CAMBRIDGE BANCORP



ANNUAL REPORT 2007



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To be responsible is to be accountable for results, for outcomes...Responsibility is the disposition to take charge and effectively execute the tasks one takes on freely.

-Mark Blitz

If one were to describe an aspect of the financial markets over the past year that has affected large, complex financial institutions and average consumers alike, it would be impossible to overlook what has been called the "subprime mortgage crisis." The extreme upheaval in financial markets and the resultant tragedy of thousands of families losing their homes have given us all an opportunity for thinking about responsibility. The subprime crisis (the effects of which will be felt well into the upcoming year) offers a perfect example of what happens when individuals and organizations fail to act responsibly.

The question "Who is responsible?" often means "Who is accountable in the last instance for the consequences of a given action?" One thinks of the plaque on President Harry Truman's desk reading "The buck stops here," which was meant to indicate that he accepted ultimate responsibility for actions taken on his watch. It is important to remember, however, that responsibility has a more positive meaning beyond that of not shirking accountability in the wake of a crisis. Responsibility, as political scientist Harvey Mansfield has noted, can also mean "voluntarily taking charge of a situation in order to improve it." In other words, taking responsibility for a situation (or an institution) entails developing plans for improving it and translating such plans into action. In the context of banking in general, and of Cambridge Trust Company in particular, acting responsibly means consistently acting with a view towards the long-term good of customers, employees, the communities we serve, and our stockholders.

The year ending December 31, 2007 produced strong financial results amidst considerable volatility in the markets. Net income after taxes was \$9,243,000 versus \$8,680,000 in 2006, or \$2.42 per basic share (EPS) compared to \$2.25 in 2006, representing year-over-year earnings per share (EPS) growth of 7.6%. Return on average equity grew modestly from 14.09% in 2006 to 14.17% in 2007.

We began 2007 with a feeling of cautious optimism based on momentum gained in 2006 from successful business initiatives in commercial and consumer banking and wealth management. We planned to build on those successes and to execute new plans to deepen relationships with the Bank's customers and to attract new ones who value the remarkable experience provided by Cambridge Trust employees at all levels of the organization.

Our cautious approach to 2007 was appropriate in view of the highly competitive marketplace, a challenging interest rate environment and considerable market volatility, particularly in the third and fourth quarters. As we look back at 2007, perhaps the most challenging factor was relative interest rates. Unlike 2006, we did not encounter an inverted interest rate yield curve. The curve, however, continued to remain flat for a good part of the year based on the narrow spread between two and ten year Treasury securities, and did not begin to steepen until late summer.

Against that backdrop for 2007, I want to review in detail the principal factors that contributed to last year's performance. The year-over-year earnings increase in 2007 of \$563,000 (6.5%) was driven by solid loan growth, broad-based increases in non-interest income (particularly Wealth Management) and continued prudent management of non-interest expenses, which increased only 1.3% in 2007.

Year End	2003		2004		2005		2006		2007
Deposits (in thousands)	\$ 606,648	\$	648,741	\$	663,150	\$	663,437	\$	698,625
Total Loans (in thousands)	\$ 287,744	\$	292,789	\$	332,602	\$	356,074	\$	418,748
Net Income (in thousands)	\$ 6,103	\$	8,184	\$	7,723	\$	8,680	\$	9,243
Basic Earnings/Share	\$ 1.56	\$	2.07	\$	1.96	\$	2.25	\$	2.42
Dividend Payout	\$ 0.88	\$	0.94	\$	1.01	\$	1.06	\$	1.18
Book Value	\$ 15.24	\$	15.66	\$	15.65	\$	16.44	\$	18.49
Return/Average Equity	10.25%	Ó	13.59%	Ó	12.39%	ó	14.09%)	14.17%

I will have more to say about loan growth and non-interest income in subsequent sections. Before doing so, here is a description of major changes to stockholders' equity which increased by \$6,439,000 to \$69,692,000. Beginning stockholders' equity of \$63,253,000 was increased by net income of \$9,243,000 and by activity related to the Company's stock compensation plans. Deductions from stockholders' equity were dividends declared (\$4,511,000 or \$1.18 per share, a \$0.12 per share or 11.3% increase) and the Company's stock buy-back program, whereby 82,000 shares were repurchased in the open market at an average cost of \$30.29 per share.

Commercial Banking

On many levels, 2007 represented a successful year for the Bank's Commercial Banking team. Using the typical metrics of loan and deposit growth, new heights were reached. The same can be said about the healthy increases in non-interest income. What drives the aforementioned growth is our ongoing effort to enhance the service, convenience and value that we deliver to our business banking customers.

It was a banner year for product and service improvements that respond to businesses' needs to achieve operational efficiencies. Adding new functional capabilities to BizBanker, Cambridge Trust's premier online business banking service, was a major step in this direction.

Perhaps even more exciting was the introduction in 2007 of Remote Deposit Capture, a service that facilitates the transfer of check deposit images from the customer's place of business to the Bank. Customers benefit from being able to make check deposits without visiting the Bank and from the convenience of later deadlines to make deposits. Added customer convenience and improved efficiency are always big winners.

The Bank continues to invest in the technology that will improve the customer experience. In the end, however, the Cambridge Trust experience as a whole depends upon the employees who use their creative energy and sense of personal responsibility to deliver service at the highest level. In seeking to build the Bank's cash management services, we called upon the expertise of Patsy Mullin, Vice President, who brought to the Bank many years of experience in building solutions for companies of all sizes. In addition, we were delighted that Dina Scianna, Vice President, joined Cambridge Trust, allowing us to extend our reach and to attract new business banking customers. Together with Marc Romvos, Vice President, and newly-appointed Business Banking Officer, Kate Carlson, we have a formidable team that is prepared to excel in this intensely competitive space.

Commercial and commercial mortgage loans increased \$24.6 million (17.5%) to \$165.0 million. We continued to see loan growth originating primarily in the commercial real estate sector, where pricing terms for strong credits remained aggressive. We were active in this market, maintaining responsible, vigorous credit underwriting standards and offering our best pricing terms for those situations where we have broader and deeper banking relationships.

Particularly noteworthy in the ongoing development of the Bank's commercial real estate loan business were two loans that demonstrate Cambridge Trust's commitment to the community — especially to the creation of more affordable housing. We take our responsibility in this area very seriously and actively partner with other organizations that share this goal. In 2007, we were pleased to work with Just-A-Start Corporation and CASCAP Realty, Inc. on two separate affordable housing projects in the city of Cambridge. One can see the sense of pride on the faces of new homeowners, and that pride is shared by our employees when they see Cambridge Trust demonstrating our deep sense of responsibility towards the community.

Whether Cambridge Trust makes loans in the commercial or consumer sectors, it assumes this responsibility always with the intention of doing what is in the best interest of the customer and the Bank. By adhering to this longstanding loan underwriting standard, we increase significantly the probability of positive outcomes. The Bank's allowance for loan losses at the end of 2007 was \$6,659,000, approximately \$594,000 higher than year end 2006. Loans charged off in 2007 were \$220,000 (vs. \$252,000 in 2006) and were offset by recoveries of \$114,000 and provisions for loan losses of \$700,000.

Consumer Banking

The competitive market conditions described in last year's report that made deposit growth difficult persisted throughout 2007. Although consumer deposits grew, the mix tended to favor certificates of deposit, which are more expensive than our traditional core deposits. Notwithstanding the higher cost of these funds, it is important for us to maintain competitive (though not the highest) deposit rates to retain and build upon longstanding customer relationships and to develop new banking customers.

Despite what you may hear and see in the media about questionable practices (this is being generous) in the home mortgage lending arena, your Bank continued to play an active, responsible role in the communities it serves providing appropriate residential mortgage loans to qualified buyers. Moreover, 2007 turned out to be a particularly noteworthy year for residential lending as residential mortgage loans increased \$25.6 million (17.2%) to \$174.1 million. In addition, home equity loans grew by \$10.6 million (18.9%) to \$67.0 million.

Amidst the upheaval in the residential lending sector in 2007, Cambridge Trust experienced a much more active and productive year than 2006. Several factors contributed to this performance. We made our presence more visible in the community through marketing outreach and, more importantly, our branch managers. Potential borrowers have come to understand that Cambridge Trust is committed to building and maintaining strong customer relationships. One of the significant ways that we demonstrate that commitment is by holding residential mortgage loans in the Bank's portfolio and by servicing them as well. This approach is one of the key differentiators in Cambridge Trust's mortgage lending business as compared to most other financial institutions. Should the customer have an issue or question to discuss, we are just "down the street."

You have heard me say many times that our employees make the difference when it comes to creating a customer experience second to none. Nowhere is this more evident than in the branches where we have individuals who have served in an office for five to ten years (or more)

and truly know their customers. A prime example is our 1720 Massachusetts Avenue Branch where Maria Montgomery was promoted in 2007 to Assistant Treasurer and Branch Manager. Maria succeeded Denise Dussault, who served as our Mass. Ave. Branch Manager for nine years. Now that she has transferred to Quality Control, she will use her experience to strengthen bank operations and service. A "win-win" for the Bank and our customers.

Wealth Management

I may have created a sense of anticipation and expectation in last year's annual report by describing changes we had made in Cambridge Trust's Wealth Management business and stating the significant opportunity we saw for growing this strategically important area of the Bank. After finishing 2006 with record levels of revenue and assets under management (AUM), we set the bar high in 2007 and I am pleased to report that expectations were exceeded.

	Wealth Management	
Year	Gross Revenues (in thousands)	Managed Assets (in millions)
2003	\$ 9,860	\$ 1,263
2004	\$ 10,777	\$ 1,264
2005	\$ 10,406	\$ 1,282
2006	\$ 11,092	\$ 1,340
2007	\$ 11,995	\$ 1,486

It was another record year in terms of revenues generated by Wealth Management. Total 2007 revenue was just under \$12 million, an increase of \$903,000 (8.1%) compared to 2006. Moreover, AUM experienced a significant jump of \$146 million in 2007, finishing the year at almost \$1.5 billion.

A number of factors contributed to these results. In this intensely competitive and highly fragmented market, the expertise and technical knowledge offered to clients by the forty officers and staff on our Wealth Management team made the difference. The level of service provided to Wealth Management clients by a team of fiduciary and investment management professionals sets Cambridge Trust apart from its competitors. We provide a holistic approach to fulfilling financial, tax

and estate planning, as well as fiduciary and investment management needs. Our Wealth Management specialists collaborate with their banking colleagues to insure that traditional banking services are provided and coordinated in alignment with client expectations.

A key factor in the Bank's growing wealth management business was another year of solid performance in the area of investment management. There was considerable volatility in the equity markets in 2007, with the range between the high and the low for the Dow Jones Industrial Average (DJIA) and Standard & Poors 500 (S&P 500) at 18.9% and 15.5% respectively. The DJIA ended the year 6.4% higher than at the close of 2006, and the S&P 500 was up 3.5% for the year. Clients of Cambridge Trust's Wealth Management Department were rewarded with investment returns that exceeded benchmarks, reflecting the Bank's disciplined and thoughtful approach to investment analysis and management of client funds.

In the year to come, we will continue to build on the successes achieved in 2007. In particular, we will focus on attracting new clients who value the Bank's personalized approach to addressing complex issues through comprehensive financial and estate planning as well as asset management.

If [one] is to act responsibly, [one] must be accorded responsibility.

—John Kenneth Galbraith

Earlier, I noted how difficult it is to single out one factor or another that truly makes a difference in determining the success of a new product launch or business line performance. The same might be said when trying to single out individuals who may play an especially important role in the Bank. While such individuals may be differentiated by job description, seniority or title, they all share a common sense of responsibility for optimizing the Bank's long-term performance, and to taking the best possible care of our customers.

We like to recognize sustained high levels of performance and share successes with everyone on the team. Last year Rob Siegrist, Marketing Director, was promoted to Senior Vice President. For many years, the Bank's marketing activities have grown stronger under Rob's leadership. Ann Tucker's promotion to Vice President in Solutions Management was given in recognition of her leadership in ensuring that new products reach the market and that the Bank's projects are completed on time.

Wealth Management relies on many individuals to deliver a premier client experience. Client service professionals, who interact frequently with their clients, know very well the critical importance of Wealth Management Operations. Perhaps that is why they collectively cheered when Patricia Hartnett was promoted to Assistant Vice President. One of Trish's new fans was Susan Chiappisi, Vice President and Trust Officer, who recently joined the team, adding to the depth of the Bank's fiduciary advisory capabilities.

It seems that a year never passes without our having to say "good-bye" to one or more of our colleagues and friends, always with mixed emotions. It is very difficult to picture this Bank (and Wealth Management) without Herb Kardon, Vice President. For 43.625 years (Herb was precise), his colleagues at Cambridge Trust benefited from Herb's historical perspective, wise counsel and friendship, while his clients enjoyed his superb service.

Wealth Management also witnessed the departure of two other teammates in 2007. Carroll Winch, Senior Vice President and Trust Officer, thought it was about time to retire after helping to build Cambridge Trust's successful wealth management franchise in New Hampshire. Janice McGunnigle, Trust Officer, on the other hand, did not retire but went on to pursue interesting opportunities in North Carolina.

Finally, Donna Arpino, who was my dedicated assistant for the past six years (and Jim Dwinell's for the prior eleven) decided it was time to spend more time with her family. Donna had a keen sense for style and detail and the ability to make all customers feel like members of the family.

Only through...common experience, mutual endeavors, and shared responsibilities, can we hope to adjust ourselves to changing realities.

-Stuart Scheingold

Quite a few Cambridge Bancorp stockholders are also customers of the Bank. They are able to experience the care and commitment of our employees in many areas of the Bank: Branch Banking, Wealth Management, Business Banking and the Customer Resource Center. I wish that each of you could share this experience, to understand beyond the words and numbers in this report the degree to which the shared goals and responsibilities of our team lead to a remarkable experience for our customers. The quotation from Mr. Scheingold aptly describes how we contemplate our work environment. When individuals willingly take responsibility and take action for the benefit of the customer and do so within an environment that encourages and supports this behavior, everyone benefits. We are better prepared to deal with "changing realities."

The Board of Directors plays a vital role in the oversight of this fine institution. It draws from the diverse background, talents and experiences of its members in exercising its shared responsibilities with thoughtful insight and support. Being mindful of the need for betterment in all things we do, the Board appropriately challenges management to anticipate changes in the market, adjust plans accordingly and invest for the long-term benefit of the Bank's customers.

In closing, I want to thank you, our stockholders, for the confidence you place in the Cambridge Bancorp. Please be assured that we enthusiastically embrace the challenge and responsibility of continuing to build this wonderful franchise in a manner that is consistent with the principles and integrity of a good corporate citizen.

Respectfully submitted,

Joseph V Rolle T

Joseph V. Roller II
President and CEO

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, 2007 and 2006, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cambridge Bancorp and subsidiaries as of December 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.



Boston, Massachusetts March 7, 2008

CAMBRIDGE BANCORP AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	Decemb	per 31,
	2007	2006
	(In thou	isands)
ASSETS		
Cash and due from banks	\$ 18,715	\$ 16,841
Federal funds sold	10,128	343
Total cash and cash equivalents	28,843	17,184
Investment securities:		
Available for sale, at fair value	218,579	215,650
Held-to-maturity, at amortized cost	158,818	166,300
Total investment securities	377,397	381,950
Loans:	174,100	148,517
Residential mortgage	128,764	107,847
Home equity	66,994	56,363
Commercial	36,249	32,566
Consumer	12,641	10,781
Total loans	418,748	356,074
Allowance for loan losses	(6,659)	(6,065)
Net loans	412,089	350,009
D 1 11'C'	10.041	((2
Bank owned life insurance	10,841	662 5 622
Banking premises and equipment, net	5,195 4,953	5,633 5,072
Other assets	10,270	12,503
Total assets	\$ 849,588	\$ 773,013
Total assets	\$ 647,366	\$ 773,013
LIABILITIES AND STOCKHOLDERS' E	QUITY	
Deposits:		
Demand	\$ 189,034	\$ 183,297
Interest bearing checking	221,715	216,708
Money market	47,230	55,579
Savings	91,761	79,281
Certificates of deposit	148,885	128,572
Total deposits	698,625	663,437
Short-term borrowings	35,540	35,197
Long-term borrowings	35,000	´—
Other liabilities	10,731	11,126
Total liabilities	779,896	709,760
Stockholders' equity:		
Common stock, par value \$1.00; Authorized		
5,000,000 shares; Outstanding: 3,768,397 and		
3,848,475 shares, respectively	3,768	3,848
Additional paid-in capital	19,202	18,933
Retained earnings	45,912	43,652
Accumulated other comprehensive income (loss)	810	(3,180)
Total stockholders' equity	69,692	63,253
Total liabilities and stockholders' equity	\$ 849,588	\$ 773,013

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

CAMBRIDGE BANCORP AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

	Year Ended D	ecember 31,
	2007	2006
	(In thousand	ds, except
	per share	e data)
Interest income:		
Interest on loans	\$ 24,987	\$ 22,142
Interest on investment securities	17,471	16,862
Interest on federal funds sold	89	15
Total interest income	42,547	39,019
Interest expense:		
Interest on deposits	9,436	7,001
Interest on borrowed funds	2,517	1,586
Total interest expense	11,953	8,587
Net interest income	30,594	30,432
Provision for loan losses	700	265
Net interest income after provision for loan losses	29,894	30,167
Noninterest income:		
Wealth management income	11,995	11,092
Deposit account fees	2,485	2,291
ATM/Debit card income	827	827
Merchant card services	843	781
Bank owned life insurance income	179	_
Gain on disposition of investment securities	122	287
Other income	610	604
Total noninterest income	17,061	15,882
Noninterest expense:	·	
Salaries and employee benefits	19,312	19,151
Occupancy and equipment	6,026	6,265
Data processing	2,720	2,454
Professional services	1,613	1,582
Marketing	1,137	959
Other expenses	2,775	2,755
Total noninterest expense	33,583	33,166
Income before income taxes	13,372	12,883
Income tax expense	4,129	4,203
Net income	\$ 9,243	\$ 8,680
Per share data:		=
Basic earnings per common share	\$ 2.42	\$ 2.25
Diluted earnings per common share	\$ 2.41	\$ 2.24
Average shares outstanding - basic	3,818,360	3,855,845
Average shares outstanding - diluted	3,837,572	3,875,598

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

Accumulated

		Additional		Other	Total
	Common Stock	Paid-in Capital	Retained Earnings	Comprehensive Income/(Loss)	Stockholders' Equity
		(In thous	(In thousands, except per share data)	hare data)	
Balance at December 31, 2005	\$ 3,861	\$ 17,999	\$ 40,547	\$ (1,991)	\$ 60,416
Comprehensive income:					
Net income			8,680		8,680
Other comprehensive income, net of tax				(198)	(198)
Total comprehensive income			8,680	(198)	8,482
Adoption of SFAS 158, net of tax				(991)	(991)
Stock based compensation	1	223			224
Exercise of stock options	34	503			537
Stock issued to ESOP and DSP	18	516			534
Dividends declared (\$1.06 per share)			(4,095)		(4,095)
Stock repurchased	(99)	(308)	(1,480)		(1,854)
Balance at December 31, 2006	3,848	18,933	43,652	(3,180)	63,253
Comprehensive income:					
Net income			9,243		9,243
Other comprehensive income, net of tax				3,990	3,990
Total comprehensive income			9,243	3,990	13,233
Stock based compensation	2	226			228
Exercise of stock options		6			6
Stock issued to ESOP and DSP	17	200			517
Dividends declared (\$1.18 per share)			(4,511)		(4,511)
Stock repurchased	(66)	(466)	(2,472)		(3,037)
Balance at December 31, 2007	\$ 3,768	\$ 19,202	\$ 45,912	\$ 810	\$ 69,692

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

CAMBRIDGE BANCORP AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended D	ecember 31,
	2007	2006
	(In thou	sands)
Cash flows provided by operating activities:		
Net income	\$ 9,243	\$ 8,680
Adjustments to reconcile net income to net cash		
provided by operating activities: Provision for loan losses	700	265
Amortization of deferred charges/	700	203
(deferred income), net	208	239
Depreciation and amortization	1,328	1,481
Bank owned life insurance income	(179)	
Gain on disposition of investment securities	(122)	(287)
Compensation expense from stock option and	,	· /
restricted stock grants	228	224
Change in accrued interest receivable, other assets		
and other liabilities	658	167
Other, net	114	186
Net cash provided by operating activities	12,178	10,955
Cash flows used by investing activities:	·	
Origination of loans	(137,609)	(116,837)
Principal payments received on loans	74,668	93,077
Purchase of investment securities	(44,609)	(47,119)
Principal payments received, calls and maturities of		
investment securities	50,188	30,669
Proceeds from sale of investment securities	4,224	7,686
Purchase of bank owned life insurance	(10,000)	_
Purchase of banking premises and equipment	(890)	(1,464)
Net cash used by investing activities	(64,028)	(33,988)
Cash flows provided by financing activities:		
Net increase in deposits	35,188	287
Net increase in short-term borrowings	343	23,856
Proceeds from long-term borrowings	35,000	_
Proceeds from issuance of common stock	526	1,071
Repurchase of common stock	(3,037)	(1,854)
Cash dividends paid on common stock	(4,511)	(4,095)
Net cash used provided by financing activities	63,509	19,265
Net increase (decrease) in cash and cash equivalents	11,659	(3,768)
Cash and cash equivalents at beginning of year	17,184	20,952
Cash and cash equivalents at end of year	\$ 28,843	\$ 17,184
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 11,949	\$ 8,508
Cash paid for income taxes	4,865	4,646
Non-cash transactions:		
Change in accumulated other comprehensive income,		
net of taxes	3,990	(1,189)

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

CAMBRIDGE BANCORP AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. THE BUSINESS

The accompanying consolidated financial statements include the accounts of Cambridge Bancorp (the "Corporation") and its wholly owned subsidiary, Cambridge Trust Company (the "Bank"), and the Bank's subsidiaries, CTC Security Corporation, CTC Security Corporation III and CTC Security Corporation III. References to the Corporation herein relate to the consolidated group of companies. The Corporation is a state chartered, federally registered bank holding company headquartered in Cambridge, Massachusetts, that was incorporated in 1986. The Corporation is closely held and has less than five hundred shareholders of record and, accordingly, is not required to file quarterly, annual or other public reports with the Securities and Exchange Commission. 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 nine full-service banking offices in Massachusetts. The Bank is engaged principally in the business of attracting deposits from the public and investing those deposits. The Bank invests those funds in various types of loans, including residential and commercial real estate, and a variety of commercial and consumer loans. The Bank also invests its deposits and borrowed funds in investment securities and has three wholly-owned Massachusetts Security Corporations, CTC Security Corporation, CTC Security Corporation II and CTC Security Corporation III, for this purpose. Deposits at the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") for up to \$100,000 per separately insured depositor.

Trust and investment management services are offered through the Bank's full-service branches in Massachusetts and through two wealth management offices located in New Hampshire. The assets held for wealth management customers are not assets of the Bank and, accordingly, are not reflected in the accompanying balance sheets. Total assets managed on behalf of wealth management clients were approximately \$1,486,000,000 and \$1,340,000,000 at December 31, 2007 and 2006, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Consolidation

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

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses and review of goodwill for impairment.

Reclassifications

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

Cash and Cash Equivalents

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

Investment Securities

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

Debt and equity securities not classified as held-to-maturity are classified as available-for-sale and carried at fair value with unrealized after-tax gains and losses reported net as a separate component of stockholders' equity. Stockholders' equity included net unrealized gains of \$1,665,000 at December 31, 2007, compared to net unrealized losses of \$1,778,000 at December 31, 2006. These amounts are net of deferred taxes payable of \$921,000 and deferred taxes receivable of \$925,000, in each of the respective years. The Bank classifies its securities based on its intention at the time of purchase.

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

Loans and the Allowance for Loan Losses

Loans are reported at the amount of their outstanding principal, including deferred loan origination fees and costs, reduced by unearned discounts and the allowance for loan losses. Loan origination fees, net of related direct incremental loan origination costs, are

deferred and recognized into income over the contractual lives of the related loans as an adjustment to the loan yield, using a method which approximates the effective-yield method. When a loan is paid off, the unamortized portion of net fees is recognized in interest income.

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

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

Unearned discount is recognized on the effective interest method for commercial time loans. The accrual of interest income on loans is discontinued when, in the judgment of management, the collectibility of the principal or interest becomes doubtful, in which case income is recorded on the cash basis.

Bank Owned Life Insurance

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

Banking Premises and Equipment

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

Goodwill and Other Intangible Assets

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

Deferred Income Taxes

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

The Corporation and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in the state of Massachusetts and other states as required. The Corporation is subject to U.S. federal, state income tax examinations by tax authorities for the years 2004 to the present.

Effective January 1, 2007, the Corporation adopted the provisions of the Financial Accounting Standards Board's ("FASB") Financial Accounting Standards Interpretation ("FIN") 48, "Accounting for Uncertainty in Income Taxes". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures and transitions. The adoption of this Interpretation did not have a material impact on the consolidated financial statements of the Corporation.

Wealth Management Income

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

Pension and Retirement Plans

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

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

Effective December 31, 2006, the Corporation adopted SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans — an Amendment of FASB Statements No. 87, 88, 106 and 132(R)" which required the Corporation to recognize the over- or under-funded status of a single employer defined benefit postretirement plan as an asset or liability on its balance sheet and to recognize changes in the funded status in comprehensive income in the year in which the change occurs. However, gains or losses, prior service costs or credits, and transition assets or obligations that have not yet been included in net periodic benefit cost as of the end of 2006, the fiscal year in which SFAS 158 is initially applied, are to be recognized as components of the ending balance of accumulated other comprehensive income, net of tax. The Corporation's adoption of this Statement resulted in the recognition of \$1,720,000 in benefit obligations and a charge of \$991,000, net of deferred taxes of \$729,000, to accumulated other comprehensive income.

Stock Based Compensation

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

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

Effective January 1, 2006, the Corporation adopted SFAS 123-R, "Share-Based Payment", which is a revision to SFAS 123. SFAS 123-R focuses primarily on accounting for stock-based payments made to employees and clarifies and expands SFAS 123 in several areas, including the measurement of incremental compensation cost if the terms or conditions of an award are modified, the recognition of excess tax benefits associated with awards as an addition to paid-in capital and the requirement to estimate forfeiture rates for awards that require the rendering of future service.

Earnings per Share

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

3. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS 157, "Fair Value Measurements". SFAS 157 provides guidance for measuring assets and liabilities at fair value. This Standard is applicable whenever other standards require or permit assets and liabilities to be measured at fair value, but does not expand upon the use of fair value in any new circumstances. SFAS 157 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires fair value measurements to be disclosed by level within the hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The adoption of this Standard on January 1, 2008, did not have a material impact on the Corporation's consolidated financial statements.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities". SFAS 159 allows companies to choose to measure financial instruments and certain other items at fair value. By doing so, companies can mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting. The fair value option can be applied on an instrument by instrument basis (with some exceptions), is irrevocable unless a new election date occurs, and is applied only to entire instruments and not to portions of instruments. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of this Standard on January 1, 2008, did not have a material impact on the Corporation's consolidated financial statements.

4. CASH AND DUE FROM BANKS

At December 31, 2007 and 2006, cash and due from banks totaled \$18,715,000 and \$16,841,000, respectively. Of this amount, \$4,221,000 and \$2,068,000, respectively, were maintained to satisfy the reserve requirements of the Federal Reserve Bank and compensating balance arrangements of \$603,000 and \$1,207,000, respectively, were maintained with correspondent banks.

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 are as follows:

	An	nortized	 Unre	alized		Fair
		Cost	 Gains	L	osses	Value
			(In tho	usand	s)	
Securities available for sale:						
U.S. Treasuries	\$	5,003	\$ _	\$	(15)	\$ 4,988
U.S. Agency obligations		119,939	2,020		(54)	121,905
Mortgage-backed securities		86,210	944		(281)	86,873
FHLB stock and other		4,841	_		(28)	4,813
Total securities available for sale		215,993	2,964		(378)	218,579
Securities held to maturity:			<u> </u>			
U.S. Agency obligations		91,738	749		(23)	92,464
Mortgage-backed securities		30,486	95		(344)	30,237
Municipal securities		36,594	471		(10)	37,055
Total securities held to maturity		158,818	1,315		(377)	159,756
Total investment securities	\$	374,811	\$ 4,279	\$	(755)	\$ 378,335

December 31, 2000								
Aı	mortized		Unre	alize	d	Fair		
	Cost		Gains	I	Losses		Value	
			(In tho	usano	ds)			
\$	5,010	\$	_	\$	(155)	\$	4,855	
	136,187		430		(1,729)		134,888	
	73,002		263		(1,479)		71,786	
	4,154		_		(33)		4,121	
	218,353		693		(3,396)		215,650	
	95,283		_		(1,792)		93,491	
	37,729		66		(1,143)		36,652	
	32,788		271		(115)		32,944	
	500		3				503	
	166,300		340		(3,050)		163,590	
\$	384,653	\$	1,033	\$	(6,446)	\$	379,240	
	\$	\$ 5,010 136,187 73,002 4,154 218,353 95,283 37,729 32,788 500 166,300	\$ 5,010 \$ 136,187 73,002 4,154 218,353 95,283 37,729 32,788 500 166,300	Amortized Cost Unre Gains In tho \$ 5,010 \$ 5,010 \$ — 136,187 430 73,002 263 4,154 — 218,353 693 95,283 — 37,729 66 32,788 271 500 3 166,300 340	Amortized Cost Unrealized Gains I \$ 5,010 \$ — \$ \$ 136,187 430 73,002 263 4,154 — 218,353 693 — 66 32,788 271 500 3 166,300 340 340 — 340 340 <t< td=""><td>Amortized Cost Unrealized Gains Losses (In thousands) \$ 5,010 \$ — \$ (155) 136,187 430 (1,729) 73,002 263 (1,479) 4,154 — (33) (3,396) 95,283 — (1,792) (37,729) 37,729 66 (1,143) 32,788 271 (115) 500 3 — 166,300 340 (3,050)</td><td>Amortized Cost Unrealized Gains Losses (In thousands) \$ 5,010 \$ — \$ (155) \$ 136,187 430 (1,729) 73,002 263 (1,479) 4,154 — (33) 218,353 693 (3,396) 693 (3,396) 693 7,729 66 (1,143) 32,788 271 (115) 500 3 — (1,792) 37,729 66 (1,143) 32,788 271 (115) 500 3 — (1,792) 37,729 60 (3,050) 30 — (1,792) 37,729</td></t<>	Amortized Cost Unrealized Gains Losses (In thousands) \$ 5,010 \$ — \$ (155) 136,187 430 (1,729) 73,002 263 (1,479) 4,154 — (33) (3,396) 95,283 — (1,792) (37,729) 37,729 66 (1,143) 32,788 271 (115) 500 3 — 166,300 340 (3,050)	Amortized Cost Unrealized Gains Losses (In thousands) \$ 5,010 \$ — \$ (155) \$ 136,187 430 (1,729) 73,002 263 (1,479) 4,154 — (33) 218,353 693 (3,396) 693 (3,396) 693 7,729 66 (1,143) 32,788 271 (115) 500 3 — (1,792) 37,729 66 (1,143) 32,788 271 (115) 500 3 — (1,792) 37,729 60 (3,050) 30 — (1,792) 37,729	

December 31, 2006

The amortized cost and fair value of debt investments, aggregated by contractual maturity, are shown in the following table. 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		one, But live Years		ive, But Ten Years	After T	en Years
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
				(In tho	usands)			
At December 31, 2007:								
U.S. Treasuries	\$ 5,003	\$ 4,988	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
U.S. Agency								
obligations	43,030	43,027	145,260	147,302	23,387	24,040	_	_
Mortgage-backed								
securities	58	58	1,492	1,494	43,129	43,178	72,017	72,380
Municipal								
securities	1,106	1,114	4,771	4,842	10,572	10,754	20,145	20,345
Total debt								
securities	\$ 49,197	\$ 49,187	\$ 151,523	\$ 153,638	\$ 77,088	\$ 77,972	\$ 92,162	\$ 92,725
1. D 1 21 2006								
At December 31, 2006:								
U.S. Treasuries	\$ —	\$ —	\$ 5,010	\$ 4,855	\$ —	\$ —	\$ —	\$ —
U.S. Agency								
obligations	21,018	20,873	153,342	151,298	57,110	56,208	_	_
Mortgage-backed								
securities	62	62	876	881	52,361	50,955	57,432	56,540
Municipal								
securities	770	772	6,554	6,643	5,165	5,212	20,299	20,317
Corporate debt								
securities	500	503						
Total debt								
securities	\$ 22,350	\$ 22,210	\$ 165,782	\$ 163,677	\$ 114,636	\$ 112,375	\$ 77,731	\$ 76,857

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

		Less than	One	Year	One Year or Longer		Tota				
		Fair Value		Unrealized Losses		Fair Value		realized Losses	Fair Value		realized Losses
						(In the	usanc	ls)			
At December 31, 2007:											
U.S. Treasuries	\$	_	\$	_	\$	4,988	\$	(15)	\$ 4,988	\$	(15)
U.S. Agency obligations		_		_		31,457		(77)	31,457		(77)
Mortgage-backed securities		_		_		51,219		(625)	51,219		(625)
Municipal securities		265		(1)		2,280		(9)	2,545		(10)
Subtotal, debt securities		265		(1)		89,944		(726)	90,209		(727)
Equities		_		_		594		(28)	594		(28)
Total temporarily											
impaired securities	\$	265	\$	(1)	\$	90,538	\$	(754)	\$ 90,803	\$	(755)
At December 31, 2006:											
U.S. Treasuries	\$	_	\$	_	\$	4,855	\$	(155)	\$ 4,855	\$	(155)
U.S. Agency obligations		32,912		(87)		169,135		(3,434)	202,047		(3,521)
Mortgage-backed securities		4,850		(21)		78,728		(2,601)	83,578		(2,622)
Municipal securities		13,739		(114)		160		(1)	13,899		(115)
Subtotal, debt securities		51,501		(222)	Т	252,878		(6,191)	304,379		(6,413)
Equities		_		_		563		(33)	563		(33)
Total temporarily	_										
impaired securities	\$	51,501	\$	(222)	\$	253,441	\$	(6,224)	\$ 304,942	\$	(6,446)

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, 2007, forty-nine debt securities and one equity security had gross unrealized losses with an aggregate depreciation of 0.8% from the Corporation's amortized cost basis. The largest loss percentage of any single security was 4.5% of its amortized cost. These gross unrealized losses relate principally to the U.S. Agency debt and mortgage-backed security sectors. The Corporation believes that the nature and duration of impairment on its debt security positions are primarily a function of interest rate movements and changes in investment spreads, and does not consider full repayment of principal on the reported debt obligations to be at risk. Since all of these securities are rated "investment grade" and the Corporation has the ability to hold the securities until maturity, or for the foreseeable future if available for sale, no declines in value are deemed to be other than temporary.

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.

December 31

Loans outstanding are detailed by category as follows:

	Dece	mber 31,
	2007	2006
	(In th	ousands)
Residential real estate:		
Mortgages - fixed rate	\$ 110,878	\$ 78,423
Mortgages - adjustable rate	63,039	69,974
Deferred costs net of unearned fees	183	120
Total residential real estate	174,100	148,517
Commercial real estate:		
Mortgages - nonowner occupied	94,601	72,886
Mortgages - owner occupied	27,692	25,148
Construction	6,310	9,706
Deferred costs net of unearned fees	161	107
Total commercial real estate	128,764	107,847
Home equity:		
Home equity - lines of credit	37,812	41,859
Home equity - term loans	29,099	14,433
Deferred costs net of unearned fees	83	71
Total home equity	66,994	56,363
Commercial:		
Commercial and industrial	36,029	32,389
Deferred costs net of unearned fees	220	177
Total commercial	36,249	32,566
Consumer:		
Secured	6,614	6,831
Unsecured	5,985	3,910
Deferred costs net of unearned fees	42	40
Total consumer	12,641	10,781
Total loans	\$ 418,748	\$ 356,074

Certain directors of the Corporation and companies in which these directors have significant ownership interest are customers of the Bank. Loans to these parties are made in the ordinary course of business at the Bank's normal credit terms, including interest rate and collateral requirements, and do not represent more than a normal risk of collection. At December 31, 2007 and 2006, total loans outstanding to these related parties were \$921,000 and \$891,000, respectively. During 2007, \$1,040,000 of additions and \$1,010,000 of repayments were made to these loans, compared to no additions and \$30,000 of repayments made during 2006.

Impaired loans, which includes commercial and commercial real estate nonaccrual loans, had recorded balances of \$228,000 and \$295,000 at December 31, 2007 and 2006, respectively. The average recorded investment in impaired loans was \$265,000 and

\$181,000 for the years ended December 31, 2007 and 2006, respectively. The specific allowance for loan losses related to these loans was \$75,000 at both December 31, 2007 and 2006. Interest income on impaired loans of \$16,000 was recognized in 2006, while no interest income on impaired loans was recognized in 2007. Interest payments received on impaired loans are recorded as interest income unless collection of the remaining recorded investment is doubtful, at which time payments received are recorded as reductions of principal. There were no commitments to extend additional credit on these loans at either December 31, 2007 or 2006.

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

Changes in the allowance for loan losses are as follows:

	Year Ended December 31,				
	2007		2006		
		(In tho	usands))	
Balance at beginning of year	\$	6,065	\$	5,866	
Provision for loan losses		700		265	
Loans charged-off		(220)		(252)	
Recoveries		114		186	
Balance at end of year	\$	6,659	\$	6,065	

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

	December 31,				
		2007	2006		
	(In thousands)				
Loan category:					
Residential mortgage/Home equity loans	\$	1,555	\$	1,514	
Commercial/Commercial mortgage loans		3,805		3,423	
Consumer and other loans		380		170	
Unallocated		919		958	
Total	\$	6,659	\$	6,065	

7. 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		
	2007	2006	Useful Lives	
	(In tho			
Land	\$ 1,116	\$ 1,116		
Building and leasehold improvements	9,248	9,176	5-30 years	
Equipment	12,443	11,897	3-7 years	
Subtotal	22,807	22,189		
Accumulated depreciation and amortization	(17,612)	(16,556)		
Total	\$ 5,195	\$ 5,633		

Total depreciation and amortization expense for the years ended December 31, 2007 and 2006 amounted to approximately \$1,328,000 and \$1,481,000, respectively, and is included in equipment expenses in the accompanying consolidated statements of income.

8. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Goo	dwill		stomer angibles	_	otal ngibles
			(In t	nousands)		
Balance at December 31, 2005	\$	412	\$	2,049	\$	2,461
Amortization expense		_		(378)		(378)
Balance at December 31, 2006		412		1,671		2,083
Amortization expense		_		(378)		(378)
Balance at December 31, 2007	\$	412	\$	1,293	\$	1,705

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

The components of intangible assets are as follows:

1		December 31,				
		2007	2006			
	(In thousands)					
Customer intangibles	\$	3,777	\$	3,777		
Accumulated amortization		(2,484)		(2,106)		
Net customer intangibles	\$	1,293	\$	1,671		

9. DEPOSITS

Deposits are summarized as follows:

	December 31,			
	2007	2006		
	(In tho	usands)		
Demand deposits (non-interest bearing)	\$ 189,034	\$ 183,297		
Interest bearing checking	221,715	216,708		
Money market	47,230	55,579		
Savings	91,761	79,281		
Certificates of deposit under \$100,000	62,490	61,928		
Certificates of deposit \$100,000 or greater	86,395	66,644		
Total deposits	\$ 698,625	\$ 663,437		

Certificates of deposit had the following schedule of maturities:

	December 31,				
		2007)7		
		s)			
Less than 3 months remaining	\$	53,609	\$	50,972	
3 to 5 months remaining		57,333		36,048	
6 to 11 months remaining		26,515		31,032	
12 to 23 months remaining		6,713		7,195	
24 months or more remaining		4,715	_	3,325	
Total certificates of deposit	\$	148,885	\$	128,572	

Interest expense on certificates of deposit \$100,000 or greater was \$3,653,000 and \$1,931,000 for the years ended December 31, 2007 and 2006, respectively.

10. SHORT-TERM BORROWINGS

Short-term borrowings consist of the following:

	December 31,				
		2007		2006	
		(In the	usands	s)	
Treasury, Tax and Loan notes	\$	1,805	\$	1,522	
FHLB overnight borrowings		33,735		33,675	
Total short-term borrowings	\$	35,540	\$	35,197	

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

	Y	Year Ended December 31,				
		2007	2006			
	(Dollars in thousands)					
Treasury, Tax and Loan notes:						
Average daily balance	\$	967	\$	727		
Average interest rate		4.80%		4.58%		
Highest month-end balance	\$	2,748	\$	2,178		
FHLB overnight borrowings:						
Average daily balance	\$	21,432	\$	29,788		
Average interest rate		5.04%		5.14%		
Highest month-end balance	\$	43,500	\$	55,400		

The Bank utilizes the Note Option for remitting Treasury, Tax and Loan payments to the Federal Reserve Bank. Under this option the U.S. Treasury invests in obligations of the Bank, as evidenced by open-ended interest-bearing notes. These notes are collateralized by U.S. Agency securities owned by the Bank. At December 31, 2007 and 2006, the Bank had pledged investment securities with a carrying value of approximately \$4,987,000 and \$4,855,000, respectively, as collateral for Treasury, Tax and Loan payments.

11. LONG-TERM BORROWINGS

Long-term borrowings consist of the following:

	December 31, 2007			December 31,			
	A	mount	Rate	An	nount	Rate	
			(In tho	usands	s)		
Federal Home Loan Bank Advances:							
Due 02/23/2009; non-callable	\$	5,000	5.30%	\$	_	0.00%	
Due 03/02/2009; non-callable		12,000	4.88%		_	0.00%	
Due 03/01/2010; callable 02/28/2008		8,000	4.89%		_	0.00%	
Wholesale Repurchase Agreements:							
Due 07/05/2012; callable quarterly							
beginning 07/05/2009		10,000	5.10%		_	0.00%	
Total	\$	35,000	4.97%	\$	_	0.00%	

All short- and long-term borrowings with the Federal Home Loan Bank of Boston ("FHLB") are secured by the Bank's stock in the FHLB and a blanket lien on "qualified collateral" defined principally as 90% of the market value of certain U.S. Government and Agency 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 at December 31, 2007 was \$113,047,000.

The Bank's wholesale repurchase agreement is 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 agreement is collateralized by U.S. Agency securities owned by the Bank, which as of December 31, 2007, had a carrying value of approximately \$15,007,000.

12. INCOME TAXES

The components of income tax expense are as follows:

	Year Ended December 31,				
		2007		2006	
	(In thousands)				
Current:					
Federal	\$	4,191	\$	4,307	
State		275		405	
Total current expense		4,466		4,712	
Deferred:					
Federal		(323)		(385)	
State		(14)		(124)	
Total deferred expense		(337)		(509)	
Total income tax expense	\$	4,129	\$	4,203	

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

	Year Ended December 31,				
	2007		2006		
		(In tho	usands)	
Provision at statutory rates	\$	4,566	\$	4,407	
Increase (decrease) resulting from:					
State tax, net of federal tax benefit		172		185	
Tax-exempt income		(494)		(405)	
ESOP dividends		(161)		(144)	
Other		46		160	
Total income tax expense	\$	4,129	\$	4,203	

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

	December 31,			
	2007		2006	
	(In thousands))
Gross deferred tax assets:				
Allowance for loan losses	\$	2,734	\$	2,494
Accrued retirement benefits		2,381		2,407
Unrealized losses on AFS securities		_		925
Depreciation of premises and equipment		998		987
Goodwill		358		330
Rent		235		223
ESOP dividends		194		173
Equity based compensation		96		89
Other		100		118
Total gross deferred tax assets		7,096		7,746
Gross deferred tax liabilities:				
Deferred loan origination costs		(281)		(212)
Unrealized gains on AFS securities		(921)		_
Total gross deferred tax liabilities		(1,202)		(212)
Net deferred tax asset	\$	5,894	\$	7,534

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, 2007 or 2006 for the deferred tax assets. It should be noted, however, that factors beyond management's control, such as the general state of the economy and real estate values, can affect future levels of taxable income and that no assurance can be given that sufficient taxable income will be generated to fully absorb deductible temporary differences.

13. PENSION AND RETIREMENT PLANS

The Corporation has a noncontributory, defined benefit pension plan ("Pension Plan") covering substantially all employees. Employees in positions requiring at least 1,000 hours of service per year are eligible to participate upon the attainment of age 21 and the completion of one year of service. Benefits are based primarily on years of service and the employee's final five-year average pay. The Corporation also provides supplemental retirement benefits to certain executive officers of the Corporation under the terms of Supplemental Executive Retirement Agreements ("Supplemental Retirement Plan"). The Supplemental Retirement Plan became effective on October 1, 1989. Benefits to be paid under the plan are contractually agreed upon and detailed in individual agreements with the executives. The Corporation uses a December 31 measurement date each year to determine the benefit obligations for these plans.

Projected benefit obligations and funded status are as follows:

	Pensio	n Plan		plemental ement Plan		
	2007	2006	2007	2006		
		(In thou				
Change in projected benefit obligation:						
Obligation at beginning of year	\$ 13,975	\$ 13,828	\$ 2,654	\$ 2,812		
Service cost	751	793	380	330		
Interest cost	807	763	153	161		
Actuarial (gain)/loss	(319)	(1,120)	(69)	26		
Benefits paid	(639)	(289)	(187)	(675)		
Plan Amendments	_	_	_	_		
Obligation at end of year	14,575	13,975	2,931	2,654		
Change in plan assets:						
Fair value at beginning of year	11,306	10,013	_	_		
Actual return on plan assets	1,015	882	_	_		
Employer contribution	900	700	187	675		
Benefits paid	(639)	(289)	(187)	(675)		
Fair value at end of year	12,582	11,306				
Funded status at end of year	\$ (1,993)	\$ (2,669)	\$ (2,931)	\$ (2,654)		

Amounts recognized in the consolidated balance sheets consist of:

			Supple	mental	
	Pensio	n Plan	Retirement Plan		
	2007	2006	2007	2006	
		(In tho	isands)		
Other liabilities	\$ (1,993)	\$ (2,669)	\$ (2,931)	\$ (2,654)	

Amounts recognized in accumulated other comprehensive income consist of:

	Pension Plan				Supplemental Retirement Plan			
		2007	:	2006 2007			2006	
				(In tho	usano	ds)		
Net (gain)/loss	\$	1,246	\$	1,744	\$	(50)	\$	19
Prior service cost/(benefit)		26		40		419		498
	\$	1,272	\$	1,814	\$	369	\$	517

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

	Pension Plan				upplemental tirement Plan			
	2007	2007 2006		2007		2006		
		(In thousands)						
Projected benefit obligation	\$ 14,575	\$ 13,975	\$	2,931	\$	2,654		
Accumulated benefit obligation	12,449	11,738		2,931		2,654		
Fair value of plan assets	12,582	11,306		_		_		

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

		Pension Plan		Supplemer Retirement				
	2	007	2	006	2007			2006
				(In thou	isan	ds)		
Net periodic benefit cost:								
Service cost	\$	751	\$	793	\$	380	\$	330
Interest cost		807		764		153		161
Expected return on assets		(865)		(769)		_		_
Amortization of prior service cost/(benefit)		14		14		79		79
Amortization of transition asset/(obligation)		_		_		_		_
Amortization of net actuarial (gain)/loss		59		132		_		_
Net periodic benefit cost		766		934		612		570
Amounts recognized in other comprehensive income	:							
Net (gain)/loss		(528)		NA		(69)		NA
Amortization of prior service								
cost/(benefit)		(14)		NA		(79)		NA
Total recognized in other comprehensive income		(542)		NA		(148)		NA
•		(342)		1 1/2 1		(170)	_	1 1/2 1
Total recognized in net periodic benefit								
cost and other comprehensive income	\$	224	\$	934	\$	464	\$	570

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

	Pension Bene		* *	Supplemental Retirement Plan		
	2007	2006	2007	2006		
Discount rate	6.00%	5.75%	6.00%	5.75%		
Rate of compensation increase	4.00%	4.00%	NA	NA		

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

			Suppler	nental		
	Pension	Plan	Retireme	Retirement Plan		
	2007	2006	2007	2006		
Discount rate	5.75%	5.75%	5.75%	5.75%		
Expected long-term return on plan assets	7.50%	7.50%	NA	NA		
Rate of compensation increase	4.00%	4.00%	NA	NA		

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

The Corporation maintains an Investment Policy for the defined benefit pension plan. The Investment Policy guidelines suggest that the target asset allocation percentages are from 50% to 65% in equities, and from 35% to 50% in fixed income debt securities and cash. The Corporation expects to contribute \$700,000 to its defined benefit pension plan in 2008.

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

	Decemb	er 31,
	2007	2006
Equity securities	55%	56%
Debt securities	30	33
Cash and other	15	11
Total	100%	100%

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 are as follows:

	Healthcare Plan			
	2007		2006	
		(In thou	ısands)	
Change in projected benefit obligation:				
Obligation at beginning of year	\$	628	\$	922
Service cost		7		7
Interest cost		35		35
Actuarial (gain)/loss		(2)		(59)
Benefits paid		(48)		(45)
Plan Amendments		_		(232)
Obligation at end of year		620		628
Change in plan assets:				
Fair value of beginning of year		_		_
Actual return on plan assets		_		_
Employer contribution		48		45
Benefits paid		(48)		(45)
Fair value at end of year				
Funded status at end of year	\$	(620)	\$	(628)

Postretirement

Amounts recognized in the consolidated balance sheets consist of:

	 Postreti Healthca		
	 2007	2006	
	(In thou	isands)	
Other liabilities	\$ (620)	\$	(628)

Amounts recognized in accumulated other comprehensive income consist of:

		Postreti Healthca		
	2	2007	2006	
		(In tho	ısands)	
Net (gain)/loss	\$	(117)	\$	(120)
Prior service cost/(benefit)		(72)		(81)
	\$	(189)	\$	(201)

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

		Healthc	irement are Plai	
	2	007	2006	
		(In tho	usands)	
Project benefit obligation	\$	620	\$	628
Accumulated benefit obligation		620		628
Fair value of plan assets		_		_

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

	Postretirement Healthcare Plan			
	2007 2			006
		(In tho	isands)	
Net period benefit cost:				
Service cost	\$	7	\$	7
Interest cost		35		35
Expected return on assets		_		_
Amortization of prior service cost/(benefit)		(9)		(9)
Amortization of transition asset/(obligation)		_		_
Amortization of net actuarial (gain)/loss		(4)		(6)
Net periodic benefit cost		29		27
Amounts recognized in other comprehensive income:				
Net (gain)/loss		3		NA
Amortization of prior service cost/(benefit)		9		NA
Total recognized in other comprehensive income		12		NA
Total recognized in net periodic benefit cost and other comprehensive income	\$	41	\$	27

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

	Postretir Healthca	
	2007	2006
Discount rate	6.00%	5.75%
Rate of compensation increase	NA	NA

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

Postretirement

	Healthca	re Plan
	2007	2006
Discount rate	5.75%	5.75%
Expected long-term return on plan assets	NA	NA
Rate of compensation increase	NA	NA

Assumed health care costs trend rates are as follows:

	Decemb	er 31,
	2007	2006
Health care cost trend rate assumed for next year	9.00%	9.00%
ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2012	2011

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		21		(19)	

Dogt

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

Year ended December 31,	nsion Plan	retir Heal	ost- ement thcare lan	11		 Total	
			(In thou	sands)			
2008	\$ 366	\$	54	\$	176	\$ 596	
2009	404		58		143	605	
2010	569		63		119	751	
2011	594		66		117	777	
2012	627		64		116	807	
2013-2017 inclusive	5,192		287		2,123	7,602	
Ten year total	\$ 7,752	\$	592	\$	2,794	\$ 11,138	

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2008 are as follows:

	nsion Plan	He	etirement althcare Plan	Reti	emental rement Plan	 Fotal
Prior service cost	\$ (14)	\$	(In thousa:	nds) \$	(79)	\$ (102)
Net (gain)/loss	\$ (14)	\$	(14)	\$	(79)	\$ (107)

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

The Corporation has an Employee Stock Ownership Plan ("ESOP") for its eligible employees. Employees are eligible to participate upon the attainment of age 21 and the completion of one year of service consisting of at least 1,000 hours. It is anticipated that the ESOP will purchase from the Corporation shares presently authorized but unissued at a price determined by an independent appraiser and certified by a committee of the trustees of the ESOP. Purchases of the Corporation's stock by the ESOP will be funded solely by employer contributions. At December 31, 2007 and 2006, the ESOP owned 390,443 shares and 398,757 shares, respectively, of the Corporation's common stock.

Total expenses related to the PSP and ESOP for the years ended December 31, 2007 and 2006, amounted to approximately \$750,000 and \$811,000, respectively.

14. STOCK OPTION PLAN

In 1993, the Corporation adopted a Stock Option Plan for key employees as an incentive for them to assist the Corporation in achieving long-range performance goals. The Corporation issues stock options to its key employees according to the provisions of the plan. All options expire ten years from the date granted and have been issued at fair value at the date of grant which, in some instances, may be less than publicly traded values. During 2005, the Corporation's shareholders amended the plan to increase the number of shares available under the Plan and to permit the issuance of restricted stock, restricted stock units and stock appreciation rights ("SARs"). The Corporation awarded 2,760 and 5,700 restricted shares during 2007 and 2006, respectively. These restricted shares vest over a five year period. The weighted average fair value of restricted stock grants during the years ending December 31, 2007 and 2006, were \$32.87 and \$27.10, respectively.

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

	2007	2006
Dividend yield	3.63%	3.84%
Risk-free interest rate	4.70%	4.54%
Expected term	6 years	6 years
Expected volatility	13.05%	11.09%
Fair value (per Black-Scholes model)	\$ 3.93	\$ 2.76

Stock options issued in 2007 and 2006 vest over a five-year period, except for "non-qualified options" issued in 2006 which vested immediately.

A summary of the status of the Corporation's Stock Option Plan as of December 31, 2007 and 2006, and changes during the years ended on those dates is presented below:

	20		20	2006		
	Number of Options			Number of Options	Av Ex	eighted verage xercise Price
Stock options:						
Outstanding at beginning of year	299,285	\$	28.69	384,343	\$	26.88
Granted	61,650		31.02	61,500		27.11
Forfeited	_		0.00	(11,971)		31.04
Expired	(300)		28.92	(100,513)		24.91
Exercised	(300)		28.92	(34,074)		15.77
Outstanding at end of year	360,335	_	29.09	299,285	_	28.69
Exercisable at end of year	138,618	\$	26.81	112,836	\$	26.33

The following table summarizes information about stock options outstanding at December 31, 2007:

		Options Ex	ercisable		
Range of Exercise Price	Number Outstanding at 12/31/07	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/07	Weighted Average Exercise Price
\$15.00 - \$19.99	3,750	0.3 years	\$ 16.43	3,750	\$ 16.43
\$20.00 - \$24.99	46,000	2.7 years	22.16	46,000	22.16
\$25.00 - \$29.99	188,114	7.4 years	28.67	67,698	28.63
\$30.00 - \$34.99	122,471	6.6 years	32.72	21,170	32.92
	360,335	6.5 years	29.09	138,618	26.81

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, 2007 and 2006 were 5,919 and 6,532, respectively.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

	December 31,			
		2007	2	2006
	(In thousands)			
Standby letters of credit	\$	5,447	\$	5,807
Commitments to extend credit:				
Unused portion of existing lines of credit		120,959	1	19,838
Origination of new loans		16,559		11,071
Liabilities associated with letters of credit		27		33

Standby letters of credit are conditional commitments issued by the Bank to guarantee performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. Most guarantees extend for one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The collateral supporting those commitments varies and may include real property, accounts receivable or inventory. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained upon extension of the credit is based on management's credit evaluation of the customer. Collateral held varies, but may include primary residences, accounts receivable, inventory, property, plant and equipment, and income-producing commercial real estate.

16. COMMITMENTS AND CONTINGENCIES

The Corporation is obligated under various lease agreements covering its main office, branch offices and other locations. These agreements are accounted for as operating leases and their terms expire between 2008 and 2016 and, in some instances, contain options to renew for periods from five to fifteen years. The total minimum rentals due in future periods under these agreements in effect at December 31, 2007 are as follows:

Year Ended December 31,		Minimum Payments
	(In thousand	
2008	\$	2,575
2009		2,524
2010		1,660
2011		850
2012		706
Thereafter		2,341
Total minimum lease payments	\$	10,656

Several lease agreements contain clauses calling for escalation of minimum lease payments contingent on increases in real estate taxes, gross income adjustments, percentage increases in the consumer price index and certain ancillary maintenance costs. Total rental expense amounted to approximately \$2,852,000 and \$2,811,000 for the years ended December 31, 2007 and 2006, respectively.

Under the terms of a sublease agreement, the Corporation will receive minimum annual rental payments of approximately \$14,000 through July 2009. Total rental income amounted to approximately \$30,000 and \$32,000 for the years ended December 31, 2007 and 2006, respectively.

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

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

17. STOCKHOLDERS' EQUITY

Capital guidelines issued by the Federal Reserve Board ("FRB") and by the FDIC require that the Corporation and the Bank maintain minimum capital levels for capital adequacy purposes. These regulations also require banks and their holding companies to maintain higher capital levels to be considered "well-capitalized". Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions

by regulators that, if undertaken, could have a direct material effect on the Corporation's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, there are specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The risk-based capital rules are designed to make regulatory capital more sensitive to differences in risk profiles among bank and bank holding companies, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Management believes that as of December 31, 2007 and 2006, 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 are as follows:

	Actual		I	Minimum For Capital Adequacy Purposes		Minimum to Be Well-Capitalized Under Prompt Corrective Action Provisions			
	A	mount	Ratio	A	Amount	Ratio	A	Amount	Ratio
					(Dollars in	thousands)			
At December 31, 2007:									
Cambridge Bancorp: Total capital	c	72.620	16.6%	e	25.064	8.0%	e	40 020	10.0%
(to risk-weighted assets) Tier I capital	Ф	12,039	10.0%	\$	35,064	8.070	\$	48,830	10.0%
(to risk-weighted assets) Tier I capital		67,146	15.3%		17,532	4.0%		26,298	6.0%
(to average assets)		67,146	8.0%		33,472	4.0%		41,840	5.0%
Cambridge Trust Company: Total capital									
(to risk-weighted assets) Tier I capital	\$	71,756	16.4%	\$	35,064	8.0%	\$	43,830	10.0%
(to risk-weighted assets) Tier I capital		66,263	15.1%		17,532	4.0%		26,298	6.0%
(to average assets)		66,263	8.0%		33,111	4.0%		41,389	5.0%
At December 31, 2006:									
Cambridge Bancorp: Total capital									
(to risk-weighted assets) Tier I capital	\$	69,146	17.9%	\$	30,822	8.0%	\$	38,527	10.0%
(to risk-weighted assets) Tier I capital		64,315	16.7%		15,411	4.0%		23,116	6.0%
(to average assets)		64,315	8.4%		30,556	4.0%		38,195	5.0%
Cambridge Trust Company: Total capital									
(to risk-weighted assets) Tier I capital	\$	68,789	17.9%	\$	30,822	8.0%	\$	38,527	10.0%
(to risk-weighted assets) Tier I capital		63,958	16.6%		15,411	4.0%		23,116	6.0%
(to average assets)		63,958	8.4%		30,556	4.0%		38,195	5.0%

18. OTHER INCOME

The components of other income are as follows:

	Yea	r Ended	Decemb	er 31,
	2	007	2	006
		(In tho	usands)	
Safe deposit box income	\$	362	\$	352
Other fee income		221		207
Miscellaneous income		27		45
Total other income	\$	610	\$	604

19. OTHER OPERATING EXPENSES

The components of other operating expenses are as follows:

	Teal Ended December 31			ber 31,
		2007		2006
		(In tho	usands))
Printing and supplies	\$	446	\$	474
Director fees		424		442
Amortization of intangible assets		378		378
Postage		297		292
Donations		256		278
Other losses		210		106
Miscellaneous expense		764		785
Total other operating expenses	\$	2,775	\$	2,755

Vear Ended December 31

20. OTHER COMPREHENSIVE LOSS

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

	Year Ended December 31, 2007					7
	Before Tax Amount		Tax (Expense) or Benefit			t-of-tax mount
			(In th	ousands)		
Change in unfunded pension liability	\$	678	\$	(131)	\$	547
Unrealized holding gain/(loss) on securities available for sale arising during						
the period		5,411		(1,889)		3,522
Reclassification adjustment for realized						
gains recognized in net income		(122)		43		(79)
	\$	5,967	\$	(1,977)	\$	3,990

	Year Ended December 31, 2006					<u> </u>
	Before Tax Amount		(Ex	Fax pense) Benefit		t-of-tax mount
			(In th	ousands)		
Unrealized holding gain/(loss) on securities available for sale arising during the period		(24)	\$	15	\$	(9)
Reclassification adjustment for realized gains recognized in net income		(287)		98		(189)
	\$	(311)	\$	113	\$	(198)

21. EARNINGS PER SHARE

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

	Year Ended December 31, 2007			
	Basic EPS	Diluted EPS		
Numerator:				
Net income	\$ 9,243,000	\$ 9,243,000		
Denominator:				
Common shares outstanding	3,818,360	3,818,360		
Dilutive effect of stock options	_	19,212		
Total shares	3,818,360	3,837,572		
Earnings per share	\$ 2.42	\$ 2.41		
	Year Ended Dec	cember 31, 2006		
	Basic	Diluted		
	EPS	EPS		
Numerator:				
Net income	\$ 8,680,000	\$ 8,680,000		
Denominator:				
Common shares outstanding	3,855,845	3,855,845		
Dilutive effect of stock options		19,753		
Total shares	3,855,845	3,875,598		
Earnings per share	\$ 2.25	\$ 2.24		

22. FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value. The reported fair values of financial instruments are based on a variety of techniques. In some cases, fair values represent quoted market prices for identical or comparable instruments. In other cases, fair values have been estimated based on assumptions concerning the amount and timing of estimated future cash flow, assumed discount rates reflecting varying degrees of risk and future expected loss assumptions. These estimates involve a

high degree of judgment. The estimates do not reflect any premium or discount that could result from offering significant holdings of financial instruments at bulk sale. Changes in economic conditions may also dramatically affect the fair value of financial instruments.

Cash and Cash Equivalents

For these short-term instruments, the carrying amount is a reasonable estimate of fair value.

Investment Securities

For investment securities, fair values are based upon valuations obtained from a national pricing service. The pricing service uses a variety of techniques to arrive at fair value including market maker bids and quotes of significantly similar securities, and pricing models. Inputs to the pricing models include recent trades, benchmark interest rates, spreads, and actual and projected cash flows. The aggregate fair value of investment securities was approximately \$378,335,000 and \$379,240,000 at December 31, 2007 and 2006, respectively.

Loans

For certain homogeneous categories of loans, such as residential mortgages and home equity loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics or dealer quotes. The fair value of commercial, commercial real estate and consumer loans is estimated using future cash flows at current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The majority of the Bank's portfolio adjusts with changes in market rates. The aggregate fair value of the Bank's loan portfolio was approximately \$415,794,000 and \$349,941,000 at December 31, 2007 and 2006, respectively.

Bank Owned Life Insurance

For BOLI, fair values are based on cash surrender values of the insurance policies, along with any stable-value agreements. There were no material differences between the book and fair value of BOLI at December 31, 2007 and 2006.

Deposit Liabilities

The fair value of non-certificate deposit accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value of the Bank's deposits was approximately \$698,531,000 and \$662,782,000 at December 31, 2007 and 2006, respectively.

Short-term Borrowings

Short-term borrowing rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate the fair market value of existing debt. There were no material differences between the book and market value of the short-term borrowings at December 31, 2007 and 2006.

Long-term Borrowings

Long-term borrowing rates currently available to the Bank for debt with similar terms and remaining maturities are used to estimate the fair market value of existing debt. The fair value of the Bank's long-term borrowings was \$36,271,000 at December 31, 2007.

Commitments to Extend Credit

The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the borrowers. For fixed-rate loan commitments, fair value also considers the difference between committed rates and current levels of interest rates. There were no material differences between the commitment amount and its fair value at December 31, 2007 and 2006.

Values Not Determined

SFAS 107, "Disclosures About Fair Value of Financial Instruments" excludes certain financial instruments and all non-financial instruments from its disclosure requirements, including real estate included in banking premises and equipment, 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 Bank.

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