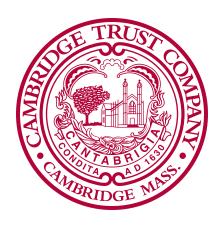
# **CAMBRIDGE BANCORP**



ANNUAL REPORT 2011

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 retaining its position as a responsible, active and socially sensitive member of its communities. To achieve this, the Bank will develop and support intelligent and proficient employees. Through friendly, responsible and trustworthy services, the Bank will provide sound financial help to existing and prospective customers. The Bank will continue to provide services to individual, retail and commercial customers located within its present community and also within areas identified for expansion.

### DIRECTORS

ROBERT J. BETTACCHI Principal/Owner

**RJB** Consulting

Retired Senior Vice President of

W.R. Grace & Company and President of Grace Performance Chemicals

JEANETTE G. CLOUGH President and Chief Executive Officer

Mount Auburn Hospital

JEAN K. MIXER Chief Executive Officer
Mixer Consulting

winer consuming

LEON A. PALANDJIAN Managing Member

Intercontinental Capital Management, LLC

Portfolio Manager

Techari Global Healthcare Fund

ROBERT S. PETERKIN Professor of Practice Emeritus

Harvard Graduate School of Education

Principal

Peterkin Consulting Group

JOSEPH V. ROLLER II President and Chief Executive Officer

Cambridge Bancorp and Cambridge Trust Company

R. GREGG STONE Manager

Kestrel Management, LLC

ANNE M. THOMAS Special Counsel

City of Somerville

DAVID C. WARNER Partner

J. M. Forbes & Co. LLP

LINDA WHITLOCK Lead Director

Cambridge Bancorp and Cambridge Trust Company

Principal

The Whitlock Group

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.

### HONORARY DIRECTOR

JANE M. BARRETT Founder

Barrett & Company

Simple can be harder than complex: you have to work hard ... to make it simple.

But it's worth it in the end because once you get there, you can move mountains.

—Steve Jobs

Under conditions of uncertainty, challenges multiply at a rapid pace. In attempting to keep up with or even to exceed that pace, organizations and individuals may find themselves moving quickly in a number of different directions all at once. Thus, times of uncertainty tend to generate complexity. Such was the case in 2011, a year marked by uncertainty in the global economy and financial markets as well as by dysfunctional behavior in Washington, DC, and a more intense regulatory environment. Yet this past year was also a reminder that uncertain and complicated situations may serve as occasions of institutional self-definition and, just as importantly, invitations to keep things simple.

In this context, keeping things simple means focusing on our core practices and values, while using them as a base for adaptation and innovation. It means zeroing in on the essentials. The hard work lies in sticking to them when there are a number of external distractions. In past years, we have talked about Cambridge Trust Company's commitment to customer-centered banking, thought leadership, and exceeding expectations for performance across the board. In 2011, we followed through on each of these essentials, and I am pleased to report on the results.

In the year ending December 31, 2011, Cambridge Trust produced a strong financial performance. Net income in 2011 was \$12,477,000

compared to net income of \$13,254,000 for the year ended December 31, 2010. It should be noted that the Bank sold its Merchant Services portfolio during the second quarter of 2010. The after-tax impact of that sale was \$1,591,000 or \$0.42 per diluted share. Excluding that sale, net income of \$12,477,000 for the year ended December 31, 2011 compared favorably by 7.0% to \$11,663,000 for the year ended December 31, 2010.

Diluted earnings per share (EPS) were \$3.25 for the year ended December 31, 2011, compared to \$3.51 diluted EPS for the prior year. Excluding the Merchant Services portfolio sale, diluted EPS for the year ended December 31, 2010 was \$3.09.

Driving core earnings growth in 2011 was the sustained increase in deposits and loans, complemented by an upswing in Wealth Management revenue. For the third consecutive year, deposits grew by more than \$100 million. Deposit growth of \$132 million in 2011 was a record year. In fact, the three-year compounded annual growth rate (CAGR) for deposits was 13.6%. Loan growth in 2011 also set a record and exceeded \$100 million, resulting in a three-year CAGR of 12.6%.

Year End		<u>2007</u>	2008	2009	<u>2010</u>		<u>2011</u>
Deposits (in thousands)	\$ (	698,625	\$ 767,654	\$ 872,767	\$ 993,808	\$ 1	,125,654
Total Loans (in thousands)	\$ 4	118,748	\$ 471,814	\$ 537,933	\$ 568,568	\$	673,265
Net Interest Margin		3.99%	4.11%	4.27%	4.15%		3.90%
Net Income (in thousands)	\$	9,243	\$ 9,613	\$ 10,277	\$ 13,254	\$	12,477
Basic Earnings/Share	\$	2.42	\$ 2.56	\$ 2.75	\$ 3.53	\$	3.29
Dividends Declared	\$	1.18	\$ 1.28	\$ 1.34	\$ 1.40	\$	1.42
Book Value	\$	18.49	\$ 20.29	\$ 21.95	\$ 23.73	\$	25.39
Return/Average Assets		1.15%	1.09%	1.06%	1.25%		1.06%
Return/Average Equity		14.17%	13.46%	13.09%	14.98%		13.26%

Cambridge Trust continued to achieve returns on equity and assets that compare favorably to the industry. The return on average equity in 2011 was 13.26%, and the return on average assets was 1.06%. In 2011, we wanted to make sure that our shareholders benefitted from the Bank's consistently strong earnings performance. The quarterly dividend was increased by 5.7% to \$0.37 per share. For most of the year, the yield on the Bank's dividend exceeded 4.0%.

Rather than allowing technology ... to further distance the company from its customers, technology [can be] used to regain the personal touch.

—Timothy L. Keiningham

# Consumer Banking

Many of us welcome the convenience and accessibility that comes from an increase in technological options for banking. Some may wonder, however, whether such options might mean a decrease in the personal attention that we can get at a branch. It is possible, however, to expand customer options in such a way that everyone receives service with a personal touch, whether they want to visit a branch or conduct their banking activities from the comfort of their own homes. In 2011, I was struck by the juxtaposition of our expanding branch franchise and the introduction of two new services – mobile banking and online account opening – which offer customers the ability to take care of many banking activities without visiting a branch. At the same time, the Bank's two newest branches, located in Belmont and Lexington, have continued to mature rapidly in highly competitive markets. We think there are other opportunities for branches where Cambridge Trust's brand and service delivery model will compete effectively.

The introduction of mobile banking and online account opening were logical steps for the Bank to take. One of the most important dimensions of customer service is accessibility. We want to ensure that customers have the flexibility to interact with Cambridge Trust in whatever manner they wish. Moreover, it is incumbent upon the Bank to deliver the same customer experience across all channels. For example, to support the introduction and ongoing servicing of mobile banking and online account opening, we established a "virtual branch" in the Bank's Customer Resource Center (CRC). These experienced professionals stand ready to answer questions and address technical issues over the phone in a manner that is consistent with the level of service that customers receive in our eleven branches

It is important for the Bank to maintain its competitive edge and to actively seek opportunities to improve our products and services.

Oftentimes, as with mobile banking, we use technology to deliver a better product or experience. We remain cognizant, however, of our core principles and understand that technology is a way to serve our customers rather than a replacement for serving them. This message resonates with customers as well. As one customer recently noted in an email to me, "Although most of my interaction with Cambridge Trust is online, it is nevertheless important to know that there are real people behind the website, and that I can connect with them when I need to, and that they are good at their jobs in a way that is only possible when people genuinely care about what they are doing."

Carol Bartalussi, who was promoted to Branch Operations Manager, made many friends and fans in the nine years that she managed the Concord Branch. Before moving to her new responsibilities, she made sure that her successor, Christopher Durning, got off to a good start. The fact that Chris is an experienced banker and lives in Concord was helpful.

The Bank celebrated its tenth anniversary in Lincoln in 2011 and, in typical Cambridge Trust fashion, had a nice party to thank customers and recognize the occasion. We also had the opportunity to recognize the Lincoln Branch Manager, Colt Navins, who was promoted to Assistant Vice President and has quite a following in town.

If we apply knowledge to tasks we already know how to do, we call it 'productivity.' If we apply knowledge to tasks that are new and different we call it 'innovation.' Only knowledge allows us to achieve these two goals.

-Peter Drucker

# **Business Banking**

Back in 2010, we talked in this letter about how Cambridge Trust seeks to acquire and benefit from institutional self-knowledge as to how we measure up in a highly competitive environment. We are just as concerned with finding new contexts in which to expand and apply that knowledge in the future. At least two of the challenges that we faced in 2010 were also present throughout 2011. Both bank and non-bank competition were

intense, and interest rates remained low. In fact, during the early part of the summer, actions by the Federal Reserve to encourage lower rates through open market activities and what became known as "Operation Twist" did just that. One outcome for the industry was pressure on margins, which for Cambridge Trust meant a net interest margin of 3.90% for 2011 compared to 4.15% during 2010.

The challenge for our Bank and the industry, especially during periods of protracted and historically low interest rates, is how to provide value to a business customer while differentiating ourselves from our competitors beyond merely offering a low rate. Of course, there is another challenge lurking in the background, namely, credit risk. During particularly competitive times when deposit inflows create plenty of liquidity, banks sometimes compromise their credit standards. Cambridge Trust has avoided this behavior in the past and will continue to do so.

Cambridge Trust has indeed remained competitive, achieving impressive loan growth while maintaining its traditionally high credit standards. Commercial loans showed robust growth in 2011, with most originating in commercial real estate. While traditional business working capital and term loans were relatively flat, commercial real estate loans grew \$53.7 million (30%). We think there is considerably more upside potential for growing commercial real estate loans, so we were pleased to have Michael Falvey, Vice President, join our lending team.

Sound underwriting and loan structuring are important to credit quality. Avoiding concentrations, both geographic and loan type, is also a factor in overall credit quality. Loans made in 2011 reflected a range of opportunities, including a mixed-use building on Beacon Hill, an apartment building in Coolidge Corner, lab space in Cambridge, and an office building in Concord.

Asset quality remained similar to prior years. Non-performing loans ended 2011 at \$1.2 million compared to \$1.1 million in 2010. Non-performing loans may become charge-offs when repayment of the loan is uncertain. Just because a loan is charged off does not mean it is forgotten.

In fact, for 2011 the Bank produced a net recovery of \$274,000 compared to a net charge-off of \$394,000 in 2010. The Allowance for Loan Losses at the end of 2011 was \$10.2 million compared to \$8.9 million at the end of 2010.

The challenge of differentiating Cambridge Trust and demonstrating value in an industry that has become commoditized is formidable. We have done just that in a market that is right in our backyard. Kendall Square is located in the heart of the MIT/Harvard technology cluster and represents an engine for ideas, company formations, and job growth. The area attracts bright minds, venture capitalists, large-scale domestic and foreign investment, and supporting professional and retail service companies.

Cambridge Trust's second oldest branch (1969) serving individuals and businesses is located in Kendall Square. In 2011, we saw the need and the opportunity to elevate our presence and investment in the all-important innovation sector. Early in the year, we established an office (not a branch) in the Cambridge Innovation Center (CIC), the largest and most flexible office facility for small and growing companies in the Commonwealth. Its culture is one of entrepreneurship, interaction, and collaboration. For us to participate in and add value to this high energy "Idea Factory," we needed someone like Jane Mason, Vice President, to take the lead. She has already elevated the Bank's presence and reputation and demonstrated our commitment to the sector through her engagement and the use of Bank resources to support the creative environment.

The continuing story of the Bank's participation in the innovation sector is one that I look forward to telling, just as I do the overall Business Banking story. We committed significantly more resources in 2011 to building the business. Susan O'Keefe, Assistant Vice President, and Jason DeMello, Vice President, joined us to add more firepower to our business development activities in the suburbs and in Boston. Likewise, Kathleen Kelly, Vice President, brought her business development and lending skills to the Bank and has been key to our designation as a "Preferred Lender"

by the Small Business Administration (SBA). We have seen wonderful progress and results.

Given the growth in the Bank's loans and deposits, it would be fair to inquire as to how it was supported. In 2011, we hired James Weishaupt, Operations Officer, to oversee some of the increased volume in Loan Operations. We also acknowledged the achievements of key players who support various aspects of the Bank's growth and success. Promoted to Assistant Vice President were Jennifer Casey, Director of Training, and Angela Vitagliano, our resident expert in Automated Clearing House (ACH) payments. Recognizing, as well, the significance of more extensive media marketing channels, the Bank promoted Leah Siporin to Digital Marketing Officer.

Cambridge Trust has been fortunate to attract and retain talented and dedicated employees who are good team players and want to contribute. It is always with mixed feelings that we say farewell to those who retire. Joan Norton, Vice President and Director of Budget and Finance, retired after being with the Bank for ten years. John Lesanto, Vice President, is in a special category, having served our Bank for 42 years. He was a highly respected professional in Harvard Square, whose customers shed tears when hearing about his departure. We will miss Joan and John, and we wish them well in their retirement.

# Wealth Management

As 2011 drew to a close, a chart tracking equity markets for the year looked like a roller coaster ride at an amusement park, with the drop in early July looking more like a bungee jump. In some respects, I was reminded of the markets in 2008 and 2009, especially the period before March 2009 when markets eventually bottomed out. As was the case then, in 2011 our clients benefitted from the kind of trusted advice and personal service that has been the hallmark of Cambridge Trust, particularly during periods of turbulence and uncertainty.

# Wealth Management

<u>Year</u>	Gross Revenues (in thousands)	Managed Assets (in millions)				
2007	\$ 11,995	\$ 1,486				
2008	\$ 11,749	\$ 1,210				
2009	\$ 11,353	\$ 1,383				
2010	\$ 12,364	\$ 1,507				
2011	\$ 13,152	\$ 1,468				

Although the volatile markets and global economic uncertainty were causes for concern, we stayed focused on essentials by continuing to carry out our long-term strategy. Initiatives that began in prior years were extended and promoted in 2011. For example, in 2010 we established a new subsidiary, Cambridge Trust Company of New Hampshire, Inc., which allows our clients to take advantage of new trust statutes in the Granite State. This initiative, which we refer to as "The New Hampshire Advantage," presents significant opportunities for both New Hampshire residents and non-residents.

Shareholders may recall that Todd Mayo spearheaded our New Hampshire Advantage in 2010. In 2011, Todd decided to return to his prior law firm. Although we were sorry to see him leave, we appreciate the work he did on this initiative.

Strong leadership is important for our New Hampshire Wealth Management group if we are to sustain growth in this key market. I am delighted to report that we were able to attract two of the State's leading wealth management professionals to the Bank. As the new President of Cambridge Trust Company of New Hampshire, Susan Martore-Baker brings us a breadth of wealth management skills, experience, and leadership. Adding greater depth to the Wealth Management investment group, as well as to the New Hampshire team, we were pleased that Maureen Kelliher joined the Bank as a Senior Vice President and Investment Officer.

During this past year, we strengthened our efforts in New Hampshire and moved our Wealth Management office in Exeter to a new office in Portsmouth, located on the riverfront at One Harbour Place. The vibrant community of Portsmouth provides the Bank with a significant presence on the New Hampshire seacoast and serves as an attractive link between Boston and Portland, Maine.

We have also been busy in Massachusetts. The highly successful *Thought Series®* events continue to provide clients, prospects, and friends of the Bank with an opportunity to hear recognized thought leaders on far-reaching topics of interest. These events are complemented by a regular series of smaller Wealth Management Forums held throughout the communities we serve. At a breakfast or lunch, our Wealth Management professionals address timely financial issues facing our clients and prospective clients.

Several members of Wealth Management were recently promoted – David Walker, to Senior Vice President; Brian Sokolowski and Eric Warasta, to Vice President; and Kathryn Hersey, to Investment Officer. Joining the Wealth Management group in 2011 were Erin Cooper, Business Development Officer, and Alice Given, Assistant Trust Officer. We have a solid team in place and are positioned for growth.

\* \* \*

In looking forward, we want to absorb the lessons learned in the past few years which have been marked by a deep recession, a modest economic recovery, market volatility, and periods of uncertainty for individuals and businesses. During this period, Cambridge Trust has remained focused on executing its plans across all business lines, while remaining attentive to changing circumstances and adjusting specific initiatives as required. There is complementarity across Consumer and Business Banking and Wealth Management, and we take advantage of leveraging this synergy. In doing so, we seek to enhance performance and bottom line results.

To execute business plans consistently and to deliver sustained earnings growth over the years, a company needs to have many factors working in its favor. Cambridge Trust has been fortunate to have 200-plus

employees who are focused on the game plan, know their respective roles and responsibilities, and want to succeed individually and institutionally.

The management team, which develops and communicates the plan, provides guidance and coaching. Together, they share a desire to win, which reminds me of a remark by A. Bartlett Giamatti that some shareholders may recall from an earlier annual report. "Winning for player or spectator is not simply outscoring; it is a way of talking about betterment..."

The Bank's Board of Directors shares this sentiment. It is an engaged and diverse group of committed individuals who encourage and motivate us to achieve. The standards of the Directors and the Bank are high, and our core values and principles are strong. Moreover, our key objectives – to maintain our commitments to customer-centered banking, to thought leadership, and to exceeding expectations for performance across the board are matched by the strategies through which we translate those objectives into actions. While keeping things simple in complex times, we aim to use such times as occasions for the enhancement of the competencies that set Cambridge Trust apart, as well as for innovation and the creation of new opportunities for growth.

Strong governance and dedicated service have always been hallmarks of Cambridge Trust. In 2011, we congratulated David A. Thomas on his appointment to Dean of Georgetown University McDonough School of Business and expressed our appreciation for his ten years of service to the Bank. David has been a steady, thoughtful, and insightful presence on the Board, clearly understanding and appreciating Cambridge Trust's core values and competencies.

We were saddened in 2011 to learn of the death of one of the Bank's former Directors, Casimir de Rham, Jr. Casie, a well-known and respected attorney in Boston, served on the Cambridge Trust Board for 35 years. Although his service tenure was noteworthy, it was his service to community that was exemplary. So many organizations like the Cambridge Community Foundation, Mount Auburn Hospital, and the Boys and

Girls Club of Boston benefitted from Casie's wisdom, leadership, and generosity. We miss our dear friend, as does the community to which he gave so much.

In closing, I want to acknowledge and thank our shareholders for your interest in and support of Cambridge Trust Company. We have worked hard to earn your confidence, trust, and respect and will continue to do so.

Respectfully submitted,

Joseph V Roller IT

Joseph V. Roller II

President and CEO

March 2, 2012

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### 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, 2011 and 2010, and the related consolidated statements of income, comprehensive 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 audits.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, the Corporation's internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 2, 2012 expressed an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting.



Boston, Massachusetts March 2, 2012

# CAMBRIDGE BANCORP AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	Decem	iber 31,
	2011	2010
	(In the	usands)
ASSETS	(	
Cash and due from banks	\$ 22,512	\$ 15,756
Overnight investments		
Total cash and cash equivalents	22,512	15,756
Investment securities:		
Available for sale, at fair value	470,232	434,829
Held-to-maturity, at amortized cost	74,256	81,272
Total investment securities	544,488	516,101
Loans:		
Residential mortgage	330,933	272,928
Commercial mortgage	231,595	177,944
Home equity	61,307	66,169
Commercial	38,260	38,258
Consumer	11,170	13,269
Total loans	673,265	568,568
Allowance for loan losses	(10,159)	(8,885)
Net loans	663,106	559,683
Federal Home Loan Bank of Boston stock, at cost	4,806	4,806
Bank owned life insurance.	17,331	11,811
Banking premises and equipment, net	6,216	6,043
Other real estate owned	´—	´ —
Accrued interest receivable	4,423	4,478
Other assets	12,978	12,310
Total assets	\$1,275,860	\$1,130,988
LIABILITIES AND STOCKHOLDERS	FOUITY	
	LQCIII	
Deposits:	e 205.724	e 222 100
Demand	\$ 285,724	\$ 233,199
Interest bearing checking	316,454	280,060
Money market	58,532 328,771	55,026 287,784
Certificates of deposit	136,173	137,739
*	1,125,654	993,808
Total deposits	1,123,034	993,808
Short-term borrowings	2,500	1,902
Long-term borrowings	30,000	30,000
Other liabilities	21,073	16,060
Total liabilities	1,179,227	1,041,770
Stockholders' equity:		
Common stock, par value \$1.00; Authorized		
5,000,000 shares; Outstanding: 3,805,748 and		
3,759,891 shares, respectively	3,806	3,760
Additional paid-in capital	23,001	21,456
Retained earnings	68,232	61,375
Accumulated other comprehensive income	1,594	2,627
Total stockholders' equity	96,633	89,218
Total liabilities and stockholders' equity	\$1,275,860	\$1,130,988
1 7		

# CAMBRIDGE BANCORPAND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 3			mber 31,
		2011		2010
		(In thou		
	per share data)			
Interest income:				
Interest on loans	\$	32,401	\$	- ,-
Interest on taxable investment securities		13,219		14,742
Interest on tax exempt investment securities		1,987		1,842
Dividends on FHLB of Boston stock		14		
Interest on overnight investments		42	_	46
Total interest income		47,663	_	46,556
Interest expense:				
Interest on deposits		2,745		3,564
Interest on borrowed funds	_	1,186	_	1,242
Total interest expense		3,931	_	4,806
Net interest income		43,732		41,750
Provision for loan losses		1,000		550
Net interest income after provision for loan losses		42,732		41,200
Noninterest income:			_	
Wealth management income		13,152		12,364
Deposit account fees		2,179		2,110
ATM/Debit card income		981		958
Merchant card services		_		267
Bank owned life insurance income		519		367
Gain on disposition of investment securities		552		234
Loss on disposition of other real estate owned		_		(10)
Gain on disposition of merchant services portfolio  Other income		764		2,842 745
	_		-	
Total noninterest income		18,147	-	19,877
Noninterest expense:				
Salaries and employee benefits		25,116		23,895
Occupancy and equipment		7,323		6,692
Data processing Professional services		3,594 1,588		3,194 1,717
Marketing		1,703		1,744
FDIC Insurance		752		1,296
Other expenses		2,609		2,906
Total noninterest expense	_	42,685	-	41,444
Income before income taxes	_	18,194	-	19,633
Income tax expense		5,717		6,379
Net income	\$	12,477	\$	
	<u> </u>	, , ,	Ě	-, -,
Per share data:	\$	3.29	\$	3.53
Basic earnings per common share  Diluted earnings per common share	\$ \$	3.29	3 §	
Average shares outstanding - basic	Ψ	3,791,167	4	3,750,065
Average shares outstanding - diluted		3,834,569		3,776,787
		- ,,,		-,

# CAMBRIDGE BANCORP AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended	ber 31,	
	2011		2010
	(In the	ousands)	
Net income	\$ 12,477	\$	13,254
Other comprehensive income/(loss), net of tax: Defined benefit retirement plans: Change in unfunded retirement liability Unrealized gains/(losses) on Available for Sale securities:	(2,941)		(739)
Unrealized holding gains/(losses) arising during the period  Less: reclassification adjustment for gains	2,259		(364)
recognized in net income	(351) (1,033)	_	(148)
Comprehensive income	\$ 11,444	\$	12,003

# 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
		snom III)	(III ulousalius, except per shale data)	ale data)	
Balance at December 31, 2009	\$ 3,723	\$ 20,431	\$ 53,676	\$ 3,878	\$ 81,708
Comprehensive income			13.254	(1.251)	12,003
Stock based compensation	20	332		`	352
Exercise of stock options	12	263	1	I	275
Stock issued to ESOP and DSP	17	496		1	513
Dividends declared (\$1.40 per share)			(5,253)		(5,253)
Stock repurchased	(12)	(99)	(302)		(380)
Balance at December 31, 2010	3,760	21,456	61,375	2,627	89,218
Comprehensive income	I	l	12,477	(1,033)	11,444
Stock based compensation	10	391			401
Exercise of stock options	29	714		l	743
Stock issued to ESOP and DSP	15	487	I	I	502
Dividends declared (\$1.42 per share)	9	{	(5,388)	I	(5,388)
Stock repurchased	(8)	(47)	(232)		(287)
Balance at December 31, 2011	\$ 3,806	\$ 23,001	\$ 68,232	\$ 1,594	\$ 96,633

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,
	2011	2010
	(In tho	usands)
Cash flows provided by operating activities:	0 10 477	0 12.254
Net income	\$ 12,477	\$ 13,254
provided by operating activities:		
Provision for loan losses	1,000	550
Amortization of deferred charges/(income), net	561	622
Depreciation and amortization	1,441	1,454
Bank owned life insurance income	(519)	(367)
Gain on disposition of investment securities	(552)	(234)
Loss on disposition of other real estate owned	_	10
Gain on disposition of merchant services portfolio  Compensation expense from stock option	_	(2,842)
and restricted stock grants	401	352
taxes, other assets and other liabilities	359	958
Other, net	481	18
Net cash provided by operating activities	15,649	13,775
Cash flows used by investing activities:		
Origination of loans	(211,667)	(142,107)
Investment securities - AFS	(235,502)	(279,656)
Investment securities - HTM	(2,531)	(8,958)
Loans	106,443	110,631
Investment securities - AFS	164,920	149,789
Investment securities - HTM	9,526	11,651
Proceeds from sale of investment securities - AFS	38,540	34,083
Proceeds from sale of other real estate owned	_	810
Proceeds from sale of merchant services portfolio	(5.001)	2,842
Purchase of bank owned life insurance  Purchase of banking premises and equipment	(5,001) (1,614)	(1,935)
Net cash used by investing activities	(136,886)	(122,850)
Net increase in deposits	131,846	121,041
Net increase/(decrease) in short-term borrowings	598	(9,539)
Repayment of long-term borrowings	_	(8,000)
Proceeds from issuance of common stock	1,224	788
Repurchase of common stock	(287)	(380)
Cash dividends paid on common stock	(5,388)	(5,253)
Net cash provided by financing activities	127,993	98,657
Net increase/(decrease) in cash and cash equivalents	6,756	(10,418)
Cash and cash equivalents at beginning of year	15,756	26,174
Cash and cash equivalents at end of year	\$ 22,512	\$ 15,756
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,946	\$ 4,828
Cash paid for income taxes  Non-cash transactions:	6,475	7,205
Change in AOCI, net of taxes	(1,033)	(1,251)
Transfer of loans to other real estate owned	_	124

## CAMBRIDGE BANCORP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2011

### 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, Cambridge Trust Company of New Hampshire, Inc., 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 11 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 whollyowned 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 Bank also utilizes its non-depository trust company, Cambridge Trust Company of New Hampshire, Inc., in providing wealth management services in New Hampshire. The assets held for wealth management customers are not assets of the Bank and, accordingly, are not reflected in the accompanying consolidated balance sheets. Total assets managed on behalf of wealth management clients were approximately \$1,468,000,000 and \$1,507,000,000 at December 31, 2011 and 2010, respectively.

During 2010, the Bank sold its Merchant Services portfolio to Elavon, Inc., a wholly owned subsidiary of U.S. Bancorp. The after-tax impact on earnings of that sale was \$1,591,000 or \$0.42 per diluted share.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of Presentation

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") and general practices within the banking industry.

### 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 the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("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 the effective-yield method. U.S. Government Sponsored Enterprise ("GSE") obligations represent debt securities isourities isourities isourities ("FHLB"), the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). Mortgage-backed securities represent Pass-Through Certificates and Collateralized Mortgage Obligations ("CMOs") either issued by, or collateralized by securities issued by, GNMA, FNMA or FHLMC. Mortgage-backed securities are adjusted for amortization of premiums and accretion of discounts, using the effective-yield method over the estimated average lives of the investments.

Debt and equity securities not classified as held-to-maturity are classified as available-forsale 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 \$8,044,000 and \$6,135,000 at December 31, 2011 and 2010, respectively. These amounts are net of deferred taxes payable of \$4,619,000 and \$3,519,000, 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 as 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 as 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 non-accrual 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 non-accrual status, all interest previously accrued but not collected is reversed against current period income. Loans are removed from non-accrual 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 non-accruing 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 level of the allowance for loan losses reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a systematic process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, an estimate is made by management of the allowance needed for each of the following segments of the loan portfolio: (a) residential mortgage loans, (b) commercial mortgage loans, (c) home equity loans, (d) commercial & industrial loans, and (e) consumer loans.

Portfolio segments are further disaggregated into classes of loans. The establishment of the allowance for each portfolio segment is based on a process consistently applied that evaluates the risk characteristics relevant to each portfolio segment and takes into consideration multiple internal and external factors. Internal factors include (a) historic levels and trends in charge-offs, delinquencies, risk ratings, and foreclosures, (b) level and changes in industry, geographic and credit concentrations, (c) underwriting policies and adherence to such policies, and (d) the experience of, and any changes in, lending and credit personnel. External factors include (a) conditions and trends in the local and national economy and (b) levels and trends in national delinquent and non-performing loans. An additional unallocated component is maintained based on a judgmental process whereby management considers qualitative and quantitative assessments of other environmental factors not included above. Risk characteristics relevant to each portfolio segment are as follows:

Residential mortgage and home equity loans – The Bank generally does not originate loans in these segments with a loan-to-value ratio greater than 80 percent and does not grant subprime loans. Loans in these segments are secured by one-to-four family residential real estate and repayment is primarily dependent on the credit quality of the individual borrower.

Commercial mortgage loans – The Bank generally does not originate loans in this segment with a loan-to-value ratio greater than 75 percent. Loans in this segment are secured by owner-occupied and nonowner-occupied commercial real estate and repayment is primarily dependent on the cashflows of the property (if nonowner-occupied) or of the business (if owner-occupied).

Commercial loans – Loans in this segment are made to businesses and are generally secured by equipment, accounts receivable or inventory, as well as the personal guarantees of the principal owners of the business and repayment is primarily dependent on the cashflows generated by the business.

Consumer loans – Loans in this segment are made to individuals and can be secured or unsecured. Repayment is primarily dependent on the credit quality of the individual borrower.

The majority of the Bank's loans are concentrated in Eastern Massachusetts and therefore the overall health of the local economy, including unemployment rates, vacancy rates, and consumer spending levels, can have a material effect on the credit quality of all of these portfolio segments.

The process to determine the allowance for loan losses requires management to exercise considerable judgment regarding the risk characteristics of the loan portfolio segments and the effect of relevant internal and external factors.

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 in a business combination. 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 2008 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 hired before May 2, 2011. Benefits for the pension plan are based primarily on years of service and the employee's final five-year average pay. Benefits for the postretirement health care plan are based on years of service. Expense for both of these plans is recognized over the employee's service life utilizing the projected unit credit actuarial cost method. Contributions are periodically made to the pension plan so as to comply with the Employee Retirement Income Security Act ("ERISA") funding standards and the Internal Revenue Code of 1986, as amended.

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

### Stock Based Compensation

The cost of share-based awards (stock options, restricted stock and/or restricted stock units 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.

### Subsequent Events

Management has reviewed events occurring through March 2, 2012, the date the consolidated financial statements were issued and determined that no subsequent events occurred requiring accrual or disclosure.

### 3. RECENT ACCOUNTING PRONOUNCEMENTS

In April 2011, the FASB issued Accounting Standards Update No. 2011-02, *Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring* ("ASU 2011-02") to assist creditors with determining whether a modification is a troubled debt restructuring ("TDR"). ASU 2011-02 does not change the long-standing guidance that a restructuring of a debt constitutes a TDR "if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider". The provisions of ASU 2011-02 were effective for the Corporation's interim reporting period ending June 30, 2011 and were applied retrospectively to the beginning of the year. As ASU 2011-02 provides only guidance on identifying TDRs, its adoption had no impact on the Corporation's consolidated financial statements.

In June 2011, the FASB issued Accounting Standards Update No. 2011-05, *Comprehensive Income (Topic 220): Presentation of Comprehensive Income* ("ASU 2011-05") to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income (loss). Under ASU 2011-05, the Corporation will have the option to present the components of net income (loss) and comprehensive income (loss) in either one or two consecutive financial statements. ASU 2011-05 eliminates the option to present other comprehensive income (loss) in the statement of changes in stockholders' equity. As ASU 2011-05 provides only guidance on the presentation of comprehensive income (loss), its adoption had no impact on the Corporation's consolidated financial statements.

In September 2011, the FASB issued Accounting Standard Update No. 2011-08, Intangibles-Goodwill and Other (Topic 350): *Testing Goodwill for Impairment* ("ASU 2011-08"). This pronouncement amends previous guidance for goodwill impairment testing by allowing entities to first assess qualitative factors in determining whether or not the fair value of a reporting unit exceeds its carrying value. If an entity concludes from this qualitative assessment that it is more likely than not that the fair value of a reporting unit exceeds its

carrying value, then performing a two-step impairment test is unnecessary. The adoption of ASU 2011-08 had no impact on the Corporation's consolidated financial statements.

### 4. CASH AND DUE FROM BANKS

At December 31, 2011 and 2010, cash and due from banks totaled \$22,512,000 and \$15,756,000, respectively. Of this amount, \$6,586,000 and \$3,053,000, respectively, were maintained to satisfy the reserve requirements of the Federal Reserve Bank of Boston ("FRB Boston"). Additionally, at December 31, 2010, \$700,000 was maintained with a correspondent bank as a compensating balance 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:

Amortized

December 31, 2011

Unrealized

Fair

	Cost	Gains	Losses	Value
		(In tho	ousands)	-
Securities available for sale:				
U.S. GSE obligations	\$ 92,067	\$ 1,675	\$ —	\$ 93,742
Mortgage-backed securities	341,833	11,073	(76)	352,830
Corporate debt securities	22,997	306	(293)	23,010
Mutual funds	672		(22)	650
Total securities available for sale	457,569	13,054	(391)	470,232
Securities held to maturity:				
U.S. GSE obligations	12,495	729	_	13,224
Mortgage-backed securities	8,672	597	_	9,269
Municipal securities	53,089	4,902	_	57,991
Total securities held to maturity	74,256	6,228		80,484
Total investment securities	\$ 531,825	\$ 19,282	\$ (391)	\$ 550,716
		Decembe	er 31, 2010	
	Amortized	Unre	ealized	Fair
	Amortized Cost	Unre Gains	Losses_	Fair Value
		Gains	_	
Securities available for sale:		Gains (In the	Losses	
U.S. GSE obligations	Cost \$ 211,594	Gains	Losses	<b>Value</b> \$ 215,078
U.S. GSE obligations	Cost \$ 211,594 190,909	Gains (In the	Losses pusands)  \$ (641) (1,045)	<b>Value</b> \$ 215,078 197,495
U.S. GSE obligations	Cost \$ 211,594 190,909 22,000	Gains (In tho	Losses pusands)  \$ (641) (1,045) (393)	<b>Value</b> \$ 215,078 197,495 21,608
U.S. GSE obligations	Cost \$ 211,594 190,909	Gains (In the \$ 4,125 7,631	Losses pusands) \$ (641) (1,045)	<b>Value</b> \$ 215,078 197,495
U.S. GSE obligations	Cost \$ 211,594 190,909 22,000	Gains (In the \$ 4,125 7,631	Losses pusands)  \$ (641) (1,045) (393)	<b>Value</b> \$ 215,078 197,495 21,608
U.S. GSE obligations	Cost  \$ 211,594 190,909 22,000 672	Gains (In the \$ 4,125 7,631 1	Losses pusands)  \$ (641) (1,045) (393) (24)	\$ 215,078 197,495 21,608 648
U.S. GSE obligations	Cost  \$ 211,594 190,909 22,000 672	Gains (In the \$ 4,125 7,631 1	Losses pusands)  \$ (641) (1,045) (393) (24)	\$ 215,078 197,495 21,608 648
U.S. GSE obligations	Cost  \$ 211,594 190,909 22,000 672 425,175	Gains (In tho  \$ 4,125 7,631 1 —— 11,757	Losses pusands)  \$ (641) (1,045) (393) (24)	\$ 215,078 197,495 21,608 648 434,829
U.S. GSE obligations	Cost  \$ 211,594 190,909 22,000 672 425,175 17,496	Gains (In tho  \$ 4,125 7,631 1 11,757	Losses pusands)  \$ (641) (1,045) (393) (24)	\$ 215,078 197,495 21,608 648 434,829
U.S. GSE obligations	Cost  \$ 211,594 190,909 22,000 672 425,175  17,496 12,806	Gains (In tho  \$ 4,125 7,631 1 11,757  1,117 718	Losses pusands)  \$ (641) (1,045) (393) (24) (2,103)	\$ 215,078 197,495 21,608 648 434,829 18,613 13,524
U.S. GSE obligations	\$ 211,594 190,909 22,000 672 425,175 17,496 12,806 50,970	Gains (In tho  \$ 4,125 7,631 1 11,757  1,117 718 1,208	Losses pusands)  \$ (641) (1,045) (393) (24) (2,103)  (599)	\$ 215,078 197,495 21,608 648 434,829 18,613 13,524 51,579

All of the Corporation's mortgage-backed securities have been issued by, or are collateralized by securities 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 O Within F		After F		After Te	n Years
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
				(In thou	ısands)			
At December 31, 2011: Debt securities								
available for sale: U.S. GSE								
obligations Mortgage-backed	\$ 27,569	\$ 28,242	\$ 64,498	\$ 65,500	\$ —	\$ —	\$	\$ —
securities	75	80	9,422	9,795	9,346	10,089	322,990	332,866
securities Total debt			22,997	23,010				
securities available for sale Debt securities held	27,644	28,322	96,917	98,305	9,346	10,089	322,990	332,866
to maturity: U.S. GSE obligations	_	_	12,495	13,224	_	_	_	_
Mortgage-backed securities Municipal	_	_	1,750	1,846	6,611	7,062	311	361
securities Total debt			5,497	5,911	33,165	36,388	14,427	15,692
securities held to maturity Total debt	=		19,742	20,981	39,776	43,450	14,738	6,053
securities	\$ 27,644	\$ 28,322	\$116,659	\$ 119,286	\$49,122	\$ 53,539	\$ 337,728	\$ 348,919

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	n One Year	One Year or Longer		Total		
	Fair Value			Fair Value	Unrealized Losses		
			(In the	ousands)			
At December 31, 2011:							
U.S. GSE obligations	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Mortgage-backed securities	6,930	(6)	8,950	(70)	15,880	(76)	
Corporate debt securities	8,801	(261)	2,463	(32)	11,264	(293)	
Municipal securities							
Subtotal, debt securities	15,731	(267)	11,413	(102)	27,144	(369)	
Mutual funds	_	_	650	(22)	650	(22)	
Total temporarily							
impaired securities	\$ 15,731	\$ (267)	\$ 12,063	\$ (124)	\$ 27,794	\$ (391)	
At December 31, 2010:							
U.S. GSE obligations	\$ 69,394	\$ (641)	\$ —	\$ —	\$ 69,394	\$ (641)	
Mortgage-backed securities	43,850	(1,045)	_	_	43,850	(1,045)	
Corporate debt securities	19,061	(393)	_	_	19,061	(393)	
Municipal securities	16,697	(584)	202	(15)	16,899	(599)	
Subtotal, debt securities	149,002	(2,663)	202	(15)	149,204	(2,678)	
Mutual funds	_	_	648	(24)	648	(24)	
Total temporarily							
impaired securities	\$149,002	\$ (2,663)	\$ 850	\$ (39)	\$149,852	\$ (2,702)	

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, 2011, ten debt securities and one equity security had gross unrealized losses, with an aggregate depreciation of 1.39% from the Corporation's amortized cost basis. The largest loss percentage of any single security was 7.57% of its amortized cost. 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 nearly all of these securities are rated "investment grade" and a) the Corporation does not intend to sell these securities before recovery, and b) that 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, 2011.

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

	Year Ended December 31,				
		2011	2010		
		(In tho	usands)		
Amortized cost of securities sold	\$	37,988	\$	33,849	
Gain realized on securities sold		552		234	
Proceeds from securities sold	\$	38,540	\$	34,083	

### 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,			
	2011	2010		
	(In thou	ısands)		
Residential real estate:				
Mortgages - fixed rate (30 year)	\$ 176,843	\$ 178,279		
Mortgages - fixed rate (10 or 15 year)	98,698	40,847		
Mortgages - adjustable rate	55,063 329	53,563 239		
Total residential real estate	330,933	272,928		
Commercial real estate:				
Mortgages - nonowner occupied	176,634	137,843		
Mortgages - owner occupied	45,340	37,214		
Construction	9,426	2,719		
Deferred costs net of unearned fees	195	168		
Total commercial real estate	231,595	177,944		
Home equity:				
Home equity - lines of credit	57,177	57,970		
Home equity - term loans	4,010	8,083		
Deferred costs net of unearned fees	120	116		
Total home equity	61,307	66,169		
Commercial:				
Commercial and industrial	37,984	38,023		
Deferred costs net of unearned fees	276	235		
Total commercial	38,260	38,258		
Consumer:				
Secured	9,249	10,570		
Unsecured	1,902	2,676		
Deferred costs net of unearned fees	19	23		
Total consumer	11,170	13,269		
Total loans	\$ 673,265	\$ 568,568		

Certain directors and officers of the Corporation 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, 2011 and 2010, total loans outstanding to these related parties were \$786,000 and \$934,000, respectively. During 2011, no additions and \$146,000 of repayments were made to these loans, compared to no additions and \$14,000 of repayments made during 2010.

The following table sets forth information regarding non-performing loans.

	December 31,				
		2011	2010		
		(In tho	usands)		
Non-accrual loans	\$	1,204	\$	1,147	
Loans past due >90 days, but still accruing		_		_	
Troubled debt restructurings		_		_	
Total non-performing loans	\$	1,204	\$	1,147	

A breakdown of non-accrual loans receivable is as follows:

		December 31,					
		2011	2010				
	(In thousands)						
Non-accrual loans:							
Residential mortgage loans	\$	802	\$	766			
Commercial mortgage loans				_			
Home equity loans		340		56			
Commercial loans		51		305			
Consumer loans		11		20			
Total	\$	1,204	\$	1,147			

The following table contains period-end balances of loans receivable disaggregated by credit quality indicator:

	<b>December 31, 2011</b>						
			(In t	housands)			
	Residential Mortgages			Home Equity	Co	nsumer	
Credit risk profile based on payment activity:							
Performing	\$	330,131	\$	60,967	\$	11,159	
Non-performing		802		340		11	
Total	\$	330,933	\$	61,307	\$	11,170	
				Commercial Mortgages		mmercial	
Credit risk profile by internally assigned grade:							
Pass			\$	221,101	\$	31,502	
Special mention				8,578		4,164	
Substandard				1,916		2,594	
Doubtful				_		_	
Total			\$	231,595	\$	38,260	

With respect to residential real estate, home equity and consumer loans, the Bank utilizes the following categories as indicators of credit quality:

- Performing These loans are accruing and are considered having low to moderate risk.
- Non-performing These loans either have been placed on non-accrual, or are past
  due more than ninety days but are still accruing, and may contain greater than
  average risk.

With respect to commercial real estate and commercial loans, the Bank utilizes a ten grade internal loan rating system as an indicator of credit quality. The grades are as follows:

- Loans rated 1-6 (Pass) These loans are considered "pass" rated with low to average risk.
- Loans rated 7 (Special Mention) These loans have potential weaknesses warranting close attention which if left uncorrected may result in deterioration of the credit at some future date.
- Loans rated 8 (Substandard) These loans have well-defined weaknesses that jeopardize the orderly liquidation of the debt under the original loan terms. Loss potential exists but is not identifiable in any one customer.
- Loans rated 9 (Doubtful) These loans have pronounced weaknesses that make full collection highly questionable and improbable.
- Loans rated 10 (Loss) These loans are considered uncollectible and continuance as a bankable asset is not warranted.

The following table contains period-end balances of loans receivable disaggregated by past due status:

	December 31, 2011											
	30 - 59 60 - 89 Current Days Days (In thou		90 Days or Greater	Total Past Due	Total Loans	Greater Than 90 Days But Accruing						
Loans receivable:			(III ti	iousanus)								
Residential												
mortgage loans	\$329,825	\$ 417	\$ 97	\$ 594	\$1,108	\$330,933	\$ —					
Commercial mortgage												
loans	228,646	700	2,249	_	2,949	231,595	_					
Home equity loans	60,957	10	_	340	350	61,307	_					
Commercial loans	38,217	43	_	_	43	38,260	_					
Consumer loans	11,164	4	2	_	6	11,170	_					
Total	\$668,809	\$1,174	\$2,348	\$ 934	\$4,456	\$673,265	<u>\$</u>					

As of December 31, 2011, there were no loans receivable that were individually evaluated for impairment.

The following table contains period-end balances of the allowance for loan losses and related loans receivable disaggregated by impairment method:

	December 31, 2011													
		sidential ortgages		ommercial Aortgages		ome quity	_	mmercial	Co	nsumer	Un	nallocated		Total
Allowance for loan losses: Individually evaluated							(In	thousands)						
for impairment Collectively evaluated	\$	_	\$	_	\$	_	\$	_	\$	_	\$	_	\$	_
for impairment		3,905		4,385		711		742		163		253		10,159
Total	\$	3,905	\$	4,385	\$	711	\$	742	\$	163	\$	253	\$	10,159
Loans receivable: Individually evaluated														
for impairment Collectively evaluated	\$	_	\$	_	\$	_	\$	_	\$	_			\$	
for impairment		330,933		231,595	6	1,307		38,260	_ 1	1,170			6	73,265
Total	\$	330,933	\$	231,595	\$6	1,307	\$	38,260	\$ 1	1,170			\$6	73,265
	December 31, 2010													
		sidential ortgages		ommercial Mortgages		ome	_	mmercial thousands)	Co	nsumer	Un	nallocated	_	Total
Allowance for loan losses: Individually evaluated							(111	tilousunus)						
for impairment Collectively evaluated	\$	33	\$	_	\$	_	\$	_	\$	_	\$	_	\$	33
for impairment		3,052		3,429		740		787		195		649		8,852
Total	\$	3,085	\$	3,429	\$	740	\$	787	\$	195	\$	649	\$	8,885
Loans receivable: Individually evaluated														
for impairment Collectively evaluated	\$	437	\$		\$	56	\$	247	\$	_			\$	740
for impairment	_ :	272,491	_	177,944	_6	6,113		38,011	_1	3,269			_5	67,828

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 were as follows:

						De	cem	ber 31, 20	011					
		sidential ortgages		mmercial ortgages	_	Iome	Com	nmercial	Co		Unc	allocated		Total
	IVI	ortgages	IVI	ortgages		quity		thousands)		nsumer	UH	inocateu	_	Totai
Balance at beginning							(	ino usunus)						
of year Provision for	\$	3,085	\$	3,429	\$	740	\$	787	\$	195	\$	649	\$	8,885
loan losses		816		950		(9)		(361)				(396)		1,000
Loans charged-off		_		_		(20)		(110)		(56)		_		(186)
Recoveries		4		6		_		426		24		_		460
Balance at end of year	\$	3,905	\$	4,385	\$	711	\$	742	\$	163	\$	253	\$ 1	0,159

#### 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, 2011, the Bank's investment in FHLB Boston stock exceeded its required investment by \$2,075,000. 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 October 27, 2011, the FHLB Boston reported net income for the nine months ended September 30, 2011 of \$94,885,000 and announced that it had declared its fourth consecutive quarterly dividend. The FHLB Boston also reported that it continued to exceed all of its regulatory capital requirements and was classified "adequately capitalized" by its regulator, the Federal Housing Finance Agency, as of June 30, 2011. 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 both 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, 2011.

#### 8. BANKING PREMISES AND EQUIPMENT

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

	Decem	Estimated		
	2011	2010	<b>Useful Lives</b>	
	(In thou	isands)		
Land	\$ 1,116	\$ 1,116		
Building and leasehold improvements	11,121	10,943	5-30 years	
Equipment	13,742	13,950	3-7 years	
Subtotal	25,979	26,009		
Accumulated depreciation and amortization	(19,763)	(19,966)		
Total	\$ 6,216	\$ 6,043		

Total depreciation expense for the years ended December 31, 2011 and 2010 amounted to approximately \$1,441,000 and \$1,454,000, respectively, and is included in occupancy and equipment expenses in the accompanying consolidated statements of income.

## 9. OTHER REAL ESTATE OWNED

The following table sets forth information regarding other real estate owned ("OREO") activity during the periods noted:

	December 31,				
	2011		2	2010	
		(In thou	usands)		
Balance at beginning of period	\$	_	\$	696	
Transfer from loans		_		124	
Net proceeds from properties sold		_		(810)	
Net loss realized on properties sold		_		(10)	
Balance at end of period	\$		\$		

#### 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:

		odwill	Inta	stomer ingibles iousands)	Fotal ingibles
Balance at December 31, 2009 Amortization expense	\$	412	\$	537 (377)	\$ 949 (377)
Balance at December 31, 2010	-	412		160	572
Amortization expense		_		(148)	(148)
Balance at December 31, 2011	\$	412	\$	12	\$ 424

The components of intangible assets were as follows:

December 31,				
2011			2010	
	(In thou	ısands)	)	
\$	3,777	\$	3,777	
	(3,765)		(3,617)	
\$	12	\$	160	
	\$ \$	2011 (In thou \$ 3,777	2011 (In thousands) \$ 3,777 \$	

#### 11. DEPOSITS

Deposits are summarized as follows:

	December 31,					
	2011			2010		
		(In thousands)				
Demand deposits (non-interest bearing)	\$	285,724	\$	233,199		
Interest bearing checking		316,454		280,060		
Money market		58,532		55,026		
Savings		328,771		287,784		
Certificates of deposit under \$100,000		57,475		60,161		
Certificates of deposit \$100,000 or greater		78,698		77,578		
Total deposits	\$	1,125,654	\$	993,808		

Certificates of deposit had the following schedule of maturities:

	December 31,				
	2011			2010	
		(In the	ousands)		
Less than 3 months remaining	\$	54,452	\$	59,613	
3 to 5 months remaining		25,998		28,673	
6 to 11 months remaining		20,214		16,599	
12 to 23 months remaining		15,336		16,760	
24 to 47 months remaining		18,843		8,660	
48 months or more remaining		1,330		7,434	
Total certificates of deposit	\$	136,173	\$	137,739	

Interest expense on certificates of deposit \$100,000 or greater was \$653,000 and \$945,000 for the years ended December 31, 2011 and 2010, respectively.

#### 12. SHORT-TERM BORROWINGS

Short-term borrowings consisted of the following:

	December 31,				
	2011			2010	
		(In tho	usands)		
Treasury, Tax and Loan notes	\$	_	\$	1,902	
FHLB Boston short-term borrowings		2,500		_	
Total short-term borrowings	\$	2,500	\$	1,902	

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

	Year Ended December 31,						
	2011			2010			
	(Dollars in thousands)						
Treasury, Tax and Loan notes:							
Average daily balance	\$	604	\$	492			
Average interest rate		0.00%		0.00%			
Highest month-end balance	\$	1,874	\$	1,902			
FHLB Boston short-term borrowings:							
Average daily balance	\$	3,374	\$	772			
Average interest rate		0.31%		0.28%			
Highest month-end balance	\$	14,000	\$	12,000			

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, 2011, the Bank had pledged investment securities with a carrying value of approximately \$1,589,000 as collateral for Treasury, Tax and Loan payments.

#### 13. LONG-TERM BORROWINGS

Long-term borrowings consisted of the following:

	December 31, 2011			]	31, 2010	
	A	mount	Rate	A	mount	Rate
			(Dollars in t	thousa	ands)	
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	\$	30,000	3.87%	\$	30.000	3.87%
	_			_	,	

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, 2011 was approximately \$267,233,000.

The Bank also has a line of credit with the FRB Boston. At December 31, 2011, the Bank had pledged commercial real estate and commercial & industrial loans with aggregate principal balances of approximately \$217,484,000 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, 2011 was approximately \$124,798,000.

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, 2011, had a carrying value of approximately \$34,680,000.

#### 14. INCOME TAXES

The components of income tax expense were as follows:

	Year Ended December 31,						
		2011	2010				
	(In thousands)						
Current:							
Federal	\$	5,467	\$	5,845			
State		694		749			
Total current expense		6,161		6,594			
Deferred:							
Federal		(346)		(195)			
State		(98)		(20)			
Total deferred benefit		(444)		(215)			
Total income tax expense	\$	5,717	\$	6,379			
Federal State Total current expense  Deferred: Federal State Total deferred benefit	\$	694 6,161 (346) (98) (444)	\$	74 6,59 (19 (2 (21			

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,					
		2011		2010		
	(In thousands)					
Provision at statutory rates	\$	6,368	\$	6,872		
Increase/(decrease) resulting from:						
State tax, net of federal tax benefit		387		474		
Tax-exempt income		(695)		(645)		
ESOP dividends		(152)		(155)		
Bank owned life insurance		(182)		(129)		
Other		(9)		(38)		
Total income tax expense	\$	5,717	\$	6,379		

As of December 31, 2011 and 2010, the Corporation had no unrecognized tax assets or liabilities.

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

Decem	ber 31,
2011	2010
(In tho	usands)
4,150	\$ 3,629
6,328	4,224
819	870
376	441
202	180
177	181
200	176
96	104
12,348	9,805
(379)	(348)
(4,619)	(3,519)
(4,998)	(3,867)
7,350	\$ 5,938
	2011 (In tho 4,150 6,328 819 376 202 177 200 96 12,348 (379) (4,619) (4,998)

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, 2011 or 2010 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.

The Corporation's federal income tax returns are open and subject to examination from the 2008 tax return year and forward. The Corporation's state income tax returns are generally open from the 2008 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 hired before May 2, 2011. 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:

	Pens Pla		Supple Retireme	
	2011	2010	2011	2010
		(In thou	ısands)	
Change in projected benefit obligation:				
Obligation at beginning of year	\$ 22,355	\$ 18,962	\$ 4,821	\$ 3,838
Service cost	1,200	1,069	533	439
Interest cost	1,174	1,078	253	221
Actuarial (gain)/loss	4,313	1,716	101	445
Benefits paid	(598)	(470)	(122)	(122)
Obligation at end of year	28,444	22,355	5,586	4,821
Change in plan assets:				
Fair value at beginning of year	17,655	14,410	_	_
Actual return on plan assets	388	1,715	_	_
Employer contribution	2,000	2,000	122	122
Benefits paid	(598)	(470)	(122)	(122)
Fair value at end of year	19,445	17,655		
Funded status at end of year	\$ (8,999)	\$ (4,700)	\$ (5,586)	\$ (4,821)

Amounts recognized in the consolidated balance sheets consisted of:

		Pension Plan			T. P. P.				
	2011		2010			2011		2010	
				(In tho	usan	ds)	-		
Other liabilities	\$	(8,999)	\$	(4,700)	\$	(5,586)	\$	(4,821)	

Amounts recognized in accumulated other comprehensive income consisted of:

		Pension Plan			]		lemental ment Plan	
	2011		2010		20	011	2	010
				(In tho	usands	5)		
Net (gain)/loss	\$	10,280	\$	5,341	\$	573	\$	472
Prior service cost/(benefit)		(31)		(17)		104		183
	\$	10,249	\$	5,324	\$	677	\$	655

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

		Pension Plan					lemental nent Plan	
	2011			2010		2011		2010
				(In the	usanc	ds)		
Projected benefit obligation	\$	28,444	\$	22,355	\$	5,586	\$	4,821
Accumulated benefit obligation		23,915		19,150		5,586		4,821
Fair value of plan assets		19,445		17,655		_		_

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

	Pension Plan							
	2011 2010		2010	2	011	2010		
				(In tho	usands	s)		
Net periodic benefit cost:								
Service cost	\$	1,200	\$	1,069	\$	533	\$	439
Interest cost		1,174		1,078		253		221
Expected return on assets	(	1,367)		(1,134)		_		_
Amortization of prior service								
cost/(benefit)		14		14		79		79
Amortization of net actuarial								
(gain)/loss		353		266		_		_
Net periodic benefit cost		1,374		1,293		865		739
•	-				-			
Amounts recognized in other								
comprehensive income:								
Net (gain)/loss	4	4,939		869		101		445
Amortization of prior service								
cost/(benefit)		(14)		(14)		(79)		(79)
Total recognized in other								
comprehensive income		4,925		855		22		366
	Φ.	c 200	Φ.	2 1 40	•	007	Φ.	1.105
comprehensive income	\$ (	5,299	\$	2,148	\$	887	\$	1,105
e e		4,925 6,299	\$	2,148	\$	887	\$	1,105

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

	Pension Plan		Supplen Retireme	
	2011	2010	2011	2010
Discount rate	4.25%	5.25%	4.25%	5.25%
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		Supplen Retireme	
	2011	2010	2011	2010
Discount rate	5.25%	5.75%	5.25%	5.75%
Expected long-term return on plan assets	7.50%	7.50%	NA	NA
Rate of compensation increase	4.00%	4.00%	NA	NA

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

The Corporation maintains an Investment Policy for 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 \$2,000,000 to its defined benefit pension plan in 2012.

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

	Deceml	per 31,
	2011	2010
Equity securities	60%	68%
Debt securities	37	31
Cash and other	3	1
Total	100%	100%

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, 2011							
	Le	Level 1		vel 2	Le	vel 3	Т	otal
				(In tho	usands	()		
Asset category:								
Cash and cash equivalents	\$	603	\$	_	\$	_	\$	603
Equity securities:								
Common stocks:								
Large cap core		5,910		_		_		5,910
Mid cap core		2,049		_		_		2,049
International		1,420		_		_		1,420
Mutual funds:								
Fixed income		7,130		_		_		7,130
International		1,650		_		_		1,650
Mid cap blend		683		_		_		683
Total	\$ 1	19,445	\$		\$		\$	19,445

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:

		1		
	2	2011	2	2010
		(In thou	ısands)	
Change in projected benefit obligation:				
Obligation at beginning of year	\$	655	\$	653
Service cost		11		9
Interest cost		32		34
Actuarial (gain)/loss		54		16
Benefits paid		(57)		(57)
Obligation at end of year		695		655
Change in plan assets:				
Fair value at beginning of year		_		_
Actual return on plan assets		_		_
Employer contribution		57		57
Benefits paid		(57)		(57)
Fair value at end of year				
Funded status at end of year	\$	(695)	\$	(655)

Amounts recognized in the consolidated balance sheets consisted of:

	Postreti Healthca		
	2011	2	2010
	(In thou	isands)	
Other liabilities	\$ (695)	\$	(655)

Amounts recognized in accumulated other comprehensive income consisted of:

		Postreti Healthca			
	2011		2	2010	
	-	(In thou	ısands)		
Net (gain)/loss	\$	13	\$	(41)	
Prior service cost/(benefit)		(36)		(45)	
	\$	(23)	\$	(86)	

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

			irement are Plan	
	2011		2010	
		(In tho	usands)	-
Projected benefit obligation	\$	695	\$	655
Accumulated benefit obligation		695		655
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				
	2011		2010		
	(In thousands)				
Net periodic benefit cost:					
Service cost	\$	11	\$	9	
Interest cost		32		34	
Expected return on assets		_		_	
Amortization of prior service cost/(benefit)		(9)		(9)	
Amortization of net actuarial (gain)/loss		_		(2)	
Net periodic benefit cost		34		32	
Amounts recognized in other comprehensive income:					
Net (gain)/loss		54		16	
Amortization of prior service cost/(benefit)		9		9	
Amortization of net actuarial (gain)/loss		_		2	
Total recognized in other comprehensive income		63		27	
Total recognized in net periodic benefit cost					
and other comprehensive income	\$	97	\$	59	

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

	Postretir Healthcar	
	2011	2010
Discount rate	4.25%	5.25%
Rate of compensation increase	NA	NA

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

	Postretir Healthcar	
	2011	2010
Discount rate	5.25%	5.75%
Expected long-term return on plan assets	NA	NA
Rate of compensation increase	NA	NA

Assumed health care cost trend rates are as follows:

	December 31,		
	2011	2010	
Health care cost trend rate assumed for next year	7.00%	8.00%	
to decline (the ultimate trend rate)	5.00%	5.00%	
Year that the rate reaches the ultimate trend rate	2014	2014	

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				
	Inc	rease	Dec	Decrease	
		(In tho	usands)		
Effect on total service and interest cost	\$	1	\$	(1)	
Effect on postretirement benefit obligation		20		(18)	

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 thou	isands)	
2012	\$ 653	\$ 121	\$ 54	\$ 828
2013	941	344	56	1,341
2014	975	454	54	1,483
2015	1,065	452	54	1,571
2016	1,128	450	51	1,629
2017-2021 inclusive	7,246	2,459	234	9,939
Ten year total	\$ 12,008	\$ 4,280	\$ 503	\$ 16,791

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2012 are as follows:

	Pension Plan		Retin	emental rement lan	retir Heal	ost- ement lthcare lan	 Total
				(In thou	sands)		
Prior service cost	\$	(6)	\$	(80)	\$	(8)	\$ (94)
Net (gain)/loss		(710)		_		_	(710)
Total	\$	(716)	\$	(80)	\$	(8)	\$ (804)

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 12 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, 2011 and 2010, the ESOP owned 303,298 shares and 299,863 shares, respectively, of the Corporation's common stock.

Total expenses related to the Profit Sharing and ESOP Plans for the years ended December 31, 2011 and 2010, amounted to approximately \$950,000 and \$1,063,000, 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. Options vest over a five-year period. All options expire 10 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 ("RSUs") and stock appreciation rights ("SARs"). The Corporation did not award any stock options during 2011 or 2010.

A summary of the status of the Corporation's Stock Option Plan as of December 31, 2011 and 2010, and changes during the years ended on those dates is presented below:

	2011			2010			
	Number of Options	Av Ex	eighted verage cercise Price	Number of Options	Av Ex	eighted verage vercise Price	
Stock options:							
Outstanding at beginning of year	384,185	\$	29.71	397,785	\$	29.51	
Granted	_		_	_		_	
Forfeited	(4,000)		28.39	_		_	
Expired	(966)		25.67	(1,500)		32.71	
Exercised	(28,684)		25.09	(12,100)		22.72	
Outstanding at end of year	350,535	_	30.12	384,185	_	29.71	
Exercisable at end of year	235,635	\$	30.08	223,599	\$	29.97	

The following table summarizes information about stock options outstanding at December 31, 2011:

	OI	Options E	xercisable		
Range of Exercise Price	Number Outstanding at 12/31/11	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/11	Weighted Average Exercise Price
\$25.00 - \$29.99	231,964	4.2 years	\$ 28.78	150,714	\$ 28.62
\$30.00 - \$34.99	118,571	2.7 years	\$ 32.73	84,921	\$ 32.67
	350,535	3.7 years	\$ 30.12	235,635	\$ 30.08

During 2011 and 2010, the Corporation awarded 11,770 and 19,880 restricted shares, respectively. These restricted shares vest over a five year period and had weighted average fair values of \$34.40 and \$31.43, respectively, at the time of grant.

During 2011 and 2010, the Corporation awarded 8,770 and 9,380 RSUs, respectively. These RSUs vest over a three to five year period and had weighted average fair values of \$34.44 and \$30.80, respectively, at the time of grant.

Total expense related to the Stock Option Plan for the years ended December 31, 2011 and 2010, amounted to approximately \$401,000 and \$352,000, respectively.

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, 2011 and 2010 were 4,188 and 5,770, 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,			
	2011			2010
Standby letters of credit	\$	7,858	\$	6,016
Commitments to extend credit:				
Unused portion of existing lines of credit		142,933		160,414
Origination of new loans		28,524		40,130
Liabilities associated with letters of credit		40		29

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 2013 and 2021 and, in some instances, contain options to renew for periods from one to fifteen years. The total minimum rentals due in future periods under these agreements in effect at December 31, 2011 were as follows:

Year Ended December 31,	Future Minimun Lease Payments				
	(In t	thousands)			
2012	\$	3,395			
2013		3,327			
2014		3,214			
2015		3,792			
2016		2,961			
Thereafter		1,619			
Total minimum lease payments	\$	18,308			

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 \$3,549,000 and \$3,461,000 for the years ended December 31, 2011 and 2010, 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 \$31,000 and \$33,000 for the years ended December 31, 2011 and 2010, respectively.

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

The Corporation has entered into agreements with its President and with certain other 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, 2011 and 2010, 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:

Minimum To Be

		Actual			Minimum For Capital Adequacy Purposes			ell-Capitali Prompt Co Action Pr	zed Under orrective
	Am	ount	Ratio		Amount	Ratio	A	mount	Ratio
					(Dollars i	n thousands)			
At December 31, 2011:									
Cambridge Bancorp:									
Total capital									
(to risk-weighted assets)	\$ 10	3,040	15.39	6 \$	53,929	8.0%	\$	67,411	10.0%
Tier I capital									
(to risk-weighted assets)	9	4,592	14.09	6	26,964	4.0%		40,446	6.0%
Tier I capital		4.500	7.00	,	40.050	4.007		60.474	5.00/
(to average assets)	9	4,592	7.69	0	49,979	4.0%		62,474	5.0%
Cambridge Trust Company:									
Total capital (to risk-weighted assets)	\$ 9	9,404	13.89	6 S	57,680	8.0%	\$	72,100	10.0%
Tier I capital	\$ Y	9,404	13.67	0 \$	37,080	8.070	Ф	72,100	10.070
(to risk-weighted assets)	0	0,377	12.59	/-	28,840	4.0%		43,260	6.0%
Tier I capital	,	0,577	12.37	0	20,040	4.070		43,200	0.070
(to average assets)	9	0,377	7.39	6	49,790	4.0%		62,237	5.0%
(to average assets)		0,577	,,	•	.,,,,,	1.070		02,237	2.070
At December 31, 2010:									
Cambridge Bancorp:									
Total capital									
(to risk-weighted assets)	\$ 9	3,311	16.09	6 \$	46,703	8.0%	\$	58,379	10.0%
Tier I capital									
(to risk-weighted assets)	8	5,994	14.79	6	23,351	4.0%		35,027	6.0%
Tier I capital									
(to average assets)	8	5,994	7.69	6	45,000	4.0%		56,250	5.0%
Cambridge Trust Company:									
Total capital									
(to risk-weighted assets)	\$ 9	0,317	15.59	6 \$	46,703	8.0%	\$	58,379	10.0%
Tier I capital				,					6.007
(to risk-weighted assets)	8	3,000	14.29	0	23,351	4.0%		35,027	6.0%
Tier I capital	0	2 000	7.40	,	44.054	4.007		56.067	5.00/
(to average assets)	8	3,000	7.49	0	44,854	4.0%		56,067	5.0%

## 20. OTHER INCOME

The components of other income were as follows:

	Year Ended December 31,			
	2011		2010	
Safe deposit box income	\$	346	\$	351
Loan fee income		175		216
Miscellaneous income		243		178
Total other income	\$	764	\$	745

#### 21. OTHER OPERATING EXPENSES

The components of other operating expenses were as follows:

	Year Ended December 31,			
	2011		2010	
		(In tho	usands)	
Contributions / Public relations	\$	454	\$	424
Director fees		415		411
Printing and supplies		362		440
Postage		293		284
Travel and entertainment		274		227
Dues and memberships		227		189
Amortization of intangible assets		148		377
Other losses		95		177
Miscellaneous expense		341		377
Total other operating expenses	\$	2,609	\$	2,906

#### 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, 2011					
	Before Tax Amount		,	Tax xpense) Benefit		et-of-tax amount
			(In t	housands)		
Defined benefit retirement plans:			,	,		
Change in unfunded retirement liability	\$	(5,010)	\$	2,069	\$	(2,941)
Unrealized gains/(losses) on AFS securities: Unrealized holding gains/(losses) arising						
during the period		3,561		(1,302)		2,259
Reclassification adjustment for gains						
recognized in net income		(552)		201		(351)
	\$	(2,001)	\$	968	\$	(1,033)
	_				_	

Year Ended December 31, 2010					
Before Tax Amount		(Ex	pense)		t-of-tax mount
		(In the	ousands)		
\$	(1,249)	\$	510	\$	(739)
	(579)		215		(364)
	. ,				` ′
	(234)		86		(148)
\$	(2,062)	\$	811	\$	(1,251)
	A	\$ (1,249) (579) (234)	Before Tax	Tax (Expense)   or Benefit (In thousands)	Tax (Expense) or Benefit (In thousands)   Ne (1,249)   \$ 510   \$ (579)   215   (234)   86

# 23. EARNINGS PER SHARE

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

	Year Ending De	ecember 31, 2011
	Basic	Diluted
	EPS	EPS
Numerator:		
Net income	\$ 12,477,000	\$ 12,477,000
Denominator:		
Weighted average common shares outstanding	3,791,167	3,791,167
Dilutive effect of stock options	_	43,402
Total shares	3,791,167	3,834,569
Earnings per share	\$ 3.29	\$ 3.25
	Year Ending De	ecember 31, 2010
	Basic	Diluted
	EPS	EPS
Numerator:		
Net income	\$ 13,254,000	\$ 13,254,000
Denominator:	<del></del>	<del></del>
Weighted average common shares outstanding	3,750,065	3,750,065
Dilutive effect of stock options	· · · —	26,722
Total shares	3,750,065	3,776,787
	=======================================	=======================================
Earnings per share	\$ 3.53	\$ 3.51

#### 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.

	Decmber	r 31, 2011	December 31, 2010			
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value		
		(In tho	usands)			
Financial assets:						
Cash and cash equivalents	\$ 22,512	\$ 22,512	\$ 15,756	\$ 15,756		
Securities - available for sale	470,232	470,232	434,829	434,829		
Securities - held-to-maturity	74,256	80,484	81,272	83,716		
Loans, net	663,106	685,994	559,683	575,782		
FHLB Boston stock	4,806	4,806	4,806	4,806		
Accrued interest receivable	4,423	4,423	4,478	4,478		
Financial liabilities:						
Deposits	1,125,654	1,126,618	993,808	994,363		
Short-term borrowings	2,500	2,500	1,902	1,902		
Long-term borrowings	30,000	30,930	30,000	31,479		

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 modelderived 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, 2011							
	Level 1		]	Level 2		evel 3		Total
				(In tho	usands	3)		
Measured on a recurring basis: Securities available for sale:								
U.S. GSE obligations	\$	_	\$	93,742	\$	_	\$	93,742
Mortgage-backed securities		_		352,830		_		352,830
Corporate debt securities		_		23,010		_		23,010
Mutual funds		650		_		_		650
		Fai	r Va	lue as of I	Decem	ber 31, 2	010	
	Le	vel 1	]	Level 2	Le	evel 3		Total
				(In tho	usands	3)		
Measured on a recurring basis: Securities available for sale:								
U.S. GSE obligations	\$		\$	215,078	\$		\$	215,078
	Ψ		Φ	213,076	Ф		Ψ	213,070
Mortgage-backed securities	Ψ	_	Ф	197,495	J		Ψ	197,495
e e	Ψ	_	Ф	,	Þ	_	Ψ	,

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.

#### 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**

1 1 1 1 1 1 1	President & Chief Executive Officer
Joseph V. Koller II	President & Chief Executive Officer
	Executive Vice President, Wealth Management
	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
	Senior Vice President & Human Resources Director
	Senior Vice President & Trust Officer
	Senior Vice President, Consumer Banking Director & Assistant Secretary
Martin B. Millane, Jr	Senior Vice President & Senior Lending Officer
	Senior Vice President & Marketing Director
	Senior Vice President & Investment Officer
•	
	Vice President & Trust Officer
	Vice President & Business Development Officer
	Vice President, Commercial Real Estate
Ryan M. Hanna	Vice President & Investment Officer
	Vice President & Investment Officer
	Vice President
Janice Kilburn	Vice President & Business Development Officer
	Vice President
	Vice President & Trust Officer
	Vice President
Robert J. MacAllister	Vice President & Business Development Officer
	Vice President & Manager, Commercial Credit Department
Jane E. Mason	Vice President, Relationship Manager
Roma A. Mayur	
Michael T. McGovern	
Laura C. McGregor	
Stuart J. McGuirk	
Patricia J. Mullin	
Frank Pasciuto	Vice President
Robert C. Pasciuto, Esq	
Donna R. Petro	
Steven G. Pisan	
Joseph P. Sapienza	Vice President & Controller
2	

# **CAMBRIDGE TRUST COMPANY-OFFICERS (continued)**

Brian I Sokolowski	Vice President & Investment Officer
	Vice President, Commercial Real Estate
	Vice President
	Vice President  Vice President
	Vice President & Investment Officer
	Vice President & Investment Research Officer
	Assistant Vice President & Business Development Officer
Christenhan E. Darmin	
Airras D. Farrastha	Assistant Vice President
	Assistant Trust Officer
1	Assistant Vice President & Information Security Officer
	Assistant Vice President
	Assistant Vice President & Assistant Controller
	Assistant Vice President
	Assistant Vice President
	Assistant Vice President & Tax Officer
	.Assistant Vice President & Business Development Officer
	Assistant Vice President & Operations Officer
	Assistant Vice President & Loan Review Officer
Angela L. Vitagliano	Assistant Vice President & Operations Officer
6	
*	Business Development Officer
	Operations Officer
	Operations Officer
	Senior Credit Analyst Officer
	Digital Marketing Officer
Peter C. Stoneman	
James R. Weishaupt	Operations Officer
Nancy M. Zuzolo	Operations Officer
CAMBRIDGE TRUST COMP	PANY OF NEW HAMPSHIRE-OFFICERS
Susan Martore-Baker	President
	Senior Vice President & Investment Officer
	Vice President & Investment Officer
	Vice President & Trust Officer
Richard C. Shiipson	*

#### CAMBRIDGE TRUST COMPANY-EMPLOYEES

Annino, Elena Howard, Margaret Perry Durkee, Christina Hutchinson, Beverly Petty, Amy Bailey, Adrienne Basnyat, Nivedita Islam, Khondaker Prager, Robert Jorge, Adelaide Quigley, Maria Bennett, Michael Reed. Michael Bhandary, Pooja Kantor, Jasmine Kaufman, Theresa Ricker, Kelly Bober, Jeffrey Keenan, Robert Rock, Gloria Boon, Kara Rodriguez, Aileen Bradley, Jean Kingsford, Alessandra Kirwin, Marie Rudden, Thomas Burke, Sandra Carnazzo, Gail Kroupa, Michael Sands, Janet Serio, Linda Kumari, Anita Catanzano, Joseph Kuzmich, Katherine Shay, Debbie Chowdhury, Farzana LaMorticelli, René Cole, Jeffrey Sheikh, Basharat Lazzari, Linda Shochat, Geraldine Collopy, Alan Small, Jasmine Cope, Andrea Leonard, Ketline Leonard, Sean Sottile. Charlotte Corey, Aurora Costello, Laura Lettieri, Robyn Soul. Harwood. Jr. Curtin, Stephen Levine, Patricia Sprague, Cynthia Daniell, Renée Lim, Raymond Stephano, Susan Stone, Jason Dean, Shellie Liu, Rose Sullivan, Mary Lombardi, Joseph DeAngelis, Marvellen DeDominicis, Catherine Long, John Thain, Lina Toronto, Melissa Lucas, Nicole DeMambro, Caroline Dillon, Janice Manessis, Demetrios Trebicka, Daniela Trevino, Nelida Dilovan, Anahit Marcantonio, Paul McCarty, William Truesdale, Stacey Djatsa, Viviane Dodge, Jeanne McGilvray, Elizabeth Truong, Andrew McWilliams, Katherine Usova, Victoria Dumas, Donald Dutt. Anita Mei. Yi Lan Valleio, Ivan Membrino, Patricia Earnest, Mark Vaudo Tobin, Rita Fin. Bernadette Mesina, Rosita Vitale, Louis

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Hill, Sally
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Mesquita, Heidy

Mui. Donna

Miranda, Ana Paula

Mulcahy, Deborah

Murphy, Barbara

O'Leary, Brendan

Vo. Lana

Wu, Qihui

Vongsavay, Kay

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Yeo. Thomas

White, Kristen

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