

CAMBRIDGE BANCORP



ANNUAL REPORT 2009

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.

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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
R. GREGG STONE	Manager Kestrel Management, LLC
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KATHRYN A. WILLMORE	Retired Vice President and Secretary of the Corporation Massachusetts Institute of Technology
BYRON E. WOODMAN, JR.	President Monument Financial Advisors, LLC Woodman & Eaton, P.C.

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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

The degree to which...institutions succeed in underpinning trust and continuity is the extent to which long term competitive strength can be sustained.

--Will Hutton

During challenging times, people aim to reduce uncertainty by taking action aimed at limiting their exposure to risk. In seeking to protect what is most important to us under such circumstances, we are forced to consider which people and institutions we can trust. This is never more the case than in situations of widespread uncertainty, such as that resulting from the ongoing global financial crisis. We have been living through one of the most difficult and challenging economic downturns since the Great Depression. The causes and outcomes have been well documented, yet the uncertainty about the future remains. The crisis of trust and confidence concerning financial institutions has been so severe that familiar expressions such as “it’s like money in the bank” and “you can bank on it” no longer connote a sense of security.

Some financial institutions, however, have managed not only to survive during the crisis but also to thrive, without changing their commitment to their principles of fairness, integrity, and responsibility, suggesting that gains in strength need not come at the expense of institutional identity. In fact, long-term competitive strength is based not only on the capacity to withstand temporary crises, but also to maintain a consistent set of standards and principles at all times – good and bad. The capacity to demonstrate consistency and character in this respect generates trust. Such trust builds strength by allowing for the creation and sustenance of productive, mutually beneficial relationships that persist under changing conditions.

In the year ending December 31, 2009, Cambridge Trust Company produced record earnings. The Bank’s net income in 2009 of \$10,277,000 exceeded 2008 net income by \$664,000 or 6.91%. Earnings per basic share (EPS) for 2009 were \$2.75 compared to EPS in 2008 of \$2.56, representing a 7.4% increase. The modest decline in the return on average equity from 13.46% in 2008 to 13.09% in 2009 was primarily the

result of growth in the Bank's equity attributable to unrealized gains in its investment portfolio.

In November 2009, the Bank announced a 6.1% increase in its quarterly dividend from \$0.33 per share to \$0.35 per share. For 2009, dividends declared were \$1.34 per share compared to \$1.28 per share in 2008, which represents an increase of 4.7%.

<u>Year End</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Deposits (in thousands).....	\$ 663,150	\$ 663,437	\$ 698,625	\$ 767,654	\$ 872,767
Total Loans (in thousands).....	\$ 332,602	\$ 356,074	\$ 418,748	\$ 471,814	\$ 537,933
Net Income (in thousands).....	\$ 7,723	\$ 8,680	\$ 9,243	\$ 9,613	\$ 10,277
Basic Earnings/Share	\$ 1.96	\$ 2.25	\$ 2.42	\$ 2.56	\$ 2.75
Dividends Declared.....	\$ 1.01	\$ 1.06	\$ 1.18	\$ 1.28	\$ 1.34
Book Value.....	\$ 15.65	\$ 16.44	\$ 18.49	\$ 20.29	\$ 21.95
Return/Average Equity.....	12.39%	14.09%	14.17%	13.46%	13.09%

The strong earnings performance was a result of thoughtful planning, diligent execution, and no doubt some good fortune during the course of the year. As 2008 came to a close, we expected a difficult year in 2009, as the economy declined, equity markets dropped precipitously, and unemployment rose. Clearly, there would be headwinds that could depress earnings. We developed action plans to blunt and offset the forces that might serve as a drag on earnings. At the same time, we wanted to take advantage of the Bank's relative strength and stability – and to target opportunities for growth.

It was a particularly good year for top-line revenue growth. The 8.7% year-over-year increase was driven primarily by continued growth in net interest income, which in 2009 increased by \$4.7 million or 13.6%. Loan growth across most consumer and commercial lending segments, funded by core deposit growth, accounted for the strong results. The Bank's net interest margin rose from 4.11% in 2008 to 4.27% in 2009, further enhancing growth in net interest income.

It was important for the Bank to achieve significant revenue growth in order to offset some difficult challenges. Chief among them was the steep rise in Federal Deposit Insurance Corporation (FDIC) insurance premiums. The importance of the FDIC's role in contributing to the safety and soundness of the banking system cannot be overstated. With the rise

in bank failures during 2009, the FDIC sought to replenish its reserves by charging a special assessment on all banks. For Cambridge Trust this special assessment amounted to \$454,000. The total increase in FDIC premiums in 2009 compared to 2008 was almost \$1.5 million. If there is good news to be found here, it is in the fact that the Bank's insurance premium rate is one of the lowest in the industry.

Business Banking

Nothing prevents recovery as effectively as fear...; nothing promotes it as does firm and sober handling of the existing situation under the existing conditions.

-- Joseph A. Schumpeter

One might assume that, in a year characterized by challenging conditions, the Bank would have decided to pull back on its lending and new business activities and settle for maintaining the status quo. Such an assumption, while reasonable, would be incorrect. In fact, contrary to the dictates of conventional wisdom, we thought it a good time to build on the prior year's initiatives and momentum and to get new plans for the future off the ground, headwinds notwithstanding. Our plans were carried out with thoughtfulness and some level of restraint, given the context of a deteriorating economy through much of the year, but also with energy and a sense of initiative.

In times of heightened economic uncertainty, it is important to maintain close contact with one's business customers to understand the challenges they face, to offer insight and advice, and most importantly to offer support. Businesses that maintain a relationship with Cambridge Trust have the advantage of knowing that we are in the market and that we understand our customers. Our relationships with our customers are built on trust – the kind of trust that yields confidence. Customers can rely on the Bank to work with them during difficult economic cycles.

Over the past year, we grew accustomed to seeing reports in the media suggesting that banks were not lending. Such was not the case at Cambridge Trust. Commercial loans (those used by business for working capital and capital investments) and commercial real estate loans together in 2009 increased \$15.7 million or 8.0% since year-end 2008. Certainly

in 2009, we took a more cautious view of construction and development loans; the reduced exposure in this sector reflects this sense of caution. Overall, however, total commercial real estate loans increased year over year as we developed new loan opportunities with real estate investors.

This is also a good time to say a few words about loan quality – an issue to which this Bank has consistently and diligently paid close attention. We use two broad measures to evaluate loan quality: net charge-offs as a percentage of total loans and non-performing loans as a percentage of total loans. Regarding the former ratio, the Bank’s net charge-offs to total loans in 2009 was 0.03%, compared to net recoveries in 2008. The ratio of non-performing loans to total loans at the end of 2009 was 0.20%, compared to 0.34% at the end of 2008. The Bank continued to make increases in its Allowance for Loan Losses, taking into account numerous factors. At the end of December 2009, the Allowance stood at \$8.7 million or 1.62% of total loans, compared to \$7.7 million or 1.63% at the end of 2008.

Loans represent just one aspect of the Bank’s business banking relationships. In fact, most business banking customers do not borrow from the Bank. They maintain active deposit relationships in the confidence that they will receive consistently high levels of service from business banking and cash management officers, local branch staff, and the Customer Resource Center. The Bank’s significant, long-term investment in image technology has produced benefits to businesses that use Remote Deposit Capture. This service enables customers to deposit checks from their office using a scanning device rather than having to visit the branch. As much as we enjoy seeing customers in our branches, our first priority is to offer multiple access points to the Bank’s services. The customer will choose which works best.

One measure of how we are doing in the area of deposit and cash management services is deposit growth. When we began 2009, total commercial deposits (excluding certificates of deposit) were \$206 million. At the end of 2009, the total had increased to \$230 million, representing 11.6% growth. Moreover, commercial customers using the Bank’s sweep product to manage cash maintain another \$97.8 million in short-term investments. This amount is not included on the Bank’s balance sheet.

Consumer Banking

High achievement always takes place in the framework of high expectation.

-- Jack Kinder

At times, we are asked to describe or summarize something in a few words; my colleagues might say this is not one of my strengths. If put to the task of describing Cambridge Trust's consumer banking in 2009, however, I would select just two words – "enthusiasm" and "achievement." There was energy and excitement around the Belmont branch's first full year of operation. We were well received in the Belmont community, as was reflected in year-end numbers that not only met, but exceeded our high expectations. I would like to think that it was the engagement and investment of the Bank and its employees in the community that produced these results, as much as the services that we provide.

The work that we put into living up to the high expectations we set for the Bank leads to greater efficiency and ease for our customers. In 2009, the Bank's investment in image technology resulted in higher levels of service for individuals (and businesses) that make branch deposits. Branch capture capability was introduced in all branches in 2009 and resembles Remote Deposit Capture for businesses. By capturing branch deposits with image technology and sending those images to bank operations for processing, the customer benefits from later cut-off times and improved funds availability. Among many benefits to the Bank is lower courier expense.

The application of image technology also permitted Cambridge Trust to introduce e-statements over the Internet. Many customers want the convenience of this service, which reduces the amount of paper involved in transactions and reporting, in general. There are three winners – the customer, the Bank and the environment.

The aforementioned service enhancements and enthusiastic customer service, combined with a level of trust and expectation from the communities the Bank serves, helped produce record deposit growth. In 2009, total consumer deposits (excluding certificates of deposit) increased

\$91 million (22.9%) to \$490 million. Noteworthy is the fact that this growth came from core checking, savings and money market accounts.

We achieved another record year in residential mortgage loans, which increased \$46 million (23.6%) in 2009 to \$242 million. An attractive rate environment drove much of this business to the Bank. In addition, customers knew that they could expect a personalized approach to the process of obtaining a mortgage. The prospect of owning a home is both exciting and risky; Cambridge Trust wants to encourage that excitement but also to limit risk by offering advice as to the appropriate level of loan and structure for each individual. Should a question or issue arise after a loan is closed, customers know that the answer is only a local phone call or branch visit away. Their mortgage is part of a customized banking relationship held and serviced by the Bank – not part of a securitized investment instrument traded anywhere in the world.

Wealth Management

To give real service you must add something which cannot be bought or measured with money, and that is sincerity and integrity.

--Donald A. Adams

In many respects, 2009 represented a year of recovery after an extended period of extreme volatility in the markets. During the first quarter of 2009, when equity markets bottomed, perhaps the furthest thing from people's minds was recovery and the opportunity for a new beginning. Stability would have sufficed. In the end, however, not only did we see a recovery in asset values, but in spirits as well.

What is true of individuals – that the test of their character comes in times of challenge – is also true of institutions. Strong financial institutions stay close to their clients and work hard to merit the trust that allows such closeness to be maintained even during periods of crisis and uncertainty. During the past year, the Bank's portfolio managers and trust officers did just this – offering support, advice, and customized guidance focused on the needs and expectations of our clients. Although it is important to remain calm and thoughtful during periods of volatility, precipitous action

– or the failure to take action out of fear – can be equally harmful. After the market bottomed out in early March, investors who did not have money at work in the equity markets missed out on a double-digit recovery.

Wealth Management

<u>Year</u>	<u>Gross Revenues (in thousands)</u>	<u>Managed Assets (in millions)</u>
2005	\$ 10,406	\$ 1,282
2006	\$ 11,092	\$ 1,340
2007	\$ 11,995	\$ 1,486
2008	\$ 11,749	\$ 1,210
2009	\$ 11,353	\$ 1,383

By the end of 2009, assets under management (AUM) had experienced a healthy upswing of over 14% from the end of 2008. Gross revenues in 2009 compared to 2008 declined by just over 3% – not as much as might have been expected, given the conditions in 2009. Although some of the improvement in relative performance was due to the upturn in equity markets, Wealth Management also achieved an especially strong and gratifying year in terms of new client relationships. Those with experience in this business understand that relationships are built over time. When clients establish a wealth management relationship, they are entrusting an institution not only with their money but also with their future in some sense.

New wealth management relationships are formed in many ways. Most frequently, they begin with a simple conversation. It might be a banking customer who speaks with one of our branch managers and asks if there is someone in the Bank who could answer some questions about trust and estate planning. A satisfied client may mention the responsiveness and professionalism of the Bank’s investment management team to a friend. An attorney or accountant with clients who are working successfully with our Wealth Management group may refer others to us.

The Bank seeks to initiate conversations with prospective clients in numerous ways. Many individuals seek information on a variety of subjects, including wealth management, on the Internet. We strive to leverage this customer preference through various marketing initiatives

that encourage visits to the Bank's Wealth Management web page. Here, they will find a diverse content selection on a broad range of subjects. Not all content relates to investments, trusts, estates, and taxes. An eclectic assortment of fascinating topics may be found in the podcasts from our very successful Thought Seriessm events. Stockholders may wish to visit <https://www.cambridgetrust.com> (click Thought Seriessm on Wealth Management page) to experience the richness of subject matter to which I have alluded. Who knows? It may be the start of a conversation.

In 2009, we bade farewell to Barbara Bilodeau, Assistant Trust Officer. Barbara retired after a successful career helping to build Cambridge Trust's Wealth Management business in New Hampshire. We also welcomed William Yates, Vice President, as the newest member of the Wealth Management Business Development team.

Information Technology and Operations

Although we tend to separate the annual report into discreet sections, readers should get a sense of the collaboration and cooperation that exists across various business lines and support functions. Be assured that this is more than theory; it is a practice. Sports metaphors may be overused, but when we execute the Bank's plans as a team, the Bank produces results like those recorded in 2009.

Most activities of this institution will in one form or another have a connection to the IT/OPS team which, by the way, welcomed two operations officers – Ann Kuske and Charles Givonetti. The most noteworthy of these activities in recent times has been the implementation of a bank-wide image strategy. Consumer and business customers alike have benefitted from this “creation of new value,” and all reports to date indicate that they are satisfied.

Customers are also expressing a preference for the convenience of internet banking. The ease of use and expanded functionality of this service are reasons why more consumers and businesses sign up. The Bank continues to invest in upgrading its internet banking services, both in the interest of improving the customer experience as well as enhancing security features.

Some initiatives of the IT/OPS group are less visible to our constituents. One might say they are not “headline events.” As a stockholder, you should know that we consistently work to anticipate and prepare for unexpected situations, which may come in many forms. Management analyzes a multitude of “what if” scenarios that are subsequently reviewed with the Board. We are in the business of managing risk, and the definition of risk extends well beyond the business of making loans. The Bank takes very seriously the identification and management of risk. We make significant investments to ensure the safety and privacy of our customer information and the soundness of the institution.

*Trust is a perishable commodity that needs to be nourished and sustained.
It can never be taken for granted. It can never be assumed.*

--Edmund M. Burke

The capacity to withstand the down drafts of economic adversity in 2009 is a testament to the dedication and resilience of the Cambridge Trust team. At the very beginning of 2009, we gathered all employees together to outline the realities and challenges of the ongoing economic downturn and to explore what the situation would mean for customers, the Bank, and each employee. We explained that the Bank needed to become somewhat more defensive in anticipation of market volatility and more “bad news.” In the interest of caution and preparedness, the Bank would take appropriate protective measures, tighten its belt a notch or two, and maintain a posture of readiness to respond quickly to rapidly changing circumstances.

It was important to paint a clear and candid picture of the economic environment and to share the Bank’s plans of action. In this way, we eliminated many distractions and created an atmosphere more focused on shared goals and achievement. After all, the Bank was well positioned to take advantage of opportunities given its sound capital, ample liquidity, good asset quality, and a reputation of trust and integrity built over 120 years of serving customers.

I want to acknowledge and thank our 200 dedicated employees who consistently deliver a remarkable experience for our customers. This

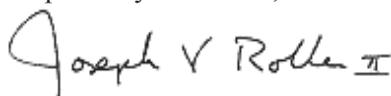
past year, especially, in the midst of rather daunting circumstances, this team executed the Bank's game plan and produced record results.

Many times in annual reports, I have noted how fortunate the Bank has been to draw upon the experience of an engaged and responsive Board of Directors. At no time in recent memory was the Board more important than during the 2008-2009 time frame. A vigorous governance structure and process create a healthy environment for engagement. The Board has played an invaluable role – challenging assumptions, offering insights, encouraging innovation and growth, and supporting actions that appropriately balance risk and reward.

Maintaining the strength and vitality of the Board involves close attention to Board succession matters. In 2009, after serving this institution for 47 years as an employee, President and CEO, and Director, Jim Dwinell retired from the Cambridge Trust Board. It is difficult to replace someone with Jim's experience. We were pleased, however, to welcome two new members to the Board in 2009 – Robert J. Bettacchi and R. Gregg Stone. Bob is Principal/Owner of RJB Consulting and a retired Senior Vice President of W. R. Grace & Co. and President of Grace Performance Chemicals. Gregg is the Manager of Kestrel Management, LLC. They bring to the Board a depth of experience in general management, strategy development, finance, and investment management. The Bank is fortunate to have Bob and Gregg join the Board at a time of immense challenge and change in the financial services sector.

In closing, I want to acknowledge and thank you, our stockholders, for your support and the confidence in Cambridge Trust that you have demonstrated. I appreciate that 2009 was also a difficult and challenging period for each of you. Please be assured that we will do our best to continue to earn the trust that you place in us.

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 8, 2010

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Cambridge Bancorp:

We have audited the accompanying consolidated balance sheets of Cambridge Bancorp and subsidiaries (the "Corporation") as of December 31, 2009 and 2008, 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 audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cambridge Bancorp and subsidiaries as of December 31, 2009 and 2008, 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 8, 2010

**CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2009	2008
	(In thousands)	
ASSETS		
Cash and due from banks	\$ 12,762	\$ 13,472
Overnight investments	13,412	26,179
Total cash and cash equivalents	26,174	39,651
Investment securities:		
Available for sale, at fair value	339,833	271,905
Held-to-maturity, at amortized cost	84,073	105,785
Total investment securities	423,906	377,690
Loans:		
Residential mortgage	241,564	195,510
Commercial mortgage	162,002	157,787
Home equity	69,212	68,419
Commercial	48,291	36,842
Consumer	16,864	13,256
Total loans	537,933	471,814
Allowance for loan losses	(8,729)	(7,696)
Net loans	529,204	464,118
Federal Home Loan Bank of Boston stock, at cost	4,806	4,806
Bank owned life insurance	11,672	11,310
Banking premises and equipment, net	5,562	5,979
Other real estate owned	696	—
Accrued interest receivable	4,470	4,391
Other assets	12,459	9,267
Total assets	\$1,018,949	\$ 917,212
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	\$ 204,335	\$ 200,877
Interest bearing checking	238,152	212,053
Money market	53,099	51,537
Savings	224,360	140,285
Certificates of deposit	152,821	162,902
Total deposits	872,767	767,654
Short-term borrowings	11,441	3,019
Long-term borrowings	38,000	55,000
Other liabilities	15,033	15,495
Total liabilities	937,241	841,168
Stockholders' equity:		
Common stock, par value \$1.00; Authorized 5,000,000 shares; Outstanding: 3,722,726 and 3,748,642 shares, respectively	3,723	3,749
Additional paid-in capital	20,431	19,749
Retained earnings	53,676	49,384
Accumulated other comprehensive income	3,878	3,162
Total stockholders' equity	81,708	76,044
Total liabilities and stockholders' equity	\$1,018,949	\$ 917,212

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2009	2008
	(In thousands, except per share data)	
Interest income:		
Interest on loans	\$ 27,674	\$ 26,808
Interest on taxable investment securities	16,824	16,133
Interest on tax exempt investment securities	1,607	1,542
Interest on overnight investments	53	123
Dividends on FHLB of Boston stock	—	177
Total interest income	46,158	44,783
Interest expense:		
Interest on deposits	5,437	7,669
Interest on borrowed funds	1,712	2,778
Total interest expense	7,149	10,447
Net interest income	39,009	34,336
Provision for loan losses	1,200	1,000
Net interest income after provision for loan losses	37,809	33,336
Noninterest income:		
Wealth management income	11,353	11,749
Deposit account fees	2,337	2,371
ATM/Debit card income	873	844
Merchant card services	640	564
Bank owned life insurance income	363	469
Gain on disposition of investment securities	382	251
Other income	670	600
Total noninterest income	16,618	16,848
Noninterest expense:		
Salaries and employee benefits	22,721	21,004
Occupancy and equipment	6,587	6,427
Data processing	3,172	2,912
Professional services	1,393	1,462
Marketing	1,346	1,421
FDIC Insurance	1,703	208
Other expenses	2,705	2,833
Total noninterest expense	39,627	36,267
Income before income taxes	14,800	13,917
Income tax expense	4,523	4,304
Net income	\$ 10,277	\$ 9,613
Per share data:		
Basic earnings per common share	\$ 2.75	\$ 2.56
Diluted earnings per common share	\$ 2.75	\$ 2.56
Average shares outstanding - basic	3,735,784	3,748,547
Average shares outstanding - diluted	3,739,287	3,758,352

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	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at December 31, 2007	\$ 3,768	\$ 19,202	\$ 46,132	\$ 810	\$ 69,912
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 (\$1.18 per share)	—	—	(4,821)	—	(4,821)
Stock repurchased	(70)	(355)	(1,540)	—	(1,965)
Balance at December 31, 2008	3,749	19,749	49,384	3,162	76,044
Comprehensive income:					
Net income	—	—	10,277	—	10,277
Other comprehensive income, net of tax	—	—	—	716	716
Total comprehensive income	—	—	10,277	716	10,993
Stock based compensation	—	302	—	—	302
Exercise of stock options	5	108	—	—	113
Stock issued to ESOP and DSP	23	550	—	—	573
Dividends declared (\$1.28 per share)	—	—	(4,998)	—	(4,998)
Stock repurchased	(54)	(278)	(987)	—	(1,319)
Balance at December 31, 2009	3,723	20,431	53,676	3,878	81,708

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,	
	2009	2008
	(In thousands)	
Cash flows provided by operating activities:		
Net income	\$ 10,277	\$ 9,613
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,200	1,000
Amortization of deferred charges/(income), net	368	71
Depreciation and amortization	1,402	1,278
Bank owned life insurance income	(363)	(469)
Gain on disposition of investment securities	(382)	(251)
Compensation expense from stock option and restricted stock grants	302	315
Change in accrued interest receivable, other assets and other liabilities	(3,077)	1,079
Other, net	50	114
Net cash provided by operating activities	9,777	12,750
Cash flows used by investing activities:		
Origination of loans	(155,720)	(146,078)
Purchase of:		
Investment securities - AFS	(174,650)	(123,296)
Investment securities - HTM	(7,391)	(4,071)
Maturities, calls and principal payments of:		
Loans	88,389	92,888
Investment securities - AFS	96,769	51,312
Investment securities - HTM	28,978	56,550
Proceeds from sale of investment securities - AFS	10,452	21,968
Proceeds from sale of investment securities - HTM	—	487
Purchase of banking premises and equipment	(985)	(2,062)
Net cash used by investing activities	(114,158)	(52,302)
Cash flows provided by financing activities:		
Net increase in deposits	105,113	69,029
Net increase/(decrease) in short-term borrowings	8,422	(32,521)
Proceeds from long-term borrowings	—	20,000
Repayment of long-term borrowings	(17,000)	—
Proceeds from issuance of common stock	686	638
Repurchase of common stock	(1,319)	(1,965)
Cash dividends paid on common stock	(4,998)	(4,821)
Net cash provided by financing activities	90,904	50,360
Net increase (decrease) in cash and cash equivalents	(13,477)	10,808
Cash and cash equivalents at beginning of year	39,651	28,843
Cash and cash equivalents at end of year	\$ 26,174	\$ 39,651
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 7,235	\$ 10,540
Cash paid for income taxes	4,417	4,241
Non-cash transactions:		
Change in AOCI, net of taxes	716	2,352
Transfer of loans to other real estate owned	696	—

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. All significant intercompany accounts and transactions have been eliminated in preparation of the consolidated financial statements.

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 amount 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 \$1,383,000,000 and \$1,210,000,000 at December 31, 2009 and 2008, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) became effective on July 1, 2009. At that date, the ASC became FASB’s officially recognized source of authoritative U.S. generally accepted accounting principles (“GAAP”) applicable to all public and non-public non-governmental entities. The switch to the ASC affects how companies refer to U.S. GAAP in financial statements and accounting policies. Citing particular content in the ASC involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. The Corporation’s

adoption of this accounting standard, which was subsequently codified into ASC Topic 105, *Generally Accepted Accounting Principles*, did not have an impact on the Corporation's consolidated financial statements.

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.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, amounts due from banks and overnight investments.

Investment Securities

Investment securities are classified as either held-to-maturity or available-for-sale in accordance with ASC 320, "*Investments – 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 \$6,648,000 and \$6,687,000 at December 31, 2009 and 2008, respectively. These amounts are net of deferred taxes payable of \$3,821,000 and \$3,721,000, in each of the respective years. The Corporation classifies its securities based on its intention at the time of purchase.

Declines in the fair value of investment securities below their amortized cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. 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 Corporation's intent to sell the security or whether it is more likely

than not that the Corporation will be required to sell the debt security before its anticipated recovery.

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 are considered delinquent when a payment of principal and/or interest becomes past due 30 days following its scheduled payment due date.

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. Under certain circumstances, the Corporation may restructure the terms of a loan as a concession to a borrower. These restructured loans are generally also considered impaired loans. 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 unless they have been modified in a troubled debt restructuring.

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. When management believes that the collectability of a loan's principal balance, or portions thereof, is unlikely, the principal amount is charged against the allowance for loan losses. Recoveries on loans that have been previously charged-off are credited to the allowance for loan losses as received. 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.

Other Real Estate Owned

Other real estate owned (“OREO”) consists of properties formerly pledged as collateral to loans, which have been acquired by the Bank through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Upon transfer of a loan to foreclosure status, an appraisal is obtained and any excess of the loan balance over the fair value, less estimated costs to sell, is charged against the allowance for loan losses. Expenses and subsequent adjustments to the fair value are treated as other operating expense.

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. Deferred tax assets are reviewed quarterly and reduced by a valuation allowance if, based upon the information available, it is more likely than not that some or all of the deferred tax assets will not be realized. 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 2006 to the present.

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 average monthly pay during the five highest consecutive plan years of the employee's final ten years. 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

The cost of share-based awards (stock options and/or restricted stock of the Corporation) is determined at the grant date as measured by the fair value of the award. Stock based awards requiring future service are recognized as compensation expense over the relevant service period. Stock based awards that do not require future service are expensed immediately. The Corporation estimates expected forfeitures in determining compensation expense.

Fair Value Measurements

ASC 820, "*Fair Value Measurements and Disclosures*" 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 measurements to be disclosed by level within the hierarchy. The three broad levels defined by the fair value 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.

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 16, under the Corporation’s Stock Option Plan.

Subsequent Events

Management has reviewed events occurring through March 8, 2010, the date the consolidated financial statements were issued and determined that no subsequent events occurred requiring accrual or disclosure.

3. RECENT ACCOUNTING PRONOUNCEMENTS

ASC Topic 260, *Earnings Per Share* (“ASC 260”). On January 1, 2009, the Corporation adopted new authoritative accounting guidance under ASC 260, which provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method.

ASC Topic 320, *Investments - Debt and Equity Securities* (“ASC 320”). New authoritative accounting guidance under ASC 320 (i) changes existing guidance for determining whether an impairment is other than temporary to debt securities and (ii) replaces the existing requirement that the entity’s management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under ASC 320, 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 to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. The Corporation adopted the provisions of the new authoritative accounting guidance under ASC 320 during the second quarter of 2009.

ASC Topic 350, *Intangibles-Goodwill and Other* (“ASC 350”). New authoritative accounting guidance under ASC 350 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this guidance is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. These principles were effective for fiscal years beginning on or after December 15, 2008, and interim periods within those years.

The Corporation adopted the provisions of the new authoritative accounting guidance under ASC 350 on January 1, 2009.

ASC Topic 715, *Compensation - Retirement Benefits* (“ASC 715”). New authoritative accounting guidance under ASC 715 provides guidance related to an employer’s disclosures about plan assets of defined benefit pension or other post-retirement benefit plans. Under ASC 715, disclosures should provide users of financial statements with an understanding of how investment allocation decisions are made, the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets. The disclosures required by ASC 715 are included in the Corporation’s financial statements beginning with the consolidated financial statements for the year ended December 31, 2009.

ASC Topic 805, *Business Combinations* (“ASC 805”). On January 1, 2009, new authoritative accounting guidance under ASC 805 became applicable to the accounting for business combinations closing on or after January 1, 2009. ASC 805 applies to all transactions and other events in which one entity obtains control over one or more other businesses. ASC 805 requires an acquirer, upon initially obtaining control of another entity, to recognize the assets, liabilities and any non-controlling interest in the acquiree at fair value as of the acquisition date. Contingent consideration is required to be recognized and measured at fair value on the date of acquisition rather than at a later date when the amount of that consideration may be determinable beyond a reasonable doubt. This fair value approach replaces the cost-allocation process required under previous accounting guidance whereby the cost of an acquisition was allocated to the individual assets acquired and liabilities assumed based on their estimated fair value. ASC 805 requires acquirers to expense acquisition-related costs as incurred rather than allocating such costs to the assets acquired and liabilities assumed, as was previously the case under prior accounting guidance. Assets acquired and liabilities assumed in a business combination that arise from contingencies are to be recognized at fair value if fair value can be reasonably estimated. If fair value of such an asset or liability cannot be reasonably estimated, the asset or liability would generally be recognized in accordance with ASC Topic 450, *Contingencies* (“ASC 450”). Under ASC 805, the requirements of ASC Topic 420, *Exit or Disposal Cost Obligations*, would have to be met in order to accrue for a restructuring plan in purchase accounting. Pre-acquisition contingencies are to be recognized at fair value, unless it is a non-contractual contingency that is not likely to materialize, in which case, nothing should be recognized in purchase accounting and, instead, that contingency would be subject to the probable and estimable recognition criteria of ASC 450. The requirements of ASC 805 apply prospectively to any future business combinations closing on or after January 1, 2009.

ASC Topic 810, *Consolidation* (“ASC 810”). New authoritative accounting guidance under ASC 810 amended prior guidance to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Under ASC 810, a non-controlling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as a component of equity in the consolidated financial statements. Among other requirements, ASC 810 requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the non-controlling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of

consolidated net income attributable to the parent and to the non-controlling interest. The new authoritative accounting guidance under ASC 810 became effective on January 1, 2009.

Further new authoritative accounting guidance under ASC 810 amends prior guidance to change how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The new authoritative accounting guidance requires additional disclosures about the reporting entity's involvement with variable-interest entities and any significant changes in risk exposure due to that involvement as well as its affect on the entity's financial statements. The new authoritative accounting guidance under ASC 810 will be effective January 1, 2010 and is not expected to have a significant impact on the Corporation's consolidated financial statements.

ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). New authoritative accounting guidance under ASC 815 amends prior guidance to amend and expand the disclosure requirements for derivatives and hedging activities to provide greater transparency about (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedge items are accounted for under ASC 815, and (iii) how derivative instruments and related hedged items affect an entity's financial position, results of operations and cash flows. To meet those objectives, the new authoritative accounting guidance requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements. The new authoritative accounting guidance under ASC 815 became effective on January 1, 2009.

ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820"). New authoritative accounting guidance under ASC 820 affirms that the objective of fair value when the market for an asset is not active is the price that would be received to sell the asset in an orderly transaction, and clarifies and includes additional factors for determining whether there has been a significant decrease in market activity for an asset when the market for that asset is not active. ASC 820 requires an entity to base its conclusion about whether a transaction was not orderly on the weight of the evidence. The new accounting guidance amended prior guidance to expand certain disclosure requirements. The Corporation adopted the new authoritative accounting guidance under ASC 820 during the second quarter of 2009.

Further new authoritative accounting guidance (Accounting Standards Update No. 2009-5) under ASC 820 provides guidance for measuring the fair value of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. In such instances, a reporting entity is required to measure fair value utilizing a valuation technique that uses (i) the quoted price of the identical liability when traded as an asset, (ii) quoted prices for similar liabilities or similar liabilities when traded as assets, or (iii) another valuation technique that is consistent with the existing principles of ASC 820, such as an income approach or market approach. The new authoritative accounting guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The new authoritative

accounting guidance under ASC 820 became effective for the Corporation's consolidated financial statements beginning October 1, 2009.

ASC Topic 855, *Subsequent Events* ("ASC 855"). New authoritative accounting guidance under ASC 855 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC 855 defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. The new authoritative accounting guidance under ASC 855 became effective for the Corporation's consolidated financial statements for periods ending after June 15, 2009.

ASC Topic 860, *Transfers and Servicing* ("ASC 860"). New authoritative accounting guidance under ASC 860 amends prior accounting guidance to enhance reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. The new authoritative accounting guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. The new authoritative accounting guidance also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. The new authoritative accounting guidance under ASC 860 will be effective January 1, 2010 and is not expected to have a significant impact on the Corporation's consolidated financial statements.

4. CASH AND DUE FROM BANKS

At December 31, 2009 and 2008, cash and due from banks totaled \$12,762,000 and \$13,472,000, respectively. Of this amount, \$3,163,000 and \$8,505,000, respectively, were maintained to satisfy the reserve requirements of the Federal Reserve Bank of Boston ("FRB Boston") and \$706,000 and \$746,000, 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, 2009			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
	(In thousands)			
Securities available for sale:				
U.S. GSE obligations	\$ 97,121	\$ 3,465	\$ (31)	\$ 100,555
Mortgage-backed securities	231,572	7,181	(126)	238,627
Mutual funds	672	—	(21)	651
Total securities available for sale	<u>329,365</u>	<u>10,646</u>	<u>(178)</u>	<u>339,833</u>
Securities held to maturity:				
U.S. GSE obligations	22,580	1,399	—	23,979
Mortgage-backed securities	18,219	727	—	18,946
Municipal securities	43,274	1,221	(110)	44,385
Total securities held to maturity	<u>84,073</u>	<u>3,347</u>	<u>(110)</u>	<u>87,310</u>
Total investment securities	<u>\$ 413,438</u>	<u>\$ 13,993</u>	<u>\$ (288)</u>	<u>\$ 427,143</u>
	December 31, 2008			
	Amortized Cost	Unrealized		Fair Value
		Gains	Losses	
	(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>
Total investment securities	<u>\$ 367,282</u>	<u>\$ 13,977</u>	<u>\$ (254)</u>	<u>\$ 381,005</u>

All of the Bank's mortgage-backed securities have been issued by either GNMA, FNMA or FHLMC.

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, 2009:								
Debt securities available for sale:								
U.S. GSE obligations.....	\$ 6,248	\$ 6,294	\$ 85,873	\$ 89,275	\$ 5,000	\$ 4,986	\$ —	\$ —
Mortgage-backed securities.....	2,916	2,923	5,292	5,416	22,027	23,084	201,337	207,204
Total debt securities available for sale	9,164	9,217	91,165	94,691	27,027	28,070	201,337	207,204
Debt securities held to maturity:								
U.S. GSE obligations.....	5,063	5,227	17,517	18,752	—	—	—	—
Mortgage-backed securities.....	—	—	3,943	4,043	13,780	14,354	496	549
Municipal securities.....	890	890	2,165	2,248	19,245	19,984	20,974	21,263
Total debt securities held to maturity.....	5,953	6,117	23,625	25,043	33,025	34,338	21,470	21,812
Total debt securities	<u>\$ 15,117</u>	<u>\$ 15,334</u>	<u>\$ 114,790</u>	<u>\$ 119,734</u>	<u>\$ 60,052</u>	<u>\$ 62,408</u>	<u>\$ 222,807</u>	<u>\$ 229,016</u>

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, 2009:						
U.S. GSE obligations.....	\$ 14,969	\$ (31)	\$ -	\$ -	\$ 14,969	\$ (31)
Mortgage-backed securities...	29,193	(126)	-	-	29,193	(126)
Municipal securities.....	5,888	(77)	1,588	(33)	7,476	(110)
Subtotal, debt securities	50,050	(234)	1,588	(33)	51,638	(267)
Equities	-	-	651	(21)	651	(21)
Total temporarily impaired securities	\$ 50,050	\$ (234)	\$ 2,239	\$ (54)	\$ 52,289	\$ (288)
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	\$ 8,915	\$ (206)	\$ 985	\$ (48)	\$ 9,900	\$ (254)

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, 2009, thirty-three debt securities and one equity security had gross unrealized losses with an aggregate depreciation of 0.55% from the Corporation's amortized cost basis. The largest loss percentage of any single security was 7.23% of its amortized cost. These gross unrealized losses relate principally to the mortgage-backed and municipal security sectors. The Corporation believes that the nature and duration of impairment on its debt security positions are primarily a function of interest rate movements and 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 a) the Corporation does not intend to sell these securities before recovery, and b) that it is more likely than not that the Corporation will not be required to sell these securities before recovery, the Corporation does not consider these securities to be other-than-temporarily impaired as of December 31, 2009.

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

	Year Ended December 31,	
	2009	2008
	(In thousands)	
Amortized cost of securities sold.....	\$ 10,070	\$ 22,204
Gain realized on securities sold.....	382	251
Net proceeds from securities sold.....	<u>\$ 10,452</u>	<u>\$ 22,455</u>

Included in investment 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,	
	2009	2008
	(In thousands)	
Residential real estate:		
Mortgages - fixed rate.....	\$ 178,212	\$ 128,993
Mortgages - adjustable rate.....	63,069	66,290
Deferred costs net of unearned fees.....	283	227
Total residential real estate.....	<u>241,564</u>	<u>195,510</u>
Commercial real estate:		
Mortgages - nonowner occupied.....	117,511	110,885
Mortgages - owner occupied.....	33,549	33,407
Construction.....	10,792	13,351
Deferred costs net of unearned fees.....	150	144
Total commercial real estate.....	<u>162,002</u>	<u>157,787</u>
Home equity:		
Home equity - lines of credit.....	56,239	45,027
Home equity - term loans.....	12,863	23,292
Deferred costs net of unearned fees.....	110	100
Total home equity.....	<u>69,212</u>	<u>68,419</u>
Commercial:		
Commercial and industrial.....	48,069	36,600
Deferred costs net of unearned fees.....	222	242
Total commercial.....	<u>48,291</u>	<u>36,842</u>
Consumer:		
Secured.....	13,468	9,907
Unsecured.....	3,366	3,316
Deferred costs net of unearned fees.....	30	33
Total consumer.....	<u>16,864</u>	<u>13,256</u>
Total loans.....	<u>\$ 537,933</u>	<u>\$ 471,814</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, 2009 and 2008, total loans outstanding to these related parties were \$948,000 and \$856,000, respectively. During 2009, \$105,000 of additions and \$15,000 of repayments were made to these loans, compared to \$30,000 of additions and \$95,000 of repayments made during 2008.

The following table sets forth information regarding nonperforming loans.

	December 31,	
	2009	2008
	(In thousands)	
Nonaccrual loans.....	\$ 1,092	\$ 1,434
Loans past due >90 days, but still accruing.....	—	168
Total nonperforming loans.....	<u>\$ 1,092</u>	<u>\$ 1,602</u>

Impaired loans, which include commercial and commercial real estate nonaccrual loans, had recorded balances of \$87,000 and \$152,000 at December 31, 2009 and 2008, respectively. The specific allowance for loan losses related to these loans was \$75,000 at both December 31, 2009 and 2008, respectively. The average recorded balance of impaired loans was \$508,000 and \$189,000 for the years ended December 31, 2009 and 2008, respectively. No interest income on impaired loans was recognized in 2009 or 2008. Interest payments received on impaired loans are recorded as reductions of principal unless collection of the remaining recorded investment is no longer 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, 2009 or 2008.

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,	
	2009	2008
	(In thousands)	
Balance at beginning of year.....	\$ 7,696	\$ 6,659
Provision for loan losses.....	1,200	1,000
Loans charged-off.....	(216)	(77)
Recoveries.....	49	114
Balance at end of year.....	<u>\$ 8,729</u>	<u>\$ 7,696</u>

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

	December 31,	
	2009	2008
	(In thousands)	
Loan category:		
Residential mortgage loans	\$ 2,971	\$ 2,346
Commercial mortgage loans	3,207	2,889
Home equity loans	879	1,143
Commercial loans	1,184	886
Consumer and other loans.....	265	221
Unallocated	223	211
Total	<u>\$ 8,729</u>	<u>\$ 7,696</u>

During 2009, the Bank revised its methodology for determining its allowance for loan losses to better reflect the numerous risk factors relating to the individual segments of the overall loan portfolio. The 2008 information in the above table has been reclassified, utilizing this updated methodology, to promote comparison between the years.

7. FEDERAL HOME LOAN BANK OF BOSTON STOCK

As a voluntary member of the FHLB of Boston (“FHLB Boston”), the Bank is required to invest in stock of the FHLB Boston (which is considered a restricted equity security) in an amount based upon its outstanding advances from the FHLB Boston. At December 31, 2009, the Bank’s investment in FHLB Boston stock exceeded its required investment by \$2.0 million. No market exists for shares of this stock. 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.

On February 26, 2009, the FHLB Boston advised its members that it was focused on preserving capital in response to ongoing market volatility, and accordingly, had suspended its quarterly dividend and had extended the moratorium on excess stock repurchases. As a result, the FHLB Boston paid no dividends for the year ended December 31, 2009, compared to \$177,000 for the year ended December 31, 2008.

On October 29, 2009, the FHLB Boston released its third quarter results to its members. Despite reporting a net loss of \$193.1 million for the nine month period, the FHLB Boston continued to exceed all of its regulatory capital requirements. The FHLB Boston has the capacity to issue additional debt if necessary to raise cash, and if needed, also has the ability to secure funding available to GSEs through the U.S. Treasury. Based upon the capital adequacy and the liquidity position of the FHLB Boston, management believes there is no impairment related to the carrying amount of the Bank’s FHLB Boston stock as of December 31, 2009.

8. 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
	2009	2008	
	(In thousands)		
Land	\$ 1,116	\$ 1,116	
Building and leasehold improvements	10,278	9,508	5-30 years
Equipment	14,206	14,075	3-7 years
Subtotal	25,600	24,699	
Accumulated depreciation and amortization	(20,038)	(18,720)	
Total	<u>\$ 5,562</u>	<u>\$ 5,979</u>	

Total depreciation expense for the years ended December 31, 2009 and 2008 amounted to approximately \$1,402,000 and \$1,278,000, respectively, and is included in occupancy and equipment expenses in the accompanying consolidated statements of income.

9. OTHER REAL ESTATE OWNED

The components of other real estate owned were as follows:

	December 31,	
	2009	2008
	(In thousands)	
One- to four-family residential property	\$ 338	\$ —
Commercial property	358	—
Total	<u>\$ 696</u>	<u>\$ —</u>

10. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying value of goodwill and other intangible assets, which are included in other assets in the accompanying consolidated balance sheets, were as follows:

	Goodwill	Customer Intangibles	Total Intangibles
	(In thousands)		
Balance at December 31, 2007	\$ 412	\$ 1,293	\$ 1,705
Amortization expense	—	(378)	(378)
Balance at December 31, 2008	412	915	1,327
Amortization expense	—	(378)	(378)
Balance at December 31, 2009	<u>\$ 412</u>	<u>\$ 537</u>	<u>\$ 949</u>

Amortization expense is expected to be \$378,000 the next year and \$159,000 in the second year.

The components of intangible assets were as follows:

	December 31,	
	2009	2008
	(In thousands)	
Customer intangibles	\$ 3,777	\$ 3,777
Accumulated amortization	(3,240)	(2,862)
Net customer intangibles.....	<u>\$ 537</u>	<u>\$ 915</u>

11. DEPOSITS

Deposits are summarized as follows:

	December 31,	
	2009	2008
	(In thousands)	
Demand deposits (non-interest bearing)	\$ 204,335	\$ 200,877
Interest bearing checking	238,152	212,053
Money market	53,099	51,537
Savings	224,360	140,285
Certificates of deposit under \$100,000	67,903	67,712
Certificates of deposit \$100,000 or greater.....	84,918	95,190
Total deposits	<u>\$ 872,767</u>	<u>\$ 767,654</u>

Certificates of deposit had the following schedule of maturities:

	December 31,	
	2009	2008
	(In thousands)	
Less than 3 months remaining	\$ 61,729	\$ 72,851
3 to 5 months remaining	47,678	46,181
6 to 11 months remaining.....	26,816	15,948
12 to 23 months remaining	8,603	23,965
24 to 47 months remaining	5,635	3,276
48 months or more remaining.....	2,360	681
Total certificates of deposit	<u>\$ 152,821</u>	<u>\$ 162,902</u>

Interest expense on certificates of deposit \$100,000 or greater was \$1,946,000 and \$2,703,000 for the years ended December 31, 2009 and 2008, respectively.

12. SHORT-TERM BORROWINGS

Short-term borrowings consisted of the following:

	December 31,	
	2009	2008
	(In thousands)	
Treasury, Tax and Loan notes	\$ 1,441	\$ 3,019
FHLB Boston short-term borrowings	10,000	—
Total short-term borrowings.....	<u>\$ 11,441</u>	<u>\$ 3,019</u>

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

	Year Ended December 31,	
	2009	2008
	(Dollars in thousands)	
Treasury, Tax and Loan notes:		
Average daily balance.....	\$ 575	\$ 925
Average interest rate.....	0.00%	1.39%
Highest month-end balance.....	\$ 1,441	\$ 3,019
FHLB Boston short-term borrowings:		
Average daily balance.....	\$ 2,449	\$ 18,249
Average interest rate.....	0.27%	2.45%
Highest month-end balance.....	\$ 14,500	\$ 43,495

The Bank utilizes the Note Option for remitting Treasury, Tax and Loan payments to the FRB Boston. 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, 2009, the Bank had pledged investment securities with a carrying value of approximately \$3,472,000 as collateral for Treasury, Tax and Loan payments.

13. LONG-TERM BORROWINGS

Long-term borrowings consisted of the following:

	December 31, 2009		December 31, 2008	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
FHLB Boston Advances:				
Due 02/23/2009; non-callable.....	\$ —	—	\$ 5,000	5.03%
Due 03/02/2009; non-callable.....	—	—	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%	20,000	3.25%
Total.....	<u>\$ 38,000</u>	<u>4.08%</u>	<u>\$ 55,000</u>	<u>4.34%</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, 2009 was approximately \$216,742,000.

The Bank also has a line of credit with the FRB Boston. At December 31, 2009, the Bank had pledged commercial real estate and commercial & industrial loans with a carrying value of approximately \$158,433,000 as collateral for this line of credit. Based upon

the collateral pledged, the Bank's unused borrowing capacity with the FRB Boston at December 31, 2009 was approximately \$87,829,000.

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, 2009, had a carrying value of approximately \$39,527,000.

14. INCOME TAXES

The components of income tax expense were as follows:

	Year Ended December 31,	
	2009	2008
	(In thousands)	
Current:		
Federal.....	\$ 4,546	\$ 4,179
State.....	422	319
Total current expense.....	<u>4,968</u>	<u>4,498</u>
Deferred:		
Federal.....	(348)	(343)
State.....	(97)	149
Total deferred benefit.....	<u>(445)</u>	<u>(194)</u>
Total income tax expense.....	<u>\$ 4,523</u>	<u>\$ 4,304</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,	
	2009	2008
	(In thousands)	
Provision at statutory rates.....	\$ 5,060	\$ 4,749
Increase (decrease) resulting from:		
State tax, net of federal tax benefit.....	214	175
Change in deferred state tax asset, net of federal tax benefit.....	—	160
Tax-exempt income.....	(549)	(526)
ESOP dividends.....	(168)	(165)
Bank owned life insurance.....	(124)	(160)
Other.....	90	71
Total income tax expense.....	<u>\$ 4,523</u>	<u>\$ 4,304</u>

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

	December 31,	
	2009	2008
	(In thousands)	
Gross deferred tax assets:		
Allowance for loan losses	\$ 3,502	\$ 3,082
Accrued retirement benefits	3,731	4,227
Depreciation of premises and equipment.....	782	712
Goodwill	406	377
Rent.....	206	225
ESOP dividends	197	194
Equity based compensation.....	141	136
Other	85	139
Total gross deferred tax assets	<u>9,050</u>	<u>9,092</u>
Gross deferred tax liabilities:		
Deferred loan origination costs.....	(318)	(298)
Unrealized gains on AFS securities	(3,821)	(3,721)
Total gross deferred tax liabilities.....	<u>(4,139)</u>	<u>(4,019)</u>
Net deferred tax asset.....	<u>\$ 4,911</u>	<u>\$ 5,073</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, 2009 or 2008 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 in future periods 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 a three year period. As a result of the change in tax rate, the Corporation recorded a \$160,000 tax expense (net of federal benefit) during 2008, 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 2006 tax return year and forward. The Corporation's state income tax returns are generally open from the 2006 and later tax return years based on individual state statute of limitations.

15. 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 average monthly pay during the five highest consecutive plan years of the employee's final ten years. 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	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In thousands)			
Change in projected benefit obligation:				
Obligation at beginning of year	\$ 17,376	\$ 14,575	\$ 3,394	\$ 2,931
Service cost	972	794	421	392
Interest cost	1,001	883	195	176
Actuarial (gain)/loss	241	1,546	(6)	82
Benefits paid	(628)	(422)	(166)	(187)
Obligation at end of year	<u>18,962</u>	<u>17,376</u>	<u>3,838</u>	<u>3,394</u>
Change in plan assets:				
Fair value at beginning of year	11,147	12,582	—	—
Actual return on plan assets	1,891	(1,913)	—	—
Employer contribution	2,000	900	166	187
Benefits paid	(628)	(422)	(166)	(187)
Fair value at end of year	<u>14,410</u>	<u>11,147</u>	<u>—</u>	<u>—</u>
Funded status at end of year	<u>\$ (4,552)</u>	<u>\$ (6,229)</u>	<u>\$ (3,838)</u>	<u>\$ (3,394)</u>

Amounts recognized in the consolidated balance sheets consisted of:

	Pension Plan		Supplemental Retirement Plan	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In thousands)			
Other liabilities	<u>\$ (4,552)</u>	<u>\$ (6,229)</u>	<u>\$ (3,838)</u>	<u>\$ (3,394)</u>

Amounts recognized in accumulated other comprehensive income consisted of:

	Pension Plan		Supplemental Retirement Plan	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	(In thousands)			
Net (gain)/loss	\$ 4,472	\$ 5,658	\$ 27	\$ 33
Prior service cost/(benefit)	(3)	11	262	340
	<u>\$ 4,469</u>	<u>\$ 5,669</u>	<u>\$ 289</u>	<u>\$ 373</u>

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

	Pension Plan		Supplemental Retirement Plan	
	2009	2008	2009	2008
	(In thousands)			
Projected benefit obligation	\$ 18,962	\$ 17,376	\$ 3,838	\$ 3,394
Accumulated benefit obligation	15,872	14,688	3,838	3,394
Fair value of plan assets	14,410	11,147	—	—

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

	Pension Plan		Supplemental Retirement Plan	
	2009	2008	2009	2008
	(In thousands)			
Net periodic benefit cost:				
Service cost	\$ 972	\$ 794	\$ 421	\$ 392
Interest cost	1,001	883	195	176
Expected return on assets	(877)	(960)	—	—
Amortization of prior service cost/(benefit)	14	14	79	79
Amortization of net actuarial (gain)/loss	413	8	—	—
Net periodic benefit cost	<u>1,523</u>	<u>739</u>	<u>695</u>	<u>647</u>
Amounts recognized in other comprehensive income:				
Net (gain)/loss	(1,186)	4,411	(6)	83
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>(1,200)</u>	<u>4,397</u>	<u>(85)</u>	<u>4</u>
Total recognized in net periodic benefit cost and other comprehensive income	<u>\$ 323</u>	<u>\$ 5,136</u>	<u>\$ 610</u>	<u>\$ 651</u>

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

	Pension Plan		Supplemental Retirement Plan	
	2009	2008	2009	2008
Discount rate	5.75%	5.75%	5.75%	5.75%
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	
	2009	2008	2009	2008
Discount rate	5.75%	6.00%	5.75%	6.00%
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 its defined benefit pension plan. The objective of this policy is to seek a balance between capital appreciation, current income, and preservation of capital, with a longer term tilt towards equities because of the extended time horizon of the pension plan. The Investment Policy guidelines suggest that the target asset allocation percentages are from 50% to 70% in equities, and from 30% to 50% in fixed income debt securities and cash. The Corporation expects to contribute \$1,000,000 to its defined benefit pension plan in 2010.

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

	December 31,	
	2009	2008
Equity securities.....	60%	60%
Debt securities.....	35	34
Cash and other.....	5	6
Total	<u>100%</u>	<u>100%</u>

The three broad levels of fair values used to measure the pension plan assets are as follows:

- Level 1 – Quoted prices for identical assets in active markets.
- Level 2 – Quoted prices for similar assets in active markets; quoted prices for identical or similar assets 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.

The following table summarizes the various categories of the pension plan's assets:

	Fair Value as of December 31, 2009			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	(In thousands)			
Asset category:				
Cash and cash equivalents	\$ 807	\$ —	\$ —	\$ 807
Equity securities:				
Common stocks:				
Large cap core	6,293	—	—	6,293
International	1,132	—	—	1,132
Mutual funds:				
Fixed income	5,012	—	—	5,012
International	745	—	—	745
Mid cap growth	184	—	—	184
Mid cap value	107	—	—	107
Emerging markets	130	—	—	130
Total	<u>\$ 14,410</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,410</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	
	<u>2009</u>	<u>2008</u>
	(In thousands)	
Change in projected benefit obligation:		
Obligation at beginning of year	\$ 650	\$ 620
Service cost	9	7
Interest cost	36	37
Actuarial (gain)/loss	14	41
Benefits paid	<u>(56)</u>	<u>(55)</u>
Obligation at end of year	<u>653</u>	<u>650</u>
Change in plan assets:		
Fair value at beginning of year	—	—
Actual return on plan assets	—	—
Employer contribution	56	55
Benefits paid	<u>(56)</u>	<u>(55)</u>
Fair value at end of year	<u>—</u>	<u>—</u>
Funded status at end of year	<u>\$ (653)</u>	<u>\$ (650)</u>

Amounts recognized in the consolidated balance sheets consisted of:

	Postretirement Healthcare Plan	
	2009	2008
	(In thousands)	
Other liabilities.....	\$ (653)	\$ (650)

Amounts recognized in accumulated other comprehensive income consisted of:

	Postretirement Healthcare Plan	
	2009	2008
	(In thousands)	
Net (gain)/loss.....	\$ (58)	\$ (72)
Prior service cost/(benefit).....	(54)	(63)
	<u>\$ (112)</u>	<u>\$ (135)</u>

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

	Postretirement Healthcare Plan	
	2009	2008
	(In thousands)	
Projected benefit obligation.....	\$ 653	\$ 650
Accumulated benefit obligation.....	653	650
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	
	2009	2008
	(In thousands)	
Net periodic benefit cost:		
Service cost.....	\$ 9	\$ 7
Interest cost.....	36	37
Expected return on assets.....	—	—
Amortization of prior service cost/(benefit).....	(9)	(9)
Amortization of net actuarial (gain)/loss.....	—	(4)
Net periodic benefit cost.....	<u>36</u>	<u>31</u>
Amounts recognized in other comprehensive income:		
Net (gain)/loss.....	13	41
Amortization of prior service cost/(benefit).....	9	9
Amortization of net actuarial (gain)/loss.....	—	4
Total recognized in other comprehensive income.....	<u>22</u>	<u>54</u>
Total recognized in net periodic benefit cost and other comprehensive income.....	<u>\$ 58</u>	<u>\$ 85</u>

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

	Postretirement Healthcare Plan	
	2009	2008
Discount rate	5.75%	5.75%
Rate of compensation increase.....	NA	NA

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

	Postretirement Healthcare Plan	
	2009	2008
Discount rate	5.75%	6.00%
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,	
	2009	2008
Health care cost trend rate assumed for next year	8.00%	8.00%
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	2013	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.....	23	(21)

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)			
2010	\$ 580	\$ 121	\$ 59	\$ 760
2011	609	120	58	787
2012	646	118	57	821
2013	953	341	58	1,352
2014	987	451	56	1,494
2015-2019 inclusive	6,282	2,336	252	8,870
Ten year total	<u>\$ 10,057</u>	<u>\$ 3,487</u>	<u>\$ 540</u>	<u>\$ 14,084</u>

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2010 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.....	(258)	—	—	(258)
Total	<u>\$ (272)</u>	<u>\$ (79)</u>	<u>\$ (9)</u>	<u>\$ (360)</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 twelve months 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, 2009 and 2008, the ESOP owned 343,179 shares and 370,435 shares, respectively, of the Corporation’s common stock.

Total expenses related to the Profit Sharing and ESOP Plans for the years ended December 31, 2009 and 2008, amounted to approximately \$750,000 and \$775,000, respectively.

16. 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 did not award any stock options or restricted shares during 2009.

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>2009</u>	<u>2008</u>
Dividend yield.....	NA	4.25%
Risk-free interest rate.....	NA	3.14%
Expected term.....	NA	6 years
Expected volatility.....	NA	16.69%
Fair value (per Black-Scholes model).....	NA	\$3.05

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

A summary of the status of the Corporation's Stock Option Plan as of December 31, 2009 and 2008, and changes during the years ended on those dates is presented below:

	<u>2009</u>		<u>2008</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....	408,535	\$ 29.31	360,335	\$ 29.09
Granted.....	—	—	58,250	29.16
Forfeited.....	—	—	—	—
Expired.....	(5,250)	23.59	(6,300)	22.71
Exercised.....	(5,500)	20.54	(3,750)	16.43
Outstanding at end of year.....	<u>397,785</u>	<u>29.51</u>	<u>408,535</u>	<u>29.31</u>
Exercisable at end of year.....	<u>185,469</u>	<u>\$ 29.54</u>	<u>161,023</u>	<u>\$ 28.74</u>

The following table summarizes information about stock options outstanding at December 31, 2009:

<u>Range of Exercise Price</u>	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	<u>Number Outstanding at 12/31/09</u>	<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	<u>Number Exercisable at 12/31/09</u>	<u>Weighted Average Exercise Price</u>
\$20.00 - \$24.99	30,750	1.1 years	\$ 22.70	30,750	\$ 22.70
\$25.00 - \$29.99	246,064	6.1 years	\$ 28.78	67,398	\$ 28.63
\$30.00 - \$34.99	120,971	4.7 years	\$ 32.72	87,321	\$ 32.66
	<u>397,785</u>	<u>5.2 years</u>	<u>\$ 29.51</u>	<u>185,469</u>	<u>\$ 29.54</u>

During 2008, the Corporation awarded 17,368 restricted shares. These restricted shares vest over a five year period and had a weighted average fair value of \$29.07 at the time of grant.

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, 2009 and 2008 were 9,051 and 7,722, respectively.

17. 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,	
	2009	2008
	(In thousands)	
Standby letters of credit	\$ 5,253	\$ 4,986
Commitments to extend credit:		
Unused portion of existing lines of credit	134,076	136,829
Origination of new loans	19,174	12,877
Liabilities associated with letters of credit	25	26

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.

18. 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 2011 and 2020 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, 2009 were as follows:

Year Ended December 31,	Future Minimum Lease Payments
	(In thousands)
2010	\$ 3,005
2011	3,059
2012	3,076
2013	3,025
2014	2,968
Thereafter	7,182
Total minimum lease payments	<u>\$ 22,315</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 \$3,059,000 and \$2,955,000 for the years ended December 31, 2009 and 2008, respectively.

Under the terms of a sublease agreement, the Corporation will receive minimum annual rental payments of approximately \$29,000 through July 31, 2019. Total rental income amounted to approximately \$33,000 in each of the years ended December 31, 2009 and 2008.

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 senior 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.

19. 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, 2009 and 2008, 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	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	(Dollars in thousands)					
At December 31, 2009:						
Cambridge Bancorp:						
Total capital						
(to risk-weighted assets).....	\$ 83,572	15.6%	\$ 42,812	8.0%	\$ 53,515	10.0%
Tier I capital						
(to risk-weighted assets).....	76,857	14.4%	21,406	4.0%	32,109	6.0%
Tier I capital						
(to average assets)	76,857	7.6%	40,432	4.0%	50,540	5.0%
Cambridge Trust Company:						
Total capital						
(to risk-weighted assets).....	\$ 81,367	15.2%	\$ 42,812	8.0%	\$ 53,515	10.0%
Tier I capital						
(to risk-weighted assets).....	74,652	14.0%	21,406	4.0%	32,109	6.0%
Tier I capital						
(to average assets)	74,652	7.4%	40,318	4.0%	50,398	5.0%
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%

20. OTHER INCOME

The components of other income were as follows:

	Year Ended December 31,	
	2009	2008
	(In thousands)	
Safe deposit box income	\$ 350	\$ 357
Other fee income	301	217
Miscellaneous income	19	26
Total other income	<u>\$ 670</u>	<u>\$ 600</u>

21. OTHER OPERATING EXPENSES

The components of other operating expenses were as follows:

	Year Ended December 31,	
	2009	2008
	(In thousands)	
Director fees	\$ 470	\$ 456
Printing and supplies	427	519
Amortization of intangible assets	378	378
Contributions / Public relations	358	400
Postage	293	295
Travel and entertainment	217	225
Other losses	86	115
Miscellaneous expense	476	445
Total other operating expenses	<u>\$ 2,705</u>	<u>\$ 2,833</u>

22. 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 retirement liability computed in accordance with the requirements of ASC 715, “*Compensation – Retirement Benefits*”. 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, 2009		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
	(In thousands)		
Change in unfunded retirement liability	\$ 1,262	\$ (506)	\$ 756
Unrealized holding gain/(loss) on securities available for sale arising during the period	442	(248)	194
Reclassification adjustment for realized gains recognized in net income	(382)	148	(234)
	<u>\$ 1,322</u>	<u>\$ (606)</u>	<u>\$ 716</u>

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>

23. EARNINGS PER SHARE

The following represents a reconciliation between basic and diluted earnings per share:

	Year Ending December 31, 2009	
	Basic EPS	Diluted EPS
Numerator:		
Net income	<u>\$ 10,277,000</u>	<u>\$ 10,277,000</u>
Denominator:		
Common shares outstanding	3,735,784	3,735,784
Dilutive effect of stock options	—	3,503
Total shares	<u>3,735,784</u>	<u>3,739,287</u>
Earnings per share	<u>\$ 2.75</u>	<u>\$ 2.75</u>

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

24. 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, 2009		December 31, 2008	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	\$ 26,174	\$ 26,174	\$ 39,651	\$ 39,651
Investment securities.....	423,906	427,143	377,690	381,005
Loans, net.....	529,204	528,023	464,118	465,795
FHLB Boston stock.....	4,806	4,806	4,806	4,806
Bank owned life insurance.....	11,672	11,672	11,310	11,310
Other real estate owned.....	696	778	—	—
Accrued interest receivable.....	4,470	4,470	4,391	4,391
Financial liabilities:				
Deposits.....	872,767	873,330	767,654	768,742
Short-term borrowings.....	11,441	11,441	3,019	3,019
Long-term borrowings.....	38,000	39,237	55,000	56,692

The Corporation follows ASC 820, "*Fair Value Measurements and Disclosures*" for financial assets and liabilities. Effective January 1, 2009, the Corporation adopted the provisions of ASC 820, as it applies to nonfinancial assets and liabilities. ASC 820 defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. ASC 820, 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, ASC 820 specifies a hierarchy of valuations 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 types 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 ASC 820, 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, 2009			
	<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	\$ 651	\$ 339,182	\$ —	\$ 339,833
Measured on a non-recurring basis:				
Other real estate owned.....	—	358	—	358
	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

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.

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 ASC 310, “*Receivables*”, are valued based upon the lower of cost or fair value of the underlying collateral.

FHLB Boston stock

The fair value of FHLB Boston stock equals its carrying value since such stock is only redeemable at its par value.

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.

Other Real Estate Owned

The fair values are estimated based upon recent appraised values of the property less costs to sell the property. Certain inputs used in appraisals are not always observable, and therefore Other Real Estate Owned may be categorized as Level 3 within the fair value hierarchy. When inputs in appraisals are observable, they are classified as Level 2 within the fair value hierarchy.

Deposits

The fair value of non-maturity deposit accounts is the amount payable on demand at the reporting date. This amount does not take into account the value of the Bank's long-term relationships with core depositors. 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 ASC 820, the Corporation has not estimated fair values for non-financial assets such as 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 Wealth Management 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 & 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)

David G. Strachan, Jr.	Vice President & Trust Officer
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
William M. Yates	Vice President & Business Development Officer
Aimee B. Forsythe	Assistant Vice President & Investment Officer
Peter J. Halberstadt	Assistant Vice President, Commercial Real Estate
Patricia E. Hartnett	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
Gabriele Fabrizio	Operations Officer
Charles R. Givonetti	Operations Officer
Stephen W. Hall	Information Security Officer
Aslihan Kendircioglu	Senior Credit Analyst Officer
Ann C. Kuske	Operations Officer
Patrick J. McCue	Assistant Controller
Barbara E. Piacentino	Operations Officer
Charles E. Samour	Security Officer
Maya C. Silvis	Senior Credit Analyst Officer
Brian J. Sokolowski	Investment Research Officer
Angela L. Vitagliano	Operations Officer
Eric G. Warasta	Investment Research Officer
Nancy M. Zuzolo	Operations Officer

CAMBRIDGE TRUST COMPANY OF NEW HAMPSHIRE—OFFICERS

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
Dorothy H. Bronson	Trust Officer
Barbara J. Bilodeau	Assistant Trust Officer

CAMBRIDGE TRUST COMPANY—EMPLOYEES

Adams, Timothy	Hill, Sally	Reed, Michael
Annino, Anthony	Howard, Margaret	Rock, Gloria
Annino, Elena	Hughes, Kevin	Rodriguez, Aileen
Bailey, Adrienne	Hutchinson, Beverly	Rudden, Thomas
Bailey, Valerie	Jorge, Adelaide	Rumple, Lisa
Basnyat, Nivedita	Kantor, Jasmine	Scali, John
Battle, Myia	Kaufman, Theresa	Serio, Linda
Bennett, Michael	Kingsford, Alessandra	Shay, Debbie
Bhandary, Pooja	Kirwin, Marie	Sheikh, Basharat
Bober, Jeffrey	Kumari, Anita	Shochat, Geraldine
Boon, Kara	Kuzmich, Katherine	Small, Jasmine
Bradley, Jean	LaMorticelli, Rene	Smith, Stephen
Burke, Sandra	Lazzari, Linda	Sottile, Charlotte
Carnazzo, Gail	Lemonias, Andromahi	Soul, Harwood, Jr.
Catanzano, Joseph	Leonard, Kettle	Sprague, Cynthia
Collopy, Alan	Lettieri, Robyn	Stevenson, Thomas
Cope, Andrea	Levine, Patricia	Stone, Jason
Corey, Aurora	Lim, Raymond	Stoneman, Peter
Costa, Paulo	Liu, Rose	Sullivan, Mary
Costello, Laura	Long, John	Thain, Lina
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