Company s acquisition of the loan, interest collected if on nonperforming status, prepayment fees and other loan fees. There were no new loans acquired during the year ended December 31, 2016.

NONPERFORMING ASSETS

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

Notes to Consolidated Financial Statements (Continued)

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is based on management s evaluation of the quality of the loan portfolio and is used to provide for losses resulting from loans that ultimately prove uncollectible. The components of the allowance for loan losses represent estimates based upon Accounting Standards Codification (ASC) Topic 450, contingencies, and ASC Topic 310 Receivables. ASC Topic 450 applies to homogenous loan pools such as consumer installment, residential mortgages, consumer lines of credit and commercial loans that are not individually evaluated for impairment under ASC Topic 310. In determining the level of the allowance, periodic evaluations are made of the loan portfolio, which takes into account factors such as the characteristics of the loans, loan status, financial strength of the borrowers, value of collateral securing the loans and other relevant information sufficient to reach an informed judgment. The allowance is increased by provisions charged to income and reduced by loan charge-offs, net of recoveries. Management maintains an allowance for loan losses to absorb losses inherent in the loan portfolio. The allowance is based on assessments of the probable estimated losses inherent in the loan portfolio. Management s methodology for assessing the appropriateness of the allowance consists of several key elements, which include the specific allowances, if appropriate, for identified problem loans, formula allowance, and possibly an unallocated allowance. Arriving at an appropriate level of allowance for loan losses necessarily involves a high degree of judgment.

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

Under ASC Topic 310, a loan is impaired, based upon current information and in management s opinion, when it is probable that the loan will not be repaid according to its original contractual terms, including both principal and interest, or if a loan is designated as a TDR. Specific allowances for loan losses entail the assignment of allowance amounts to individual loans on the basis of loan impairment. Under this method, loans are selected for evaluation based upon a change in internal risk rating, occurrence of delinquency, loan classification or nonaccrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of a probable loss is able to be estimated on the basis of: (a) present value of anticipated future cash flows, (b) the loan s observable fair market price or (c) fair value of collateral if the loan is collateral dependent. For collateral dependent loans, the amount of the recorded investment in a loan that exceeds the fair value of the collateral is charged-off against the allowance for loan losses in lieu of an allocation of a specific allowance when such an amount has been identified definitively as uncollectible.

In estimating probable loan loss under ASC Topic 450 management considers numerous factors, including historical charge-offs and subsequent recoveries. The formula allowances are based on evaluations of homogenous loans to determine the allocation appropriate within each portfolio segment. Formula allowances are based on internal risk ratings or credit ratings from external sources. Individual loans within the commercial and industrial, commercial real estate and real estate construction loan portfolio segments are assigned internal risk ratings to group them with other loans possessing similar risk characteristics. Changes in risk grades affect the amount of the formula allowance. Risk grades are determined by reviewing current collateral value, financial information, cash flow, payment history and other relevant facts surrounding the particular credit. On these loans, the formula allowances are based on the risk ratings, the historical loss experience, and the loss emergence period. Historical loss data and loss emergence periods are developed based on the Company s historical experience. For larger loans with available external credit ratings, these ratings are utilized rather than the Company s risk ratings. The historical loss factor and loss emergence periods for these loans are based on data published by the rating agencies for similar credits as the Company has limited internal historical data. For the residential real estate and consumer loan portfolios, the formula allowances are calculated by applying historical loss experience and the loss emergence period to the outstanding balance in each loan category. Loss factors and loss emergence periods are based on the Company s historical net loss experience.

Notes to Consolidated Financial Statements (Continued)

Additional allowances are added to portfolio segments based on qualitative factors. Management considers potential factors identified in regulatory guidance. Management has identified certain qualitative factors, which could impact the degree of loss sustained within the portfolio. These include market risk factors and unique portfolio risk factors that are inherent characteristics of the Company s loan portfolio. Market risk factors may consist of changes to general economic and business conditions, such as unemployment and GDP that may impact the Company s loan portfolio customer base in terms of ability to repay and that may result in changes in value of underlying collateral. Unique portfolio risk factors may include the outlooks for business segments in which the Company s borrowers operate and loan size. The potential ranges for qualitative factors are based on historical volatility in losses. The actual amount utilized is based on management s assessment of current conditions.

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

BANK PREMISES AND EQUIPMENT

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

GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS

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

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

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

SERVICING

The Company services mortgage loans for others. Mortgage servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows

Notes to Consolidated Financial Statements (Continued)

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

STOCK OPTION ACCOUNTING

The Company follows the fair value recognition provisions of FASB ASC 718, *Compensation Stock Compensation* for all share-based payments. The Company s method of valuation for share-based awards granted utilizes the Black-Scholes option-pricing model. The Company will recognize compensation expense for its awards on a straight-line basis over the requisite service period for the entire award (straight-line attribution method), ensuring that the amount of compensation cost recognized at any date at least equals the portion of the grant-date fair value of the award that is vested at that time.

During 2000 and 2004, common stockholders of the Company approved stock option plans (the Option Plans) that provide for granting of options to purchase up to 150,000 shares of Class A common stock per plan. Under the Option Plans, all officers and key employees of the Company are eligible to receive nonqualified or incentive stock options to purchase shares of Class A common stock. The Option Plans are administered by the Compensation Committee of the Board of Directors, whose members are ineligible to participate in the Option Plans. Based on management s recommendations, the Committee submits its recommendations to the Board of Directors as to persons to whom options are to be granted, the number of shares granted to each, the option price (which may not be less than 85% of the fair market value for nonqualified stock options, or the fair market value for incentive stock options, of the shares on the date of grant) and the time period over which the options are exercisable (not more than ten years from the date of grant). There were no options to purchase shares of Class A common stock outstanding at December 31, 2016.

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

INCOME TAXES

The Company uses the asset and liability method in accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Under this method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

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

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

EARNINGS PER SHARE (EPS)

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

Diluted EPS includes the dilutive effect of common stock equivalents; basic EPS excludes all common stock equivalents. The only common stock equivalents for the Company are stock options.

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

TREASURY STOCK

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

PENSION

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

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

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

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

RECENT ACCOUNTING DEVELOPMENTS

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

50

Notes to Consolidated Financial Statements (Continued)

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

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

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

In March 2016, the FASB issued ASU 2016-09, Compensation Stock Compensation (Topic 718): *Improvements to Employee Share-Based Payment Accounting.* This ASU was issued as part of the FASB Simplification Initiative which intends to reduce the complexity of GAAP while improving usefulness to users. There are eight main items in this ASU that contribute to the simplification of share-based accounting. For public entities, this ASU is effective for the fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted. The effect of this update is not expected to have a material impact on the Company s consolidated financial position.

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

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

In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 740) *Intra-Entity Transfers of Assets Other Than Inventory.* This ASU was issued to improve the accounting for income tax consequences of intra-entity transfers of assets other than inventory. For public entities, this ASU is effective for the fiscal years

Notes to Consolidated Financial Statements (Continued)

beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted. Management is currently assessing the applicability of this ASU and has not determined the impact, if any, as of December 31, 2016.

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

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

2. Cash and Due from Banks

The Company is required to maintain a portion of its cash and due from banks as a reserve balance under the Federal Reserve Act. Such reserve is calculated based upon deposit levels and amounted to $0 at December 31, 2016, and $0 at December 31, 2015.

3. Securities Available-for-Sale

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

The weighted average remaining life of investment securities available-for-sale at December 31, 2016, was 4.4 years. Included in the weighted average remaining life calculation at December 31, 2106, were $15,000,000 of US Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. The contractual maturities, which were used in the table above, of mortgage-backed securities, will differ from the actual maturities due to the ability of the issuers to prepay underlying obligations. Also, $301,253,000 of the securities are floating rate or adjustable rate and reprice prior to maturity.

As of December 31, 2016 and December 31, 2015, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not more likely than not that it will be required to sell these debt securities before the anticipated recovery of its remaining amortized cost. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade. The change in the unrealized losses on the Obligations Issued by States and Political Subdivisions, Privately Issued Residential Mortgage-Backed Securities and Other Debt Securities was primarily caused by changes in credit spreads and liquidity issues in the marketplace.

The unrealized loss on SBA Backed Securities and U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities related primarily to interest rates and not credit quality and because the Company has the ability and intent to hold these investments until recovery of fair value, which may be maturity. The Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016 and December 31, 2015.

In evaluating the underlying credit quality of a security, management considers several factors such as the credit rating of the obligor and the issuer, if applicable. Internal reviews of issuer financial statements are performed as deemed necessary. In the case of privately issued mortgage-backed securities, the performance of the underlying loans is analyzed as deemed necessary to determine the estimated future cash flows of the

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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, 2016. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 49 and 15 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 270 holdings at December 31, 2016.

	December 31, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments (dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$	$	$	$	$	$
U.S. Government Sponsored Enterprises	**24,952**	**48**			**24,952**	**48**
SBA Backed Securities	**52,346**	**145**	**951**	**1**	**53,297**	**146**
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	**135,612**	**485**	**31,504**	**186**	**167,116**	**671**
Privately Issued Residential Mortgage-Backed Securities			**757**	**14**	**757**	**14**
Obligations Issued by States and Political Subdivisions			**4,298**	**405**	**4,298**	**405**
Other Debt Securities	**453**	**47**	**1,553**	**147**	**2,006**	**194**
Total temporarily impaired securities	**$ 213,363**	**$ 725**	**$ 39,063**	**$ 753**	**$ 252,426**	**$ 1,478**

The following table shows the temporarily impaired securities of the Company s available-for-sale portfolio at December 31, 2015. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 14 and 11 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 290 holdings at December 31, 2015.

	December 31, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments (dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury	$ 1,989	$ 10	$	$	$ 1,989	$ 10
SBA Backed Securities	1,031	2			1,031	2
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	26,519	52	49,341	248	75,860	300
Privately Issued Residential Mortgage-Backed Securities			490	13	490	13
Obligations Issued by States and Political Subdivisions			3,820	878	3,820	878
Other Debt Securities	497	3	1,373	127	1,870	130
Total temporarily impaired securities	$ 30,036	$ 67	$ 55,024	$ 1,266	$ 85,060	$ 1,333

54

Table of Contents

Notes to Consolidated Financial Statements (Continued)

4. Investment Securities Held-to-Maturity

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

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

At December 31, 2016 and 2015, all mortgage-backed securities are obligations of U.S. Government Sponsored Enterprises. Government Sponsored Enterprises primarily refer to debt securities of Fannie Mae and Freddie Mac.

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

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

The weighted average remaining life of investment securities held-to-maturity at December 31, 2016, was 4.5 years. Included in the weighted average remaining life calculation at December 31, 2016, were $59,745,000 of U.S. Government Sponsored Enterprises obligations that are callable at the discretion of the issuer. The contractual maturities, which were used in the table above, of mortgage-backed securities, will differ from the actual maturities due to the ability of the issuers to prepay underlying obligations. Also, $188,000 of the securities are floating rate or adjustable rate and reprice prior to maturity.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2016 and December 31, 2015, management concluded that the unrealized losses of its investment securities are temporary in nature since they are not related to the underlying credit quality of the issuers, and the Company does not intend to sell these debt securities and it is not more likely than not that it will be required to sell these debt securities before the anticipated recovery of their remaining amortized costs. In making its other-than-temporary impairment evaluation, the Company considered the fact that the principal and interest on these securities are from issuers that are investment grade.

The unrealized loss on U.S. Government Sponsored Enterprises and U.S. Government Sponsored Enterprises Mortgage-Backed Securities related primarily to interest rates and not credit quality, and because the Company does not intend to sell any of these securities and it is not more likely than not that it will be required to sell these securities before the anticipated recovery of the remaining amortized cost, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016 and December 31, 2015.

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

The following table shows the temporarily impaired securities of the Company s held-to-maturity portfolio at December 31, 2016. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 194 and 16 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 375 holdings at December 31, 2016.

	December 31, 2016					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments (dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government Sponsored Enterprises	$ 59,219	$ 527	$	$	$ 59,219	$ 527
SBA Backed Securities	45,052	1,088			45,052	1,088
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	1,008,960	20,725	58,535	1,852	1,067,495	22,577
Total temporarily impaired securities	$ 1,113,231	$ 22,340	$ 58,535	$ 1,852	$ 1,171,766	$ 24,192

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, 2015. This table shows the unrealized market loss of securities that have been in a continuous unrealized loss position for 12 months or less and a continuous loss position for 12 months and longer. There are 101 and 26 securities that are temporarily impaired for less than 12 months and for 12 months or longer, respectively, out of a total of 322 holdings at December 31, 2015.

	December 31, 2015					
	Less Than 12 Months		12 Months or Longer		Total	
Temporarily Impaired Investments (dollars in thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Government Sponsored Enterprises	$ 9,859	$ 141	$	$	$ 9,859	$ 141
U.S. Government Agency and Sponsored Enterprise Mortgage-Backed Securities	626,218	6,657	123,864	2,926	750,082	9,583
Total temporarily impaired securities	$ 636,077	$ 6,798	$ 123,864	$ 2,926	$ 759,941	$ 9,724

5. Loans

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

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

December 31, (dollars in thousands)	**2016**	**2015**
Construction and land development	**$ 14,928**	$ 27,421
Commercial and industrial	**612,503**	452,235
Municipal	**135,418**	85,685
Commercial real estate	**696,173**	721,506
Residential real estate	**241,357**	255,346
Consumer	**11,013**	10,744
Home equity	**211,857**	178,020
Overdrafts	**684**	579
Total	**$ 1,923,933**	$ 1,731,536

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

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

57

Table of Contents

Notes to Consolidated Financial Statements (Continued)

As of December 31, 2016 and 2015, the Company s recorded investment in impaired loans was $3,830,000 and $3,225,000, respectively. If an impaired loan is placed on nonaccrual, the loan may be returned to an accrual status when principal and interest payments are not delinquent and the risk characteristics have improved to the extent that there no longer exists a concern as to the collectibility of principal and interest. At December 31, 2016, there were $3,105,000 of impaired loans with a specific reserve of $173,000. At December 31, 2015, there were $3,051,000 of impaired loans with specific reserves of $250,000.

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

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

December 31, (dollars in thousands)	2016	2015	2014
Loans on nonaccrual	**$ 1,084**	$ 2,336	$ 4,146
Loans 90 days past due and still accruing			
Impaired loans on nonaccrual included above	**304**	332	3,031
Total recorded investment in impaired loans	**3,830**	3,225	6,327
Average recorded investment of impaired loans	**3,661**	4,490	7,434
Accruing troubled debt restructures	**3,526**	2,893	3,296
Interest income not recorded on nonaccrual loans according to their original terms	**37**	91	123
Interest income on nonaccrual loans actually recorded			
Interest income recognized on impaired loans	**140**	104	144

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

The following table shows the aggregate amount of loans to directors and officers of the Company and their associates during 2016.

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

6. Allowance for Loan Losses

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

Notes to Consolidated Financial Statements (Continued)

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

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

* The reclassification relates to allowance for loan losses allocations on unused commitments that have been reclassified to other liabilities. Further information pertaining to the allowance for loan losses at December 31, 2016 follows:

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

Notes to Consolidated Financial Statements (Continued)

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

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

CREDIT QUALITY INFORMATION

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

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

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

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

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

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

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

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

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

AGING OF PAST-DUE LOANS

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

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

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

(dollars in thousands)	Accruing 30-89 Days Past Due	Non Accrual	Accruing Greater Than 90 Days	Total Past Due	Current Loans	Total

Construction and land development	$	$ 99	$	$ 99	$ 27,322	$ 27,421
Commercial and industrial		60		60	452,175	452,235
Municipal					85,685	85,685
Commercial real estate	1,462	174		1,636	719,870	721,506
Residential real estate	596	1,559		2,155	253,191	255,346
Consumer and overdrafts	6			6	11,317	11,323
Home equity	628	444		1,072	176,948	178,020
Total	$ 2,692	$ 2,336	$	$ 5,028	$ 1,726,508	$ 1,731,536

62

Table of Contents

Notes to Consolidated Financial Statements (Continued)

IMPAIRED LOANS

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

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

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

Total	**$ 3,830**	**$ 4,242**	**$ 173**	**$ 3,661**	**$ 140**

63

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

Notes to Consolidated Financial Statements (Continued)

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

7. Bank Premises and Equipment

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

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

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

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

8. Goodwill and Identifiable Intangible Assets

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

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

9. Fair Value Measurements

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

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

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

The results of the fair value hierarchy as of December 31, 2016, are as follows:

(dollars in thousands)	Carrying Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Instruments Measured at Fair Value on a Recurring Basis Securities AFS				
U.S. Treasury	**$ 2,000**	**$**	**$ 2,000**	**$**
U.S. Government Agency Sponsored Enterprises	**24,952**		**24,952**	
SBA Backed Securities	**57,767**		**57,767**	
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	**243,325**		**243,325**	
Privately Issued Residential Mortgage-Backed Securities	**1,109**		**1,109**	
Obligations Issued by States and Political Subdivisions	**164,876**			**164,876**
Other Debt Securities	**4,924**		**4,924**	
Equity Securities	**344**	**344**		
Total	**$ 499,297**	**$ 344**	**$ 334,077**	**$ 164,876**
Financial Instruments Measured at Fair Value on a Non-recurring Basis				
Impaired Loans	**$ 260**	**$**	**$**	**$ 260**

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

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

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

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, 2016. Management continues to monitor the assumptions used to value the assets listed below.

Asset	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Securities AFS(1)	$ 164,876	Discounted cash flow	Discount rate	0%-1%(2)
Impaired Loans	260	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, 2016 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, 2015	**$ 3,820**	**$ 153,140**	**$ 37**	**$ 156,997**
Purchases		**216,646**		**216,646**
Maturities/redemptions		**(208,990)**	**(37)**	**(209,027)**
Amortization		**(218)**		**(218)**
Change in fair value	**478**			**478**
Balance at December 31, 2016	**$ 4,298**	**$ 160,578**	**$**	**$ 164,876**

The amortized cost of Level 3 securities was $165,281,000 with an unrealized loss of $405,000 at December 31, 2016. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

The results of the fair value hierarchy as of December 31, 2015, are as follows:

(dollars in thousands)	Carrying Value	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Financial Instruments Measured at Fair Value on a Recurring Basis Securities AFS				
U.S. Treasury	$ 1,989	$	$ 1,989	$
SBA Backed Securities	5,989		5,989	
U.S. Government Agency and Sponsored Enterprises Mortgage-Backed Securities	233,526		233,526	
Privately Issued Residential Mortgage-Backed Securities	1,434		1,434	
Obligations Issued by States and Political Subdivisions	156,960			156,960
Other Debt Securities	4,473		4,473	
Equity Securities	252	215		37
Total	$ 404,623	$ 215	$ 247,411	$ 156,997
Financial Instruments Measured at Fair Value on a Non-recurring Basis				
Impaired Loans	$ 1,056	$	$	$ 1,056

Appraisals, discounted cash flows and real estate tax assessments are reviewed quarterly. There is no specific policy regarding how frequently appraisals will be updated. Adjustments are made to appraisals and real estate tax assessments based on management s estimate of changes in real estate values. Within the past twelve months there have been no updated appraisals, however, all impaired loans have been reviewed during the past quarter using either a discounted cash flow analysis or other type of real estate tax assessment. The types of adjustments that are made to specific provisions (credits) relate to impaired loans recognized for 2015 for the estimated credit loss amounted to ($165,000).

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

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

Asset	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Securities AFS[(1)]	$ 156,997	Discounted cash flow	Discount rate	0%-1%[(2)]
Impaired Loans	1,056	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.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

The amortized cost of Level 3 securities was $157,874,000 with an unrealized loss of $877,000 at December 31, 2015. The securities in this category are generally equity investments, municipal securities with no readily determinable fair value or failed auction rate securities. Management evaluated the fair value of these securities based on an evaluation of the underlying issuer, prevailing rates and market liquidity.

10. Deposits

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

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

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

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

11. Securities Sold Under Agreements to Repurchase

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

(dollars in thousands)	2016	2015	2014
Amount outstanding at December 31	**$ 182,280**	$ 197,850	$ 212,360

Weighted average rate at December 31	**0.21%**	0.21%	0.18%
Maximum amount outstanding at any month end	**$ 241,110**	$ 299,890	$ 243,750
Daily average balance outstanding during the year	**$ 222,956**	$ 245,276	$ 216,937
Weighted average rate during the year	**0.21%**	0.20%	0.18%

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

12. Other Borrowed Funds and Subordinated Debentures

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

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

FEDERAL HOME LOAN BANK BORROWINGS

Federal Home Loan Bank of Boston (FHLBB) borrowings are collateralized by a blanket pledge agreement on the Bank s FHLBB stock, certain qualified investment securities, deposits at the FHLBB and residential mortgages held in the Bank s portfolios. The Bank s remaining term borrowing capacity at the FHLBB at December 31, 2016, was approximately $239,163,000. In addition, the Bank has a $14,500,000 line of credit with the FHLBB. A schedule of the maturity distribution of FHLBB advances with the weighted average interest rates is as follows:

December 31, (dollars in thousands)	2016 Amount	2016 Weighted Average Rate	2015 Amount	2015 Weighted Average Rate	2014 Amount	2014 Weighted Average Rate
Within one year	**$ 77,500**	**2.21%**	$ 100,000	1.89%	$ 169,500	0.51%
Over one year to two years	**$ 54,500**	**2.25%**	$ 57,500	2.72%	$ 55,000	3.07%
Over two years to three years	**$ 58,000**	**1.87%**	$ 54,500	2.25%	$ 45,000	3.18%
Over three years to five years	**$ 58,000**	**2.68%**	$ 91,000	1.85%	$ 70,000	2.43%
Over five years	**$ 45,000**	**2.85%**	$ 65,000	3.23%	$ 56,000	3.16%
Total	**$ 293,000**	**2.34%**	$ 368,000	2.30%	$ 395,500	1.89%

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

SUBORDINATED DEBENTURES

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

OTHER BORROWED FUNDS

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

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

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

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

14. Earnings per share (EPS)

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

Diluted EPS includes the dilutive effect of common stock equivalents; basic EPS excludes all common stock equivalents. The only common stock equivalents for the Company are the stock options discussed below. The dilutive effect of these stock options for 2016, 2015 and 2014 was an increase of 0, 0, and 1,447 shares, respectively.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

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

15. Stockholders Equity

DIVIDENDS

Holders of the Class A common stock may not vote in the election of directors but may vote as a class to approve certain extraordinary corporate transactions. Holders of Class B common stock may vote in the election of directors. Class A common stockholders are entitled to receive dividends per share equal to at least 200% per share of that paid, if any, on each share of Class B common stock. Class A common stock is publicly traded. Class B common stock is not publicly traded; however, it can be converted on a per share basis to Class A common stock at any time at the option of the holder. Dividend payments by the Company are dependent in part on the dividends it receives from the Bank, which are subject to certain regulatory restrictions.

STOCK OPTION PLAN

During 2000 and 2004, common stockholders of the Company approved stock option plans (the Option Plans) that provide for granting of options for not more than 150,000 shares of Class A common stock per plan. Under the Option Plans, all officers and key employees of the Company are eligible to receive nonqualified and incentive stock options to purchase shares of Class A common stock. The Option Plans are administered by the

73

Table of Contents

Notes to Consolidated Financial Statements (Continued)

Compensation Committee of the Board of Directors, whose members are ineligible to participate in the Option Plans. Based on management s recommendations, the Committee submits its recommendations to the Board of Directors as to persons to whom options are to be granted, the number of shares granted to each, the option price (which may not be less than 85% of the fair market value for nonqualified stock options, or the fair market value for incentive stock options, of the shares on the date of grant) and the time period over which the options are exercisable (not more than ten years from the date of grant). There were no options outstanding at December 31, 2016 and December 31, 2015.

Stock option activity under the plan is as follows:

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

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

CAPITAL RATIOS

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulation) to risk-weighted assets (as defined) and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016, that the Bank and the Company meet all capital adequacy requirements to which they are subject.

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

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

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

16. Income Taxes

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

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

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

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

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

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

Effective tax rate	**(1.50)%**	2.30%	3.80%

76

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:

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

Based on the Company s historical and current pre-tax earnings, management believes it is more likely than not that the Company will realize the deferred income tax asset existing at December 31, 2016, with the exception of a $108,000 valuation allowance on a charitable contribution carryforward that has a remaining carryforward period of four years. Management believes that existing net deductible temporary differences which give rise to the deferred tax asset will reverse during periods in which the Company generates net taxable income. In addition, gross deductible temporary differences are expected to reverse in periods during which offsetting gross taxable temporary differences are expected to reverse. Factors beyond management s control, such as the general state of the economy and real estate values, can affect future levels of taxable income, and no assurance can be given that sufficient taxable income will be generated to fully absorb gross deductible temporary differences. The Company is in an Alternative Minimum Tax (AMT) credit position. The AMT credit is carried as a deferred asset and has an indefinite life. The Company s intent is not to perpetually remain an AMT taxpayer and has potential tax planning strategies available which support the deferred AMT credit and, at this time, no valuation allowance is needed. The Company and its subsidiaries file a consolidated federal tax return. The Company is subject to federal examinations for tax years after December 31, 2013, and state examinations for the tax years after December 31, 2012.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

17. Employee Benefits

The Company has a Qualified Defined Benefit Pension Plan (the Plan), which had been offered to all employees reaching minimum age and service requirements. In 2006, the Bank became a member of the Savings Bank Employees Retirement Association (SBERA) within which it then began maintaining the Qualified Defined Benefit Pension Plan. SBERA offers a common and collective trust as the underlying investment structure for its retirement plans. The target allocation mix for the common and collective trust portfolio calls for an equity-based investment deployment range of 40% to 64% of total portfolio assets. The remainder of the portfolio is allocated to fixed income securities with target range of 15% to 25% and other investments including global asset allocation and hedge funds from 20% to 36%.

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

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

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

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

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

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

LEVEL 1

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

LEVEL 2

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

LEVEL 3

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

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

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

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

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

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

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

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

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

(dollars in thousands)	Defined Benefit Pension Plan 2016	Defined Benefit Pension Plan 2015	Supplemental Insurance/ Retirement Plan 2016	Supplemental Insurance/ Retirement Plan 2015
Change projected in benefit obligation				
Benefit obligation at beginning of year	**$ 38,597**	$ 40,011	**$ 38,204**	$ 31,989
Service cost	**1,273**	1,343	**1,820**	1,589
Interest cost	**1,358**	1,576	**1,334**	1,365
Actuarial (gain)/loss	**2,593**	(3,424)	**(1,653)**	4,304
Benefits paid	**(1,566)**	(909)	**(1,095)**	(1,043)
Projected benefit obligation at end of year	**$ 42,255**	$ 38,597	**$ 38,610**	$ 38,204
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 33,717**	$ 33,812		
Actual return on plan assets	**3,221**	(1,186)		
Employer contributions	**2,075**	2,000		
Benefits paid	**(1,566)**	(909)		
Fair value of plan assets at end of year	**$ 37,447**	$ 33,717		
(Unfunded) Funded status	**$ (4,808)**	$ (4,880)	**$ (38,610)**	$ (38,204)
Accumulated benefit obligation	**$ 42,255**	$ 38,597	**$ 36,392**	$ 34,884
Weighted-average assumptions as of December 31				
Discount rate Liability	**3.99%**	4.18%	**3.85%**	4.03%
Discount rate Expense	**4.18%**	4.00%	**4.01%**	4.00%
Expected return on plan assets	**8.00%**	8.00%	**NA**	NA
Rate of compensation increase	**4.00%**	4.00%	**4.00%**	4.00%
Components of net periodic benefit cost				
Service cost	**$ 1,273**	$ 1,343	**$ 1,820**	$ 1,589
Interest cost	**1,358**	1,576	**1,334**	1,365
Expected return on plan assets	**(2,776)**	(2,749)		
Recognized prior service cost	**(104)**	(104)	**114**	114
Recognized net losses	**801**	812	**805**	599
Net periodic cost (benefit)	**$ 552**	$ 878	**$ 4,073**	$ 3,667
Other changes in plan assets and benefit obligations recognized in other comprehensive income				
Amortization of prior service cost	**$ 104**	$ 104	**$ (114)**	$ (114)
Net (gain) loss	**1,347**	(301)	**(2,458)**	3,705
Total recognized in other comprehensive income	**1,451**	(197)	**(2,572)**	3,591
Total recognized in net periodic benefit cost and other comprehensive income	**$ 2,003**	$ 681	**$ 1,501**	$ 7,258

Table of Contents

Notes to Consolidated Financial Statements (Continued)

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

The following table summarizes the amounts included in Accumulated Other Comprehensive Loss at December 31, 2016, expected to be recognized as components of net periodic benefit cost in the next year:

	Plan	Supplemental Plan
Amortization of prior service cost to be recognized in 2017	$ (104)	$ 114
Amortization of loss to be recognized in 2017	903	636

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

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

The Company offers a 401(k) defined contribution plan for all employees reaching minimum age and service requirements. The plan is voluntary and employee contributions are matched by the Company at a rate of 33.3% for the first 6% of compensation contributed by each employee. The Company s match totaled $418,000 for 2016, $403,000 for 2015 and $346,000 for 2014. Administrative costs associated with the plan are absorbed by the Company.

The Company has a cash incentive plan that is designed to reward our executives and officers for the achievement of annual financial performance goals of the Company as well as business line, department and individual performance. The plan supports the philosophy that management be measured for their performance as a team in the attainment of these goals. Discretionary bonus expense amounted to $1,418,000, $1,178,000 and $1,434,000 in 2016, 2015, and 2014, respectively.

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

18. Commitments and Contingencies

A number of legal claims against the Company arising in the normal course of business were outstanding at December 31, 2016. Management, after reviewing these claims with legal counsel, is of the opinion that their resolution will not have a material adverse effect on the Company s consolidated financial position or results of operations.

19. Financial Instruments with Off-Balance-Sheet Risk

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

These financial instruments primarily include commitments to originate and sell loans, standby letters of credit, unused lines of credit and unadvanced portions of construction loans. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in these particular classes of financial instruments.

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

Contract or Notional Amount

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

Commitments to originate loans, unadvanced portions of construction loans, 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.

Table of Contents

Notes to Consolidated Financial Statements (Continued)

20. Other Operating Expenses

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

21. Fair Values of Financial Instruments

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

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

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

SECURITIES HELD-TO-MATURITY

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

LOANS

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

83

Table of Contents

Notes to Consolidated Financial Statements (Continued)

TIME DEPOSITS

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

OTHER BORROWED FUNDS

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

SUBORDINATED DEBENTURES

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

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

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

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

Table of Contents

Notes to Consolidated Financial Statements (Continued)

LIMITATIONS

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

22. Quarterly Results of Operations (unaudited)

2016 Quarters (in thousands, except share data)	Fourth	Third	Second	First
Interest income	$ 24,689	$ 25,005	$ 23,742	$ 23,263
Interest expense	5,927	5,791	5,486	5,413
Net interest income	18,762	19,214	18,256	17,850
Provision for loan losses	200	375	350	450
Net interest income after provision for loan losses	18,562	18,839	17,906	17,400
Other operating income	3,700	4,225	4,643	3,654
Operating expenses	16,156	16,630	16,288	15,683
Income before income taxes	6,106	6,434	6,261	5,371
Provision for income taxes	(394)	(52)	20	64
Net income	$ 6,500	$ 6,486	$ 6,241	$ 5,307
Share data:				
Average shares outstanding, basic				
Class A	3,600,729	3,600,729	3,600,729	3,600,729
Class B	1,967,180	1,967,180	1,967,180	1,967,180
Average shares outstanding, diluted				
Class A	5,567,909	5,567,909	5,567,909	5,567,909
Class B	1,967,180	1,967,180	1,967,180	1,967,180
Earnings per share, basic				
Class A	$ 1.42	$ 1.41	$ 1.36	$ 1.16
Class B	$ 0.71	$ 0.71	$ 0.68	$ 0.58
Earnings per share, diluted				
Class A	$ 1.17	$ 1.16	$ 1.12	$ 0.95
Class B	$ 0.71	$ 0.71	$ 0.68	$ 0.58

Table of Contents

Notes to Consolidated Financial Statements (Continued)

2015 Quarters **(in thousands, except share data)**	**Fourth**	**Third**	**Second**	**First**
Interest income	$ 22,496	$ 23,750	$ 22,675	$ 21,172
Interest expense	5,274	5,134	4,961	4,765
Net interest income	17,222	18,616	17,714	16,407
Provision for loan losses				200
Net interest income after provision for loan losses	17,222	18,616	17,714	16,207
Other operating income	4,448	3,830	4,210	3,505
Operating expenses	15,794	16,100	15,766	14,538
Income before income taxes	5,876	6,346	6,158	5,174
Provision for income taxes	(95)	180	233	215
Net income	$ 5,971	$ 6,166	$ 5,925	$ 4,959
Share data:				
Average shares outstanding, basic				
Class A	3,600,729	3,600,729	3,600,729	3,600,729
Class B	1,967,180	1,967,180	1,967,180	1,967,180
Average shares outstanding, diluted				
Class A	5,567,909	5,567,909	5,567,909	5,567,909
Class B	1,976,180	1,967,180	1,967,180	1,967,180
Earnings per share, basic				
Class A	$ 1.30	$ 1.35	$ 1.29	$ 1.08
Class B	$ 0.65	$ 0.67	$ 0.65	$ 0.54
Earnings per share, diluted				
Class A	$ 1.07	$ 1.11	$ 1.06	$ 0.89
Class B	$ 0.65	$ 0.67	$ 0.65	$ 0.54

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, 2016 and 2015 and the statements of income and cash flows for each of the years in the three-year period ended December 31, 2016, are presented below. The statements of changes in stockholders equity are identical to the consolidated statements of changes in stockholders equity and are therefore not presented here.

BALANCE SHEETS

December 31, (dollars in thousands)	**2016**	**2015**
ASSETS:		
Cash	**$ 2,768**	$ 5,230
Investment in subsidiary, at equity	**263,070**	236,629
Other assets	**10,335**	8,808
Total assets	**$ 276,173**	$ 250,667
LIABILITIES AND STOCKHOLDERS EQUITY:		
Liabilities	**$ 49**	$ 40
Subordinated debentures	**36,083**	36,083
Stockholders equity	**240,041**	214,544
Total liabilities and stockholders equity	**$ 276,173**	$ 250,667

STATEMENTS OF INCOME

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

87

Table of Contents

Notes to Consolidated Financial Statements (Continued)

STATEMENTS OF CASH FLOWS

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

Table of Contents

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, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Century Bancorp, Inc. and its subsidiary as of December 31, 2016 and 2015 and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Century Bancorp, Inc. s internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2017, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

Boston, Massachusetts

March 15, 2017

Table of Contents

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, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Century Bancorp, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, Century Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Century Bancorp, Inc. as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 15, 2017, expressed an unqualified opinion on those consolidated financial statements.

Boston, Massachusetts

March 15, 2017

Table of Contents

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, 2016. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework (2013).* Based on our assessment, we believe that, as of December 31, 2016, the Company s internal control over financial reporting is effective based on those criteria.

The Company s independent registered public accounting firm has issued an audit report on the effectiveness of the Company s internal control over financial reporting. Their report appears on page 90.

Barry R. Sloane President & CEO	William P. Hornby, CPA Chief Financial Officer & Treasurer

March 15, 2017

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	73	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Stephen R. Delinsky	72	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Louis J. Grossman.	67	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Russell B. Higley, Esquire	77	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Jackie Jenkins-Scott	67	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Linda Sloane Kay	55	Director, Century Bancorp, Inc.; Director and Executive Vice President, Century Bank and Trust Company
Fraser Lemley	76	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Joseph P. Mercurio	68	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Joseph J. Senna, Esquire	77	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Jo Ann Simons	64	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Barry R. Sloane	61	Director, President and Chief Executive Officer, Century Bancorp, Inc.; Director, President and Chief Executive Officer, Century Bank and Trust Company
Marshall M. Sloane	90	Chairman of the Board, Century Bancorp, Inc. and Century Bank and Trust Company
George F. Swansburg	74	Director, Century Bancorp, Inc., and Century Bank and Trust Company
Jon Westling	74	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.

Table of Contents

Mr. Grossman became a director of the Company and of Century Bank and Trust Company in January, 2016. Mr. Grossman has been President and Treasurer of The Grossman Companies, Inc. since 1980, when he and his father, Morton, purchased the family real estate business. In January, 2015 he became Chairman. Mr. Grossman s experience and expertise in real estate, which is relevant to customer relationships of the Company, qualifies him to serve as director of the Company.

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 past 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 Senior 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.

Ms. Simons became a director of the Company and a director of Century Bank and Trust Company in January, 2016. Ms. Simons is CEO of Northeast ARC and was President and CEO of Cardinal Cushing Centers, Inc. from 2008 through January, 2016. These nonprofit organizations specialize in the support of individuals with disabilities. Ms. Simons experience and expertise with nonprofit organizations, which is relevant to customer relationships of the Company, qualifies her to serve as director of the Company.

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.

Table of Contents

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.

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 90 years old.
Barry R. Sloane	Director, President and CEO; Director, President and CEO, Century Bank and Trust Company. Mr. Sloane is 61 years old.
William P. Hornby	Chief Financial Officer and Treasurer; Chief Financial Officer and Treasurer, Century Bank and Trust Company. Mr. Hornby is 50 years old. He joined the Company in 2007.
Paul A. Evangelista	Executive Vice President, Century Bank and Trust Company with responsibility for retail, operations and marketing. Mr. Evangelista is 53 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 56 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 55 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 61 years old. He joined the Company in 1999.

Table of Contents

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 was composed of four directors during 2016, Joseph J. Senna, Chair, Stephen R. Delinsky, Joseph P. Mercurio, 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 and Mr. Mercurio qualify as audit committee financial experts , 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 the Massachusetts Division of Banks 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 2016.

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. 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.

The Audit Committee has also received the written disclosures and the letter from KPMG LLP 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/ Joseph Mercurio

/s/ Jon Westling

Nominating Committee

The Company s Nominating Committee has three director members, Stephen R. Delinsky, 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.

Table of Contents

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, 2016, or in prior fiscal years.

Based solely on a review of Forms 4 filed with the SEC during the fiscal year ended December 31, 2016, 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 during the aforementioned fiscal year except one report covering a total of one transaction that was filed late by Mr. Filler.

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 2016.

Introduction

The following discussion and analysis includes separate sections on:

- The Composition and Responsibilities of the Compensation Committee

The Company s Executive Compensation Conclusion

Table of Contents

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.

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 2016. 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.

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;

97

Table of Contents

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.

The Committee reports the Committee s major actions to the entire Board at the Board of Director s 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.

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 2016.

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:

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 granted for fiscal 2016. 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 2016.

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 2016 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 104 and the actuarial present value of each Named Executive Officer is set forth in the Pension Benefits Table which appears on page 105.

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 2016 and received matching contributions up to a maximum of $5,300. The plan is currently administered by SBERA.

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 2016 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 106.

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 2016.

Chief Executive Officer Compensation

The Company granted Chief Executive Officer, Barry R. Sloane, a 3% salary increase in 2016. In recognition of the Company s solid financial performance in 2016, the Company also granted a $200,000 cash bonus payable to Mr. Barry R. Sloane. Total compensation granted to the Chief Executive Officer for 2016 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, Linda Sloane Kay, Paul Evangelista, and David Woonton was increased 3% in 2016. The base salary for William Hornby and Brian Feeney was increased 5.6% in 2016 based on market data. In light of the Company s financial performance in 2016, 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 $386,096 per year during 2016 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 2016 as noted on the Summary Compensation Table.

Table of Contents

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, 2016 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, 2016 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 Awards ($)	Option Awards ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings- December 31, ($)	All Other Compensation ($) (1)	Total ($)
Marshall M. Sloane(2)	2016						1,124,822	1,124,822
Chairman of the Board,	2015					542,344	1,020,928	1,563,272
Century Bancorp, Inc. and	2014					321,375	961,896	1,283,271
Century Bank and Trust Company								
Barry R. Sloane	2016	621,174	200,000			1,098,238	55,122	1,974,534
President and CEO, Century	2015	603,081	132,120			1,528,901	61,409	2,325,511
Bancorp, Inc. and Century Bank	2014	569,207	165,150			1,657,205	56,423	2,447,985
and Trust Company								
David B. Woonton	2016	368,437	66,613			284,037	10,771	729,858
Executive Vice President,	2015	357,706	62,842			607,906	16,221	1,044,675
Century Bank and Trust Company	2014	337,614	78,552			1,062,188	33,503	1,511,857
Paul A. Evangelista	2016	368,437	66,613			225,130	9,279	669,459
Executive Vice President,	2015	357,706	62,842			422,371	12,750	855,669
Century Bank and Trust Company	2014	337,614	78,552			908,094	26,015	1,350,275
Linda Sloane Kay	2016	368,437	85,000			430,658	22,481	906,576
Executive Vice President	2015	357,706	62,842			410,910	21,506	852,964
Century Bank and Trust Company	2014	294,708	68,733			459,929	16,838	840,208
Brian J. Feeney	2016	335,012	64,988			361,405	17,047	778,452
Executive Vice President,	2015	317,246	54,986			391,958	18,512	782,702
Century Bank and Trust Company	2014	294,708	68,733			516,380	16,345	896,166
William P. Hornby	2016	335,000	65,000			265,483	15,398	680,881
Chief Financial Officer and	2015	317,246	54,986			273,718	15,688	661,638
Treasurer, Century Bancorp, Inc.	2014	294,708	68,733			275,237	12,775	651,453
and Century Bank and								
Trust Company								

(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 2016, includes $386,096 for consulting services, $533,670 amounts attributable to term insurance premiums for the Supplemental Executive Insurance/Retirement Plan, $36,725 for Director fees, $140,047 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 12/31/2016 ($)(1)	Payments During Last Fiscal Year 12/31/2016 ($)
Marshall M. Sloane *Chairman of the Board*	Defined Benefit Pension Plan	33	555,035	94,261
Barry R. Sloane *President and CEO*	Defined Benefit Pension Plan	13	288,189	
David B. Woonton *Executive Vice President, Century Bank and Trust Company*	Defined Benefit Pension Plan	17	722,009	
Paul A. Evangelista *Executive Vice President, Century Bank and Trust Company*	Defined Benefit Pension Plan	17	536,955	
Linda Sloane Kay *Executive Vice President Century Bank and Trust Company*	Defined Benefit Pension Plan	16	333,196	
Brian J. Feeney *Executive Vice President, Century Bank and Trust Company*	Defined Benefit Pension Plan	27	600,747	
William P. Hornby(2) *Chief Financial Officer and Treasurer*	Defined Benefit Pension Plan			

(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 3.99% and the mortality table used is the RP 2014 adjusted to 2006 White Collar Mortality Table with projection MP 2016.

(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-12/31/2016 ($)(1)	Payments During Last Fiscal Year-12/31/2016 ($)
Marshall M. Sloane(2) *Chairman of the Board*	Supplemental Executive Insurance/Retirement Plan	33	2,881,104	523,639
Barry R. Sloane(2) *President and CEO*	Supplemental Executive Insurance/Retirement Plan	15	7,637,525	
David B. Woonton(2) *Executive Vice President, Century Bank and Trust Company*	Supplemental Executive Insurance/Retirement Plan	17	3,892,641	
Paul A. Evangelista(2) *Executive Vice President, Century Bank and Trust Company*	Supplemental Executive Insurance/Retirement Plan	17	2,758,415	
Linda Sloane Kay(2) *Executive Vice President, Century Bank and Trust Company*	Supplemental Executive Insurance/Retirement Plan	8	1,475,829	
Brian J. Feeney(2) *Executive Vice President, Century Bank and Trust Company*	Supplemental Executive Insurance/Retirement Plan	9	1,432,861	
William P. Hornby(2) *Chief Financial Officer and Treasurer*	Supplemental Executive Insurance/Retirement Plan	8	1,099,685	

(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 3.85% and the mortality table used is RP 2014 adjusted to 2006 White Collar Mortality Table with projection MP 2016.

(2) As of January 1, 2016, 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%, 92.5%, 100%, 100%, 55%, 47.5% and 47.5% vested, respectively, under the Supplemental Executive Insurance/Retirement Plan.

Table of Contents

Director Compensation

Directors not employed by the Company receive a $16,750 retainer per year, $325 per Company Board meeting attended, $850 per Bank Board meeting attended and $750 per committee meeting attended. Joseph Senna receives $2,200 per Audit Committee meeting as Chairman of the Audit Committee.

DIRECTOR COMPENSATION TABLE 2016

Name	Fees Earned or Paid in Cash ($)	All Other Compensation ($)	Total ($)
George R. Baldwin	39,500		39,500
Stephen R. Delinsky	33,825		33,825
Louis Grossman	36,500		36,500
Russell B. Higley	35,000		35,000
Jackie Jenkins-Scott	36,950		36,950
Linda Sloane Kay			
Fraser Lemley	40,900		40,900
Joseph P. Mercurio	43,800		43,800
Joseph J. Senna	48,250		48,250
Jo Ann Simons	31,150		31,150
Barry R. Sloane			
Marshall M. Sloane(1)			
George F. Swansburg(2)	42,500	14,500	57,000
Jon Westling	29,450		29,450

(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, 2016, (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, 2016, 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(8)	545,482	15.15%		
2964 Shook Hill Parkway, Birmingham, AL 35223				
Maltese Capital Management, LLC(7)	281,040	7.81%		
150 East 52nd Street, 30th Floor, New York, NY 10022				
Wellington Management Group, LLP(5)	190,308	5.29%		
280 Congress Street, Boston, MA 02210				