

CAMBRIDGE BANCORP



ANNUAL REPORT 2008

The mission of the Cambridge Trust Company is to maintain a level of growth and earnings that will yield a superior return to Stockholders while at the same time retain its position as a responsible, active and socially sensitive member of its communities. To achieve this, the Bank will maintain, develop and support intelligent and proficient employees. Through friendly, responsible and trustworthy services, the Bank will provide sound financial help to existing and prospective customers. The Bank will continue to provide services to individual, retail and commercial customers located within its present community and also within areas identified for expansion.

DIRECTORS

JANE M. BARRETT	Founder Barrett & Company
JEANETTE G. CLOUGH	President and Chief Executive Officer Mount Auburn Hospital
JAMES F. DWINELL III	Retired Chairman Cambridge Bancorp and Cambridge Trust Company
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LEON A. PALANDJIAN	Managing Director Techari Capital
ROBERT S. PETERKIN	Director, Urban Superintendents Program Francis Keppel Professor of Educational Policy and Administration Harvard Graduate School of Education
JOSEPH V. ROLLER II	President and Chief Executive Officer Cambridge Bancorp and Cambridge Trust Company
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DAVID C. WARNER	Partner J. M. Forbes & Co.
LINDA WHITLOCK	Former Nicholas President and Chief Executive Officer Boys & Girls Clubs of Boston
KATHRYN A. WILLMORE	Retired Vice President and Secretary of the Corporation Massachusetts Institute of Technology
BYRON E. WOODMAN, JR.	President Monument Financial Advisors, LLC The Monument Group Fiduciaries, LLC Woodman & Eaton, P.C.

HONORARY DIRECTORS

ARTHUR D. BOND, JR.	Private Investor Retired Senior Executive Vice President Massachusetts Financial Services Company
M. COLYER CRUM	James R. Williston Professor of Investment Management Emeritus Harvard Graduate School of Business Administration
LEO H. DWORSKY	Fidelity Investments
JASPER M. EVARTS	Private Investor

In matters of principle, stand like a rock.

—Thomas Jefferson

During election years, Americans have the opportunity to reflect upon the fact that, whatever our political differences might be, there are a number of principles that we have in common. Despite our varying commitments to particular goals, we can all agree that those goals should be pursued in the spirit of honesty, civility, fairness and integrity, and we can choose to honor those same principles in the conduct of our daily lives. This common obligation to basic principles is what makes us a community. Sometimes, as we see from the recent actions of Captain Chesley “Sully” Sullenberger, following the simple principle of just doing one’s job has extraordinary results. Captain Sullenberger stuck to his principles in a moment of crisis, as did his crew. His bold actions were directed by principle and informed by expertise. In times of crisis, we draw upon our principles and our expertise as we grapple with unprecedented challenges.

This has never been more true in our community than in the past year. The financial crisis that has emerged over the past eighteen months and stretched across the world has threatened the very underpinnings of our global financial system. Most individuals and businesses have been faced with challenges as a result of the crisis, and Cambridge Trust Company is no exception. During these critical times, it is especially important that we draw upon our collective judgment and expertise, and stick to our principles. While we are mindful of the present crisis, we are confident about the future. Our confidence is based on our knowledge of the strength and dedication of our employees, who are widely recognized in the banking community, as well as by our customers. One might say that Cambridge Trust employees are bankers’ bankers.

The year ending December 31, 2008 presented many challenges for Cambridge Trust Company, but in the end the Bank produced reasonably good results. For the year, the Bank earned \$9,613,000 versus \$9,243,000 earned for the year ending December 31, 2007. Earnings per basic share (EPS) for 2008 were \$2.56, and represented a 5.8% increase

over the EPS of \$2.42 in 2007. Return on average equity declined somewhat in 2008 to 13.46% compared to 14.17% in 2007.

In last year's annual report, we anticipated that the effect of the sub-prime mortgage crisis would be felt well into 2008. Though we did not see the building financial tsunami off in the distance, we managed the institution in such a way that the Bank was well-equipped to deal with the harsher economic and financial environment that characterized the second half of 2008.

The steep decline in equity markets, especially in the fourth quarter of 2008, adversely affected fees from Wealth Management, as assets under management (AUM) declined. On a more positive note, net interest income achieved significant year-over-year growth of \$3.7 million (12.2%) due primarily to an increase in commercial real estate loans and residential first mortgage loans. Loan growth was funded by a solid increase in deposits. This strong revenue growth was offset to some extent by a \$2.7 million increase (8.0%) in non-interest expenses, reflecting investments in key additions to staff, image technology, a new branch in Belmont and marketing. There will be more to say about each of these investments in the Bank's long-term growth strategy.

<u>Year End</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Deposits (in thousands).....	\$ 648,741	\$ 663,150	\$ 663,437	\$ 698,625	\$ 767,654
Total Loans (in thousands).....	\$ 292,789	\$ 332,602	\$ 356,074	\$ 418,748	\$ 471,814
Net Income (in thousands).....	\$ 8,184	\$ 7,723	\$ 8,680	\$ 9,243	\$ 9,613
Basic Earnings/Share	\$ 2.07	\$ 1.96	\$ 2.25	\$ 2.42	\$ 2.56
Dividends Declared.....	\$ 0.94	\$ 1.01	\$ 1.06	\$ 1.18	\$ 1.28
Book Value.....	\$ 15.66	\$ 15.65	\$ 16.44	\$ 18.49	\$ 20.29
Return/Average Equity.....	13.59%	12.39%	14.09%	14.17%	13.46%

For banks to be considered well-capitalized, banking regulators require them to maintain a Tier 1 Leverage ratio of 5.0% and a Total Risk-Based capital ratio of 10.0%. At the end of 2008, Cambridge Trust's capital ratios were a healthy 7.9% and 15.9%, respectively.

An accounting of the changes to stockholders' equity, which increased in 2008 by \$6.1 million (8.8%) to \$76 million, seems especially notable in this year of financial turmoil. Net income of \$9.6 million, coupled with increases in unrealized gains on the Bank's investment portfolio,

were primarily responsible for the growth in stockholders' equity. Meanwhile, dividends paid to stockholders (\$4.8 million) and stock repurchases (\$2.0 million) were the primary deductions from stockholders' equity.

Commercial Banking

The many successes for commercial banking described in last year's annual report helped to provide added momentum for another solid year in 2008. Significant gains in commercial loans (17.9%) and commercial deposits (9.1%) represent the collective efforts of highly motivated and focused lenders, business banking officers, cash management officers, and branch managers. They work tirelessly to insure that customer needs are met and that each relationship is developed to the fullest extent possible.

New loan origination was particularly noteworthy in the commercial real estate sector. Over the last few years, the Bank's lending team has developed a reputation for providing sound advice and timely responses to commercial real estate developers and investors. Loan opportunities often arise from satisfied customers bringing new transactions to the Bank or referring other commercial real estate investors. In 2008, commercial real estate loans increased by \$29 million (22.5%) to \$157.8 million. Of this total, approximately \$13.4 million represented construction loans, a relatively modest but appropriate amount in the context of the current economic climate.

At all times, but especially during periods of economic uncertainty, it is critical to adhere to sound underwriting principles. Moreover, management must be vigilant in anticipating conditions that may adversely affect a borrower (or segment of borrowers) and in taking appropriate action. These principles served the Bank well in 2008. Loan charge-offs totaling \$77,000 were more than offset by recoveries of \$114,000. The Bank's allowance for loan losses ended the year at \$7.7 million (versus \$6.7 million at year-end 2007), representing an addition of \$1.0 million to the provision for loan losses and net recoveries of \$37,000.

As our lending business has grown, we have continued to develop our Credit Department team. Maya Silvis was promoted to Senior Credit

Analyst Officer. In addition, Aslihan Kendircioglu joined the team as a Senior Credit Analyst Officer.

The Bank places a high priority on growing deposits. It is highly likely that when the Bank extends credit to a commercial banking customer, it will usually gain a deposit and perhaps a cash management relationship as well. By offering a portfolio of services, we not only build sound, sustainable relationships, but we also enhance their profitability. It is a value proposition that works for all parties.

New banking relationships often lead with deposits. Small and moderate-sized businesses seek to work with banks that are able to handle their most basic banking transactions while offering access to business banking professionals to advise on managing cash flow and information. We enhanced the strength of Cambridge Trust in this area with the addition of Janice Kilburn, Vice President and Business Banking Officer.

Consumer Banking

2008 was an exciting year for the Bank as it opened a new branch in Belmont in December. We have long had a large customer base in Belmont, as well as in the adjacent community of Watertown. Our analysis concluded that there were other opportunities to extend the unique Cambridge Trust service experience to the residents and businesses of these communities.

The branch is well positioned on Trapelo Road, which is undergoing a long-term economic transformation between Cushing and Waverly Squares. We think that the Bank's investment, together with the efforts of the community, will serve as a catalyst for further economic development along this important corridor. To head our Belmont Branch team, we convinced Steve Pisan, Vice President, that he was just the person to join Cambridge Trust and lead this important initiative.

Back in Cambridge, Ana Mojica-Boyd, Assistant Vice President, also joined the Bank to manage our Kendall Square Branch. Ana is well known to other Cambridge Trust branch managers, and she hit the ground running.

As in commercial banking, the Bank experienced a nice lift in deposits from retail customers. Although Cambridge Trust is very competitive with its product offering, it is the customer experience that draws people to the Bank. The consistency of that experience over time fosters customer loyalty and leads to long-term relationships. Each of our employees understands that customer service reflects our core principles. When a new employee joins the team, “customer service” is agenda item number one during orientation.

The Bank’s residential mortgage business continued to thrive. Headlines describing disastrous conditions in the sub-prime and Alt-A mortgage markets are incomprehensible to most community banks and certainly to Cambridge Trust. There are numerous adjectives to describe the behavior in those sub-segments of the home mortgage market, none of which is favorable. Among many points of differentiation between the mortgage lending practices of others and that of Cambridge Trust is this principle. Other lenders may think of a mortgage loan as a transaction. Cambridge Trust views loans (and the borrowers who secure them) in the context of relationships. And, yes, we continue to hold and service mortgages because we want to know our customers.

Wealth Management

Sometimes it might be said that the numbers tell the story. Certainly the figures listed below point to a particularly difficult year in Wealth Management, as assets under management (AUM) declined by \$276 million and gross revenues decreased by almost \$250,000 in 2008. I hasten to note that these numbers reflect the severe drop-off in equity markets; they do not tell the whole story for 2008.

<u>Wealth Management</u>		
<u>Year</u>	<u>Gross Revenues (in thousands)</u>	<u>Managed Assets (in millions)</u>
2004	\$ 10,777	\$ 1,264
2005	\$ 10,406	\$ 1,282
2006	\$ 11,092	\$ 1,340
2007	\$ 11,995	\$ 1,486
2008	\$ 11,749	\$ 1,210

We measure success in Wealth Management using many metrics, such as client satisfaction, investment performance and new business. These are factors over which we have influence. Underneath the aggregate numbers in the above charts is underlying growth in new client relationships and positioning for longer term growth.

I noted earlier that the Bank significantly increased its investment in marketing, with particular emphasis on new media and using the power of the internet. The major portion of the enhanced resources were allocated to Wealth Management, a strategically important business that we expect to achieve accelerated growth. The use of new media is intended to leverage the value of the department's research and analysis. Wealth Management's *TrustLetter* and services for clients reflect the department's carefully considered thoughts and advice. Current and earlier issues are available on the Bank's website.

In addition, we started to record and produce podcasts of our extremely successful Thought SeriesSM events for the website. The Bank's view is that there is more to wealth management than simply managing assets. Perhaps more than ever, people are focused on improving their quality of life. In this respect, Thought SeriesSM events invite experts to share their best thinking and insights into issues that address health, family, society, personal growth, and other thought-provoking topics that affect the quality of our common and individual lives.

The Bank has been busy in New Hampshire, too. Bill Morrison, who provided leadership for our Wealth Management growth strategy for ten years, retired in late spring. The fact that Bill, an avid golfer, retired at the beginning of the Granite State's golf season is merely a coincidence.

We were fortunate to find Todd Mayo, an accomplished attorney, to serve as President of Cambridge Trust Company of New Hampshire and to provide the leadership necessary to take us to the next level in the Granite State. One area of opportunity where Todd will bring immediate direction relates to new legislation in New Hampshire providing an attractive environment for the establishment of asset protection trusts. We expect that many prospective clients will look to Cambridge Trust of New Hampshire for this expertise and service.

The Bank thinks there are many growth opportunities in New Hampshire. To help insure that we are positioned to optimize them, we hired an experienced business executive, Richard Simpson, Vice President, to lead our business development initiatives in New Hampshire. In recognition of the expertise Dorothy Bronson brings to overseeing client fiduciary matters, she was promoted to Trust Officer.

The test of an innovation is whether it creates value. Innovation means the creation of new value and new satisfaction for the customer.

—Peter Drucker

Information Technology and Operations

Earlier in this report, I referred to some significant investments the Bank has made to strengthen the franchise and to position it for growth in a more competitive environment. Investing in innovation is an investment in enhanced performance and increased value for customers. When it comes to investing in technology and operations, we sometimes say that we have to spend considerable sums “just to turn on the lights.” Perhaps that is something of an overstatement, but we recognize the importance of focusing on investments aimed at producing new or enhanced services for consumers and businesses and ultimately improving the customer experience.

For the past few years, the Bank has invested significantly in a strategic project that without doubt has achieved the aforementioned objectives. Implementation of an image strategy was accelerated in 2008. Remote deposit capture (a popular service that enables businesses to send check images rather than physical checks to the Bank for deposit) was upgraded and fully integrated into the Bank’s operating system. The demand for this service is growing rapidly, with some companies requiring multiple site servicing.

Similarly, image technology is used by our new branch in Belmont to allow for branch image capture of checks deposited, with those images then transmitted to the Bank’s core operating system. Branch capture will be rolled out to our other nine branches in 2009. I should add that, through

the use of image technology, we now employ full image exchange with the Federal Reserve Bank, thereby improving efficiency and lowering costs.

The IT/Operations team is a strong one. They partner with their colleagues in consumer and business banking, as well as wealth management, to improve and enhance service delivery for the customer. Their technical skills are especially helpful when relationship managers are meeting with customers to market or install new technology-based services.

It was difficult to lose an important member of the user-friendly IT/Ops team in 2008. When Paula Moccia, Network Administrator, died, the team and the Bank lost a competent and supportive colleague and friend. She is dearly missed.

Loyalty and respect for tradition is about a sense of belonging to something greater than yourself.

—David Prior

The year just completed was one characterized by instability and uncertainty in financial markets and by a general decline in the economy. In times like this, the country looks for leadership and direction from its elected and appointed officials in Washington, DC, but we also look to our own principles, strengths, and traditions, in an effort to turn challenges into opportunities. Crises test our character, but they also define it. They remind us of our responsibilities to help our communities and to practice discipline, inventiveness – and patience. The magnitude of the economic and financial conditions engulfing the nation indicates that, despite massive government programs to stimulate the economy and stabilize financial institutions, recovery will not be immediate and may take considerable time.

At Cambridge Trust, we are mindful of the precarious business and banking environment. Mindfulness in this instance entails caution, but it also invites vigilance in our search for growth opportunities. In preparing to address future challenges through the practice of thoughtful innovation, we seek to adhere to the values and principles that have served us

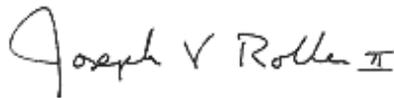
well over time. There is an appropriate healthy tension between tradition and innovation, one which allows us to respect the achievements of the past, while remaining directed towards the future.

The Bank is fortunate to have an engaged and active Board that brings a diverse set of skills, background, and experience to discussions relating to strategy, tactical execution of business plans, and insights into changing regulatory and macroeconomic conditions. The Board is an invaluable resource for management, especially at this time.

In 2008, a strong, vibrant Board was made even better with the election of Jeanette G. Clough, President and Chief Executive Officer of Mount Auburn Hospital. Jeanette heads one of the State's premier and most financially successful healthcare operations. As a Chief Executive Officer, she brings an important perspective to the Cambridge Trust Board.

In closing, as you review this report, we hope that you will share our sense of accomplishment in having achieved sustained earnings growth in 2008 – a year of extraordinary challenge for the banking industry. Everyone on our team can take pride in having contributed to this accomplishment, the benefits of which will be enjoyed by shareholders and customers alike. You expect a high standard of operating performance delivered in a manner that exemplifies integrity, responsibility, and trustworthiness. Please be assured that in this respect, as in others, we will remain solid as a rock.

Respectfully submitted,

A handwritten signature in black ink that reads "Joseph V. Roller II". The signature is written in a cursive style with a double underline under the name.

Joseph V. Roller II
President and CEO
March 6, 2009

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Cambridge Bancorp:

We have audited the accompanying consolidated balance sheet of Cambridge Bancorp and subsidiaries (the "Corporation") as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Cambridge Bancorp and subsidiaries as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Boston, Massachusetts
March 6, 2009

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2008	2007
	(In thousands)	
ASSETS		
Cash and due from banks	\$ 13,472	\$ 18,715
Federal funds sold	26,179	10,128
Total cash and cash equivalents	39,651	28,843
Investment securities:		
Available for sale, at fair value	271,905	214,360
Held-to-maturity, at amortized cost	105,785	158,818
Federal Home Loan Bank of Boston stock, at cost	4,806	4,219
Total investment securities	382,496	377,397
Loans:		
Residential mortgage	195,510	174,100
Commercial mortgage	157,787	128,764
Home equity	68,419	66,994
Commercial	36,842	36,249
Consumer	13,256	12,641
Total loans	471,814	418,748
Allowance for loan losses	(7,696)	(6,659)
Net loans	464,118	412,089
Bank owned life insurance	11,310	10,841
Banking premises and equipment, net	5,979	5,195
Accrued interest receivable	4,391	4,953
Other assets	9,267	10,490
Total assets	\$ 917,212	\$ 849,808
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	\$ 200,877	\$ 189,034
Interest bearing checking	212,053	221,715
Money market	51,537	47,230
Savings	140,285	91,761
Certificates of deposit	162,902	148,885
Total deposits	767,654	698,625
Short-term borrowings	3,019	35,540
Long-term borrowings	55,000	35,000
Other liabilities	15,495	10,731
Total liabilities	841,168	779,896
Stockholders' equity		
Common stock, par value \$1.00; Authorized 5,000,000 shares; Outstanding: 3,748,642 and 3,768,397 shares, respectively	3,749	3,768
Additional paid-in capital	19,749	19,202
Retained earnings	49,384	46,132
Accumulated other comprehensive income	3,162	810
Total stockholders' equity	76,044	69,912
Total liabilities and stockholders' equity	\$ 917,212	\$ 849,808

The accompanying notes are an integral part of these consolidated financial statements.

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2008	2007
	(In thousands, except per share data)	
Interest income:		
Interest on loans	\$ 26,808	\$ 24,987
Interest on taxable investment securities	16,310	16,024
Interest on tax exempt investment securities	1,542	1,447
Interest on federal funds sold	123	89
Total interest income	44,783	42,547
Interest expense:		
Interest on deposits	7,669	9,436
Interest on borrowed funds	2,778	2,517
Total interest expense	10,447	11,953
Net interest income	34,336	30,594
Provision for loan losses	1,000	700
Net interest income after provision for loan losses	33,336	29,894
Noninterest income:		
Wealth management income	11,749	11,995
Deposit account fees	2,371	2,485
ATM/Debit card income	844	827
Merchant card services	564	843
Bank owned life insurance income	469	179
Gain on disposition of investment securities	251	122
Other income	600	610
Total noninterest income	16,848	17,061
Noninterest expense:		
Salaries and employee benefits	21,004	19,312
Occupancy and equipment	6,427	6,026
Data processing	2,912	2,720
Professional services	1,462	1,613
Marketing	1,421	1,137
FDIC Insurance	208	78
Other expenses	2,833	2,697
Total noninterest expense	36,267	33,583
Income before income taxes	13,917	13,372
Income tax expense	4,304	4,129
Net income	\$ 9,613	\$ 9,243
Per share data:		
Basic earnings per common share	\$ 2.56	\$ 2.42
Diluted earnings per common share	\$ 2.56	\$ 2.41
Average shares outstanding - basic	3,748,547	3,818,360
Average shares outstanding - diluted	3,758,352	3,837,572

The accompanying notes are an integral part of these consolidated financial statements.

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital <small>(In thousands, except per share data)</small>	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Previously reported balance at December 31, 2006.....	\$ 3,848	\$ 18,933	\$ 43,652	\$ (3,180)	\$ 63,253
Correction of under-accrual in prior periods.....	—	—	220	—	220
Adjusted balance at December 31, 2006.....	<u>3,848</u>	<u>18,933</u>	<u>43,872</u>	<u>(3,180)</u>	<u>63,473</u>
Comprehensive income:					
Net income.....	—	—	9,243	—	9,243
Other comprehensive income, net of tax.....	—	—	—	3,990	3,990
Total comprehensive income.....	—	—	9,243	3,990	13,233
Stock based compensation.....	2	226	—	—	228
Exercise of stock options.....	—	9	—	—	9
Stock issued to ESOP and DSP.....	17	500	(4,511)	—	517
Dividends declared (\$1.18 per share).....	(99)	(466)	(2,472)	—	(4,511)
Stock repurchased.....	—	—	—	—	(3,037)
Balance at December 31, 2007.....	<u>3,768</u>	<u>19,202</u>	<u>46,132</u>	<u>810</u>	<u>69,912</u>
Comprehensive income:					
Net income.....	—	—	9,613	—	9,613
Other comprehensive income, net of tax.....	—	—	—	2,352	2,352
Total comprehensive income.....	—	—	9,613	2,352	11,965
Stock based compensation.....	27	288	—	—	315
Exercise of stock options.....	4	58	—	—	62
Stock issued to ESOP and DSP.....	20	556	—	—	576
Dividends declared (\$1.28 per share).....	—	—	(4,821)	—	(4,821)
Stock repurchased.....	(70)	(355)	(1,540)	—	(1,965)
Balance at December 31, 2008.....	<u>\$ 3,749</u>	<u>\$ 19,749</u>	<u>\$ 49,384</u>	<u>\$ 3,162</u>	<u>\$ 76,044</u>

The accompanying notes are an integral part of these consolidated financial statements.

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Cash flows provided by operating activities:		
Net income	\$ 9,613	\$ 9,243
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,000	700
Amortization of deferred charges/ (deferred income), net	71	208
Depreciation and amortization	1,278	1,328
Bank owned life insurance income	(469)	(179)
Gain on disposition of investment securities	(251)	(122)
Compensation expense from stock option and restricted stock grants	315	228
Change in accrued interest receivable, other assets and other liabilities	1,079	658
Other, net	114	114
Net cash provided by operating activities	12,750	12,178
Cash flows used by investing activities:		
Origination of loans	(146,078)	(137,609)
Principal payments received on loans	92,888	74,668
Purchase of investment securities	(127,367)	(44,609)
Principal payments received, calls and maturities of investment securities	107,862	50,188
Proceeds from sale of investment securities	22,455	4,224
Purchase of bank owned life insurance	—	(10,000)
Purchase of banking premises and equipment	(2,062)	(890)
Net cash used by investing activities	(52,302)	(64,028)
Cash flows provided by financing activities:		
Net increase in deposits	69,029	35,188
Net increase/(decrease) in short-term borrowings	(32,521)	343
Proceeds from long-term borrowings	20,000	35,000
Proceeds from issuance of common stock	638	526
Repurchase of common stock	(1,965)	(3,037)
Cash dividends paid on common stock	(4,821)	(4,511)
Net cash provided by financing activities	50,360	63,509
Net increase in cash and cash equivalents	10,808	11,659
Cash and cash equivalents at beginning of year	28,843	17,184
Cash and cash equivalents at end of year	\$ 39,651	\$ 28,843
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 10,540	\$ 11,949
Cash paid for income taxes	4,241	4,865
Non-cash transactions:		
Change in accumulated other comprehensive income, net of taxes	2,352	3,990

The accompanying notes are an integral part of these consolidated financial statements.

CAMBRIDGE BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS

The accompanying consolidated financial statements include the accounts of Cambridge Bancorp (the “Corporation”) and its wholly owned subsidiary, Cambridge Trust Company (the “Bank”), and the Bank’s subsidiaries, CTC Security Corporation, CTC Security Corporation II and CTC Security Corporation III. References to the Corporation herein relate to the consolidated group of companies. The Corporation is a state chartered, federally registered bank holding company headquartered in Cambridge, Massachusetts, that was incorporated in 1986. The Corporation is closely held and has less than five hundred shareholders of record and, accordingly, is not required to file quarterly, annual or other public reports with the Securities and Exchange Commission (“SEC”). The Corporation is the sole stockholder of the Bank, a Massachusetts trust company chartered in 1890 which is a community-oriented commercial bank. The community banking business, the Corporation’s only reportable operating segment, consists of commercial banking, consumer banking, and trust and investment management services and is managed as a single strategic unit.

The Bank offers a full range of commercial and consumer banking services through its network of ten full-service banking offices in Massachusetts. The Bank is engaged principally in the business of attracting deposits from the public and investing those deposits. The Bank invests those funds in various types of loans, including residential and commercial real estate, and a variety of commercial and consumer loans. The Bank also invests its deposits and borrowed funds in investment securities and has three wholly-owned Massachusetts Security Corporations, CTC Security Corporation, CTC Security Corporation II and CTC Security Corporation III, for this purpose. Deposits at the Bank are insured by the Federal Deposit Insurance Corporation (“FDIC”) for the maximum permitted by FDIC Regulations.

Trust and investment management services are offered through the Bank’s full-service branches in Massachusetts and through two wealth management offices located in New Hampshire. The assets held for wealth management customers are not assets of the Bank and, accordingly, are not reflected in the accompanying balance sheets. Total assets managed on behalf of wealth management clients were approximately \$1,210,000,000 and \$1,486,000,000 at December 31, 2008 and 2007, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States and with prevailing practices within the banking industry requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

In preparing the consolidated 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 these estimates. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses and review of goodwill for impairment.

Reclassifications

Certain amounts in the prior year's financial statements may have been reclassified to conform with the current year's presentation.

Adjustment Related to Prior Financial Statements

In March 2008, the Corporation identified that there was an immaterial under-accrual of income from Merchant Card Services in its prior year end Statements of Condition. These financial statements reflect the correction of this immaterial error as follows: Other assets at December 31, 2007 and 2006 previously reported as \$10.3 million and \$12.5 million, respectively, were adjusted to \$10.5 million and \$12.7 million, respectively; Retained earnings at December 31, 2007 and 2006 previously reported as \$45.9 million and \$43.7 million, respectively, were adjusted to \$46.1 million and \$43.9 million, respectively. This error had no impact on earnings in 2007 or 2006. The Statement of Changes in Stockholders' Equity shows an increase of \$220,000 in retained earnings as of December 31, 2006 relating to the correction of this immaterial error.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from banks and federal funds sold.

Investment Securities

Investment securities are classified as either held-to-maturity or available-for-sale in accordance with Statement of Financial Account Standards ("SFAS") 115, "*Accounting for Certain Investments in Debt and Equity Securities*". Debt securities that management has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at cost, adjusted for the amortization of premiums and the accretion of discounts, using a method that approximates the effective-yield method. U.S. Government Sponsored Enterprise ("GSE") obligations represent debt securities issued by the Federal Farm Credit Bank ("FFCB"), the Federal Home Loan Banks ("FHLB"), the Federal Home Loan Mortgage Corporation ("FHLMC"), the Federal National Mortgage Association ("FNMA") or the Government National Mortgage Association ("GNMA"). Mortgage-backed investments represent pass-through certificates collateralized by real estate loans that are guaranteed by either FHLMC, FNMA or GNMA. These investments are adjusted for amortization of premiums and accretion of discounts, using the interest method over the estimated average lives of the investments.

Debt and equity securities not classified as held-to-maturity are classified as available-for-sale and carried at fair value with unrealized after-tax gains and losses reported net as a separate component of stockholders' equity. Stockholders' equity included net unrealized gains of \$6,687,000 and \$1,665,000 at December 31, 2008 and 2007, respectively. These amounts are net of deferred taxes payable of \$3,721,000 and \$921,000, in each of

the respective years. The Bank classifies its securities based on its intention at the time of purchase.

Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and the Allowance for Loan Losses

Loans are reported at the amount of their outstanding principal, including deferred loan origination fees and costs, reduced by unearned discounts and the allowance for loan losses. Loan origination fees, net of related direct incremental loan origination costs, are deferred and recognized into income over the contractual lives of the related loans as an adjustment to the loan yield, using a method which approximates the interest method. Unearned discount is recognized as an adjustment to the loan yield, using the interest method over the contractual life of the related loan. When a loan is paid off, the unamortized portion of net fees or unearned discount is recognized in interest income.

Loans on which the accrual of interest has been discontinued are designated nonaccrual loans. Accrual of interest income is discontinued when concern exists as to the collectability of principal or interest, or typically when a loan becomes over 90 days delinquent. Additionally, when a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period income. Loans are removed from nonaccrual when they become less than 90 days past due and when concern no longer exists as to the collectability of principal or interest. Interest collected on nonaccruing loans is either applied against principal or reported as income according to management's judgment as to the collectability of principal.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Impairment is measured on a loan-by-loan basis for commercial mortgage and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual residential mortgage, home equity or consumer loans for impairment disclosures.

The provision for loan losses and the adequacy of the allowance for loan losses are evaluated on a regular basis by management. Factors considered in evaluating the adequacy of the allowance include previous loss experience, current economic conditions and their effect on borrowers, and the performance of individual loans in relation to contract terms. The provision for loan losses charged to operations is based on management's judgment of the amount necessary to maintain the allowance at a level adequate to provide for probable loan losses. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. The allowance is an estimate, and ultimate losses may vary from current estimates. As adjustments become necessary, they are reported in

the results of operations through the provision for loan losses in the period in which they become known.

Bank Owned Life Insurance

Bank owned life insurance (“BOLI”) represents life insurance on the lives of certain employees who have provided positive consent allowing the Bank to be the beneficiary of such policies. Since the Bank is the primary beneficiary of the insurance policies, increases in the cash value of the policies, as well as insurance proceeds received, are recorded in other noninterest income, and are not subject to income taxes. The cash value of the policies is included in other assets. The Bank reviews the financial strength of the insurance carriers prior to the purchase of BOLI and at least annually thereafter.

Banking Premises and Equipment

Land is stated at cost. Buildings, leasehold improvements and equipment are stated at cost, less accumulated depreciation and amortization, which is computed using the straight-line method over the estimated useful lives of the assets or the terms of the leases, if shorter. The cost of ordinary maintenance and repairs is charged to expense when incurred.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired for transactions accounted for using purchase accounting. Goodwill and intangible assets that are not amortized are tested for impairment, based on their fair values, at least annually. Identifiable intangible assets that are subject to amortization are also reviewed for impairment based on their fair value. Any impairment is recognized as a charge to earnings and the adjusted carrying amount of the intangible asset becomes its new accounting basis. The remaining useful life of an intangible asset that is being amortized is also evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization.

Deferred Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Interest and penalties related to unrecognized tax benefits, if incurred, are recognized as a component of income tax expense.

The Corporation and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in the state of Massachusetts and other states as required. The Corporation is subject to U.S. federal or state income tax examinations by tax authorities for the years 2005 to the present.

Effective January 1, 2007, the Corporation adopted the provisions of the Financial Accounting Standards Board’s (“FASB”) Financial Accounting Standards Interpretation (“FIN”) 48, “*Accounting for Uncertainty in Income Taxes*”. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company’s financial statements in accordance with SFAS 109, “*Accounting for Income Taxes*”. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, dislo-

tures and transitions. The adoption of this Interpretation did not have a material impact on the consolidated financial statements of the Corporation.

Wealth Management Income

Income from investment management and fiduciary activities is recognized on the accrual basis of accounting.

Pension and Retirement Plans

The Corporation sponsors a defined benefit pension plan and a postretirement health care plan covering substantially all employees. Benefits for the pension plan are based primarily on years of service and the employee's final five-year average pay. Benefits for the postretirement health care plan are based on years of service. Expense for both of these plans is recognized over the employee's service life utilizing the projected unit credit actuarial cost method. Contributions are periodically made to the pension plan so as to comply with the Employee Retirement Income Security Act ("ERISA") funding standards and the Internal Revenue Code of 1986, as amended.

The Corporation also has a non-qualified retirement plan to provide supplemental retirement benefits to certain executives. Expense for this plan is recognized over the executive's service life utilizing the projected unit credit actuarial cost method.

Stock Based Compensation

Prior to January 1, 2004, the Corporation accounted for its stock-based plans under the recognition and measurement provisions of Accounting Principles Board Opinion 25, "*Accounting for Stock Issued to Employees*" and related interpretations, as permitted by SFAS 123, "*Accounting for Stock-Based Compensation*". No compensation cost was recognized for stock options in the Consolidated Statement of Income for the periods ended on or prior to December 31, 2003, unless the options granted had an exercise price less than the market value of the underlying common stock on the date of grant.

Effective January 1, 2004, the Corporation adopted the fair value recognition provisions of SFAS 123. These provisions establish a fair value based method of accounting for stock-based compensation plans under which compensation cost is measured at the grant date. This compensation cost is then expensed over the period during which an employee is required to provide service in exchange for the award. The Corporation adopted SFAS 123 under the modified prospective method, as permitted under the provisions of SFAS 148, "*Accounting for Stock-based Compensation Transition and Disclosure*". Under that method of adoption, the provisions of SFAS 123 are generally only applied to stock-based awards granted subsequent to adoption and any unvested prior grants. Therefore compensation expense recognized in 2004 and 2005 was the same as that which would have been recognized had the recognition provisions of SFAS 123 been applied from its original effective date.

Fair Value Measurements

In September 2006, the FASB issued SFAS 157, "*Fair Value Measurements*". SFAS 157 provides guidance for measuring assets and liabilities at fair value. This Standard is applicable whenever other standards require or permit assets and liabilities to be measured at fair value, but does not expand upon the use of fair value in any new circumstances. SFAS 157 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires fair value measure-

ments to be disclosed by level within the hierarchy. The three broad levels defined by the SFAS 157 hierarchy are as follows:

Level 1 – 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 1 are highly liquid cash instruments with quoted prices such as government or agency securities, listed equities and money market securities, as well as listed derivative instruments.

Level 2 – 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 which are generally included in this category are corporate bonds and loans, mortgage whole loans, municipal bonds and over-the-counter derivatives.

Level 3 – Instruments that have little to no pricing observability as of the reported date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment to 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 over-the-counter derivative contracts.

SFAS 157 was effective for fiscal years beginning after November 15, 2007. The adoption of this Standard on January 1, 2008, did not have a material impact on the Corporation's consolidated financial statements.

Earnings per Share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding plus the dilutive effect of stock options outstanding, described in Footnote 14, under the Corporation's Stock Option Plan.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2008, the FASB issued Staff Position ("FSP") 157-2, "*Effective Date of FASB Statement No. 157*". FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually), to fiscal years beginning after November 15, 2008. The adoption of this FSP on January 1, 2009, did not have a material impact on the Corporation's consolidated financial statements.

In October 2008, the FASB issued FSP 157-3, "*Determining the Fair Value of a Financial Asset When the Market of That Asset Is Not Active*". FSP 157-3 clarifies the application of SFAS 157 by providing an example to illustrate key considerations in determining the fair value of a financial asset when the market for that asset is not active. The adoption of this

FSP on October 10, 2008, did not have a material impact on the Corporation's consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), "*Business Combinations (Revised 2007)*". SFAS 141(R) replaces SFAS 141, but retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS(R) also retains the guidance in SFAS 141 for identifying and recognizing intangible assets separately from goodwill. SFAS 141(R) is applied prospectively to business combinations occurring after its adoption. The adoption of this Standard on January 1, 2009, did not have a material impact on the Corporation's consolidated financial statements.

In April 2008, the FASB issued FSP 142-3, "*Determination of the Useful Life of Intangible Assets*". This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142 "*Goodwill and Other Intangible Assets*". The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141(R) and other GAAP. This FSP is effective for fiscal years beginning on or after December 15, 2008. The adoption of this SFAS on January 1, 2009, did not have a material impact on the Corporation's consolidated financial statements.

In June 2008, the FASB issued FSP EITF 03-6-1, "*Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*". This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting, and therefore, need to be included in the earnings allocation in computing earnings per share ("EPS") under the two-class method described in SFAS 128. The guidance in this FSP states that unvested share-based payment awards that contain no forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of EPS pursuant to the two-class method. This FSP is effective for fiscal years beginning on or after December 15, 2008. All prior-period EPS data presented shall be adjusted retrospectively to conform to the provisions of this FSP. The Corporation has not yet determined the impact that the adoption of this FSP will have on its consolidated financial statements.

In May 2008, the FASB issued SFAS 162, "*The Hierarchy of Generally Accepted Accounting Principles*". SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP in the United States. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to Interim Auditing Standards AU Section 411, "*The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles*". The Corporation does not expect the adoption of SFAS 162 to have a material impact on its consolidated financial statements.

In December 2008, the FASB issued FSP SFAS 132(R)-1, "*Employers' Disclosures about Postretirement Benefit Plan Assets*". This FSP amends SFAS 132(R) to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. This FSP also includes a technical amendment to SFAS 132(R) that requires

a nonpublic entity to disclose net periodic benefit cost for each annual period for which a statement of income is presented. The disclosures about plan assets required by this FSP shall be provided for fiscal years ending after December 15, 2009. Upon initial application, the provisions of this FSP are not required for earlier periods that are presented for comparative purposes. The Corporation does not expect the adoption of this FSP to have a material impact on its consolidated financial statements.

4. CASH AND DUE FROM BANKS

At December 31, 2008 and 2007, cash and due from banks totaled \$13,472,000 and \$18,715,000, respectively. Of this amount, \$8,505,000 and \$4,221,000, respectively, were maintained to satisfy the reserve requirements of the Federal Reserve Bank and \$746,000 and \$603,000, respectively, were maintained with a correspondent bank as compensating balances to pay for services utilized.

5. INVESTMENT SECURITIES

Investment securities have been classified in the accompanying consolidated balance sheets according to management's intent. The carrying amounts of securities and their approximate fair values were as follows:

	December 31, 2008			
	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Securities available for sale:				
U.S. GSE obligations	\$ 73,094	\$ 4,322	\$ —	\$ 77,416
Mortgage-backed securities	187,750	6,126	—	193,876
Mutual funds	653	—	(40)	613
Total securities available for sale....	<u>261,497</u>	<u>10,448</u>	<u>(40)</u>	<u>271,905</u>
Securities held to maturity:				
U.S. GSE obligations	42,687	2,061	—	44,748
Mortgage-backed securities	24,288	622	(1)	24,909
Municipal securities	38,810	846	(213)	39,443
Total securities held to maturity.....	<u>105,785</u>	<u>3,529</u>	<u>(214)</u>	<u>109,100</u>
Restricted securities:				
FHLB of Boston stock	4,806	—	—	4,806
Total investment securities.....	<u>\$ 372,088</u>	<u>\$ 13,977</u>	<u>\$ (254)</u>	<u>\$ 385,811</u>

	December 31, 2007			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
	(In thousands)			
Securities available for sale:				
U.S. Treasuries	\$ 5,003	\$ —	\$ (15)	\$ 4,988
U.S. GSE obligations	119,939	2,020	(54)	121,905
Mortgage-backed securities	86,210	944	(281)	86,873
Mutual funds	622	—	(28)	594
Total securities available for sale	<u>211,774</u>	<u>2,964</u>	<u>(378)</u>	<u>214,360</u>
Securities held to maturity:				
U.S. GSE obligations	91,738	749	(23)	92,464
Mortgage-backed securities	30,486	95	(344)	30,237
Municipal securities	36,594	471	(10)	37,055
Total securities held to maturity	<u>158,818</u>	<u>1,315</u>	<u>(377)</u>	<u>159,756</u>
Restricted securities:				
FHLB of Boston stock	4,219	—	—	4,219
Total investment securities	<u>\$ 374,811</u>	<u>\$ 4,279</u>	<u>\$ (755)</u>	<u>\$ 378,335</u>

As a voluntary member of the FHLB of Boston (the “FHLB Boston”), the Bank is required to invest in stock of the FHLB Boston in an amount based upon its outstanding advances from the FHLB Boston. The Bank’s cost for FHLB Boston stock is equal to its par value. Upon redemption of the stock, which is at the discretion of the FHLB Boston, the Bank would receive an amount equal to the par value of the stock. At its discretion, the FHLB Boston may also declare dividends on its stock. Such dividends amounted to \$177,000 and \$245,000 for the years ended December 31, 2008 and 2007, respectively.

On February 26, 2009, the FHLB Boston advised its members that, while it currently meets all its regulatory capital requirements, it is focusing on preserving capital in response to ongoing market volatility, and accordingly, has suspended its quarterly dividend and has extended the moratorium on excess stock repurchases. It also announced that it had taken a write-down of \$339.1 million in other-than-temporary impairment charges on its private-label mortgage-backed securities. In the future, if additional unrealized losses are deemed to be other-than-temporary, the associated impairment charges could exceed the FHLB Boston’s current level of retained earnings and possibly put into question whether the fair value of the FHLB Boston stock owned by the Bank was less than its cost. The FHLB Boston has stated that it expects and intends to hold its private-label mortgage-backed securities to maturity. The Bank will continue to monitor its investment in FHLB Boston stock.

The amortized cost and fair value of debt investments, aggregated by contractual maturity, are shown below. Maturities of mortgage-backed securities do not take into consideration scheduled amortization or prepayments. Actual maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(In thousands)								
At December 31, 2008:								
Debt securities available for sale:								
U.S. GSE obligations.....								
	\$ 13,709	\$ 13,815	\$ 59,385	\$ 63,601	\$ —	\$ —	\$ —	\$ —
Mortgage-backed securities.....								
	—	—	8,107	8,220	28,357	29,342	151,286	156,314
Total debt securities available for sale								
	13,709	13,815	67,492	71,821	28,357	29,342	151,286	156,314
Debt securities held to maturity:								
U.S. GSE obligations.....								
	19,996	20,297	22,691	24,451	—	—	—	—
Mortgage-backed securities.....								
	6	6	3,906	3,970	11,679	11,993	8,697	8,940
Municipal securities.....								
	2,834	2,879	1,986	1,963	15,069	15,650	18,921	18,951
Total debt securities held to maturity.....								
	22,836	23,182	28,583	30,384	26,748	27,643	27,618	27,891
Total debt securities								
	\$ 36,545	\$ 36,997	\$ 96,075	\$ 102,205	\$ 55,105	\$ 56,985	\$ 178,904	\$ 184,205

The following table shows the Corporation's securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

	Less than One Year		One Year or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
(In thousands)						
At December 31, 2008:						
Mortgage-backed securities ..	\$ 5	\$ —	\$ 25	\$ (1)	\$ 30	\$ (1)
Municipal securities	8,910	(206)	347	(7)	9,257	(213)
Subtotal, debt securities	8,915	(206)	372	(8)	9,287	(214)
Equities	—	—	613	(40)	613	(40)
Total temporarily impaired securities	<u>\$ 8,915</u>	<u>\$ (206)</u>	<u>\$ 985</u>	<u>\$ (48)</u>	<u>\$ 9,900</u>	<u>\$ (254)</u>
At December 31, 2007:						
U.S. Treasuries	\$ —	\$ —	\$ 4,988	\$ (15)	\$ 4,988	\$ (15)
U.S. GSE obligations	—	—	31,457	(77)	31,457	(77)
Mortgage-backed securities ..	—	—	51,219	(625)	51,219	(625)
Municipal securities	265	(1)	2,280	(9)	2,545	(10)
Subtotal, debt securities	265	(1)	89,944	(726)	90,209	(727)
Equities	—	—	594	(28)	594	(28)
Total temporarily impaired securities	<u>\$ 265</u>	<u>\$ (1)</u>	<u>\$ 90,538</u>	<u>\$ (754)</u>	<u>\$ 90,803</u>	<u>\$ (755)</u>

Securities are evaluated by management for other than temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2008, thirty-three debt securities and one equity security had gross unrealized losses with an aggregate depreciation of 2.5% from the Corporation's amortized cost basis. The largest loss percentage of any single security was 10.1% of its amortized cost. These gross unrealized losses relate principally to the municipal security sector. The Corporation believes that the nature and duration of impairment on its debt security positions are primarily a function of changes in investment spreads, and does not consider full repayment of principal on the reported debt obligations to be at risk. Since all of these securities are rated "investment grade" and the Corporation has the ability to hold the securities until maturity, or for the foreseeable future if available for sale, no declines in value are deemed to be other than temporary.

The following table sets forth information regarding sales of investment securities and the resulting gains or losses from such sales.

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Amortized cost of securities sold.....	\$ 22,204	\$ 4,102
Gain realized on securities sold.....	251	122
Net proceeds from securities sold.....	<u>\$ 22,455</u>	<u>\$ 4,224</u>

Included in securities sold during 2008 were two municipal securities, with an aggregate amortized cost of \$485,000, that were sold following downgrades in their bond ratings by the credit rating agencies. The sale of these two securities resulted in a gain of \$2,000.

6. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank originates loans to businesses and individuals on both a collateralized and an uncollateralized basis. The Bank's customer base is concentrated in eastern Massachusetts. The Bank has diversified the risk in its commercial loan portfolio by lending to businesses in a wide range of industries while maintaining no significant individual industry concentration. The majority of loans to individuals are collateralized by residential real estate, marketable securities or other assets.

Loans outstanding are detailed by category as follows:

	December 31,	
	2008	2007
	(In thousands)	
Residential real estate:		
Mortgages - fixed rate.....	\$ 128,993	\$ 110,878
Mortgages - adjustable rate.....	66,290	63,039
Deferred costs net of unearned fees.....	227	183
Total residential real estate.....	<u>195,510</u>	<u>174,100</u>
Commercial real estate:		
Mortgages - nonowner occupied.....	110,885	94,601
Mortgages - owner occupied.....	33,407	27,692
Construction.....	13,351	6,310
Deferred costs net of unearned fees.....	144	161
Total commercial real estate.....	<u>157,787</u>	<u>128,764</u>
Home equity:		
Home equity - lines of credit.....	45,027	37,812
Home equity - term loans.....	23,292	29,099
Deferred costs net of unearned fees.....	100	83
Total home equity.....	<u>68,419</u>	<u>66,994</u>
Commercial:		
Commercial and industrial.....	36,600	36,029
Deferred costs net of unearned fees.....	242	220
Total commercial.....	<u>36,842</u>	<u>36,249</u>
Consumer:		
Secured.....	9,907	6,614
Unsecured.....	3,316	5,985
Deferred costs net of unearned fees.....	33	42
Total consumer.....	<u>13,256</u>	<u>12,641</u>
Total loans.....	<u>\$ 471,814</u>	<u>\$ 418,748</u>

Certain directors of the Corporation and companies in which these directors have significant ownership interest are customers of the Bank. Loans to these parties are made in the ordinary course of business at the Bank's normal credit terms, including interest rate and collateral requirements, and do not represent more than a normal risk of collection. At December 31, 2008 and 2007, total loans outstanding to these related parties were \$856,000 and \$921,000, respectively. During 2008, \$30,000 of additions and \$95,000 of repayments were made to these loans, compared to \$1,040,000 of additions and \$1,010,000 of repayments made during 2007.

The following table sets forth information regarding nonperforming loans.

	December 31,	
	2008	2007
	(In thousands)	
Nonaccrual loans.....	\$ 1,434	\$ 1,129
Loans past due >90 days, but still accruing.....	168	—
Total nonperforming loans.....	<u>\$ 1,602</u>	<u>\$ 1,129</u>

Impaired loans, which include commercial and commercial real estate nonaccrual loans, had recorded balances of \$152,000 and \$228,000 at December 31, 2008 and 2007, respectively. The average recorded investment in impaired loans was \$189,000 and \$265,000 for the years ended December 31, 2008 and 2007, respectively. The specific allowance for loan losses related to these loans was \$75,000 at both December 31, 2008 and 2007, respectively. No interest income on impaired loans was recognized in 2008 or 2007. Interest payments received on impaired loans are recorded as reductions of principal unless collection of the remaining recorded investment is not doubtful, at which time payments received are recorded as interest income. There were no commitments to extend additional credit on these loans at either December 31, 2008 or 2007.

As discussed in Note 2, Summary of Significant Accounting Policies, the provision for loan losses is evaluated on a regular basis by management in order to determine the adequacy of the allowance for loan losses.

Changes in the allowance for loan losses are as follows:

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Balance at beginning of year.....	\$ 6,659	\$ 6,065
Provision for loan losses.....	1,000	700
Loans charged-off.....	(77)	(220)
Recoveries.....	114	114
Balance at end of year.....	<u>\$ 7,696</u>	<u>\$ 6,659</u>

The allocation of the allowance for loan losses is as follows:

	December 31,	
	2008	2007
	(In thousands)	
Loan category:		
Residential mortgage/Home equity loans	\$ 1,772	\$ 1,555
Commercial/Commercial mortgage loans	4,641	3,805
Consumer and other loans.....	159	380
Unallocated	1,124	919
Total	<u>\$ 7,696</u>	<u>\$ 6,659</u>

7. BANKING PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of property, leasehold improvements and equipment is presented below:

	December 31,		Estimated Useful Lives
	2008	2007	
	(In thousands)		
Land	\$ 1,116	\$ 1,116	
Building and leasehold improvements.....	9,508	9,248	5-30 years
Equipment	14,075	12,443	3-7 years
Subtotal	24,699	22,807	
Accumulated depreciation and amortization	(18,720)	(17,612)	
Total	<u>\$ 5,979</u>	<u>\$ 5,195</u>	

Total depreciation and amortization expense for the years ended December 31, 2008 and 2007 amounted to approximately \$1,278,000 and \$1,328,000, respectively, and is included in equipment expenses in the accompanying consolidated statements of income.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying value of goodwill and other intangible assets are as follows:

	Goodwill	Customer Intangibles	Total Intangibles
	(In thousands)		
Balance at December 31, 2006	\$ 412	\$ 1,671	\$ 2,083
Amortization expense	—	(378)	(378)
Balance at December 31, 2007	412	1,293	1,705
Amortization expense	—	(378)	(378)
Balance at December 31, 2008	<u>\$ 412</u>	<u>\$ 915</u>	<u>\$ 1,327</u>

Amortization expense is expected to be \$378,000 in each of the next two years and \$159,000 in the third year.

The components of intangible assets are as follows:

	December 31,	
	2008	2007
	(In thousands)	
Customer intangibles	\$ 3,777	\$ 3,777
Accumulated amortization	(2,862)	(2,484)
Net customer intangibles.....	<u>\$ 915</u>	<u>\$ 1,293</u>

9. DEPOSITS

Deposits are summarized as follows:

	December 31,	
	2008	2007
	(In thousands)	
Demand deposits (non-interest bearing)	\$ 200,877	\$ 189,034
Interest bearing checking	212,053	221,715
Money market	51,537	47,230
Savings	140,285	91,761
Certificates of deposit under \$100,000	67,712	62,490
Certificates of deposit \$100,000 or greater	95,190	86,395
Total deposits	<u>\$ 767,654</u>	<u>\$ 698,625</u>

Certificates of deposit had the following schedule of maturities:

	December 31,	
	2008	2007
	(In thousands)	
Less than 3 months remaining	\$ 72,851	\$ 53,609
3 to 5 months remaining	46,181	57,333
6 to 11 months remaining	15,948	26,515
12 to 23 months remaining	23,965	6,713
24 to 47 months remaining	3,276	4,142
48 months or more remaining	681	573
Total certificates of deposit	<u>\$ 162,902</u>	<u>\$ 148,885</u>

Interest expense on certificates of deposit \$100,000 or greater was \$2,703,000 and \$3,653,000 for the years ended December 31, 2008 and 2007, respectively.

10. SHORT-TERM BORROWINGS

Short-term borrowings consisted of the following:

	December 31,	
	2008	2007
	(In thousands)	
Treasury, Tax and Loan notes	\$ 3,019	\$ 1,805
FHLB Boston overnight borrowings	—	33,735
Total short-term borrowings.....	<u>\$ 3,019</u>	<u>\$ 35,540</u>

Information relating to activity and rates paid under these agreements is presented below:

	<u>Year Ended December 31,</u>	
	<u>2008</u>	<u>2007</u>
	(Dollars in thousands)	
Treasury, Tax and Loan notes:		
Average daily balance.....	\$ 925	\$ 967
Average interest rate.....	1.39%	4.80%
Highest month-end balance.....	\$ 3,019	\$ 2,748
FHLB Boston overnight borrowings:		
Average daily balance.....	\$ 18,249	\$ 21,432
Average interest rate.....	2.45%	5.04%
Highest month-end balance.....	\$ 43,495	\$ 43,500

The Bank utilizes the Note Option for remitting Treasury, Tax and Loan payments to the Federal Reserve Bank. Under this option the U.S. Treasury invests in obligations of the Bank, as evidenced by open-ended interest-bearing notes. These notes are collateralized by U.S. GSE securities owned by the Bank. At December 31, 2008 and 2007, the Bank had pledged investment securities with a carrying value of approximately \$4,995,000 and \$4,987,000, respectively, as collateral for Treasury, Tax and Loan payments.

11. LONG-TERM BORROWINGS

Long-term borrowings consisted of the following:

	<u>December 31, 2008</u>		<u>December 31, 2007</u>	
	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>
	(Dollars in thousands)			
FHLB Boston Advances:				
Due 02/23/2009; non-callable.....	\$ 5,000	5.03%	\$ 5,000	5.03%
Due 03/02/2009; non-callable.....	12,000	4.88%	12,000	4.88%
Due 03/01/2010; callable 02/28/2008.....	8,000	4.89%	8,000	4.89%
Wholesale Repurchase Agreements:				
Due 07/05/2012; callable quarterly beginning 07/05/2009.....	10,000	5.10%	10,000	5.10%
Due 03/03/2013; callable quarterly beginning 03/03/2011.....	20,000	3.25%	—	0.00%
Total.....	<u>\$ 55,000</u>	<u>4.34%</u>	<u>\$ 35,000</u>	<u>4.97%</u>

All short- and long-term borrowings with the FHLB Boston are secured by the Bank's stock in the FHLB Boston and a blanket lien on "qualified collateral" defined principally as 90% of the market value of certain U.S. Government and GSE obligations and 75% of the carrying value of certain residential mortgage loans. Based upon collateral pledged, the Bank's unused borrowing capacity with the FHLB Boston at December 31, 2008 was approximately \$138,800,000.

The Bank's wholesale repurchase agreements are with another financial institution. For financial statement purposes, sales of repurchase agreements are treated as financings. The obligations to repurchase the identical securities that were sold are reflected as liabilities and the securities remain in the asset accounts. The agreements are collateralized by U.S.

GSE securities owned by the Bank, which as of December 31, 2008, had a carrying value of approximately \$39,591,000.

12. INCOME TAXES

The components of income tax expense were as follows:

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Current:		
Federal.....	\$ 4,179	\$ 4,191
State.....	319	275
Total current expense	<u>4,498</u>	<u>4,466</u>
Deferred:		
Federal.....	(343)	(323)
State.....	149	(14)
Total deferred benefit	<u>(194)</u>	<u>(337)</u>
Total income tax expense.....	<u>\$ 4,304</u>	<u>\$ 4,129</u>

The following is a reconciliation of the total income tax provision, calculated at statutory federal income tax rates, to the income tax provision in the consolidated statements of income:

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Provision at statutory rates.....	\$ 4,749	\$ 4,566
Increase (decrease) resulting from:		
State tax, net of federal tax benefit.....	175	172
Change in deferred state tax asset, net of federal tax benefit	160	—
Tax-exempt income.....	(526)	(494)
ESOP dividends	(165)	(161)
Bank owned life insurance.....	(160)	(61)
Other	71	107
Total income tax expense.....	<u>\$ 4,304</u>	<u>\$ 4,129</u>

The Corporation's net deferred tax asset consisted of the following components:

	December 31,	
	2008	2007
	(In thousands)	
Gross deferred tax assets:		
Allowance for loan losses	\$ 3,082	\$ 2,734
Accrued retirement benefits	4,227	2,381
Depreciation of premises and equipment.....	712	998
Goodwill	377	358
Rent	225	235
ESOP dividends	194	194
Equity based compensation.....	136	96
Other	139	100
Total gross deferred tax assets	<u>9,092</u>	<u>7,096</u>
Gross deferred tax liabilities:		
Deferred loan origination costs.....	(298)	(281)
Unrealized gains on AFS securities	(3,721)	(921)
Total gross deferred tax liabilities.....	<u>(4,019)</u>	<u>(1,202)</u>
Net deferred tax asset.....	<u>\$ 5,073</u>	<u>\$ 5,894</u>

It is management's belief, that it is more likely than not, that the reversal of deferred tax liabilities and results of future operations will generate sufficient taxable income to realize the deferred tax assets. In addition, the Corporation's net deferred tax asset is supported by recoverable income taxes. Therefore, no valuation allowance was required at either December 31, 2008 or 2007 for the deferred tax assets. It should be noted, however, that 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 that no assurance can be given that sufficient taxable income will be generated to fully absorb deductible temporary differences.

Effective July 1, 2008, Legislation was passed in Massachusetts which enacted corporate tax reform in the State. This new legislation will reduce the tax rate 1.5% and will be phased in over the next three years. As a result of the change in tax rate, the Corporation recorded a \$160,000 tax expense (net of federal benefit), in order to correctly reflect deferred tax assets at the new rate.

The Corporation's federal income tax returns are open and subject to examination from the 2005 tax return year and forward. The Corporation's state income tax returns are generally open from the 2005 and later tax return years based on individual state statute of limitations.

13. PENSION AND RETIREMENT PLANS

The Corporation has a noncontributory, defined benefit pension plan ("Pension Plan") covering substantially all employees. Employees in positions requiring at least 1,000 hours of service per year are eligible to participate upon the attainment of age 21 and the completion of one year of service. Benefits are based primarily on years of service and the employee's final five-year average pay. The Corporation also provides supplemental retirement benefits to certain executive officers of the Corporation under the terms of Supplemental Executive Retirement Agreements ("Supplemental Retirement Plan"). The Supplemental

Retirement Plan became effective on October 1, 1989. Benefits to be paid under the plan are contractually agreed upon and detailed in individual agreements with the executives. The Corporation uses a December 31 measurement date each year to determine the benefit obligations for these plans.

Projected benefit obligations and funded status were as follows:

	Pension Plan		Supplemental Retirement Plan	
	2008	2007	2008	2007
	(In thousands)			
Change in projected benefit obligation:				
Obligation at beginning of year	\$ 14,575	\$ 13,975	\$ 2,931	\$ 2,654
Service cost	794	751	392	380
Interest cost	883	807	176	153
Actuarial (gain)/loss	1,546	(319)	82	(69)
Benefits paid	(422)	(639)	(187)	(187)
Obligation at end of year	<u>17,376</u>	<u>14,575</u>	<u>3,394</u>	<u>2,931</u>
Change in plan assets:				
Fair value at beginning of year	12,582	11,306	—	—
Actual return on plan assets	(1,913)	1,015	—	—
Employer contribution	900	900	187	187
Benefits paid	(422)	(639)	(187)	(187)
Fair value at end of year	<u>11,147</u>	<u>12,582</u>	<u>—</u>	<u>—</u>
Funded status at end of year	<u>\$ (6,229)</u>	<u>\$ (1,993)</u>	<u>\$ (3,394)</u>	<u>\$ (2,931)</u>

Amounts recognized in the consolidated balance sheets consisted of:

	Pension Plan		Supplemental Retirement Plan	
	2008	2007	2008	2007
	(In thousands)			
Other liabilities	<u>\$ (6,229)</u>	<u>\$ (1,993)</u>	<u>\$ (3,394)</u>	<u>\$ (2,931)</u>

Amounts recognized in accumulated other comprehensive income consisted of:

	Pension Plan		Supplemental Retirement Plan	
	2008	2007	2008	2007
	(In thousands)			
Net (gain)/loss	\$ 5,658	\$ 1,246	\$ 33	\$ (50)
Prior service cost/(benefit)	11	26	340	419
	<u>\$ 5,669</u>	<u>\$ 1,272</u>	<u>\$ 373</u>	<u>\$ 369</u>

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	Pension Plan		Supplemental Retirement Plan	
	2008	2007	2008	2007
	(In thousands)			
Projected benefit obligation	\$ 17,376	\$ 14,575	\$ 3,394	\$ 2,931
Accumulated benefit obligation	14,688	12,449	3,394	2,931
Fair value of plan assets	11,147	12,582	—	—

The components of net periodic benefit cost and amounts recognized in other comprehensive income were as follows:

	Pension Plan		Supplemental Retirement Plan	
	2008	2007	2008	2007
	(In thousands)			
Net periodic benefit cost:				
Service cost	\$ 794	\$ 751	\$ 392	\$ 380
Interest cost	883	807	176	153
Expected return on assets	(960)	(865)	—	—
Amortization of prior service cost/(benefit)	14	14	79	79
Amortization of net actuarial (gain)/loss	8	59	—	—
Net periodic benefit cost	<u>739</u>	<u>766</u>	<u>647</u>	<u>612</u>
Amounts recognized in other comprehensive income:				
Net (gain)/loss	4,411	(528)	83	(69)
Amortization of prior service cost/(benefit)	<u>(14)</u>	<u>(14)</u>	<u>(79)</u>	<u>(79)</u>
Total recognized in other comprehensive income	<u>4,397</u>	<u>(542)</u>	<u>4</u>	<u>(148)</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 5,136</u>	<u>\$ 224</u>	<u>\$ 651</u>	<u>\$ 464</u>

Weighted-average assumptions used to determine projected benefit obligations are as follows:

	Pension Plan		Supplemental Retirement Plan	
	2008	2007	2008	2007
Discount rate	5.75%	6.00%	5.75%	6.00%
Rate of compensation increase	4.00%	4.00%	NA	NA

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

	Pension Plan		Supplemental Retirement Plan	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Discount rate	6.00%	5.75%	6.00%	5.75%
Expected long-term return on plan assets ...	7.50%	7.50%	NA	NA
Rate of compensation increase.....	4.00%	4.00%	NA	NA

The expected long-term rate of return has been established based on the ongoing investment of pension plan assets in a diversified portfolio of equities and fixed income securities. The components of the expected long-term rate of return include annual expectations for a risk-free rate of return of approximately 3.00% per year, plus long-term annual inflation at approximately 3.00% per year, plus a risk premium rate of return of approximately 1.50% per year.

The Corporation maintains an Investment Policy for the defined benefit pension plan. The Investment Policy guidelines suggest that the target asset allocation percentages are from 50% to 65% in equities, and from 35% to 50% in fixed income debt securities and cash. The Corporation expects to contribute \$1,500,000 to its defined benefit pension plan in 2009.

The Corporation's defined pension plan weighted-average asset allocations by asset category are as follows:

	December 31,	
	<u>2008</u>	<u>2007</u>
Equity securities.....	60%	55%
Debt securities.....	34	30
Cash and other.....	6	15
Total	<u>100%</u>	<u>100%</u>

The Corporation offers postretirement health care benefits for current and future retirees of the Bank. Employees receive a fixed monthly benefit at age 65 toward the purchase of postretirement medical coverage. The benefit received is based on the employee's years of active service. The Corporation uses a December 31 measurement date each year to determine the benefit obligation for this plan.

Projected benefit obligations and funded status were as follows:

	Postretirement Healthcare Plan	
	2008	2007
	(In thousands)	
Change in projected benefit obligation:		
Obligation at beginning of year	\$ 620	\$ 628
Service cost	7	7
Interest cost	37	35
Actuarial (gain)/loss	41	(2)
Benefits paid	(55)	(48)
Obligation at end of year	<u>650</u>	<u>620</u>
Change in plan assets:		
Fair value at beginning of year	—	—
Actual return on plan assets	—	—
Employer contribution	55	48
Benefits paid	(55)	(48)
Fair value at end of year	<u>—</u>	<u>—</u>
Funded status at end of year	<u>\$ (650)</u>	<u>\$ (620)</u>

Amounts recognized in the consolidated balance sheets consisted of:

	Postretirement Healthcare Plan	
	2008	2007
	(In thousands)	
Other liabilities	<u>\$ (650)</u>	<u>\$ (620)</u>

Amounts recognized in accumulated other comprehensive income consisted of:

	Postretirement Healthcare Plan	
	2008	2007
	(In thousands)	
Net (gain)/loss	\$ (72)	\$ (117)
Prior service cost/(benefit)	(63)	(72)
	<u>\$ (135)</u>	<u>\$ (189)</u>

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	Postretirement Healthcare Plan	
	2008	2007
	(In thousands)	
Projected benefit obligation	\$ 650	\$ 620
Accumulated benefit obligation	650	620
Fair value of plan assets	—	—

The components of net periodic benefit cost and amounts recognized in other comprehensive income were as follows:

	Postretirement Healthcare Plan	
	2008	2007
	(In thousands)	
Net periodic benefit cost:		
Service cost	\$ 7	\$ 7
Interest cost	37	35
Expected return on assets	—	—
Amortization of prior service cost/(benefit)	(9)	(9)
Amortization of net actuarial (gain)/loss	(4)	(4)
Net periodic benefit cost	<u>31</u>	<u>29</u>
Amounts recognized in other comprehensive income:		
Net (gain)/loss	41	3
Amortization of prior service cost/(benefit)	9	9
Amortization of net actuarial (gain)/loss	4	—
Total recognized in other comprehensive income	<u>54</u>	<u>12</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 85</u>	<u>\$ 41</u>

Weighted-average assumptions used to determine projected benefit obligations are as follows:

	Postretirement Healthcare Plan	
	2008	2007
Discount rate	5.75%	6.00%
Rate of compensation increase	NA	NA

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

	Postretirement Healthcare Plan	
	2008	2007
Discount rate	6.00%	5.75%
Expected long-term return on plan assets	NA	NA
Rate of compensation increase	NA	NA

Assumed health care cost trend rates are as follows:

	December 31,	
	2008	2007
Health care cost trend rate assumed for next year	8.00%	9.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2012	2012

Assumed health care trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	One Percentage Point	
	Increase	Decrease
	(In thousands)	
Effect on total service and interest cost	\$ 1	\$ (1)
Effect on postretirement benefit obligation.....	25	(23)

Benefits expected to be paid in the next ten years are as follows:

Year ended December 31,	Pension Plan	Supplemental Retirement Plan	Post- retirement Healthcare Plan	Total
	(In thousands)			
2009	\$ 414	\$ 145	\$ 57	\$ 616
2010	582	120	55	757
2011	609	118	51	778
2012	645	117	46	808
2013	938	339	46	1,323
2014-2018 inclusive	5,735	2,291	183	8,209
Ten year total	<u>\$ 8,923</u>	<u>\$ 3,130</u>	<u>\$ 438</u>	<u>\$ 12,491</u>

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2009 are as follows:

	Pension Plan	Supplemental Retirement Plan	Post- retirement Healthcare Plan	Total
	(In thousands)			
Prior service cost.....	\$ (14)	\$ (79)	\$ (9)	\$ (102)
Net (gain)/loss.....	(413)	—	1	(412)
Total	<u>\$ (427)</u>	<u>\$ (79)</u>	<u>\$ (8)</u>	<u>\$ (514)</u>

The Corporation maintains a Profit Sharing Plan (“PSP”) that provides for deferral of federal and state income taxes on employee contributions allowed under Section 401(k) of federal law. The Corporation matches employee contributions up to 100% of the first 3% of each participant’s salary. Each year, the Corporation may also make a discretionary contribution to the PSP. Employees are eligible to participate in the 401(k) feature of the PSP on the first business day of the quarter following their initial date of service and attainment of age 21. Employees are eligible to participate in discretionary contribution feature of the PSP on January 1 and July 1 of each year provided they have attained the age of 21 and the completion of twelve months of service consisting of at least 1,000 hours.

The Corporation has an Employee Stock Ownership Plan (“ESOP”) for its eligible employees. Employees are eligible to participate upon the attainment of age 21 and the completion of one year of service consisting of at least 1,000 hours. It is anticipated that the ESOP will purchase from the Corporation shares presently authorized but unissued at a price determined by an independent appraiser and certified by a committee of the trustees

of the ESOP. Purchases of the Corporation's stock by the ESOP will be funded solely by employer contributions. At December 31, 2008 and 2007, the ESOP owned 370,435 shares and 390,443 shares, respectively, of the Corporation's common stock.

Total expenses related to the Profit Sharing and ESOP Plans for the years ended December 31, 2008 and 2007, amounted to approximately \$775,000 and \$750,000, respectively.

14. STOCK OPTION PLAN

In 1993, the Corporation adopted a Stock Option Plan for key employees as an incentive for them to assist the Corporation in achieving long-range performance goals. The Corporation issues stock options to its key employees according to the provisions of the plan. All options expire ten years from the date granted and have been issued at fair value at the date of grant which, in some instances, may be less than publicly traded values. During 2005, the Corporation's shareholders amended the plan to increase the number of shares available under the Plan and to permit the issuance of restricted stock, restricted stock units and stock appreciation rights ("SARs"). The Corporation awarded 17,368 and 2,760 restricted shares during 2008 and 2007, respectively. These restricted shares vest over a five year period. The weighted average fair value of restricted stock grants during the years ending December 31, 2008 and 2007, were \$29.07 and \$32.87, respectively.

The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	<u>2008</u>	<u>2007</u>
Dividend yield.....	4.25%	3.63%
Risk-free interest rate.....	3.14%	4.70%
Expected term.....	6 years	6 years
Expected volatility.....	16.69%	13.05%
Fair value (per Black-Scholes model).....	\$3.05	\$3.93

Stock options issued in 2008 and 2007 vest over a five-year period.

A summary of the status of the Corporation's Stock Option Plan as of December 31, 2008 and 2007, and changes during the years ended on those dates is presented below:

	<u>2008</u>		<u>2007</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Stock options:				
Outstanding at beginning of year....	360,335	\$ 29.09	299,285	\$ 28.69
Granted.....	58,250	29.16	61,650	31.02
Forfeited.....	—	—	—	—
Expired.....	(6,300)	22.71	(300)	28.92
Exercised.....	(3,750)	16.43	(300)	28.92
Outstanding at end of year.....	<u>408,535</u>	<u>29.31</u>	<u>360,335</u>	<u>29.09</u>
Exercisable at end of year.....	<u>161,023</u>	<u>\$ 28.74</u>	<u>138,618</u>	<u>\$ 26.81</u>

The following table summarizes information about stock options outstanding at December 31, 2008:

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding at 12/31/08	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/08	Weighted Average Exercise Price
\$20.00 - \$24.99	40,000	1.7 years	\$ 22.17	40,000	\$ 22.17
\$25.00 - \$29.99	246,364	7.1 years	28.78	67,698	28.63
\$30.00 - \$34.99	122,171	5.7 years	32.72	53,325	33.80
	408,535	6.1 years	29.31	161,023	28.74

In 1993, the Corporation initiated a Director Stock Plan (“DSP”). The DSP provides that Directors of the Corporation receive their annual retainer fee in the form of stock in the Corporation. Total shares issued under the DSP in the years ending December 31, 2008 and 2007 were 7,722 and 5,919, respectively.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

To meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amount of those instruments assuming that the amounts are fully advanced and that collateral or other security is of no value. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Off-balance-sheet financial instruments with contractual amounts that present credit risk included the following:

	December 31,	
	2008	2007
	(In thousands)	
Standby letters of credit.....	\$ 4,986	\$ 5,447
Commitments to extend credit:		
Unused portion of existing lines of credit.....	136,829	120,959
Origination of new loans.....	12,877	16,559
Liabilities associated with letters of credit.....	26	27

Standby letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Most guarantees extend for one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The collateral supporting those commitments varies and may include real property, accounts receivable or inventory. Commitments to extend credit are agreements to lend to a customer as long as 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 some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of the credit is based on management's credit evaluation of the customer. Collateral held varies, but may include primary residences, accounts receivable, inventory, property, plant and equipment, and income-producing commercial real estate.

16. COMMITMENTS AND CONTINGENCIES

The Corporation is obligated under various lease agreements covering its main office, branch offices and other locations. These agreements are accounted for as operating leases and their terms expire between 2009 and 2018 and, in some instances, contain options to renew for periods from five to fifteen years. The total minimum rentals due in future periods under these agreements in effect at December 31, 2008 were as follows:

Year Ended December 31,	Future Minimum Lease Payments
	(In thousands)
2009	\$ 2,749
2010	1,951
2011	1,167
2012	1,016
2013	912
Thereafter	3,106
Total minimum lease payments	<u>\$ 10,901</u>

Several lease agreements contain clauses calling for escalation of minimum lease payments contingent on increases in real estate taxes, gross income adjustments, percentage increases in the consumer price index and certain ancillary maintenance costs. Total rental expense amounted to approximately \$2,955,000 and \$2,852,000 for the years ended December 31, 2008 and 2007, respectively.

Under the terms of a sublease agreement, the Corporation will receive minimum annual rental payments of approximately \$14,000 through July 2009. Total rental income amounted to approximately \$33,000 and \$32,000 for the years ended December 31, 2008 and 2007, respectively.

The Bank is involved in various legal actions arising in the normal course of business. Although the ultimate outcome of these actions cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of such actions will not have a material adverse effect on the consolidated financial condition of the Corporation.

The Corporation has entered into agreements with its President and with certain other officers, whereby, following the occurrence of a change in control of the Corporation, if employment is terminated (except because of death, retirement, disability or for "cause" as defined in the agreements) or is voluntarily terminated for "good reason," as defined in the agreements, said officers will be entitled to receive additional compensation, as defined in the agreements.

17. STOCKHOLDERS' EQUITY

Capital guidelines issued by the Federal Reserve Board ("FRB") and by the FDIC require that the Corporation and the Bank maintain minimum capital levels for capital adequacy purposes. These regulations also require banks and their holding companies to maintain higher capital levels to be considered "well-capitalized". 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 Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, there are specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The risk-based capital rules are designed to make regulatory capital more sensitive to differences in risk profiles among bank and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Management believes that as of December 31, 2008 and 2007, the Corporation and the Bank met all applicable minimum capital requirements and were considered "well-capitalized" by both the FRB and the FDIC. There have been no events or conditions since the end of the year that management believes would have changed the Corporation's or the Bank's category.

The Corporation's and the Bank's actual and required capital measures were as follows:

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
At December 31, 2008:						
Cambridge Bancorp:						
Total capital						
(to risk-weighted assets).....	\$ 77,508	16.2%	\$ 38,237	8.0%	\$ 47,796	10.0%
Tier I capital						
(to risk-weighted assets).....	71,512	15.0%	19,118	4.0%	28,678	6.0%
Tier I capital						
(to average assets)	71,512	7.9%	36,023	4.0%	45,028	5.0%
Cambridge Trust Company:						
Total capital						
(to risk-weighted assets)	\$ 75,988	15.9%	\$ 38,237	8.0%	\$ 47,796	10.0%
Tier I capital						
(to risk-weighted assets).....	69,992	14.6%	19,118	4.0%	28,678	6.0%
Tier I capital						
(to average assets)	69,992	7.9%	35,635	4.0%	44,544	5.0%
At December 31, 2007:						
Cambridge Bancorp:						
Total capital						
(to risk-weighted assets)	\$ 72,639	16.6%	\$ 35,064	8.0%	\$ 43,830	10.0%
Tier I capital						
(to risk-weighted assets).....	67,146	15.3%	17,532	4.0%	26,298	6.0%
Tier I capital						
(to average assets)	67,146	8.0%	33,472	4.0%	41,840	5.0%
Cambridge Trust Company:						
Total capital						
(to risk-weighted assets)	\$ 71,756	16.4%	\$ 35,064	8.0%	\$ 43,830	10.0%
Tier I capital						
(to risk-weighted assets).....	66,263	15.1%	17,532	4.0%	26,298	6.0%
Tier I capital						
(to average assets)	66,263	8.0%	33,111	4.0%	41,389	5.0%

18. OTHER INCOME

The components of other income were as follows:

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Safe deposit box income	\$ 357	\$ 362
Other fee income	217	221
Miscellaneous income	26	27
Total other income	<u>\$ 600</u>	<u>\$ 610</u>

19. OTHER OPERATING EXPENSES

The components of other operating expenses were as follows:

	Year Ended December 31,	
	2008	2007
	(In thousands)	
Printing and supplies	\$ 519	\$ 446
Director fees	456	424
Amortization of intangible assets	378	378
Postage	295	297
Donations	285	256
Other losses	115	210
Miscellaneous expense	785	686
Total other operating expenses	<u>\$ 2,833</u>	<u>\$ 2,697</u>

20. OTHER COMPREHENSIVE INCOME

Comprehensive income is defined as all changes to equity except investments by and distributions to stockholders. Net income is a component of comprehensive income, with all other components referred to in the aggregate as ‘other comprehensive income.’ The Corporation’s other comprehensive income consists of unrealized gains or losses on securities held at year-end classified as available-for-sale and the component of the unfunded pension liability computed in accordance with the requirements of SFAS 87, “*Employers’ Accounting for Pensions*”. The before-tax and after-tax amount of each of these categories, as well as the tax (expense)/benefit of each, is summarized as follows:

	Year Ended December 31, 2008		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
		(In thousands)	
Change in unfunded retirement liability	\$ (4,455)	\$ 1,784	\$ (2,671)
Unrealized holding gain/(loss) on securities available for sale arising during the period	8,074	(2,888)	5,186
Reclassification adjustment for realized gains recognized in net income	(251)	88	(163)
	<u>\$ 3,368</u>	<u>\$ (1,016)</u>	<u>\$ 2,352</u>

Year Ended December 31, 2007

	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
		(In thousands)	
Change in unfunded retirement liability	\$ 678	\$ (131)	\$ 547
Unrealized holding gain/(loss) on securities available for sale arising during the period	5,411	(1,889)	3,522
Reclassification adjustment for realized gains recognized in net income	(122)	43	(79)
	\$ 5,967	\$ (1,977)	\$ 3,990

21. EARNINGS PER SHARE

The following represents a reconciliation between basic and diluted earnings per share as required per SFAS 128, "Earnings Per Share":

	Year Ending December 31, 2008	
	Basic EPS	Diluted EPS
Numerator:		
Net income	\$ 9,613,000	\$ 9,613,000
Denominator:		
Common shares outstanding	3,748,547	3,748,547
Dilutive effect of stock options	—	9,805
Total shares	3,748,547	3,758,352
Earnings per share	\$ 2.56	\$ 2.56

	Year Ending December 31, 2007	
	Basic EPS	Diluted EPS
Numerator:		
Net income	\$ 9,243,000	\$ 9,243,000
Denominator:		
Common shares outstanding	3,818,360	3,818,360
Dilutive effect of stock options	—	19,212
Total shares	3,818,360	3,837,572
Earnings per share	\$ 2.42	\$ 2.41

22. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following is a summary of the carrying values and estimated fair values of the Corporation's significant financial instruments as of the dates indicated.

	December 31, 2008		December 31, 2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	\$ 39,651	\$ 39,651	\$ 28,843	\$ 28,843
Investment securities.....	382,496	385,811	377,397	378,335
Loans, net.....	464,118	465,795	412,089	415,794
Bank owned life insurance.....	11,310	11,310	10,841	10,841
Accrued interest receivable.....	4,391	4,391	4,953	4,953
Financial liabilities:				
Deposits.....	767,654	768,742	698,625	698,531
Short-term borrowings.....	3,019	3,019	35,540	35,540
Long-term borrowings.....	55,000	56,692	35,000	36,271

Effective January 1, 2008, the Corporation adopted SFAS 157 for financial assets and liabilities. The effective date of SFAS 157, as it applies to nonfinancial assets and liabilities, has been delayed to January 1, 2009. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS 157, among other things, emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions the market participants would use in pricing the asset or liability. In addition, SFAS 157 specifies a hierarchy of valuation techniques based on whether the types of valuation information (“inputs”) are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Corporation’s market assumptions. These two type of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices for identical assets or liabilities in active markets.
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.
- Level 3 – Valuations derived from techniques in which one or more significant inputs or significant value drivers are unobservable in the markets and which reflect the Corporation’s market assumptions.

Under SFAS 157, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Corporation uses quoted market prices to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques such as matrix pricing or other models that use, where possible, current market-based or independently sourced market parameters, such as interest rates. If observable market-based inputs are not available, the Corporation uses unobservable inputs to determine appropriate valuation adjustments using methodologies applied consistently over time.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time, they are susceptible to material near-term changes. The fair values disclosed do not reflect any premium or discount that could result from offering significant holdings of financial instruments at bulk sale, nor do they reflect the possible tax ramifications or estimated transaction costs. Changes in economic conditions may also dramatically affect the estimated fair values.

The Corporation uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as collateral dependent impaired loans.

The following table summarizes certain assets reported at fair value:

	Fair Value as of December 31, 2008			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In thousands)			
Measured on a recurring basis:				
Securities available for sale	\$ 613	\$ 271,292	\$ —	\$ 271,905
Measured on a non-recurring basis:				
Collateral dependent impaired loans..	\$ —	\$ —	\$ —	\$ —

The following is a description of the principal valuation methodologies used by the Corporation to estimate the fair values of its financial instruments.

Investment Securities

For investment securities, fair values are primarily based upon valuations obtained from a national pricing service which uses matrix pricing with inputs that are observable in the market or can be derived from, or corroborated by, observable market data. When available, quoted prices in active markets for identical securities are utilized. The fair value of FHLB Boston stock equals its carrying value since such stock is only redeemable at its par value.

Loans

For most categories of loans, fair values are estimated using projected future cash flows, discounted at rates based upon either trades of similar loans or mortgage-backed securities, or at current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities. Loans that are deemed to be impaired in accordance with SFAS 114, “*Accounting by Creditors for Impairment of a Loan*”, are valued based upon the lower of cost or fair value of the underlying collateral.

Bank Owned Life Insurance

For BOLI, fair values are based on the cash surrender values of the insurance policies, along with any stable-value agreements.

Deposits

The fair value of non-maturity deposit accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using a replacement cost of funds approach and is based upon rates currently offered for deposits of similar remaining maturities.

Long-term Borrowings

For long-term borrowings, fair values are estimated using future cash flows, discounted at rates based upon current costs for debt securities with similar terms and remaining maturities.

Other Financial Assets and Liabilities

Cash and cash equivalents, accrued interest receivable and short-term borrowings have fair values which approximate their respective carrying values because these instruments are payable on demand or have short-term maturities and present relatively low credit risk and interest rate risk.

Off-Balance Sheet Financial Instruments

In the course of originating loans and extending credit, the Bank will charge fees in exchange for its commitment. While these commitment fees have value, the Bank has not estimated their value due to the short-term nature of the underlying commitments and their immateriality.

Values Not Determined

In accordance with FSP 157-2, which delayed the effective date of SFAS 157 for all non-financial assets and non-financial liabilities until January 1, 2009, the Corporation has not estimated fair values for non-financial assets such as real estate included in banking premises and equipment, goodwill, the intangible value of the Bank's portfolio of loans serviced for itself and the intangible value inherent in the Bank's deposit relationships (i.e., core deposits), among others. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Corporation.

CAMBRIDGE TRUST COMPANY—OFFICERS

Joseph V. Roller II	President & Chief Executive Officer
Lynne M. Burrow	Executive Vice President & Chief Information Officer
Michael A. Duca	Executive Vice President, Wealth Management
Albert R. Rietheimer	Senior Vice President, Chief Financial Officer & Treasurer
Robert C. Davis	Senior Vice President, Chief Lending Officer & Secretary
James F. Spencer	Senior Vice President & Chief Investment Officer
Noreen A. Briand	Senior Vice President & Human Resources Director
Melinda N. Donovan	Senior Vice President & Trust Officer
Thomas A. Johnson	Senior Vice President, Consumer Banking Director & Assistant Secretary
Martin B. Millane, Jr.	Senior Vice President, Commercial Real Estate
Robert N. Siegrist	Senior Vice President & Marketing Director
Elaine M. Arseneault	Vice President
Julie A. Alix	Vice President & Trust Officer
Susan K. Barry	Vice President
Carol J. Bartalussi	Vice President
Stephen A. Caputo	Vice President
Susan I. Chiappisi	Vice President & Trust Officer
Jeffrey B. Churchill	Vice President
Ana Maria Foster	Vice President, Compliance & Risk Management Officer
John A. Haley	Vice President & Director of Trust Services
Ryan M. Hanna	Vice President & Investment Officer
Eric C. Jussaume	Vice President & Investment Officer
Brian A. Kelley	Vice President
Janice Kilburn	Vice President & Business Banking Officer
D. Eliot Klein	Vice President
John R. Lesanto	Vice President
Matthew S. Lieber	Vice President & Trust Officer
M. Lynne Linnehan	Vice President
Robert J. MacAllister	Vice President & Trust Business Development Officer
Andrew J. Mahoney, Jr.	Vice President
Robert P. Maloof	Vice President & Manager, Commercial Credit Department
Roma A. Mayur	Vice President
Laura C. McGregor	Vice President & Trust Officer
Stuart J. McGuirk	Vice President, Merchant Services
Patricia J. Mullin	Vice President
Joan J. Norton	Vice President, Director of Budgeting & Forecasting
Frank Pasciuto	Vice President
Robert C. Pasciuto, Esq.	Vice President & Trust Officer
Donna R. Petro	Vice President
Steven G. Pisan	Vice President
Marc Romvos	Vice President & Business Banking Manager
Salvatore M. Sagarese	Vice President
Joseph P. Sapienza	Vice President & Controller
Dina. M. Scianna	Vice President

CAMBRIDGE TRUST COMPANY OFFICERS (continued)

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Ann K. Tucker.....	Vice President
Helen F. Van Nostrand	Vice President
David E. Walker	Vice President & Investment Officer
John M. Winslow	Vice President & Director of Internal Audit
Aimee B. Forsythe	Assistant Vice President
Peter J. Halberstadt	Assistant Vice President, Commercial Real Estate
Patricia E. Hartnett.....	Assistant Vice President
Elvanelga C. Isenia	Assistant Vice President
Michael T. McGovern.....	Assistant Vice President, Information Technology Manager
Richard A. Moquin.....	Assistant Vice President & Tax Officer
Stephen I. Sall	Assistant Vice President & Loan Review Officer
Ana M. Mojica-Boyd	Assistant Vice President
Maria Montgomery	Assistant Treasurer
Mary Colt Navins.....	Assistant Treasurer
Clinton D. Williams	Assistant Treasurer & Merchant Services Officer
Ping H. Wong	Assistant Treasurer
Kathleen E. Carlson	Business Banking Officer
Jennifer A. Casey	Director of Training
JoAnn M. Cavallaro	Administrative Officer
Julia M. Cawley	Operations Officer
Denise L. Dussault	Operations Officer
Gabriele Fabrizio	Operations Officer
Stephen W. Hall	Information Security Officer
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Aslihan Kendircioglu	Senior Credit Analyst Officer
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Barbara E. Piacentino.....	Operations Officer
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Nancy M. Zuzolo	Operations Officer

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Todd D. Mayo	President & Trust Officer
Shirley M. Benson	Senior Vice President & Investment Officer
Patricia S. Qualter	Senior Vice President & Trust Officer
Brian J. Krol	Vice President of Investments
Richard C. Simpson	Vice President & Business Development Officer
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Battle, Myia	Jorge, Adelaide	Sheikh, Basharat
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