Cambridge Bancorp

2021 Annual Report

PRIVATE BANKING | WEALTH MANAGEMENT

Financial Highlights

(Dollars in thousands, except per share data)

Selected Year-End Data		**2021**		2020		2019
Net Income	**$**	**54,024**	$	31,959	$	25,257
Operating Net Income*	**$**	**54,828**	$	43,870	$	29,156
Total Assets	**$**	**4,891,544**	$	3,949,297	$	2,855,563
Total Loans	**$**	**3,319,106**	$	3,153,648	$	2,226,728
Total Deposits	**$**	**4,331,152**	$	3,403,083	$	2,358,878
Total Shareholder's Equity	**$**	**437,837**	$	401,732	$	286,561
Assets Under Management and Administration	**$**	**4,853,119**	$	4,167,903	$	3,452,852
Per Common Share						
Diluted Earnings Per Share	**$**	**7.69**	$	5.03	$	5.37
Operating Diluted Earnings Per Share*	**$**	**7.81**	$	6.90	$	6.20
Dividend Declared Per Share	**$**	**2.38**	$	2.12	$	2.04
Book Value Per Share	**$**	**62.83**	$	58.00	$	53.06
Tangible Book Value Per Share*	**$**	**55.01**	$	50.07	$	46.66
Financial Ratios						
Return on Average Assets		**1.24%**		0.91%		0.97%
Return on Average Equity		**12.93%**		9.09%		11.40%
Operating Return on Average Assets*		**1.26%**		1.25%		1.12%
Operating Return on Tangible Common Equity*		**15.10%**		14.38%		14.80%
Net Interest Margin, FTE		**3.12%**		3.65%		3.22%
Adjusted Net Interest Margin, FTE*		**2.93%**		3.36%		3.22%
Asset Quality						
Nonperforming assets/total assets		**0.11%**		0.27%		0.20%
Year-to-date net recoveries (charge-offs)/total loans		**0.00%**		(0.01%)		(0.07%)
Allowance for credit losses/total loans ex. PPP loans		**1.05%**		1.19%		0.82%

***GAAP to Non-GAAP Reconciliation on pages 17 & 18**

$7.81

OPERATING EARNINGS PER SHARE

13.2% Growth

1.26%

OPERATING RETURN ON AVERAGE ASSETS

15.10%

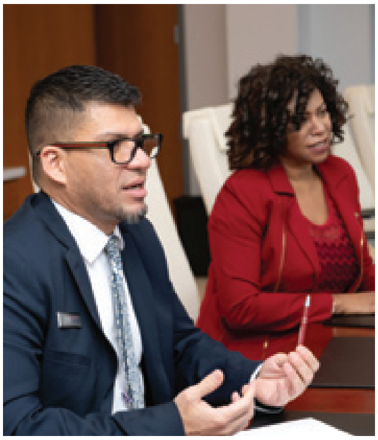
OPERATING RETURN ON AVERAGE TANGIBLE COMMON EQUITY

"Cambridge Trust reported operating diluted earnings per share of $7.81, an increase of 13.2% as compared to operating diluted earnings per share of $6.90 for the year ended December 31, 2020."

2021 Letter to Shareholders

When I think about Cambridge Trust, I reflect on the many stories I hear from our clients; their opportunities and successes, challenges their businesses face, stories of our colleagues who have helped them, and the trust our clients place in us to help guide them. For more than 130 years, Cambridge Trust has earned this trust by putting their interests first and offering customized financial solutions to help them grow and protect their wealth. In 2021, like each year before, we continued these efforts, while delivering the personalized attention our clients expect and deserve. As a result of this commitment, we finished the year with strong footing, both operationally and financially.

Last year was not without its challenges. Principal among them were the COVID-19 Delta and Omicron variants, coupled with the ongoing low-interest environment. Amid all these factors, Cambridge Trust delivered record operating financial results, with growth in each of our core business lines resulting in strong balance sheet growth, solid capital, and robust liquidity levels.



Operating earnings per share increased 13% in 2021 compared to 11% in 2020, all while continuing to make investments in staffing and technology needed to grow the company for the long term.

Investments in client experience supported the evolving landscape and shifting client behaviors. At the forefront were enhancements in technology and client-facing digital platforms, primarily our Wealth Management systems upgrade, which we believe positions us well in the future.

During the year, as we faced pandemic-related uncertainties, what continued to impress me was our colleagues' steadfast commitment to serve our clients with care and creativity. They embraced their role with a sense of pride and accomplishment as we helped our clients and the local business community navigate for their continued success.

“Cambridge Trust has demonstrated they will always put our family first. We have not found many firms able to walk that line.”

— **Conrad Clemson,** Trust & Estate Client

"We continued our pledge to affordable housing in the region with a $110 million voluntary loan commitment to the Massachusetts Housing Partnership."

Commitment to the Community

The company succeeds when we serve as a partner to the communities in which we work and live. To this end, we continued our pledge to affordable housing in the region with a $110 million voluntary loan commitment to the Massachusetts Housing Partnership, in support of projects that create affordable housing and foster economic development within Massachusetts. Additionally, Cambridge Trust provided financing to support one of the largest for-sale affordable housing construction projects in the City of Boston in recent years. Our team also took direct action and counseled over 900 first-time home buyers, helping borrowers to better understand the possibilities of homeownership for themselves and their families.

In 2021, we continued to focus intentionally on giving directly to the communities we serve. More than 260 nonprofit organizations were supported through the charitable giving efforts of the company and the Cambridge Trust Charitable Foundation during the year. And as a Small Business Administration Preferred Lender, we continued our support for business clients and participated in the second round of the Paycheck Protection Program (PPP), securing a two-year total of approximately $300 million in financing to help retain 24,000 local jobs.

"The depth of our relationship with Cambridge Trust is supported by the ease of access. They encourage us to bounce ideas off of them and come to them with new campaigns. They're a strong partner."

— **Bob Adams,** President, American Friends of the Blind in Greece, Portsmouth, NH

Environmental, Social, and Governance (ESG)

The company has continued on its path to not only make an impact in the communities we serve but do so responsibly as a good corporate citizen. Driven by action, authenticity, and accountability, we embrace our obligation to empower our people, communities, and clients through socially and environmentally sustainable initiatives. This year we advanced our long-standing focus on diversity, equity, and inclusion (DE&I) efforts by continuing to emphasize the value of all voices and perspectives within the bank. The diverse makeup of our board, management team, and employees demonstrates our commitment to this goal. We measure this diversity in several ways: 51% of our workforce are women, 24% identify as ethnically or racially diverse minorities, and we have an LGBTQIA+ coalition within the company as well as a women's leadership forum with nearly 200 members.

With eight women on our Board of Directors at Cambridge Trust, we have one of the highest number of women for companies listed on the NASDAQ.[1] These are areas of purposeful focus as we continue to recruit and retain talent. Finally, we are working toward measuring our environmental impact with the understanding that the company over the years has strived to conserve and be environmentally responsible. For clients who share these objectives, we offer sustainable investment strategies for which returns are not lacking.

"With eight women on our Board of Directors at Cambridge Trust, we have one of the highest number of women for companies listed on the NASDAQ."[1]

(1) Source: S&P Global Market Intelligence

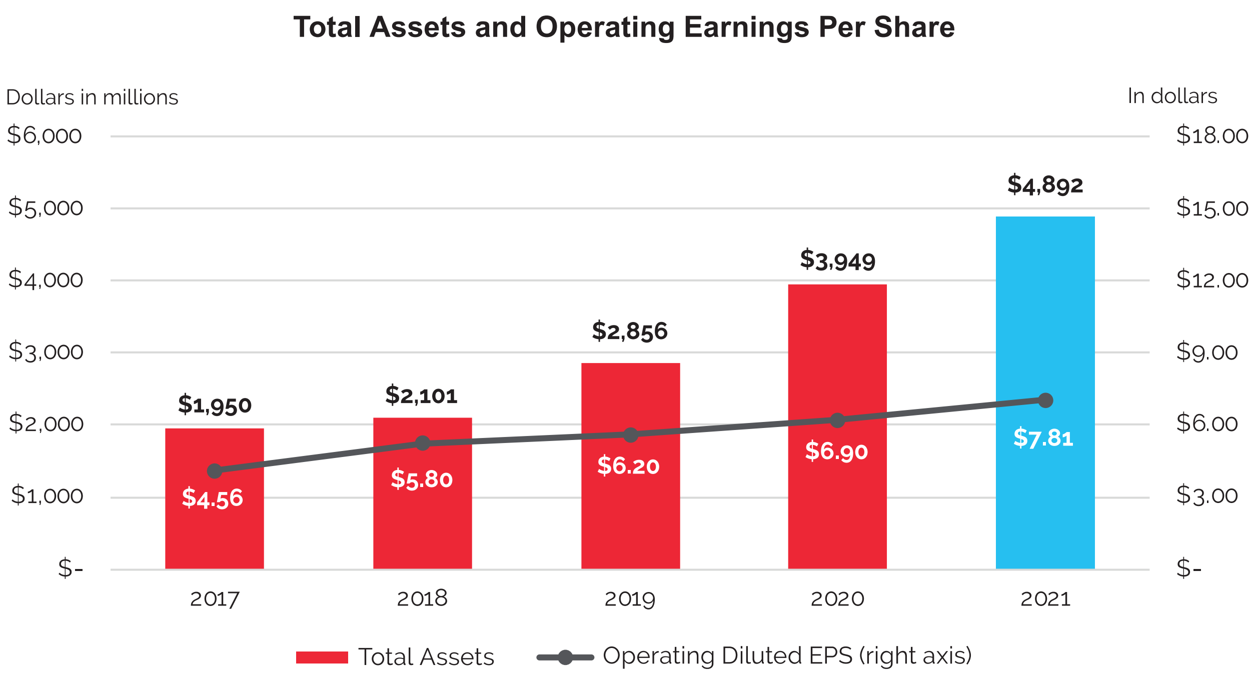
"Core loans and core deposits grew by $267 million and $1 billion, or 9% and 32%, respectively."

Financial Performance

Cambridge Trust reported net income of $54.0 million, an increase of $22.1 million, or 69%, as compared to $32.0 million for the year ending December 31, 2020. Net income, as reported, includes the impact of one-time non-operating expenses. When excluding these items to provide a more comparable view of operations between the years, net income on an operating basis was a record $54.8 million for the year ended December 31, 2021, an increase of $11.0 million, or 25%, as compared to operating net income of $43.9 million for 2020. Operating diluted earnings per share were $7.81 for 2021, representing a 13% increase over operating diluted earnings per share of $6.90 for 2020.

Core loans and core deposits grew $267.4 million and $1.0 billion, respectively, or 8.8% and 32.4%, respectively. Wealth assets increased by 16%, from 2020, driven by both positive client flows and the strong equity market performance in 2021.

The company's profitability ratios were robust in 2021. The operating return on average assets and average tangible common equity in 2021 were 1.26% and 15.10%, respectively, as compared to 1.25% and 14.38%, respectively, in 2020. Overall, in 2021, the company continues to perform well with growing assets and earnings.



2022 Focus

While we continue to grow our brand in an attractive footprint, we are paying close attention to the uncertainty in the financial markets caused not only by impending changes in interest rates and inflation but also by the continued stress posed by this lengthy pandemic and geopolitical uncertainty that could contribute to volatility in 2022. Regardless of any near-term implications, I remain confident in the robust economy of Massachusetts and New Hampshire, surrounded by innovation, academia, technology, and life sciences—so many of which we are seeing firsthand from our Harvard Square office.

"In 2021, we relied on our strong business model, focusing on fundamentals and strong execution while offering highly skilled and personalized service to our clients."

18TH
LARGEST INDEPENDENT INVESTMENT ADVISOR
in Massachusetts

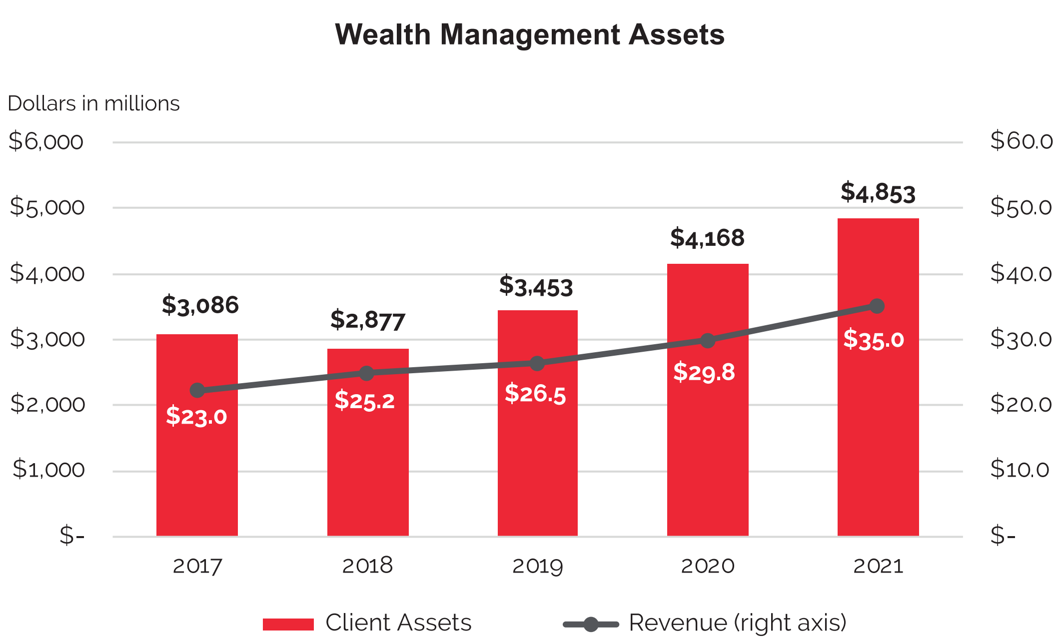
\$4.9B
TOTAL ASSETS UNDER MANAGEMENT & ADMINISTRATION
16.4% Growth

\$5.3M
REVENUE GROWTH IN WEALTH MANAGEMENT
17.8% Growth

Wealth Management

We continued to meet and plan with our Wealth Management clients as we always have, both remotely and in person where it was safe to do so, keeping them informed as the pandemic impacted the global economy. We produced quarterly webinars, published our Chief Investment Officer and investment team's quarterly *Market Perspectives* and thought-leadership content, sharing our experts' insights and points of view on the markets, investing and planning. We, once again, were ranked on the *Boston Business Journal's* list of the top 25 Largest Independent Investment Advisers in Massachusetts.

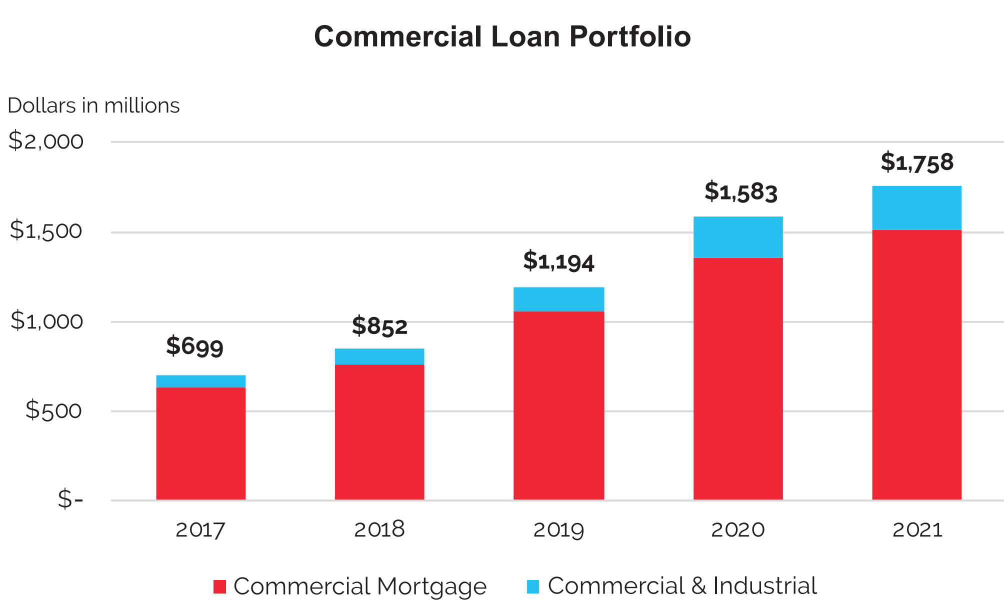
As shown in the following chart, client assets grew by approximately $685 million during 2021, driven by both market growth and positive net client flows. The increase in assets provided revenue growth of $5.3 million, or 18%, in 2021. We continue to invest for the future both in terms of talent and the previously mentioned system upgrades. In the fourth quarter of last year, we welcomed new wealth colleagues in Massachusetts, New Hampshire, and Connecticut, reflecting the growing knowledge of our capabilities and our improving brand recognition. Our recent core system upgrade provides our team greater operational efficiency and improved execution.



Commercial Banking

Our team delivered strong results as loan origination continued at a brisk pace. Despite elevated payoff activity during 2021, commercial loans, excluding PPP loans, grew by $175.6 million, or 11.1%. The company has endeavored to diversify the commercial portfolio into commercial and industrial lending, and progress continues as noted by growth of this portfolio of 11% during 2021.

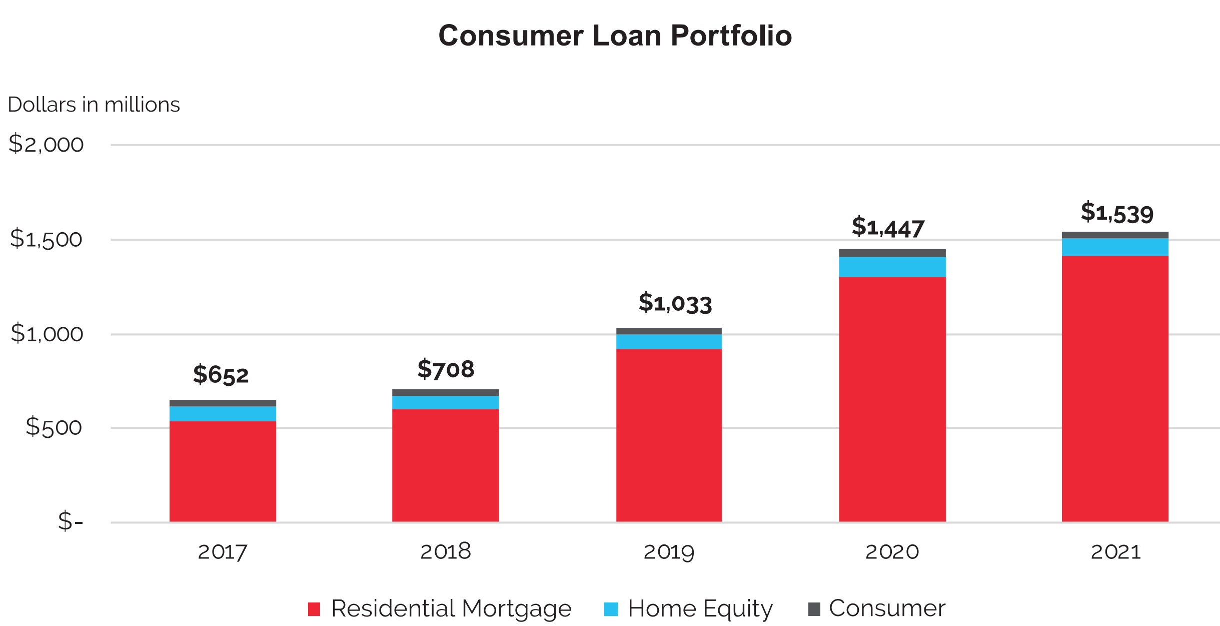
The company maintained its responsible lending acumen, and asset quality remained superb with net recoveries during the year and non-performing assets to total assets of just 0.11%, consistent with our established underwriting standards. Business deposit activity also had a strong year, growing by $444.9 million, or 29.4%, and represented 46% of core deposits.



> "I felt fortunate going to market with smart, proactive bankers who had great latitude from leadership."
>
> — **Tony Callini,** CFO, iZotope, Cambridge, MA

Residential & Consumer Lending

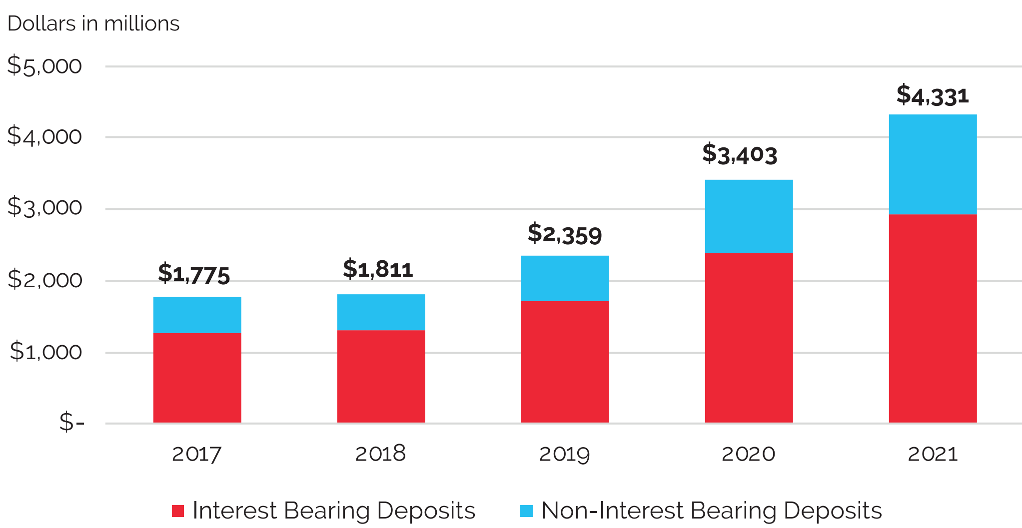
New England remains a very strong housing market with an ongoing housing shortage driving high price levels. This dynamic, coupled with the robust refinance market due to lower interest rates, resulted in our team originating and processing approximately 800 residential mortgage loans, the highest level on record, providing net portfolio growth of $93 million, or 10%. The team continues to provide a high level of client service for residential mortgages, construction financing, and investment portfolio secured lines of credit. We have a robust capability in residential real estate for both larger loan sizes and complex income streams.



Deposits

Core deposit growth during 2021 was terrific by any measure. We deepened our client base and expanded existing relationships with both banking and wealth management clients as a result of our efforts. Core deposits grew $1.02 billion, or 32.4%, with more than one-third of this deposit growth in new client households. Targeted marketing campaigns and proactive outreach helped fuel our success, as we capitalized on the market opportunity in front of us. Our banking office delivery evolved to support virtual client engagement in addition to in-person interaction while observing COVID-19 safety protocols to ensure both our staff and clients remained healthy.

Total Deposits



"We have a robust capability in residential real estate for both larger loan sizes and complex income streams."

Our Board of Directors

Our successes in serving our clients and shareholders have always been driven in large part by the leadership and guidance we receive from our Board of Directors. I want to thank this group of talented individuals from Massachusetts and New Hampshire who apply their deep acumen and unique experiences in guiding our Cambridge Trust team. This broad knowledge base has been especially helpful through the past year, and I am indebted to them for their support.

I also thank Dan Morrison for his leadership of Cambridge Trust in New Hampshire and his dedication to the company, and I want to congratulate him on his retirement at the close of 2021. He and his wife Pam founded Optima Bank in 2008, leading it for nearly a dozen years until the merger with Cambridge Trust in 2019. Dan will remain on the Cambridge Bancorp board to provide both experience and expertise as we look to grow into the future.

"I want to sincerely thank my colleagues for the excellent job they did in this most unusual and difficult year. Everything we accomplish is because of them."

Closing Thoughts

Cambridge Trust is well-positioned to help our clients through these times. We are operating from all 24 of our offices throughout Massachusetts and New Hampshire, and we are available to meet with our clients in any way they feel comfortable. We have embraced new technologies and are nimble in our approaches to meet changing client needs. In 2022, we will continue our long-standing client and community focus, while capitalizing on the market opportunity that exists in the region.

I want to sincerely thank my colleagues for the excellent job they did in this most unusual and difficult year. Everything we accomplish is because of them.

Finally, thanks to you, our shareholders, for your continued support of our great company.

Denis K. Sheahan
Chairman, President and Chief Executive Officer
March 14, 2022

GAAP to Non-GAAP Reconciliation

(Dollars in thousands except per share data)

*Statement on Non-GAAP Measures: The Company believes the presentation of the following non-GAAP financial measures provides useful supplemental information that is essential to an investor's proper understanding of the results of operations and financial condition of the Company. Management uses non-GAAP financial measures in its analysis of the Company's performance. These non-GAAP measures should not be viewed as substitutes for the financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Please see the following tables for a reconciliation of such non-GAAP financial measures to the most directly comparable GAAP measure.

For the Year-Ended December 31		**2021**		2020		2019
Operating Net Income / Operating Diluted Earnings Per Share						
Net Income (a GAAP measure)	**$**	**54,024**	$	31,959	$	25,257
Add: Merger expenses		—		6,368		4,721
Add: (Gain) Loss on disposition of investment securities		—		(69)		79
Add: Provision for credit losses established for acquired Wellesley loans		—		8,638		—
Add: Branch and office closure expenses		**787**		1,244		—
Add: Wealth mangement system conversion expenses		**331**		—		—
Tax effect of non-operating adjustments (1)		**(314)**		(4,270)		(901)
Operating Net Income (a non-GAAP measure)	**$**	**54,828**	$	43,870	$	29,156
Less: Dividends and Undistributed Earnings Allocated to Participating Securities (GAAP)		**(252)**		(64)		(243)
Operating Income Applicable to Common Shareholders (a non-GAAP measure)	**$**	**54,576**	$	43,806	$	28,913
Weighted Average Diluted Shares		**6,990,603**		6,344,409		4,661,720
Operating Diluted Earnings Per Share (a non-GAAP measure)	**$**	**7.81**	$	6.90	$	6.20

Operating Return on Average Assets: (2)						
Operating Net Income (a non-GAAP measure)	**$**	**54,828**	$	43,870	$	29,156
Average assets	**$**	**4,343,873**	$	3,523,249	$	2,600,316
Operating Return on Average Assets (a non-GAAP measure)		**1.26%**		1.25%		1.12%

(1) The net tax benefit associated with non-operating items is determined by assessing whether each non-operating item is included or excluded from net taxable income and applying the Company's combined marginal tax rate to only those items included in net taxable income.

(2) Operating return on average assets represents operating net income as a percentage of average assets.

GAAP to Non-GAAP Reconciliation (continued)

(Dollars in thousands except share data)

For the Year-Ended December 31		**2021**		2020		2019
Operating Return on Tangible Common Equity: (3)						
Operating Net Income (a non-GAAP measure)	**$**	**54,828**	$	43,870	$	29,156
Average Shareholders' Equity	**$**	**417,768**	$	351,477	$	221,617
Average Goodwill and merger related intangibles		**(54,707)**		(46,476)		(24,577)
Average tangible common equity (a non-GAAP measure)	**$**	**363,061**	$	305,001	$	197,040
Operating Return on Tangible Common Equity (a non-GAAP measure)		**15.10%**		14.38%		14.80%
Tangible Common Equity						
Shareholders' Equity (GAAP)	**$**	**437,837**	$	401,732	$	286,561
Less: Goodwill and acquisition related intangibles (GAAP)		**(54,529)**		(54,889)		(34,544)
Tangible Common Equity (a non-GAAP measure)		**383,308**		346,843		252,017
Total Assets (GAAP)		**4,891,544**		3,949,297		2,855,563
Less: Goodwill and acquisition related intangibles (GAAP)		**(54,529)**		(54,889)		(34,544)
Tangible Assets (a non-GAAP measure)	**$**	**4,837,015**	$	3,894,408	$	2,821,019
Tangible Common Equity Ratio (a non-GAAP measure)		**7.92%**		8.91%		8.93%
Tangible Book Value Per Share						
Tangible Common Equity (a non-GAAP measure)	**$**	**383,308**	$	346,843	$	252,017
Common Shares Outstanding		**6,968,192**		6,926,728		5,400,868
Tangible Book Value Per Share (a non-GAAP measure)	**$**	**55.01**	$	50.07	$	46.66

			For the Year Ended December 31, 2021		
Adjusted Net Interest Margin		**Average Balance**		**Interest Income/ Expenses**	**Rate Earned/ Paid**
			(dollars in thousands)		
Total interest-earning assets (GAAP)	$	4,127,863			
Net interest income on a fully taxable equivalent basis (GAAP)			$	128,954	
Net interest margin on a fully taxable equivalent basis (GAAP)					3.12%
Less: Paycheck Protection Program loan impact		(102,979)		(6,089)	-0.07%
Less: Accretion of loan fair value adjustments				(4,771)	-0.12%
Adjusted net interest margin on a fully taxable equivalent basis	**$**	**4,024,884**	**$**	**118,094**	**2.93%**

(3) Operating return on tangible common equity represents operating net income as a percentage of average tangible common equity.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2021

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE TRANSITION PERIOD FROM__________TO

Commission File Number 001-38184

CAMBRIDGE BANCORP
(Exact name of Registrant as specified in its Charter)

Massachusetts (State or other jurisdiction of incorporation or organization)	**04-2777442** (I.R.S. Employer Identification No.)
1336 Massachusetts Avenue **Cambridge, MA** (Address of principal executive offices)	**02138** (Zip Code)

Registrant's telephone number, including area code: (617) 876-5500

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock	CATC	NASDAQ

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

None
(Title of class)

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit). YES ☒ NO ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES ☐ NO ☒

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 726.2(b)) by the registered public accounting firm that prepared or issued its audit report. YES ☒ NO ☐

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on The NASDAQ Stock Market on June 30, 2021, was $531.3 million. The number of shares of Registrant's Common Stock outstanding as of March 10, 2022 was 7,001,488.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Shareholders, scheduled to be held on May 16, 2022, are incorporated by reference into Part III of this Report.

Table of Contents

PART I

Unless the context requires otherwise, all references to the "Company," "we," "us," and "our," refer to Cambridge Bancorp.

Forward-Looking Statements

This report contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements about the Company and its industry involve substantial risks and uncertainties. Statements other than statements of current or historical fact, including statements regarding the Company's future financial condition, results of operations, business plans, liquidity, cash flows, projected costs, and the impact of any laws or regulations applicable to the Company, are forward-looking statements. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "plans," "projects," "may," "will," "should," and other similar expressions are intended to identify these forward-looking statements. Such statements are subject to factors that could cause actual results to differ materially from anticipated results. Such factors include, but are not limited to, the following:

- national, regional, and local economic conditions may be less favorable than expected, resulting in, among other things, increased charge offs of loans, higher provisions for credit losses and/or reduced demand for the Company's services;
- disruptions to the credit and financial markets, either nationally or globally;
- the duration and scope of the novel coronavirus ("COVID-19") pandemic and its impact on levels of consumer confidence;
- actions governments, businesses and individuals take in response to the COVID-19 pandemic;
- the impact of the COVID-19 pandemic and actions taken in response to the COVID-19 pandemic on global and regional economies and economic activity;
- a prolonged resurgence in the severity of the COVID-19 pandemic due to variants and mutations of the virus;
- the pace of recovery when the COVID-19 pandemic subsides;
- weakness in the real estate market, including the secondary residential mortgage market, which can affect, among other things, the value of collateral securing mortgage loans, mortgage loan originations and delinquencies, and profits on sales of mortgage loans;
- legislative, regulatory, or accounting changes, including changes resulting from the adoption and implementation of the Dodd-Frank Act, which may adversely affect our business and/or competitive position, impose additional costs on the Company or cause us to change our business practices;
- the Dodd-Frank Act's consumer protection regulations which could adversely affect the Company's business, financial condition or results of operations;
- disruptions in the Company's ability to access capital markets which may adversely affect its capital resources and liquidity;
- the Company's heavy reliance on communications and information systems to conduct its business and reliance on third parties and affiliates to provide key components of its business infrastructure, any disruptions of which could interrupt the Company's operations or increase the costs of doing business;
- the failure of the Company's financial reporting controls and procedures to prevent or detect all errors or fraud;
- the Company's dependence on the accuracy and completeness of information about clients and counterparties;
- the fiscal and monetary policies of the federal government and its agencies;
- the failure to satisfy capital adequacy and liquidity guidelines applicable to the Company;
- downgrades in the Company's credit rating;
- changes in interest rates which could affect interest rate spreads and net interest income;
- costs and effects of litigation, regulatory investigations or similar matters;
- the inability to realize expected cost savings or implement integration plans and other adverse consequences associated with its recent mergers;
- a failure by the Company to effectively manage the risks the Company faces, including credit, operational and cyber security risks;

- increased pressures from competitors (both banks and non-banks) and/or an inability by of the Company to remain competitive in the financial services industry, particularly in the markets which the Company serves, and keep pace with technological changes;
- unpredictable natural or other disasters, which could adversely impact the Company's customers or operations;
- a loss of customer deposits, which could increase the Company's funding costs;
- the disparate impact that can result from having loans concentrated by loan type, industry segment, borrower type or location of the borrower or collateral;
- changes in the creditworthiness of customers;
- increased credit losses or impairment of goodwill and other intangibles;
- negative public opinion which could damage the Company's reputation and adversely impact business and revenues;
- the Company depends on the expertise of key personnel, and if these individuals leave or change their roles without effective replacements, operations may suffer;
- the Company may not be able to hire or retain additional qualified personnel, including those acquired in previous acquisitions, and recruiting and compensation costs may increase as a result of turnover, both of which may increase costs and reduce profitability and may adversely impact the Company's ability to implement the Company's business strategies; and
- changes in the Company's accounting policies or in accounting standards which could materially affect how the Company reports financial results and condition.

Except as required by law, the Company does not undertake, and specifically disclaims any obligation, to publicly release the result of any revisions which may be made to any forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements. You are cautioned not to place undue reliance on these forward-looking statements.

Item 1. Business.

The Company

Cambridge Bancorp (together with its bank subsidiary, unless the context otherwise requires, the "Company") is a Massachusetts state-chartered, federally registered bank holding company headquartered in Cambridge, Massachusetts. The Company is a Massachusetts corporation formed in 1983 and has one bank subsidiary, Cambridge Trust Company (the "Bank"), formed in 1890. On October 18, 2017, shares of the Company's common stock commenced trading on the NASDAQ Stock Market under the symbol CATC. Prior to this date, the Company's shares traded on the over-the-counter market. As of December 31, 2021, the Company had total assets of approximately $4.9 billion. Currently, the Bank operates 19 banking offices in Eastern Massachusetts and New Hampshire. As a private bank, we focus on four core services that center around client needs. Our core services include Wealth Management, Commercial Banking, Residential Lending, and Private Banking. The Bank's customers consist primarily of consumers and small- and medium-sized businesses in these communities and surrounding areas throughout Massachusetts and New Hampshire. The Company's Wealth Management Group has five offices, two in Massachusetts in Boston and Wellesley, and three in New Hampshire in Concord, Manchester, and Portsmouth. As of December 31, 2021, the Company had Assets under Management and Administration of approximately $4.9 billion. The Wealth Management Group offers comprehensive investment management, as well as trust administration, estate settlement, and financial planning services. Our wealth management clients value personal service and depend on the commitment and expertise of our experienced banking, investment, and fiduciary professionals.

The Wealth Management Group customizes investment portfolios to help clients meet their long-term financial goals. Through development of an appropriate asset allocation and disciplined investment selection, the Company's in-house research team targets long-term capital growth while seeking to minimize downside risk. Our internally developed, research-driven process is managed by our skilled team of portfolio managers and analysts. We build portfolios consisting of our best ideas, focusing on individual global equities, fixed income securities, exchange-traded funds, and mutual funds.

The Company offers a wide range of services to commercial enterprises, non-profit organizations, and individuals. The Company emphasizes service to consumers and small- and medium-sized businesses in its market area. The Company originates commercial and industrial ("C&I") loans, commercial real estate ("CRE") loans, construction loans, consumer loans, and residential real estate loans (including one-to-four family and home equity lines of credit), and accepts savings, money market, time, and demand deposits. In addition, the Company offers a wide range of commercial and personal banking services which include cash management, online banking, mobile banking, and global payments.

The Company's results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings, and non-interest income largely from its wealth management services. The results of operations are affected by the level of income and fees from loans, the cost of deposits, operating expenses, the provision for (release of) credit losses, the impact of federal and state income taxes, the relative levels of interest rates, and local and national economic activity.

Through the Bank, the Company focuses on wealth management, the commercial banking business and private banking for clients, including residential lending and relationship banking. Relationship banking focuses on providing exceptional service to clients and in deepening relationships. Within the commercial loan portfolio, the Company has traditionally been a CRE lender. However, in recent years the Company has diversified commercial operations within the areas of commercial and industrial lending to include Renewable Energy, which specializes in working with experienced developers and operators, and Innovation Banking, which specializes in working with primarily New England-based entrepreneurs. Through its renewable energy lending efforts, the Company provides financing for developers and operators of commercial and utility scale renewable energy projects. Financing is provided for the construction and permanent financing of new projects, the acquisition of completed projects, or the refinancing of existing operating projects. Target clients include experienced developers/operators who have built or managed other renewable energy facilities. The Innovation Banking Group has a narrow client focus for lending and provides a local banking option for life science, technology and entrepreneurial companies within our market area.

Cambridge Trust Company

The Bank offers a full range of commercial and consumer banking services through its network of 19 banking offices in Eastern Massachusetts and New Hampshire. 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, CRE, commercial, and consumer loans. The Bank also invests its deposits and borrowed funds in investment securities and has two wholly owned Massachusetts security corporations, CTC Security Corporation and CTC Security Corporation III, for this purpose. Deposits at the Bank are insured by the Federal Deposit Insurance Corporation (the "FDIC") for the maximum amount permitted by FDIC regulations.

Investment management and trust services are offered through our two wealth management offices located in Massachusetts and three wealth management offices located in New Hampshire. The Bank also utilizes its subsidiary and non-depository trust company, Cambridge Trust Company of New Hampshire, Inc., to provide specialized wealth management services in New Hampshire. The assets held for wealth management customers are not assets of the Bank and, accordingly, are not reflected in the Company's consolidated balance sheets.

The Bank is active in the communities we serve. The Bank makes contributions to various non-profits and local organizations, investments in community development lending, and investments in low-income housing all, of which strive to improve the communities that our employees and customers call home.

Merger with Wellesley Bancorp, Inc. ("Wellesley")

On June 1, 2020, the Company completed its merger with Wellesley, adding 6 banking offices in Massachusetts. Under the terms of the Agreement and Plan of Merger with Wellesley, each outstanding share of Wellesley common stock was converted into 0.580 shares of the Company's common stock. As a result of the merger, former Wellesley shareholders received an aggregate of 1,502,814 shares of the Company's common stock. The total consideration paid amounted to $88.8 million, based on the closing price of $58.00 of the Company's common stock, the value of Wellesley's exercisable options, and cash paid for fractional shares on May 31, 2020.

The Company accounted for the Wellesley merger using the acquisition method pursuant to the Business Combinations Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Accordingly, the Company recorded merger expenses of approximately $6.4 million for the year ended December 31, 2020. The Company recorded total assets of $985.6 million, assumed total liabilities of $917.6 million, and recorded $20.7 million in goodwill. Additionally, the Company recorded $8.6 million in provision for credit losses to reflect the impact of merger related allowance for credit losses commensurate with ASC 326, commonly referred to as current expected credit losses "CECL" on June 1, 2020. See NOTE 4 – MERGERS.

Merger with Optima Bank & Trust Company ("Optima")

The Company completed its merger with Optima on April 17, 2019. Under the terms of the Agreement and Plan of Merger with Optima, each outstanding share of Optima common stock was converted into $32.00 in cash or 0.3468 shares of the Company's common stock, with the transaction structured as 95 percent common stock and 5 percent cash. As a result of the merger, former Optima shareholders received an aggregate of approximately 722,746 shares of the Company's common stock and an aggregate of approximately $3.5 million in cash. The total consideration paid amounted to $64.3 million. See NOTE 4 – MERGERS.

Market Area

The Company operates in Eastern Massachusetts and Southern New Hampshire. Our primary lending market includes Middlesex and Norfolk counties in Massachusetts and Rockingham and Hillsborough counties in New Hampshire. We benefit from the presence of numerous institutions of higher learning, medical care and research centers, a vibrant innovation economy in life sciences and technology, and the corporate headquarters of several significant financial service companies within the Boston area. Eastern Massachusetts also has many high-technology companies employing personnel with specialized skills. These factors affect the demand for wealth management services, residential homes, multi-family apartments, office buildings, shopping centers, industrial warehouses, and other commercial properties.

Our lending area is primarily an urban market area with a substantial number of one-to-four-unit residential properties, some of which are non-owner occupied, as well as apartment buildings, condominiums, office buildings, and retail space. As a result, our loan portfolio contains a significantly greater number of multi-family and CRE loans compared to institutions that operate in non-urban markets.

Our market area is located largely in the Boston-Cambridge-Quincy, Massachusetts/New Hampshire Metropolitan Statistical Area ("MSA"). The United States Census Bureau estimates that as of April 2020, the Boston metropolitan area is the 10th largest metropolitan area in the United States. Located adjacent to major transportation corridors, the Boston metropolitan area provides a highly diversified economic base, with major employment sectors ranging from services, education, manufacturing, and wholesale/retail trade, to finance, technology, and medical care. According to the United States Department of Labor, in December 2021, the Boston-Cambridge-Nashua, Massachusetts/New Hampshire MSA had an unemployment rate of 3.1% compared to the national unemployment rate of 3.9%.

Competition

The financial services industry is highly competitive. The Company experiences substantial competition with other commercial banks, savings and loan associations, securities and brokerage companies, mortgage companies, insurance companies, finance companies, money market funds, credit unions, and other non-bank financial service providers in attracting deposits, making loans, and attracting wealth management customers. The competing major commercial banks have greater resources that may provide them a competitive advantage by enabling them to maintain numerous branch offices, invest in technology, and mount extensive advertising campaigns. The increasingly competitive environment is the result of changes in regulation, changes in technology and product delivery systems, additional financial service providers, and the accelerating pace of consolidation among financial services providers.

The financial services industry has become even more competitive as a result of legislative, regulatory, and technological changes and continued consolidation. Banks, securities firms, and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting), and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems.

Some of the Company's non-banking competitors have fewer regulatory constraints and may have lower cost structures. In addition, some of the Company's competitors have assets, capital, and lending limits greater than that of the Company, greater access to capital markets, and offer a broader range of products and services than the Company. These institutions may have the ability to finance wide-ranging advertising campaigns and may also be able to offer lower rates on loans and higher rates on deposits than the Company can offer. Some of these institutions offer services, such as international banking, which the Company does not directly offer.

Various in-state market competitors and out-of-state banks continue to enter or have announced plans to enter or expand their presence in the market areas in which the Company currently operates. With the addition of new banking presences within our market, the Company expects increased competition for loans, deposits, and other financial products and services.

The Bank is a private bank, stressing the holistic client relationship, and relies upon local promotional activities, personal relationships established by officers, directors, and employees with their clients, and specialized services tailored to meet the needs of the communities served. While the Bank's position varies by market, management believes that it can compete effectively as a result of local market knowledge, local decision making, and awareness of client needs.

Supervision and Regulation

General

Banking is a complex, highly regulated industry. Consequently, the performance of the Company and the Bank can be affected not only by management decisions and general and local economic conditions, but also by the statutes enacted by the U.S. Congress and state legislatures, and the regulations and policies of, various governmental regulatory authorities. These authorities include, but are not limited to, the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Massachusetts Division of Banks (the "MA DOB"), the State of New Hampshire Banking Department, and the FDIC.

The primary goals of bank regulation are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. In furtherance of these goals, the U.S. Congress and the Commonwealth of Massachusetts have created largely autonomous regulatory agencies that oversee and have enacted numerous laws that govern banks, bank holding companies, and the banking industry. The system of supervision and regulation applicable to the Company and the Bank establishes a comprehensive framework for the entities' respective operations and is intended primarily for the protection of the Bank's depositors and the public, rather than the shareholders and creditors. The following summarizes the significant laws, rules, and regulations governing banks and bank holding companies, including the Company and the Bank, but does not purport to be a complete summary of all applicable laws, rules, and regulations governing bank holding companies and banks or the Company or the Bank. The descriptions are qualified in their entirety by reference to the specific statutes, regulations, and policies discussed. Any change in applicable laws, regulations, or regulatory policies may have a material effect on our businesses, operations, and prospects. The Company is unable to predict the nature or extent of the effects that economic controls or new federal or state legislation may have on our business and earnings in the future.

In addition to the summary below, as a result of the COVID-19 pandemic, the U.S. bank regulators issued several letters and other guidance to bank holding companies and banks regarding expectations for supporting the community and certain related temporary regulatory changes or accommodations, including, for example, temporary relief for banks that may exceed certain regulatory asset thresholds due in large part to their participation in government programs established in response to the COVID-19 pandemic. The Company continues to monitor guidance and developments related to COVID-19.

Regulatory Agencies

The Company is a legal entity separate and distinct from its first-tier bank subsidiary, the Bank, and its second-tier subsidiaries, Cambridge Trust Company of New Hampshire, Inc., a New Hampshire state-chartered non-depository trust company, and CTC Security Corporation and CTC Security Corporation III, which are used to invest the Bank's deposits and borrowed funds in investment securities. As a bank holding company, the Company is regulated under the Bank Holding Company Act of 1956, as amended ("BHC Act"), Massachusetts laws applying to bank holding companies and Massachusetts corporations more generally. The Company is subject to inspection, examination, and supervision by the Federal Reserve and the MA DOB.

As a Massachusetts state-chartered insured depository institution, the Bank is subject to supervision, periodic examination, and regulation by the MA DOB as its chartering authority, and by the FDIC as its primary federal regulator. The prior approval of the MA DOB and the FDIC is required, among other things, for the Bank to establish or relocate any additional branch offices, assume deposits, or engage in any merger, consolidation, purchase, or sale of all or substantially all of the assets of any insured depository institution.

Cambridge Trust Company of New Hampshire, Inc. is subject to supervision, periodic examination, and regulation by The State of New Hampshire Banking Department.

Bank Holding Company Regulations Applicable to the Company

The BHC Act and other federal laws and regulations subject bank holding companies to particular restrictions on the types of activities in which they may engage and to a range of supervisory requirements and activities, including regulatory enforcement actions for violations of laws and regulations. As a Massachusetts corporation and bank holding company, the Company is also subject to certain limitations and restrictions under applicable Massachusetts law.

Mergers & Acquisitions

The BHC Act, the Bank Merger Act, the laws of the Commonwealth of Massachusetts applicable to financial institutions, and other federal and state statutes regulate acquisitions of banks and their holding companies. The BHC Act generally limits acquisitions by bank holding companies to banks and companies engaged in activities that the Federal Reserve has determined to be so closely related to banking as to be a proper incident thereto. The BHC Act requires every bank holding company to obtain the prior approval of the Federal Reserve before (i) acquiring more than 5% of the voting stock of any bank or other bank holding company, (ii) acquiring all or substantially all the assets of any bank or bank holding company, or (iii) merging or consolidating with any other bank holding company.

In reviewing applications seeking approval of merger and acquisition transactions, the bank regulatory authorities generally consider, among other things, the competitive effect and public benefits of the transactions, the financial and managerial resources and future prospects of the combined organization (including the capital position of the combined organization), the applicant's performance record under the Community Reinvestment Act (see —*Community Reinvestment Act*), fair housing laws, and the effectiveness of the subject organizations in combating money laundering activities.

Non-bank Activities

Generally, bank holding companies are prohibited, under the BHC Act, from engaging in, or acquiring direct or indirect control of more than 5% of the voting shares of any company engaged in, any activity other than (i) banking or managing or controlling banks or (ii) an activity that the Federal Reserve determines to be so closely related to banking as to be a proper incident to the business of banking. The

Federal Reserve has the authority to require a bank holding company to terminate an activity or terminate control of, or liquidate or divest, certain subsidiaries or affiliates when the Federal Reserve believes the activity, or the control of the subsidiary or affiliate constitutes a significant risk to the financial safety, soundness, or stability of any of its bank subsidiaries.

A bank holding company that qualifies and elects to become a financial holding company is permitted to engage in additional activities that are financial in nature or incidental or complementary to financial activity. The Company currently has no plans to make a financial holding company election.

Bank holding companies and their non-banking subsidiaries are prohibited from engaging in activities that represent unsafe and unsound banking practices. For example, under certain circumstances the Federal Reserve's Regulation Y requires a holding company to give the Federal Reserve prior notice of any redemption or repurchase of its own equity securities if the consideration to be paid, together with the consideration paid for any other redemptions or repurchases in the preceding year, is equal to 10% or more of the bank holding company's consolidated net worth. The Federal Reserve may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate a regulation. As another example, a bank holding company is prohibited from impairing its subsidiary bank's soundness by causing the bank to make funds available to non-bank subsidiaries or their customers if the Federal Reserve believes it is not prudent to do so. The Federal Reserve has the power to assess civil money penalties for knowing or reckless violations if the activities leading to a violation caused a substantial loss to a depository institution. Potential penalties can reach as high as almost $2.0 million for each day such activity continues.

Source of Strength

In accordance with Federal Reserve policy, the Company is expected to act as a source of financial and managerial strength to the Bank. Section 616 of the Dodd-Frank Act codifies the requirement that bank holding companies serve as a source of financial strength to their subsidiary depository institutions. Under this policy, the holding company is expected to commit resources to support its bank subsidiary, including at times when the holding company may not be in a financial position to provide it. As discussed below, the Company could be required to guarantee the capital plan of the Bank if it becomes undercapitalized for purposes of banking regulations. Any capital loans by a bank holding company to its subsidiary bank are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary bank. The BHC Act provides that, in the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a bank subsidiary will be assumed by the bankruptcy trustee and entitled to priority of payment.

Regulatory agencies have promulgated regulations to increase the capital requirements for bank holding companies to a level that matches those of banking institutions. See — *Capital Adequacy and Prompt Corrective Action and Safety and Soundness*.

Annual Reporting & Examinations

The Company is required to file annual and periodic reports with the Federal Reserve and such additional information as the Federal Reserve may require. The Federal Reserve may examine a bank holding company and any of its subsidiaries and charge the Company for the cost of such an examination.

Imposition of Liability for Undercapitalized Subsidiaries

Pursuant to Section 38 of the Federal Deposit Insurance Act (the "FDIA"), federal banking agencies are required to take "prompt corrective action" ("PCA") should an insured depository institution fail to meet certain capital adequacy standards. In the event an institution becomes "undercapitalized," it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company "having control of" the undercapitalized institution has "guaranteed" the subsidiary's compliance with the capital restoration plan until it has been "adequately capitalized" on average during each of four consecutive calendar quarters. For purposes of this statute, the Company has control of the Bank. Under the FDIA, the aggregate guarantee liability of all companies controlling a particular institution is limited to the lesser of 5% of the depository institution's total assets at the time it became undercapitalized or the amount necessary to bring the institution into compliance with applicable capital standards. The FDIA grants greater powers to the federal banking agencies in situations where an institution becomes "significantly" or "critically" undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve approval of proposed distributions or might be required to consent to a merger or to divest the troubled institution or other affiliates. See — *Capital Adequacy and Prompt Corrective Action and Safety and Soundness.*

Dividends

Dividends from the Bank are the Company's principal source of cash revenues. The Company's earnings and activities are affected by legislation, regulations, and local legislative and administrative bodies and decisions of courts in the jurisdictions in which we conduct business. These include limitations on the ability of the Bank to pay dividends to the Company and our ability to pay dividends to our shareholders. It is the policy of the Federal Reserve that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. This policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its bank subsidiary. Consistent with such policy, a banking organization should have comprehensive policies on dividend payments that clearly articulate the organization's objectives and approaches for maintaining a strong capital position and achieving the objectives of the policy statement. The Company has a comprehensive dividend policy in place.

The FDIC has the authority to use its enforcement powers to prohibit a bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law also prohibits the payment of dividends by a bank that will result in the bank failing to meet its applicable capital requirements on a pro forma basis. Under applicable Massachusetts law, the Bank's Board of Directors may declare from net profits cash dividends annually, semi-annually, or quarterly, but not more frequently, and noncash dividends at any time, although no dividends may be declared, credited, or paid so long as there is any impairment of capital stock. The MA DOB Commissioner's approval is required in order to authorize the payment of a dividend, if the total dividends declared in a calendar year exceed that year's net profits combined with retained net profits for the preceding two years, less any required transfer to surplus or a fund for the retirement of any preferred stock.

Transactions with Affiliates

Transactions between a bank and its affiliates are subject to certain restrictions under Sections 23A and 23B of the Federal Reserve Act (the "FRA") and the Federal Reserve's implementing Regulation W. The Company is considered an "affiliate" of the Bank under these sections. Generally, Sections 23A and 23B: (1) limit the extent to which an insured depository or its subsidiaries may engage in covered transactions (a) with an affiliate (as defined in such sections) to an amount equal to 10% of such institution's capital and surplus and (b) with all affiliates, in the aggregate, to an amount equal to 20% of such capital and surplus; and (2) require all transactions with an affiliate, whether or not covered transactions, to be on terms substantially the same, or at least as favorable to the institution or subsidiary, as the terms provided or that would be provided to a non-affiliate. The term "covered transaction" includes the making of loans to an affiliate, purchase securities issued by an affiliate, purchase of assets from an affiliate, issuance of a guarantee on behalf of an affiliate, and other similar types of transactions.

Capital Adequacy

In July 2013, the Federal Reserve, the Office of the Comptroller of the Currency (the "OCC"), and the FDIC approved final rules (the "Capital Rules") establishing a new comprehensive capital framework for U.S. banking organizations. The Capital Rules generally implement the Basel Committee on Banking Supervision's (the "Basel Committee") December 2010 final capital framework referred to as "Basel III" for strengthening international capital standards. The Capital Rules revise the definitions and the components of regulatory capital, as well as address other issues affecting the numerator in banking institutions' regulatory capital ratios. The Capital Rules also address asset risk weights and other matters affecting the denominator in banking institutions' regulatory capital ratios and replace the existing general risk-weighting approach with a more risk-sensitive approach.

The Capital Rules: (i) include "Common Equity Tier 1" ("CET1") and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the Capital Rules, for most banking organizations, including the Company, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock, and the most common forms of Tier 2 capital are subordinated notes and a portion of the allocation for allowance for credit losses, in each case, subject to the Capital Rules' specific requirements.

Pursuant to the Capital Rules, effective January 1, 2015, the minimum capital ratios are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (called "leverage ratio").

The Capital Rules also include a "capital conservation buffer," composed entirely of CET1, in addition to these minimum risk-weighted asset ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions that do not hold the requisite capital conservation buffer will face constraints on dividends, capital instrument repurchases, interest payments on capital instruments and discretionary bonus payments based on the amount of the shortfall. Thus, the capital standards applicable to the Company include an additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%.

The Capital Rules provide for a number of deductions from and adjustments to CET1. These include, for example, the requirement that mortgage servicing assets, deferred tax assets arising from temporary differences that could not be realized through net operating loss carrybacks, and significant investments in non-consolidated financial entities be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such items, in the aggregate, exceed 15% of CET1. In November 2017, the Federal Reserve finalized a rule pausing the phase-in of these deductions and adjustments for non-advanced approaches institutions. In July 2019, the OCC, the Federal Reserve Board and the FDIC adopted a final rule intended to simply the Capital Rules described above for non-advanced approaches institutions. Institutions were required to implement the provisions of the simplification rule by April 1, 2020. The transition provisions to the Capital Rules issued by these agencies in November 2017 ceased to apply to an institution in the quarter in which it adopted the simplification rule.

In addition, under the current general risk-based capital rules, the effects of accumulated other comprehensive income or loss items included in shareholders' equity (for example, mark-to-market of securities held in the available for sale portfolio) under U.S. generally accepted accounting principles ("GAAP") are reversed for the purposes of determining regulatory capital ratios. Pursuant to the Capital Rules, the effects of certain of the above items are not excluded. However, banking organizations, including the Company, that are not subject to the advanced approaches rule, could make a one-time permanent election to exclude these items. The Company made the one-time permanent election to exclude these items.

The Capital Rules also preclude certain hybrid securities, such as trust preferred securities, from inclusion in bank holding companies' Tier 1 capital, although bank holding companies that had total consolidated assets of less than $15 billion at December 31, 2009 may include trust preferred securities issued prior to May 19, 2010 as a component of Tier 1 capital.

The risk-weighting categories in the Capital Rules are standardized and include a risk-sensitive number of categories, depending on the nature of the assets, generally ranging from 0% for U.S. government and agency securities, to 1,250% for certain credit exposures, and resulting in higher risk weights for a variety of asset classes.

In September 2019, the OCC, the Federal Reserve Board, and the FDIC adopted a final rule that is intended to further simply the Capital Rules for depository institutions and their holding companies that have less than $10 billion in total consolidated assets, such as us, if such institutions meet certain qualifying criteria. This final rule became effective on January 1, 2020. Under this final rule, if the Company met the qualifying criteria, including having a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of a certain size (greater than 8.5 percent through 2021 and 9 percent thereafter), the Company will be eligible to opt into the community bank leverage ratio framework. If the Company opts into this framework, the Company will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the Capital Rules (as modified pursuant to the simplification rule) and will be considered to have met the well-capitalized ratio requirements for PCA purposes. The Bank has not elected to adopt this framework.

The Company and the Bank are in compliance with the currently applicable capital requirements.

Prompt Corrective Action and Safety and Soundness

Pursuant to Section 38 of the FDIA, federal banking agencies are required to take PCA should a depository institution fail to meet certain capital adequacy standards. At each successive lower capital category, an insured depository institution is subject to more restrictions and prohibitions, including restrictions on growth, restrictions on interest rates paid on deposits, restrictions, or prohibitions on payment of dividends, and restrictions on the acceptance of brokered deposits. For example, "well-capitalized" institutions are permitted to accept brokered deposits, but banks that are not well-capitalized are generally restricted or prohibited from accepting such deposits. Furthermore, if an insured depository institution is classified in one of the undercapitalized categories, it is required to submit a capital restoration plan to the appropriate federal banking agency, and the holding company must guarantee the performance of that plan. Based upon its capital levels, a bank that is classified as well-capitalized, adequately capitalized, or undercapitalized may be treated as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition or an unsafe or unsound practice warrants such treatment.

For purposes of PCA, to be: (i) well-capitalized, a bank must have a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 8%, a CET1 risk-based capital ratio of at least 6.5%, and a Tier 1 leverage ratio of at least 5%; (ii) adequately capitalized, a bank must have a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 6%, a CET1 risk-based capital ratio of at least 4.5%, and a Tier 1 leverage ratio of at least 4% (but not otherwise meet all of the criteria to be considered "well-capitalized"); (iii) undercapitalized, a bank would have a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 6%, a CET1 risk-based capital ratio of less than 4.5%, or a Tier 1 leverage ratio of less than 4% (but not otherwise meet all of the criteria to be considered "significantly" or "critically" undercapitalized); (iv) significantly undercapitalized, a bank would have a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 4%, a CET1 risk-based capital ratio of less than 3%, or a Tier 1 leverage ratio of less than 3% (but not otherwise meet the criterion to be considered "critically undercapitalized"); and (v) critically undercapitalized, a bank would have a ratio of tangible equity to total assets that is less than or equal to 2%.

The Bank is currently well-capitalized, under the PCA standards.

Bank holding companies and insured banks also may be subject to potential enforcement actions of varying levels of severity by the federal banking agencies for unsafe or unsound practices in conducting their business, or for violation of any law, rule, regulation, condition imposed in writing by the agency or term of a written agreement with the agency. In more serious cases, enforcement actions may include: issuances of directives to increase capital; issuances of formal and informal agreements; impositions of civil monetary penalties; issuances of a cease and desist order that can be judicially enforced; issuances of removal and prohibition orders against officers, directors, and other institution‒affiliated parties; terminations of the bank's deposit insurance; appointment of a conservator or receiver for the bank; and enforcements of such actions through injunctions or restraining orders based upon a judicial determination that the agency would be harmed if such equitable relief was not granted.

Deposit Insurance

The Bank's deposit accounts are fully insured by the Deposit Insurance Fund (the "DIF") of the FDIC up to the deposit insurance limit of $250,000 per depositor, per insured institution, per ownership category, in accordance with applicable laws and regulations.

The FDIC uses a risk-based assessment system that imposes insurance premiums based upon a risk matrix that accounts for a bank's capital level and supervisory rating ("CAMELS") rating. The risk matrix uses different risk categories distinguished by capital levels and supervisory ratings. The base for deposit insurance assessments is average consolidated total assets less average tangible equity. Assessment rates are calculated using formulas that take into account the risk of the institution being assessed. The FDIC may increase or decrease the assessment rate schedule in order to manage the DIF to prescribed statutory target levels. An increase in the risk category for the Bank or in the assessment rates could have an adverse effect on the Bank's, and consequently the Company's earnings. The FDIC may terminate deposit insurance if it determines the institution involved has engaged in or is engaging in unsafe or unsound banking practices, is in an unsafe or unsound condition, or has violated applicable laws, regulations, or orders. The Bank is not aware of any practice, condition, or violation that might lead to the termination of its deposit insurance.

The FDIA and FDIC regulations generally limit the ability of an insured depository institution to accept, renew or roll over any brokered deposit unless the institution's capital category is "well capitalized" or, with the FDIC's approval, "adequately capitalized." Depository institutions that have brokered deposits in excess of 10% of total assets are subject to increased FDIC deposit insurance premium assessments. However, for institutions that are well capitalized and have a CAMELS composite rating of 1 or 2, reciprocal deposits are deducted from brokered deposits. Section 202 of the Economic Growth, Regulatory Relief, and Consumer Protection Act (the "Economic Growth Act"), which was enacted in 2018, amended the FDIA to exempt a capped amount of reciprocal deposits from treatment as brokered deposits for certain insured depository institutions.

Depositor Preference

The FDIA provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors, including the parent bank holding company, with respect to any extensions of credit they have made to such insured depository institution.

Consumer Financial Protection

The Company and the Bank are subject to a number of federal and state consumer protection laws that govern their relationship with customers. These laws include the Consumer Financial Protection Act of 2010, Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, the Servicemembers Civil Relief Act, and these laws' respective state-law counterparts, as well as state usury laws and laws regarding unfair and deceptive acts and practices. These and other federal laws, among other things, require disclosures of the cost of credit and terms of deposit accounts, provide substantive consumer rights, prohibit discrimination in credit transactions, regulate the use of credit report information, provide financial privacy protections, prohibit unfair, deceptive, and abusive practices, restrict the Bank's ability to raise interest rates, and subject the Bank to substantial regulatory oversight. Violations of applicable consumer protection laws can result in significant potential liability from litigation brought by customers, including actual damages, restitution, and attorneys' fees.

Further, the Consumer Financial Protection Bureau ("CFPB") has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive or abusive" acts and practices. While there are no statutory definitions for those terms, the CFPB has found an act or practice to be "unfair" when: "(i) it causes or is likely to cause substantial injury to consumers; (ii) the injury is not reasonably avoidable by consumers; and (iii) the injury is not outweighed by countervailing benefits to consumers or to competition." "Deceptive acts or practices" occur when "(i) the act or practice misleads or is likely to mislead the consumer; (ii) the consumer's interpretation is reasonable under the circumstances; and (iii) the misleading act or practice is material." Finally, an act or practice is "abusive" when it: "(i) materially interferes with the ability of a consumer to understand a term or condition of a consumer financial product or service; or (ii) takes unreasonable advantage of (a) a consumer's lack of understanding of the material risks, costs, or conditions of the product or service; (b) a consumer's inability to protect his or her interests in selecting or using a consumer financial product or service; or (c) a consumer's reasonable reliance on a covered person to act in his or her interests."

Neither the Dodd-Frank Act, nor the individual consumer financial protection laws, prevent states from adopting stricter consumer protection standards.

Community Reinvestment Act

The Community Reinvestment Act of 1977 (the "CRA") requires depository institutions to assist in meeting the credit needs of their market areas consistent with safe and sound banking practice. Under the CRA, each depository institution is required to help meet the credit needs of its market areas by, among other things, providing credit to low- and moderate-income individuals and communities. These factors are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. The applicable federal banking agencies regularly conduct CRA examinations to assess the performance of financial institutions and assign one of four ratings to the institution's records of meeting the credit needs of its community. The Bank received a "Satisfactory" rating during its last examination in July 2020.

Insider Credit Transactions

Section 22(h) of the FRA and its implementing Regulation O restricts loans to directors, executive officers, and principal shareholders of a bank or its affiliates, and companies and political or campaign committees controlled by such persons ("insiders"). Under Section 22(h), a loan by a bank to any insider may not exceed, together with all other outstanding loans to such person and any company or political or campaign committee controlled by such person, the bank's loan-to-one-borrower limit. Loans to insiders above specified amounts must receive the prior approval of the Company's Board of Directors. Further, under Section 22(h) of the FRA, loans to insiders must be made on terms substantially the same as offered in comparable transactions to other persons, except that such insiders may receive preferential loans made under a benefit or compensation program that is widely available to the bank's (or, if applicable, the bank affiliate's) employees and does not give preference to the insider over the employees. Section 22(g) of the FRA places additional limitations on loans to executive officers. A violation of these restrictions may result in the assessment of substantial civil monetary penalties on the affected bank or any officer, director, employee, agent, or other person participating in the conduct of the affairs of that bank, the imposition of a cease and desist order, and other regulatory sanctions.

Financial Privacy

The Company is subject to federal laws, including the Gramm-Leach-Bliley Act (the "GLBA"), and certain state laws containing consumer privacy protection provisions. These provisions limit the ability of banks and other financial institutions to disclose nonpublic information about consumers to affiliated and non-affiliated third parties and limit the reuse of certain consumer information received from non-affiliated financial institutions. These provisions require notice of privacy policies to customers and, in some circumstances, allow consumers to prevent disclosure of certain nonpublic personal information to affiliates or non-affiliated third parties by means of "opt out" or "opt in" authorizations.

Financial Data Security

The GLBA requires that financial institutions implement comprehensive written information security programs that include administrative, technical, and physical safeguards to protect consumer information. Further, pursuant to interpretive guidance issued under the GLBA and certain state laws, financial institutions are required to notify customers and regulators of security breaches that result in unauthorized access to their nonpublic personal information.

Incentive Compensation

The Dodd-Frank Act requires the federal banking agencies and the Securities and Exchange Commission (the "SEC") to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities, including the Company and the Bank, with at least $1 billion in total consolidated assets that encourage inappropriate risks by providing an executive officer, employee, director or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. The federal banking agencies and the SEC most recently proposed such regulations in 2016, but the regulations have not yet been finalized. If the regulations are adopted in the form initially proposed, they will restrict the manner in which executive compensation is structured.

The Dodd-Frank Act also requires publicly traded companies to give shareholders a non-binding vote on executive compensation and on so-called “golden parachute” payments in connection with approvals of mergers and acquisitions.

Anti-Money Laundering Initiatives and the USA PATRIOT Act

Under Title III of the USA PATRIOT Act, all financial institutions are required to take certain measures to identify their customers, prevent money laundering, monitor customer transactions, and report suspicious activity to U.S. law enforcement agencies. Financial institutions also are required to respond to requests for information from federal banking agencies and law enforcement agencies. Information sharing among financial institutions for the above purposes is encouraged by an exemption granted to complying financial institutions from the privacy provisions of the GLBA and other privacy laws. Financial institutions that hold correspondent accounts for foreign banks or provide private banking services to foreign individuals are required to take measures to avoid dealing with certain foreign individuals or entities, including foreign banks with profiles that raise money laundering concerns, and are prohibited from dealing with foreign “shell banks” and persons from jurisdictions of particular concern. The primary federal banking agencies and the Secretary of the U.S. Department of the Treasury have adopted regulations to implement several of these provisions. All financial institutions also are required to establish internal anti-money laundering programs. The effectiveness of a financial institution in combating money laundering activities is a factor to be considered in any application submitted by the financial institution under the Bank Merger Act. The Company has a Bank Secrecy Act and USA PATRIOT Act compliance program commensurate with its risk profile.

The Fair Credit Reporting Act’s Red Flags Rule requires financial institutions with covered accounts (e.g., consumer bank accounts and loans) to develop, implement, and administer an identity theft prevention program. This program must include reasonable policies and procedures to detect suspicious patterns or practices that indicate the possibility of identity theft, such as inconsistencies in personal information or changes in account activity.

Office of Foreign Assets Control Regulation

The Office of Foreign Assets Control (“OFAC”) of the U.S. Department of the Treasury administers and enforces economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign countries and regimes, terrorists, international narcotics traffickers, those engaged in activities related to the proliferation of weapons of mass destruction, and other threats to the national security, foreign policy, or economy of the United States. OFAC publishes lists of individuals and companies owned or controlled by, or acting for or on behalf of, targeted countries. It also lists individuals, groups, and entities, such as terrorists and narcotics traffickers, designated under programs that are not country specific. These are typically known as the OFAC rules based on their administration by the OFAC. The OFAC-administered sanctions targeting countries take many different forms. Generally, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (property and bank deposits) cannot be paid out, withdrawn, set off, or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

Available Information

The SEC maintains an Internet website at *http://www.sec.gov* that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

Our Internet website is *https://www.cambridgetrust.com*. You can obtain on our website, free of charge, a copy of our Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports, as soon as reasonably practicable after we electronically file such reports or amendments with, or furnish them to, the SEC. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Human Capital

As of December 31, 2021, the Company had 379 full-time and 10 part-time employees. At any given time, less than 1% of our employees are temporary. The Company’s employees are not represented by any collective bargaining unit.

The Company is committed to recruiting, developing and promoting a diverse workforce to meet the current and future demands of our business. In 2019, we instituted a policy which requires that all searches for positions Vice President and above include at least one racially or ethnically diverse candidate and one female candidate. All of our positions are listed on multiple job boards specifically targeted towards women, minorities, veterans, and people with disabilities. In 2017, the Company formed a Diversity, Equity and Inclusion Steering Committee, which today comprises twenty (20) members from across the organization, including three members of executive management. This committee meets no less than quarterly and has established goals to further the Company's Diversity, Equity and Inclusion efforts.

As of December 31, 2021, our overall workforce was 51% female and 24% racially or ethnically diverse. Of those employees with position titles of Vice President and above, 38% were female and 12% were racially or ethnically diverse.

To ensure we provide a rich experience for our employees, we measure organizational culture and engagement by periodically engaging independent third parties to conduct cultural assessments and employee engagement surveys. Our employee driven Engagement Committee and Culture Task Force focus on monitoring and making continuous improvements to our work environment and employee engagement.

The Company encourages employees to contribute their personal best while respecting the balance between work and personal life. To empower employees to reach their potential, we provide training and development programs including traditional classroom training and coaching and experiential learning through Company-wide initiative beyond the scope of their everyday responsibilities. We also provide access to virtual and self-directed online courses in topics ranging from compliance to management skills through our online learning system. To identify and develop our next generation of leaders, we have a robust talent and succession planning process and specialized programs to support the development of our talent pipeline at different levels. The Company believes that its employee relations are good.

Item 1A. Risk Factors.

<u>Risks Related to our Business and Industry</u>

The COVID-19 pandemic is adversely impacting us and our customers, counterparties, employees, and third-party service providers. Further, the COVID-19 pandemic could lead to an economic recession or other severe disruptions in the U.S. economy and may disrupt banking and other financial activity in the areas in which we operate and the adverse impacts on our business, financial position, results of operations and prospects could be significant.

The outbreak of COVID-19 has caused significant economic dislocation in the United States as many state and local governments have ordered non-essential businesses to close and residents to shelter in place at home. This resulted in an unprecedented slow-down in economic activity and a related increase in unemployment in 2020. Following the COVID-19 outbreak, stock markets declined in value and in particular bank stocks significantly declined in value before recovering partially in 2021. In response to the COVID-19 pandemic, the Federal Reserve has reduced the benchmark fed funds rate to a target range of 0% to 0.25%, and the yields on 10-year and 30-year treasury notes declined to historic lows before recovering partially in 2021. Various state governments and federal agencies are requiring lenders to provide forbearance and other relief to borrowers (e.g., waiving late payment and other fees). We have instituted payment deferral programs to aid existing borrowers with payment forbearance. In addition, the federal banking agencies have encouraged financial institutions to prudently work with affected borrowers and recently passed legislation has provided relief from reporting loan classifications due to modifications related to the COVID-19 outbreak. Certain industries have been particularly hard-hit, including the travel and hospitality industry, the restaurant industry, and the retail industry. Finally, the spread of COVID-19 has caused us to modify our business practices, including employee travel, employee work locations, and reduction of physical participation in meetings, events, and conferences. We have many employees working in hybrid office-and-remote working arrangements and may take further actions as may be required by government authorities or that we determine is in the best interests of our employees, customers, and business partners.

Given the ongoing and dynamic nature of the circumstances, it is difficult to predict the full impact of the COVID-19 outbreak on our business. The extent of such impact will depend on future developments, which are highly uncertain, including when COVID-19 can be controlled and abated and when and how the economy may be reopened. As the result of the COVID-19 pandemic and the related adverse local and national economic consequences, we could be subject to any of the following risks, any of which could have a material, adverse effect on our business, financial condition, liquidity, and results of operations:

- demand for products and services may decline, making it difficult to grow assets and income;
- if the economy is unable to substantially recover, and high levels of unemployment exist for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;

- our allowance for credit losses may have to be increased if unemployment forecasts increase or borrowers experience financial difficulties, which will adversely affect our net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- as the result of the decline in the Federal Reserve Board's target federal funds rate to near 0%, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income;
- a material decrease in net income or a net loss over several quarters could result in a decrease in the rate of our quarterly cash dividend;
- our wealth management revenues may decline with market turmoil;
- our cyber security risks are increased as the result of an increase in the number of employees working remotely; and
- we rely on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us.

These factors, among others, together or in combination with other events or occurrences not yet known or anticipated, could adversely affect our operations. In addition, other countries as well as the United States are currently experiencing a resurgence of the COVID-19 virus, including in the form of the Delta and Omicron variants, and the length and severity of such resurgence in part depends on the speed and effectiveness of vaccine and treatment developments and their deployment, including public adoption rates of COVID-19 vaccines and booster shots, and their effectiveness against emerging variants of COVID-19. If the rate of infections rise, these factors will be exacerbated.

Deterioration in local economic conditions may negatively impact our financial performance.

The Company's success depends primarily on the general economic conditions in Eastern Massachusetts and New Hampshire and the specific local markets in which the Company operates. Unlike larger national or other regional banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in Massachusetts and New Hampshire. The local economic conditions in these areas have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans, and the stability of the Company's deposit funding sources.

A downturn in our local economy may limit funds available for deposit and may negatively affect our borrowers' ability to repay their loans on a timely basis, both of which could have an impact on our profitability.

Variations in interest rates may negatively affect our financial performance.

The Company's earnings and financial condition are largely dependent upon net interest income, which is the difference between interest earned from loans and investments and interest paid on deposits and borrowings. The narrowing of interest rate spreads could adversely affect the Company's earnings and financial condition. The Company cannot predict with certainty, or control, changes in interest rates. Regional and local economic conditions and the policies of regulatory authorities, including monetary policies of the Federal Reserve, affect interest income and interest expense. High interest rates could also affect the amount of loans that the Company can originate because higher rates could cause customers to apply for fewer mortgages or cause depositors to shift funds from accounts that have a comparatively lower cost to accounts with a higher cost. The Company may also experience customer attrition due to competitor pricing. If the cost of interest-bearing deposits increases at a rate greater than the yields on interest-earning assets increase, then net interest income will be negatively affected. Changes in the asset and liability mix may also affect net interest income. Similarly, lower interest rates cause higher yielding assets to prepay and floating or adjustable-rate assets to reset to lower rates. If the Company is not able to reduce its funding costs sufficiently, due to either competitive factors or the maturity schedule of existing liabilities, then the Company's net interest margin will decline.

Although management believes it has implemented effective asset and liability management strategies to mitigate the potential adverse effects of changes in interest rates on the Company's results of operations, any substantial or unexpected change in, or prolonged change in market interest rates could have a material adverse effect on the Company's financial condition and results of operations.

Changes in the economy or the financial markets could materially affect our financial performance.

Downturns in the United States or global economies or financial markets could adversely affect the demand for and income received from the Company's fee-based services. Revenues from the Wealth Management Group depend in large part on the level of assets under management and administration. Market volatility that leads customers to liquidate investments, as well as lower asset values, can reduce our level of assets under management and administration and thereby decrease our investment management and administration revenues.

Our loan portfolio includes loans with a higher risk of loss.

The Bank originates C&I loans, CRE loans, consumer loans, and residential mortgage loans primarily within our market area. Our lending strategy focuses on residential real estate lending, as well as servicing commercial customers, including increased emphasis on C&I lending, and commercial deposit relationships. C&I, CRE loans, and consumer loans may expose a lender to greater credit risk than loans secured by residential real estate because the collateral securing these loans may not be sold as easily as residential real estate. In addition, CRE and C&I loans may also involve relatively large loan balances to individual borrowers or groups of borrowers. These loans also have greater credit risk than residential real estate for the following reasons:

- *CRE Loans*. Repayment is dependent on income being generated in amounts sufficient to cover operating expenses and debt service.
- *C&I Loans*. Repayment is generally dependent upon the successful operation of the borrower's business.
- *Consumer Loans*. Consumer loans are collateralized, if at all, with assets that may fluctuate in value based on market conditions or changes in interest rates.

Any downturn in the real estate market or local economy could adversely affect the value of the properties securing the loans or revenues from the borrowers' businesses thereby increasing the risk of non-performing loans.

We may experience losses and expenses if security interests granted for loans are not enforceable.

When the Company makes loans it sometimes obtains liens, such as real estate mortgages or other asset pledges, to provide the Company with a security interest in collateral. If there is a loan default, the Company may seek to foreclose upon collateral and enforce the security interests to obtain repayment and eliminate or mitigate the Company's loss. Drafting errors, recording errors, other defects or imperfections in the security interests granted to the Company and/or changes in law may render liens granted to the Company unenforceable. The Company may incur losses or expenses if security interests granted to the Company are not enforceable.

If our allowance for credit losses is not sufficient to cover actual loan losses, then our earnings will decrease.

The Bank's loan customers may not repay their loans according to their terms and the collateral securing the payment of these loans may be insufficient to pay any remaining loan balance. The Bank therefore may experience significant credit losses, which could have a material adverse effect on our operating results. Material additions to our allowance for credit losses would materially decrease our net income, and the charge-off of loans may cause us to increase the allowance. The Bank makes various assumptions and judgments about the collectability of the loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We rely on our loan quality reviews, our experience, and our evaluation of economic conditions, among other factors, in determining the amount of the allowance for credit losses. If our assumptions prove to be incorrect, our allowance for credit losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance.

Strong competition within our industry and market area could hurt our performance and slow our growth.

The Company operates in a competitive market for both attracting deposits, which is our primary source of funds, and originating loans. Historically, our most direct competition for deposits has come from savings and commercial banks. Our competition for loans comes principally from commercial banks, savings institutions, mortgage banking firms, credit unions, finance companies, mutual funds, insurance companies, and investment banking firms. We also face additional competition from internet-based institutions and brokerage firms. Competition for loan originations and deposits may limit our future growth and earnings prospects.

The Company's ability to compete successfully depends on a number of factors, including, among other things:

- the ability to develop, maintain, and build upon long-term customer relationships based on service quality, high ethical standards and reputation;
- the ability to expand the Company's market position;
- the scope, relevance, and pricing of products and services offered to meet customer needs and demands;
- the rate at which the Company introduces new products, services, and technologies relative to its competitors;
- customer satisfaction with the Company's level of service;
- industry and general economic trends; and
- the ability to attract and retain talented employees.

Failure to perform in any of these areas could significantly weaken the Company's competitive position, which could adversely affect the Company's growth and profitability, which, in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Company's earnings may not grow if we are unable to successfully attract core deposits and lending opportunities and execute opportunities to generate fee-based income.

The Company has experienced growth, and our future business strategy is to continue to expand. Historically, the growth of our loans and deposits has been the principal factor in our increase in net-interest income. In the event that we are unable to execute our business strategy of continued growth in loans and deposits, our earnings could be adversely impacted. The Company's ability to continue to grow depends, in part, upon our ability to expand our market share, to successfully attract core deposits and identify loan and investment opportunities, as well as opportunities to generate fee-based income. Our ability to manage growth successfully will also depend on whether we can continue to efficiently fund asset growth and maintain asset quality and cost controls, as well as on factors beyond our control, such as economic conditions and interest-rate trends.

There are substantial risks and uncertainties associated with the introduction or expansion of lines of business or new products and services within existing lines of business.

From time to time, the Company may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Company may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove attainable. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Company's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Company's business, results of operations, and financial condition.

The Company is subject to liquidity risk, which could adversely affect net interest income and earnings.

The purpose of the Company's liquidity management practices is to meet the cash flow obligations of its customers for both deposits and loans. One liquidity measurement the Company utilizes is called basic surplus, which captures the adequacy of the Company's access to reliable sources of cash relative to the stability of its funding mix of average liabilities. This approach recognizes the importance of balancing levels of cash flow liquidity from short- and long-term securities with the availability of dependable borrowing sources which can be accessed when necessary. However, competitive pressure on deposit pricing could result in a decrease in the Company's deposit base or an increase in funding costs. In addition, liquidity will come under additional pressure if loan growth exceeds deposit growth. To manage this risk, the Company has the ability to borrow from the Federal Home Loan Bank of Boston ("FHLB of Boston"), purchase brokered certificates of deposit, borrow against established borrowing facilities with other banks (Federal funds), and enter into repurchase agreements with investment companies. Depending on the level of interest rates, the Company's net interest income, and therefore earnings, could be adversely affected.

Our ability to service our debt, pay dividends, and otherwise pay our obligations as they come due is substantially dependent on capital distributions from our subsidiary.

The Company is a separate and distinct legal entity from its subsidiary, the Bank. It receives substantially all of its revenue from dividends from the Bank. These dividends are the principal source of funds to pay dividends on the Company's common stock. Various federal and/or state laws and regulations limit the amount of dividends that the Bank may pay to the Company. Also, the Company's right to participate in a distribution of assets upon a subsidiary's liquidation or reorganization is subject to the prior claims of the subsidiary's depositors and certain other creditors. In the event the Bank is unable to pay dividends to the Company, the Company may not be able to service debt, pay obligations, or pay dividends on the Company's common stock. The inability to receive dividends from the Bank could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company depends on its executive officers and key personnel to continue the implementation of our long-term business strategy and could be harmed by the loss of their services.

The Company believes that its continued growth and future success will depend in large part upon the skills of our management team. The competition for qualified personnel in the financial services industry is intense, and the loss of our key personnel, or an inability to continue to attract or retain and motivate key personnel could adversely affect our business. We cannot provide any assurance that we will be able to retain our existing key personnel, attract additional qualified personnel, or effectively manage the succession of key personnel. Although we have change of control agreements with our actively employed named executive officers, the loss of the services of one or more of our executive officers or key personnel could impair our ability to continue to develop our business strategy.

The Company relies on third parties to provide key components of its business infrastructure.

The Company relies on third parties to provide key components for its business operations, such as data processing and storage, recording and monitoring transactions, online banking interfaces and services, internet connections, and network access. While the Company selects these third-party vendors carefully, it does not control their actions. Any problems caused by these third parties, including those resulting from breakdowns or other disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason, or poor performance of services by a vendor, could adversely affect the Company's ability to deliver products and services to its customers and otherwise conduct its business. Financial or operational difficulties of a third-party vendor could also hurt the Company's operations if those difficulties interfere with the vendor's ability to serve the Company. Replacing these third-party vendors could create significant delays and expense that adversely affect the Company's business and performance.

The possibility of the economy's return to recessionary conditions and the possibility of further turmoil or volatility in the financial markets would likely have an adverse effect on our business, financial position, and results of operations.

The economy in the United States and globally has experienced volatility in recent years and may continue to experience such volatility for the foreseeable future. There can be no assurance that economic conditions will not worsen. Unfavorable or uncertain economic conditions can be caused by declines in economic growth, business activity, or investor or business confidence, limitations on the availability or increases in the cost of credit and capital, increases in inflation or interest rates, the timing and impact of changing governmental policies, natural disasters, climate change, epidemics / pandemics, such as COVID-19, terrorist attacks, acts of war, or a combination of these or other factors. A worsening of business and economic conditions could have adverse effects on our business, including the following:

- investors may have less confidence in the equity markets in general and in financial services industry stocks in particular, which could place downward pressure on the Company's stock price and resulting market valuation;
- economic and market developments may further affect consumer and business confidence levels and may cause declines in credit usage and adverse changes in payment patterns, causing increases in delinquencies and default rates;
- the Company's ability to assess the creditworthiness of its customers may be impaired if the models and approaches the Company uses to select, manage, and underwrite its customers become less predictive of future behaviors;
- the Company could suffer decreases in demand for loans or other financial products and services or decreased deposits or other investments in accounts with the Company;
- customers of the Company's Wealth Management Group may liquidate investments, which together with lower asset values, may reduce the level of assets under management and administration, and thereby decrease the Company's investment management and administration revenues;
- competition in the financial services industry could intensify as a result of the increasing consolidation of financial services companies in connection with current market conditions or otherwise; and
- the value of loans and other assets or collateral securing loans may decrease.

The Company may be adversely affected by the soundness of other financial institutions, including the FHLB of Boston.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services companies are interrelated as a result of trading, clearing, counterparty, or other relationships. The Company has exposure to different industries and counterparties, and we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds, and other institutional clients. As a result, defaults by, or even rumors or questions about, one or more financial services companies, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated if the collateral held by us cannot be realized or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure due us. There is no assurance that any such losses would not materially and adversely affect our business, financial condition, or results of operations.

The Company owns common stock of the FHLB of Boston in order to qualify for membership in the FHLB system, which enables it to borrow funds under the FHLB of Boston's advance program. The carrying value and fair market value of our FHLB of Boston common stock was $4.8 million as of December 31, 2021. There are 11 branches of the FHLB, including Boston, which are jointly liable for the consolidated obligations of the FHLB system. To the extent that one FHLB branch cannot meet its obligations to pay its share of the system's debt, other FHLB branches can be called upon to make the payment. Any adverse effects within the FHLB of Boston could adversely affect the value of our investment in its common stock and our ability to rely on the FHLB as a funding source and this could negatively impact our results of operations.

Risks Related to an Investment in the Company's Securities

The Company's common stock price may fluctuate significantly.

The market price of the Company's common stock may fluctuate significantly in response to a number of factors including, but not limited to:

- the political climate and whether the proposed policies of the current presidential administration in the U.S. that have affected market prices for financial institution stocks are successfully implemented;
- changes in securities analysts' recommendations or expectations of financial performance;
- volatility of stock market prices and volumes;
- incorrect information or speculation;
- changes in industry valuations;
- announcements regarding proposed acquisitions;
- variations in operating results from general expectations;
- actions taken against the Company by various regulatory agencies;
- changes in authoritative accounting guidance;
- changes in general domestic economic conditions such as inflation rates, tax rates, unemployment rates, labor and healthcare cost trend rates, recessions, and changing government policies, laws, and regulations; and
- severe weather, natural disasters, climate change, epidemics / pandemics such as COVID-19, acts of war or terrorism, and other external events.

Future issuance of our common stock may have a dilutive effect and may reduce the voting power and relative percentage interests of current common stockholders in our earnings and market value, and there may be future sales or other dilution of the Company's equity, which may adversely affect the market price of the Company's stock.

Future issuances of shares of our common stock, including for acquisitions, may have a dilutive effect and may reduce the voting power and relative percentage interests of current common stockholders in our earnings and market value. Additionally, the Company is not restricted from issuing additional common stock, including any securities that are convertible into or exchangeable for, or that represent the right to receive, common stock. The Company also grants shares of common stock to employees and directors under the Company's incentive plan each year. The issuance of any additional shares of the Company's common stock or securities convertible into, exchangeable for or that represent the right to receive common stock, or the exercise of such securities could be substantially dilutive to shareholders of the Company's common stock. Holders of the Company's common stock have no preemptive rights that entitle such holders to purchase their pro rata share of any offering of shares or any class or series. Because the Company's decision to issue securities in any future offering will depend on market conditions, its acquisition activity and other factors, the Company cannot predict or estimate the amount, timing, or nature of its future offerings. Thus, the Company's shareholders bear the risk of the Company's future offerings reducing the market price of the Company's common stock and diluting their stock holdings in the Company.

Risks Related to Legal, Governmental and Regulatory Changes

The Company is subject to extensive government regulation and supervision, which may interfere with its ability to conduct its business and may negatively impact its financial results.

The Company, primarily through the Bank, Cambridge Trust Company of New Hampshire, Inc., and certain non-bank subsidiaries, are subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, the DIF and the safety and soundness of the banking system as a whole, not shareholders. These laws and regulations affect the Company's lending practices, capital structure, investment practices, dividend policy, and growth, among other things. Congress and federal and state banking agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer, and/or limit the pricing the Company may charge on certain banking services, among other things. Compliance personnel and resources may increase our costs of operations and adversely impact our earnings.

Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on our business, financial condition, and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

State and federal banking agencies periodically conduct examinations of our business, including for compliance with laws and regulations, and our failure to comply with any supervisory actions to which we are or become subject as a result of such examinations may adversely affect our business.

Federal and state regulatory agencies periodically conduct examinations of our business, including our compliance with laws and regulations. If, as a result of an examination, an agency were to determine that the financial, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of any of our operations had become unsatisfactory or violates any law or regulation, such agency may take certain remedial or enforcement actions it deems appropriate to correct any deficiency. Remedial or enforcement actions include the power to enjoin "unsafe or unsound" practices, to require affirmative actions to correct any conditions resulting from any violation or practice, to issue an administrative order that can be judicially enforced against a bank, to direct an increase in the bank's capital, to restrict the bank's growth, to assess civil monetary penalties against a bank's officers or directors, and to remove officers and directors. In the event that the FDIC concludes that, among other things, our financial condition cannot be corrected or that there is an imminent risk of loss to our depositors, it may terminate our deposit insurance. The CFPB also has authority to take enforcement actions, including cease-and desist orders or civil monetary penalties, if it finds that we offer consumer financial products and services in violation of federal consumer financial protection laws.

If we are unable to comply with future regulatory directives, or with the terms of any future supervisory requirements to which we may become subject, then we could become subject to a variety of supervisory actions and orders, including cease and desist orders, PCA, memoranda of understanding, and other regulatory enforcement actions. Such supervisory actions could, among other things, impose greater restrictions on our business, as well as our ability to develop any new business. The Company could also be required to raise additional capital or dispose of certain assets and liabilities within a prescribed time period, or both. Failure to implement remedial measures as required by financial regulatory agencies could result in additional orders or penalties from federal and state regulators, which could trigger one or more of the remedial actions described above. The terms of any supervisory action and associated consequences with any failure to comply with any supervisory action could have a material negative effect on our business, operating flexibility, and overall financial condition.

The Company may be subject to more stringent capital requirements.

The Bank and the Company are each subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which each of the Bank and the Company must maintain. From time to time, the regulators implement changes to these regulatory capital adequacy guidelines. If we fail to meet these minimum capital guidelines and other regulatory requirements, then our financial condition would be materially and adversely affected. Any changes to regulatory capital requirements could adversely affect our ability to pay dividends or could require us to reduce business levels or to raise capital, including in ways that may adversely affect our financial condition or results of operations.

Replacement of the LIBOR benchmark interest rate could adversely affect our business, financial condition, and results of operations.

In 2017, the United Kingdom's Financial Conduct Authority ("FCA"), which regulates the London Interbank Offered Rate ("LIBOR"), announced that the FCA intends to stop persuading or compelling banks to submit the rates required to calculate LIBOR after 2021. This announcement indicated that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. The U.S. bank regulators issued a *Statement on LIBOR Transition* on November 30, 2020 encouraging banks to transition away from U.S. Dollar (USD) LIBOR as soon as practicable and in any event by December 31, 2021 for new contracts. LIBOR is currently anticipated to be fully phased out by June 30, 2023. At this time, it is not possible to predict whether and to what extent banks will continue to provide submissions for the calculation of LIBOR. Similarly, it is not possible to predict whether LIBOR will continue to be viewed as an acceptable market benchmark, what rate or rates may become accepted alternatives to LIBOR or what the effect of any such changes in views or alternatives may be on the markets for LIBOR-indexed financial instruments. The Alternative Reference Rates Committee ("ARRC") formed by the FRB has proposed a paced market transition plan to Secured Overnight Financing Rate (SOFR) from LIBOR and organizations are continuing to work on industry wide and company-specific transition plans as it relates to derivatives and cash markets exposed to LIBOR. The Company is monitoring this activity and evaluating the related risks. This includes identifying outstanding LIBOR-based loans without ARRC recommended fallback language, internal training and education, and working with our core provider to ensure proper integration once an alternative reference is implemented. Management is monitoring ARRC publications for best practices as the Company transitions legacy LIBOR loans by the June 30, 2023 deadline.

We have financial instruments with attributes that are either directly or indirectly dependent on LIBOR. The transition from LIBOR, or any changes or reforms to the determination or supervision of LIBOR, could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us, could create considerable costs and additional risk and could have an adverse impact on or overall financial condition or results of operations. Since proposed alternative rates are calculated differently, payments under contracts referencing new rates will differ from those referencing LIBOR. In 2021, we adopted Accounting Standards Update ("ASU") 2020-04 - *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). See NOTE 3 – RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS for additional details. The transition from LIBOR will change our market risk profiles, requiring changes to risk and pricing models, valuation tools, product design and hedging strategies. Furthermore, failure to adequately manage this transition process with our customers could adversely impact our reputation. Although we are currently unable to assess what the ultimate impact of the transition from LIBOR will be, failure to adequately manage the transition could have a material adverse effect on our business, financial condition, and results of operations.

Accounting standards periodically change and the application of our accounting policies and methods may require management to make estimates about matters that are uncertain.

The regulatory bodies that establish accounting standards, including, among others, the FASB, and the SEC, periodically revise or issue new financial accounting and reporting standards that govern the preparation of our consolidated financial statements. The effect of such revised or new standards on our financial statements can be difficult to predict and can materially impact how we record and report our financial condition and results of operations.

In addition, management must exercise judgment in appropriately applying many of our accounting policies and methods so they comply with generally accepted accounting principles. In some cases, management may have to select a particular accounting policy or method from two or more alternatives. In some cases, the accounting policy or method chosen might be reasonable under the circumstances and yet might result in our reporting materially different amounts than would have been reported if we had selected a different policy or method. Accounting policies are critical to fairly presenting our financial condition and results of operations and may require management to make difficult, subjective, or complex judgments about matters that are uncertain.

Our controls and procedures may fail or be circumvented, which may result in a material adverse effect on our business.

Management regularly reviews and updates our internal controls, disclosure controls and procedures, and corporate governance policies. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the controls and procedures or failure to comply with regulations related to could have a material adverse effect on our business, results of operations and financial condition.

Legal proceedings to which we are subject or may become subject may have a material adverse impact on our financial position and results of operations.

Like many banks and other financial services organizations in our industry, we are from time to time involved in various legal proceedings and subject to claims and other actions related to our business activities brought by customers, employees, and others. All such legal proceedings are inherently unpredictable and, regardless of the merits of the claims, litigation is often expensive, time-consuming, disruptive to our operations and resources, and distracting to management. If resolved against us, such legal proceedings could result in excessive verdicts and judgments, injunctive relief, equitable relief, and other adverse consequences that may affect our financial condition and how we operate our business. Similarly, if we settle such legal proceedings, it may affect our financial condition and how we operate our business. Future court decisions, alternative dispute resolution awards, matters arising due to business expansion, or legislative activity may increase our exposure to litigation and regulatory investigations. In some cases, substantial non-economic remedies or punitive damages may be sought. Although we maintain liability insurance coverage, there can be no assurance that such coverage will cover any particular verdict, judgment, or settlement that may be entered against us, that such coverage will prove to be adequate, or that such coverage will continue to remain available on acceptable terms, if at all. Legal proceedings to which we are subject or may become subject may have a material adverse impact on our financial position and results of operations.

The Company is exposed to risk of environmental liabilities with respect to properties to which we obtain title.

A significant portion of our loan portfolio is secured by real estate. In the course of our business, we may foreclose and take title to real estate and could be subject to environmental liabilities with respect to these properties. The Company may be held liable to a government entity or to third parties for property damage, personal injury, investigation, and clean-up costs incurred by these parties in connection with environmental contamination or may be required to clean up hazardous or toxic substances or chemical releases at a property. The costs associated with investigation and remediation activities could be substantial. In addition, if we are the owner or former owner of a contaminated site, we may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect our business, results of operations, and prospects.

Risks Related to Cybersecurity and Data Privacy

A breach of information security, including cyber-attacks, could disrupt our business and impact our earnings.

The Company depends upon data processing, communication, and information exchange on a variety of computing platforms and networks and over the internet. In addition, we rely on the services of a variety of vendors to meet our data processing and communication needs. Despite existing safeguards, we cannot be certain that all of our systems are free from vulnerability to attack or other technological difficulties or failures. During the normal course of our business, we have experienced and we expect to continue to experience attempts to breach our systems, none of which has been material to the Company to date, and we may be unable to protect sensitive data and the integrity of our systems. If information security is breached or difficulties or failures occur, despite the controls we and our third-party vendors have instituted, information can be lost or misappropriated, resulting in financial loss or costs to us, reputational harm, or damages to others. Such costs or losses could exceed the amount of insurance coverage, if any, which would adversely affect our earnings.

The Company may be adversely affected by fraud.

The Company is inherently exposed to operational risk in the form of theft and other fraudulent activity by employees, customers, and other third parties targeting the Company and/or the Company's customers or data. Such activity may take many forms, including check fraud, electronic fraud, wire fraud, phishing, social engineering, and other dishonest acts. During the normal course of our business, we have been subjected to and we expect to continue to be subject to theft and fraudulent activity, none of which has been material to the Company to date.

The Company continually encounters technological change and the failure to understand and adapt to these changes could hurt its business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Company's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Company's operations. Many of the Company's competitors have substantially greater resources to invest in technological improvements. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological changes affecting the financial services industry could have a material adverse impact on the Company's business and, in turn, the Company's financial condition and results of operations.

Risks Related to Acquisitions

The risks presented by acquisitions, such as the acquisition of Optima and with Wellesley, could adversely affect our financial condition and results of operations.

The business strategy of the Company may include growth through acquisition such as the acquisitions of Optima in 2019 and Wellesley in 2020. Any such future acquisitions will be accompanied by the risks commonly encountered in acquisitions. These risks may include, among other things:

- our ability to realize anticipated cost savings;
- the difficulty of integrating operations and personnel, and the loss of key employees;
- the potential disruption of our or the acquired company's ongoing business in such a way that could result in decreased revenues, the inability of our management to maximize our financial and strategic position;
- the inability to maintain uniform standards, controls, procedures, and policies; and
- the impairment of relationships with the acquired company's employees and customers as a result of changes in ownership and management.

The Company cannot provide any assurance that we will be successful in overcoming these risks or any other problems encountered in connection with acquisitions. Our inability to overcome these risks could have an adverse effect on the achievement of our business strategy and results of operations.

The integration of the Company and its mergers will present significant challenges that may result in the combined business not operating as effectively as expected or in the failure to achieve some or all of the anticipated benefits of the transaction.

The benefits and synergies expected to result from recent mergers will depend in part on whether operations can be integrated in a timely and efficient manner with those of the Company. The Company will face challenges in consolidating its functions, and integrating the organizations, procedures, and operations of the businesses. The integration of the mergers will be complex and time-consuming, and the management team will have to dedicate substantial time and resources to it. These efforts could divert management's focus and resources from serving existing customers or other strategic opportunities and from day-to-day operational matters during the integration process. Failure to successfully integrate operations could result in the failure to achieve some of the anticipated benefits from the transaction, including cost savings and other operating efficiencies, and the Company may not be able to capitalize on the relationships to the extent anticipated, or it may take longer, or be more difficult or expensive than expected to achieve these goals. This could have an adverse effect on the business, results of operations, financial condition, or prospects of the Company and/or the Bank.

General Risks

Natural disasters, climate change, acts of war or terrorism, the impact of health epidemics and other adverse external events could detrimentally affect our financial condition and results of operations.

Natural disasters, climate change, acts of war or terrorism, and other adverse external events could have a significant negative impact on our ability to conduct business or upon third parties who perform operational services for us or our customers. Such events also could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in lost revenue or cause us to incur additional expenses.

The COVID-19 outbreak could negatively impact the ability of our employees and customers to engage in banking and other financial transactions in the geographic areas in which the Company operates. The Company also could be adversely affected if key personnel or a significant number of employees were to become unavailable due to a coronavirus outbreak in our market areas. Although the Company has business continuity plans and other safeguards in place, there is no assurance that such plans and safeguards will be effective. In the event of a natural disaster, the spread of COVID-19 to our market areas or other adverse external events, our business, services, asset quality, financial condition and results of operations could be adversely affected.

The effects of widespread public health emergencies may negatively affect our local economies or disrupt our operations, which would have an adverse effect on our business or results of operations.

Widespread health emergencies, such as the COVID-19 outbreak, can disrupt our operations through their impact on our employees, customers and their businesses, and the communities in which we operate. Disruptions to our customers could result in increased risk of delinquencies, defaults, foreclosures, and losses on our loans, negatively impact regional economic conditions, result in a decline in local loan demand, loan originations and deposit availability and negatively impact the implementation of our growth strategy. Any one or more of these developments could have a material adverse effect on our business, financial condition, and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The Company conducts its business through 19 banking offices, including its main banking office and headquarters in Cambridge, Massachusetts. The Company also has operations centers in Burlington and Wellesley, Massachusetts, and Portsmouth, New Hampshire, five wealth management offices, and one off-site automated teller machine ("ATM").

Item 3. Legal Proceedings.

From time to time, the Company and its subsidiaries may be parties to various claims and lawsuits arising in the ordinary course of their normal business activities. Although the ultimate outcome of these suits, if any, cannot be ascertained at this time, it is the opinion of management that none of these matters, even if it resolved adversely to the Company, will have a material adverse effect on the Company's consolidated financial position. The Company is not currently party to any material pending legal proceedings.

Item 4. Mine Safety Disclosures.

None.

PART II

Item 5. Market for Registrant's Common Equity Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

On October 18, 2017, shares of the Company's common stock commenced trading on the NASDAQ Stock Market under the symbol "CATC". Prior to this date, the Company's shares traded on the over-the-counter market.

As of February 28, 2022, there were 6,981,605 shares of the Company's common stock outstanding held by 451 holders of record. The number of record-holders may not reflect the number of persons or entities holding stock in nominee name through banks, brokerage firms, and other nominees. The closing price of the Company's common stock on December 31, 2021 was $93.59. The Company declared cash dividends of $2.38 and $2.12 per share in 2021 and 2020, respectively.

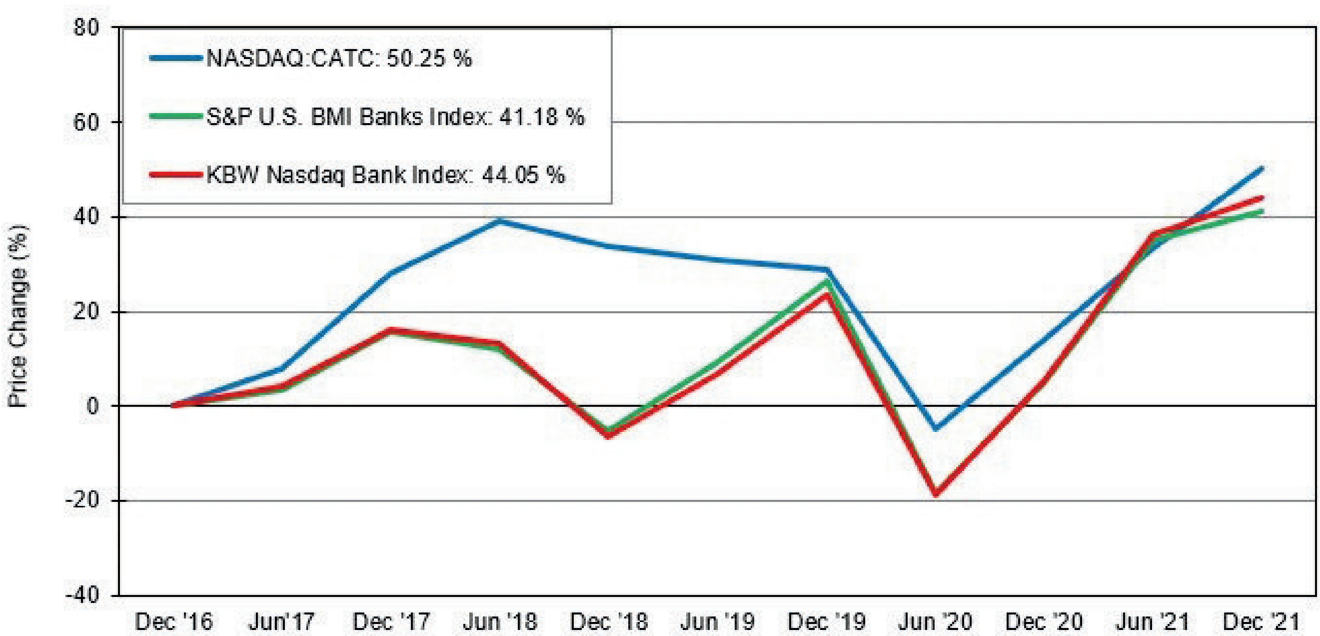
The continued payment of dividends depends upon our profitability, debt and equity structure, earnings, financial condition, need for capital and other factors, including economic conditions, regulatory restrictions, and tax considerations. We cannot guarantee the payment of dividends or that, if paid, that dividends will not be reduced or eliminated in the future.

The only funds available for the payment of dividends on our capital stock will be cash and cash equivalents held by us, dividends paid to us by the Bank, and borrowings. The Bank will be prohibited from paying cash dividends to us to the extent that any such payment would reduce the Bank's capital below required capital levels.

The Company's primary source of funds for dividends paid to shareholders is the receipt of dividends from the Bank. A discussion of the restrictions on the advance of funds or payments of dividends by the Bank to the Company is included in "Supervision and Regulation – Dividends."

Stock Performance Graph

The following compares the cumulative total shareholder return on the Company's common stock against the cumulative total return of the KBW NASDAQ Bank Index and the S&P U.S. BMI Banks Index from December 31, 2016 to December 31, 2021. The results presented assume that the value of the Company's common stock and each index was $100.00 on December 31, 2016. The total return assumes reinvestment of dividends.



Index	Period Ending Dec '16	Jun '17	Dec '17	Jun '18	Dec '18	Jun '19	Dec '19	Jun '20	Dec '20	Jun '21	Dec '21
NASDAQ:CATC: 50.25 %	0.00	7.96	28.11	38.93	33.65	30.84	28.67	-4.90	13.97	33.23	50.25
S&P U.S. BMI Banks Index: 41.18 %	0.00	3.46	15.87	12.13	-5.36	9.11	26.29	-18.49	5.18	35.03	41.18
KBW Nasdaq Bank Index: 44.05 %	0.00	4.15	16.25	13.18	-6.54	6.75	23.50	-18.80	5.48	36.42	44.05

Source: Standard &Poor's Global Market Intelligence © 2021

This performance graph shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or incorporated by reference into any filing by us under the Securities Act of 1933, as amended, or the Securities Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Issuer Purchase of Equity Securities

The following table sets forth the information regarding the Company's repurchases of its common stock during the three months ended December 31, 2021:

Period	Total Number of Shares Repurchased (1)	Weighted Average Price Paid Per Share
October 1 to October 31, 2021	—	$ —
November 1 to November 30, 2021	236	$ 85.85
December 1 to December 31, 2021	—	$ —
Total	236	$ 85.85

(1) Shares repurchased by the Company relate to shares tendered by employees to pay their income tax liability on current period equity award vesting.

On March 15, 2021, the Company's Board of Directors authorized a share repurchase program (the "2021 Repurchase Program") to acquire from time to time up to 5.0% shares of the Company's common stock through March 15, 2022, provided that the aggregate purchase price does not exceed $26.0 million. The Company did not repurchase any shares under the 2021 Repurchase Program during the year ended December 31, 2021.

On March 14, 2022, the Company's Board of Directors authorized a share repurchase program (the "2022 Repurchase Program") to acquire from time to time up to 5.0% of the total number of outstanding shares of the Company's common stock as of December 31, 2021, with such purchases occurring prior to March 14, 2023, provided that the aggregate purchase price does not exceed $32.0 million. The timing and amount of any shares of the Company's common stock repurchased under the 2022 Repurchase Program will be determined by the Company's management based on its evaluation of market conditions and other factors. The 2022 Repurchase Program may be suspended or discontinued at any time. The 2022 Repurchase Program replaces the 2021 Repurchase Program which expire on March 15, 2022.

Recent Sales of Unregistered Securities

There were no unregistered sales of equity securities during the year ended December 31, 2021.

Item 6. Reserved

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

OVERVIEW

Cambridge Bancorp (together with its bank subsidiary, unless the context otherwise requires, the “Company”) is a Massachusetts state-chartered, federally registered bank holding company headquartered in Cambridge, Massachusetts. The Company is a Massachusetts corporation formed in 1983 and has one banking subsidiary, Cambridge Trust Company (the “Bank”), formed in 1890. At December 31, 2021, the Company had total assets of approximately $4.9 billion. Currently, the Bank operates 19 banking offices in Eastern Massachusetts and New Hampshire. The Company’s Wealth Management Group has five offices, one in Boston and Wellesley, Massachusetts and three in New Hampshire in Concord, Manchester, and Portsmouth. The Company’s Assets under Management and Administration as of December 31, 2021 were approximately $4.9 billion. The Bank’s clients consist primarily of small- and medium-sized businesses and retail customers in these communities and surrounding areas throughout Massachusetts and New Hampshire.

The Company’s results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings. The results of operations are also affected by the level of income and fees earned from wealth management services and loans, the cost of deposits, operating expenses, the provision for (release of) credit losses, the impact of federal and state income taxes, and the relative levels of interest rates and economic activity.

CRITICAL ACCOUNTING ESTIMATES

Estimates and assumptions are necessary in the application of certain accounting policies and can be susceptible to significant change. Critical accounting policies are defined as those that involve a significant level of estimation uncertainty and have had, or could have a material impact on the Company's financial condition or results of operations. The Company considers the allowance for credit losses and income taxes to be its critical accounting estimates.

Allowance for Credit Losses

The Company evaluates the need for an allowance for credit losses on all financial assets measured at amortized cost, including loans receivable and held to maturity securities, in accordance with FASB ASC Topic 326, *Financial Instruments – Credit Losses* (“ASC Topic 326”), on a quarterly basis. ASC Topic 326 requires a methodology to estimate current expected credit losses (“CECL”) over the life of a loan, which incorporates applying a reasonable and supportable forecast period before reverting back to historical data. ASC Topic 326 also applies to off-balance sheet credit exposures not accounted for as insurance (i.e. loan commitments, standby letters of credit, financial guarantees, and other similar investments) and net investments in leases recognized by a lessor in accordance with ASU 2016-02 – *Leases* (Topic 842).

Losses on loan receivables are estimated and recognized upon origination of the loan, based on expected credit losses for the life of the loan balance as of the period end date. The Company’s methodology for calculating the allowance for credit losses (“ACL”) on loans consists of quantitative and qualitative components.

The quantitative component of the ACL on loans is model-based and utilizes a forward-looking macroeconomic forecast. The Company uses a discounted cash flow method, incorporating probability of default and loss given default forecasted based on statistically derived economic variable loss drivers, to estimate expected credit losses. This process includes estimates which involve modeling loss projections attributable to existing loan balances, and considering historical experience, current conditions, and future expectations for homogeneous pools of loans over a reasonable and supportable forecast period. The historical information either experienced by the Company or by a selection of peer banks, when appropriate, is derived from a combination of recessionary and non-recessionary performance periods for which data is available.

The reasonable and supportable forecast period is primarily determined based upon the stability of current economic conditions at each measurement date. Management considers the accuracy level of historical loss forecast estimates, the specific loan level models and methodology utilized, and considers material changes in growth, credit strategy, and its business which may not be applicable within the current environment. For periods beyond the reasonable and supportable forecast period, we revert to historical information over a period for which comparable data is available.

The qualitative component of the ACL considers (i) the uncertainty of forward-looking scenarios; (ii) certain portfolio characteristics, such as portfolio concentrations, real estate values, changes in the number and amount of non-accrual and past due loans; and (iii) model limitations; among other factors. Qualitative adjustments are considered when management believes expected credit losses are not representative of historical loss experience alone, and should be adjusted to reflect the current conditions and characteristics of the Company’s own portfolio. They are made at the segment level, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time.

We regularly review our collection experience (including delinquencies and net charge-offs) in determining our allowance for credit losses. We also consider our historical loss experience to date based on actual defaulted loans and overall portfolio indicators including delinquent and non-accrual loans, trends in loan volume and lending terms, credit policies and other observable environmental factors, such as unemployment and interest rate changes.

The underlying assumptions, estimates and assessments we use to estimate the allowance for credit losses reflect management's best estimate of model assumptions and forecasted conditions at that time. Changes in such estimates can significantly affect the allowance and provision for credit losses. It is possible and likely that we will experience credit losses that are different from our current estimates. Charge-offs are deducted from the allowance for credit losses when we judge the principal to be uncollectible, and subsequent recoveries are added to the allowance, generally at the time cash is received on a charged-off account.

Because the methodology is based upon historical experience and trends, current economic data, reasonable and supportable forecasts, as well as management's judgment, factors may arise that result in different estimations. Deteriorating conditions or assumptions could lead to increases in the ACL on loans; conversely, improving conditions or assumptions could lead to further reductions in the ACL on loans.

The expected credit losses for unfunded commitments are measured over the contractual period of the Company's exposure to credit risk. The estimate of credit loss incorporates assumptions for both the likelihood and amount of funding over the estimated life of the commitments, for the risk of loss, and current conditions and expectations. Management periodically reviews and updates its assumptions for estimated funding rates based on historical rates, and factors such as portfolio growth, changes to organizational structure, economic conditions, borrowing habits, or any other factor which could impact the likelihood that funding will occur. The Company does not reserve for unfunded commitments which are unconditionally cancellable.

Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, the Commonwealth of Massachusetts, the State of New Hampshire, the State of Maine, and other states as required. Income taxes are accounted for under the asset and liability method. 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 income tax expense. Deferred tax assets are reviewed quarterly and reduced by a valuation allowance if, based upon the information available, it is more likely than not that some or all of the deferred tax assets will not be realized. Interest and penalties related to unrecognized tax benefits, if incurred, are recognized as a component of income tax expense.

Recent Accounting Developments

See NOTE 3 – RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS for additional details on recently issued and adopted accounting pronouncements and their expected impact on the Company's financial statements.

COVID-19

The COVID-19 pandemic and countermeasures taken to contain its spread have caused economic and financial disruptions globally.

It is unknown whether the impact of the pandemic on the Company's business, financial condition, results of operations, and its customers has fully manifested in 2020 or 2021. The fiscal stimulus and relief programs appear to have delayed any materially adverse financial impact to the Company. Once these stimulus programs have been exhausted, loan credit metrics may worsen, and credit losses may ultimately materialize. The magnitude of future credit losses may be affected by the impact of COVID-19 on individuals and businesses in the long and short term. However, the COVID-19 pandemic remains dynamic, and the duration and severity of its impact on our business and results of operations in future periods remains uncertain. The extent of the continued impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the pandemic, actions taken in response to the pandemic, the speed and effectiveness of vaccine and treatment developments and their deployment, including public adoption rates of COVID-19 vaccines and booster shots, and their effectiveness against emerging variants of COVID-19, such as the Delta and Omicron variants, the length and severity of any resurgence of the pandemic, and impact on our customers, employees, and vendors, all of which are uncertain and cannot be predicted.

If the COVID-19 pandemic or its adverse effects become more severe or prevalent or are prolonged in the locations where we conduct business, or we experience more pronounced disruptions in our business or operations, or in economic activity and demand for our products and services generally, our business and results of operations in future periods could be materially adversely affected. Please see Item 1A. - *Risk Factors* above for more detail on risks related to COVID-19.

Selected Financial Highlights

The selected consolidated financial highlights set forth below do not purport to be complete and should be read in conjunction with, and is qualified in its entirety by, the more detailed information including the Consolidated Financial Statements and related Notes and within this section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	December 31,				
	2021	2020	2019	2018	2017
	(dollars in thousands, except per share data)				
Operating Data					
Interest Income	$ 133,514	$ 129,378	$ 96,339	$ 69,055	$ 61,191
Interest Expense	5,533	9,145	17,643	5,467	3,587
Net Interest and Dividend Income	127,981	120,233	78,696	63,588	57,604
Provision for (Release of) Credit Losses	(1,294)	18,310	3,004	1,502	362
Noninterest Income	44,324	39,525	36,401	32,989	30,224
Noninterest Expense	100,484	98,085	78,175	63,987	59,292
Income Before Taxes	73,115	43,363	33,918	31,088	28,174
Income Taxes	19,091	11,404	8,661	7,207	13,358
Net Income (a GAAP Measure)	$ 54,024	$ 31,959	$ 25,257	$ 23,881	$ 14,816
Operating Net Income (a non-GAAP measure)*	$ 54,828	$ 43,870	$ 29,156	$ 24,024	18,687
Average shares outstanding, basic	6,926,257	6,289,481	4,629,255	4,061,529	4,030,530
Average shares outstanding, diluted	6,990,603	6,344,409	4,661,720	4,098,633	4,065,754
Total shares outstanding	6,968,192	6,926,728	5,400,868	4,107,051	4,082,188
Basic Earnings Per Share	$ 7.76	$ 5.07	$ 5.41	$ 5.82	$ 3.64
Diluted Earnings Per Share	$ 7.69	$ 5.03	$ 5.37	$ 5.77	$ 3.61
Operating Diluted Earnings Per Share (a non-GAAP measure)*	$ 7.81	$ 6.90	$ 6.20	$ 5.80	$ 4.56
Dividends Declared Per Share	$ 2.38	$ 2.12	$ 2.04	$ 1.96	$ 1.86
Dividend payout ratio (1)	31%	42%	38%	34%	51%
Financial Condition Data					
Total Assets	$ 4,891,544	$ 3,949,297	$ 2,855,563	$ 2,101,384	$ 1,949,934
Total Deposits	$ 4,331,152	$ 3,403,083	$ 2,358,878	$ 1,811,410	$ 1,775,400
Total Loans	$ 3,319,106	$ 3,153,648	$ 2,226,728	$ 1,559,772	$ 1,350,899
Shareholders' Equity	$ 437,837	$ 401,732	$ 286,561	$ 167,026	$ 147,957
Book Value Per Share	$ 62.83	$ 58.00	$ 53.06	$ 40.67	$ 36.24
Tangible Book Value Per Share (a non-GAAP measure)*	$ 55.01	$ 50.07	$ 46.66	$ 40.57	$ 36.14
Performance Ratios					
Return on Average Assets	1.24%	0.91%	0.97%	1.21%	0.79%
Operating Return on Average Assets (a non-GAAP measure)*	1.26%	1.25%	1.12%	1.21%	1.00%
Return on Average Shareholders' equity	12.93%	9.09%	11.40%	15.35%	10.47%
Operating Return on Tangible Common Equity (a non-GAAP measure)*	15.10%	14.38%	14.80%	15.49%	13.24%
Total Shareholders' Equity to Total Assets	8.95%	10.17%	10.04%	7.95%	7.59%
Interest rate spread (2)	3.05%	3.52%	2.93%	3.19%	3.16%
Net Interest Margin, taxable equivalent (3)	3.12%	3.65%	3.22%	3.33%	3.25%
Efficiency ratio *	58.32%	61.40%	67.92%	66.25%	67.51%
Operating Efficiency Ratio (a non-GAAP measure)*	57.67%	56.66%	63.78%	66.05%	67.51%
Wealth Management Assets					
Market Value of Assets Under Management & Administration	$ 4,853,119	$ 4,167,903	$ 3,452,852	$ 2,876,702	$ 3,085,669
Asset Quality					
Non-Performing Loans	$ 5,386	$ 8,962	$ 5,651	$ 642	$ 1,298
Non-Performing Loans/Total Loans	0.16%	0.28%	0.25%	0.04%	0.10%
Net Loan (Charge-Offs) Recoveries	$ 154	$ (439)	$ (1,592)	$ (54)	$ (303)
Allowance/Total Loans	1.04%	1.14%	0.82%	1.08%	1.13%
Capital Ratios (4):					
Total capital	13.56%	13.93%	13.61%	13.25%	13.75%
Tier 1 capital	12.40%	12.68%	12.70%	12.07%	12.50%
Common Equity Tier 1	12.40%	12.68%	12.70%	12.07%	12.50%
Tier 1 leverage capital	8.31%	8.89%	8.98%	8.49%	8.06%
Other Data:					
Number of full-service offices	19	21	16	10	11
Full time equivalent employees	384	372	303	252	239

* See "GAAP to Non-GAAP Reconciliations" section below
(1) Dividend payout ratio represents per share dividends declared divided by diluted earnings per share.
(2) The interest rate spread represents the difference between the fully taxable equivalent weighted-average yield on interest-earning assets and the weighted-average cost of interest-bearing liabilities for the period.
(3) The net interest margin represents fully taxable equivalent net interest income as a percent of average interest-earning assets for the period.
(4) Capital ratios are for Cambridge Bancorp.

RESULTS OF OPERATIONS

Results of Operations for the years ended December 31, 2021 and 2020

General. Net income increased by $22.1 million, or 69.0%, to $54.0 million for the year ended December 31, 2021, from $32.0 million for the year ended December 31, 2020, primarily due to a $19.6 million decrease in the provision for (release of) credit losses, a $7.7 million increase in net interest and dividend income before the provision for (release of) credit losses, and a $4.8 million increase in noninterest income, which were partially offset by a $2.4 million increase in noninterest expenses and a $7.7 million increase in income tax expense. Diluted earnings per share were $7.69 for 2021, representing a 52.9% increase over diluted earnings per share of $5.03 for the year ended December 31, 2020.

Net Interest and Dividend Income. Net interest and dividend income before the provision for (release of) credit losses increased by $7.7 million, or 6.4%, to $128.0 million for the year ended December 31, 2021, as compared to $120.2 million for the year ended December 31, 2020. This increase was primarily due to higher interest on investment securities, higher PPP loan income recognized on PPP loans forgiven by the SBA during the year, and a lower cost of funds, partially offset by lower loan accretion associated with merger accounting and lower yields on interest-earning assets during the period.

- Interest on investment securities increased by $3.6 million, or 41.7%, primarily due to growth in the investment portfolio as the Company reinvested excess cash.
- Interest on deposits decreased by $2.3 million, or 31.8%, primarily due to a decrease in the cost of deposits, partially offset by deposit growth.
- Interest on loans increased by $897,000, or 0.7%, as a result of loan growth combined with accelerated PPP loan related income, partially offset by lower loan accretion associated with merger accounting and lower loan yields.
- Interest on borrowings decreased by $847,000, or 60.2%, primarily due to a decrease in borrowings outstanding during the year.
- The Company did not incur any interest on subordinated debt during 2021, as the Company redeemed the $10.0 million in subordinated debt assumed in the Wellesley merger during the fourth quarter of 2020.

Average interest earning assets increased by $822.0 million, or 24.9%, to $4.13 billion for the year ended December 31, 2021 from $3.31 billion in 2020, primarily due to the merger with Wellesley coupled with organic growth within the loan and investment portfolios. The Company's net interest margin, on a fully tax equivalent basis, decreased 53 basis points to 3.12% for the year ended December 31, 2021, as compared to 3.65% in 2020.

Average interest-bearing liabilities increased by $395.6 million, or 17.7%, to $2.63 billion for the year ended December 31, 2021 from $2.23 billion in 2020, primarily related to the merger with Wellesley coupled with organic core deposit growth. The increase in interest-bearing liabilities was primarily driven by an increase in average money market accounts of $414.9 million, an increase in average checking account balances of $121.8 million, and an increase in average savings account balances of $19.8 million, partially offset by a decrease in average borrowed funds of $105.2 million, and a decrease in average certificate of deposit balances of $50.3 million. The average cost of funds decreased to 0.13% for the year ended December 31, 2021 from 0.28% for the year ended December 31, 2020.

Interest and Dividend Income. Total interest and dividend income increased by $4.1 million, or 3.2%, to $133.5 million for the year ended December 31, 2021, as compared to $129.4 million in 2020, primarily due to investment portfolio growth, loan growth, and increased PPP loan related income, partially offset by lower loan accretion associated with merger accounting and lower asset yields.

Interest Expense. Interest expense decreased by $3.6 million, or 39.5% to $5.5 million for the year ended December 31, 2021, as compared to $9.1 million in 2020, primarily driven by a decrease in the cost of deposits and lower borrowing expense, partially offset by deposit growth.

Provision for (Release of) Credit Losses. The Company recorded a release of credit losses of $1.3 million for the year ended December 31, 2021, as compared to a provision of credit losses of $18.3 million for the year ended December 31, 2020, which included $9.3 million associated with the expected impact of the COVID-19 pandemic on future loan losses and $8.6 million for the recognition of the non-operating impact of merger related CECL accounting during the year ended December 31, 2020. The Company's release of credit losses during 2021 was driven by improved economic assumptions and the resulting decrease in loss expectations in the Company's allowance for credit losses modeling.

The Company recorded net recoveries of $154,000 or 0.00% of total loans, for the year ended December 31, 2021, as compared to net charge-offs of $439,000, or 0.01% of total loans for the year ended December 31, 2020.

The allowance for credit losses was $34.5 million, or 1.05% of total loans outstanding (excluding PPP loans) at December 31, 2021, as compared to $36.0 million, or 1.19% of total loans outstanding (excluding PPP loans) at December 31, 2020.

Noninterest Income. Total noninterest income increased by $4.8 million, or 12.1%, to $44.3 million for the year ended December 31, 2021, as compared to $39.5 million the year ended December 31, 2020. This change was primarily a result of increases in wealth management revenue and loan related derivative income, partially offset by decreases in gain on loans sold, net and deposit account fees. Noninterest income was 25.7% and 24.7% of total revenue for the year ended December 31, 2021 and 2020, respectively.

- Wealth Management revenue increased by $5.3 million, or 17.8%, to $35.0 million for the year ended December 31, 2021, as compared to $29.8 million for the year ended December 31, 2020, primarily due to appreciation within the equity markets and positive net client asset flows. Wealth Management Assets Under Management and Administration were $4.9 billion at December 31, 2021, as compared to $4.2 billion at December 31, 2020.
- Loan related derivative income increased by $645,000, or 43.6%, to $2.1 million for the year ended December 31, 2021, as compared to $1.5 million for the year ended December 31, 2020, due to increased loan volume combined with fair value adjustments.
- Gain on loans sold, net decreased by $1.0 million, or 55.0%, to $832,000 at December 31, 2021, as compared to $1.9 million for the year ended December 31, 2020 due to decreased sales of residential mortgages.
- Deposit account fees decreased by $656,000, or 25.3%, to $1.9 million for the year ended December 31, 2021, as compared to $2.6 million for the year ended December 31, 2020, primarily due to a decrease in fee revenue from commercial deposit sweep products as a result of lower interest rates.

The categories of Wealth Management revenues are shown in the following table:

	For the Year Ended December 31, 2021	2020
	(dollars in thousands)	
Wealth Management revenues:		
Trust and investment advisory fees	$ 34,092	$ 28,599
Financial planning fees and other service fees	945	1,152
Total wealth management revenues	$ 35,037	$ 29,751

The following table presents the changes in wealth management assets under management:

	For the Year Ended December 31, 2021	2020
	(dollars in thousands)	
Wealth management assets under management		
Balance at the beginning of the period	$ 3,994,152	$ 3,287,371
Acquired wealth management assets	—	338,676
Gross client asset inflows	532,507	314,032
Gross client asset outflows	(442,679)	(383,059)
Net market impact	572,203	437,132
Balance at the end of the period	$ 4,656,183	$ 3,994,152
Weighted average management fee	0.79%	0.81%

There were no significant changes to the average fee rates and fee structure during the years ended December 31, 2021 or 2020.

Noninterest Expense. Total noninterest expense increased by $2.4 million, or 2.4%, to $100.5 million for the year ended December 31, 2021, as compared to $98.1 million for the year ended December 31, 2020, primarily driven by increases in salaries and employee benefits expense, professional services fees, data processing fees, and occupancy and equipment expenses, partially offset by a decrease in non-operating expenses.

- Salaries and employee benefits increased by $6.2 million, or 10.4%, primarily related to the full year impact of the merger with Wellesley in the second quarter of 2020, additions to support business initiatives, normal merit increases, and increases in employee benefit costs.
- Professional services fees increased by $1.2 million, or 28.7%, primarily due to increased consulting fees associated with the wealth management system conversion completed in the fourth quarter of 2021 and employment agency costs.
- Data processing fees increased by $1.2 million, or 15.2%, primarily due to the full year impact of new client usage of our banking systems as a result of our merger with Wellesley and higher data processing fees associated with the wealth management system conversion completed during the fourth quarter of 2021.

- Occupancy and equipment expense increased by $894,000, or 6.9%, primarily as a result of the full year impact of additional branches and office space acquired from the merger with Wellesley.

- Non-operating expenses decreased by $6.5 million, or 85.3%, primarily due to one-time non-operating costs associated with the Wellesley merger that were incurred in 2020, partially offset by previously communicated branch closures and the wealth management system conversion expenses.

Income Tax Expense. The Company recorded a provision for income taxes of $19.1 million for the year ended December 31, 2021, as compared to $11.4 million for the same period in 2020. The effective tax rate was 26.1%, for the year ended December 31, 2021, as compared to 26.3% for the year ended December 31, 2020.

Results of Operations for the years ended December 31, 2020 and 2019

General. Net income increased by $6.7 million, or 26.5%, to $32.0 million for the year ended December 31, 2020, from $25.3 million for the year ended December 31, 2019, primarily due to a $26.2 million increase in net interest and dividend income after the provision for credit losses and a $3.1 million increase in noninterest income. These increases were partially offset by a $19.9 million increase in noninterest expense and higher income tax expenses of $2.7 million. Diluted earnings per share were $5.03 for 2020, representing a 6.3% decrease over diluted earnings per share of $5.37 for 2019.

The results for the year ended December 31, 2020, included the merger accounting impact of CECL within the provision for credit losses, merger expenses, office closures and related one-time occupancy expenses, and other non-operating items. Operating net income, excluding these items, was $43.9 million for the year ended December 31, 2020, an increase of $14.7 million, or 50.5%, as compared to operating net income of $29.2 million for 2019. Operating diluted earnings per share were $6.90 for 2020, representing an 11.3% increase over operating diluted earnings per share of $6.20 for 2019.

Net Interest and Dividend Income. Net interest and dividend income before provision for credit losses increased by $41.5 million, or 52.8%, to $120.2 million for the year ended December 31, 2020, as compared to $78.7 million for the year ended December 31, 2019, primarily due to loan growth (both organic and as a result of the Optima and Wellesley mergers), lower cost of funds, loan accretion associated with merger accounting and accelerated interest income from Payment Protection Program ("PPP") loans forgiven during the year.

- Interest on loans increased by $35.4 million, or 41.6%, primarily due to merger related loan growth.
- Interest on deposits decreased by $8.3 million, or 53.4%, due to a decrease in interest rates paid on these deposits.

Total average interest-earning assets increased by $850.7 million, or 34.6%, to $3.3 billion for the year ended December 31, 2020 from $2.5 billion in 2019. The Company's net interest margin, on a fully tax equivalent basis, increased 43 basis points to 3.65% for the year ended December 31, 2020, as compared to 3.22% in 2019, and the net interest rate spread increased 59 basis points to 3.52% for the year ended December 31, 2020, as compared to 2.93% in 2019.

Interest and Dividend Income. Total interest and dividend income increased by $33.0 million, or 34.3%, to $129.4 million for the year ended December 31, 2020, from $96.3 million in 2019, primarily due to loan growth, as a result of the Optima and Wellesley mergers, loan accretion associated with merger accounting, and accelerated interest income from PPP loans forgiven during the year.

Interest Expense. Interest expense decreased by $8.5 million, or 48.2%, to $9.1 million for the year ended December 31, 2020, from $17.6 million in 2019, primarily driven by a decrease in cost of deposits.

Average interest-bearing liabilities increased by $487.7 million to $2.2 billion at December 31, 2020 from $1.7 billion at December 31, 2019, primarily related to the mergers with Optima and Wellesley coupled with organic core deposit growth. The average cost of funds decreased to 0.28% at December 31, 2020 from 0.72% at December 31, 2019. The increase in average interest-bearing liabilities was primarily driven by higher average savings account balances of $110.0 million, higher average money market accounts of $160.3 million, higher average certificates of deposits of $38.3 million, and higher average borrowed funds of $37.0 million.

Provision for Credit Losses. The Company recorded a provision for credit losses of $18.3 million for the year ended December 31, 2020, compared to a provision for loan losses of $3.0 million in 2019. The provision includes $9.4 million associated with the expected impact of the COVID-19 pandemic on future loan losses and $8.6 million for the recognition of the impact of the merger related CECL accounting. The Company recorded net charge-offs of $439,000 for the year ended December 31, 2020, as compared to net charge-offs of $1.6 million during the same period in 2019.

The allowance for credit losses was $36.0 million, or 1.14% of total loans outstanding at December 31, 2020, as compared to $18.2 million, or 0.82% of total loans outstanding at year end 2019.

Noninterest Income. Inclusive of the Wellesley merger, total noninterest income increased by $3.1 million, or 8.6%, to $39.5 million for the year ended December 31, 2020, as compared to $36.4 million for the same period in 2019, primarily as a result of higher Wealth

Management revenue and higher gains on loans sold, partially offset by lower deposit and ATM related fees, lower loan related derivative income and other fee income. Total noninterest income was 24.7% and 31.6% of total revenue for the years ended December 31, 2020 and 2019, respectively.

- Wealth Management revenue increased by $3.3 million, or 12.3%, for the year ended December 31, 2020, as compared to the year ended December 31, 2019, as a result of the Wellesley merger and appreciation in the equity markets during 2020. Assets Under Management combined with Assets Under Administration were $4.2 billion at December 31, 2020, as compared to $3.5 billion at December 31, 2019.
- Gain on loans sold increased by $680,000 as compared to the same period in 2019 primarily due to increased sales of residential mortgage loans given the low-rate environment and active refinance market.
- Deposit account fees decreased by $590,000, or 18.5%, for the year ended December 31, 2020 primarily as a result of lower transactional fee activity during the year.
- Other income decreased by $201,000 during the year ended December 31, 2020 primarily as a result of lower loan prepayment income during the year.
- ATM/Debit card income decreased by $105,000 during the year ended December 31, 2020 primarily as a result of the COVID-19 pandemic's impact on transactions during 2020.
- Loan related derivative income decreased by $195,000 during the year ended December 31, 2020, primarily due to valuation adjustments associated with changes in interest rates on existing derivative transactions.

The categories of Wealth Management revenues are shown in the following table:

	For the Year Ended December 31,	
	2020	2019
	(dollars in thousands)	
Wealth Management revenues:		
Trust and investment advisory fees	$ 28,599	$ 25,544
Financial planning fees and other service fees	1,152	955
Total wealth management revenues	$ 29,751	$ 26,499

The following table presents the changes in wealth management assets under management:

	For the Year Ended December 31,	
	2020	2019
	(dollars in thousands)	
Wealth management assets under management		
Balance at the beginning of the period	$ 3,287,371	$ 2,759,547
Acquired wealth management assets	338,676	—
Gross client asset inflows	314,032	343,477
Gross client asset outflows	(383,059)	(348,938)
Net market impact	437,132	533,285
Balance at the end of the period	$ 3,994,152	$ 3,287,371
Weighted average management fee	0.81%	0.84%

There were no significant changes to the average fee rates and fee structure during the years ended December 31, 2020 or 2019.

Noninterest Expense. Total noninterest expense increased by $19.9 million, or 25.5%, to $98.1 million for the year ended December 31, 2020, as compared to $78.2 million for the year ended December 31, 2019. This increase was primarily driven by increases in salaries and employee benefits expense, merger and other non-operating expenses including branch and office closure related expense, occupancy and equipment expense, and data processing expenses resulting from our mergers with Optima in 2019 and Wellesley in 2020, as described below.

- Salaries and employee benefits increased by $11.5 million, or 24.2%, primarily as a result of the increased staffing related to the mergers with Optima and Wellesley in 2019 and 2020, respectively, additions to support business initiatives, normal merit increases and higher employee benefit costs.
- Non-operating expenses increased by $2.9 million primarily due to merger expenses associated with the Wellesley merger and branch and office closure expenses of $1.2 million during the fourth quarter of 2020.

- Occupancy and equipment expense increased by $2.1 million, or 19.8%, primarily as a result of additional branches and office space as a result of the mergers with Optima and Wellesley.
- Data processing expense increased by $1.4 million, or 22.9%, primarily as a result of increased client activity associated with the mergers with Optima and Wellesley.

Income Tax Expense. The Company recorded income tax expense of $11.4 million for the year ended December 31, 2020, as compared to $8.7 million for the same period in 2019. For the year ended December 31, 2020, the effective tax rate was 26.3%, as compared to 25.5% for the year ended December 31, 2019.

The CARES Act was signed into law on March 27, 2020, to help stimulate the United States economy. One of the business tax provisions of the CARES Act included allowing NOL generated by the Company in tax years 2018 and 2019 to be carried back up to five years at the tax rates in effect during those periods, rather than carried forward at current federal tax rates of 21%. The effect of the CARES Act allowed the Company to recognize lower tax expense associated with NOL carryforwards from 2018 and 2019 (as a result of the Optima merger) and resulted in a benefit of $539,000.

CHANGES IN FINANCIAL CONDITION

Total Assets. Total assets increased by $942.2 million, or 23.9%, from December 31, 2020, and were $4.89 billion as of December 31, 2021. The increase was primarily the result of a $690.2 million increase in investment securities, a $165.5 million increase in total loans, and a $104.4 million increase in cash and cash equivalents.

Investment Securities. The carrying value of total investment securities increased by $690.2 million, or 142.4%, to $1.17 billion at December 31, 2021, from $484.7 million at December 31, 2020, as the Company invested excess cash.

Loans. Total loans increased by $165.5 million, or 5.2%, to $3.32 billion at December 31, 2021, from $3.15 billion at December 31, 2020. Excluding PPP loans and their associated deferred PPP loan processing fees, total loans increased by $267.4 million, or 8.8%, from December 31, 2020.

- Residential real estate loans increased by $116.2 million to $1.42 billion at December 31, 2021, from $1.30 billion at December 31, 2020.
- CRE loans increased by $152.0 million to $1.51 billion at December 31, 2021, from $1.36 billion at December 31, 2020.
- Commercial and industrial loans, excluding PPP loans, increased by $23.6 million to $247.2 million at December 31, 2021, from $223.7 million at December 31, 2020.
- PPP loans were $22.2 million and $124.2 million at December 31, 2021, and December 31, 2020, respectively, and are included in commercial and industrial loans on the consolidated balance sheets.

Bank-Owned Life Insurance. The Company invests in bank-owned life insurance to help offset the costs of our employee benefit plan obligations. Bank-owned life insurance also generally provides noninterest income that is nontaxable. At December 31, 2021, our investment in bank-owned life insurance increased by $801,000, or 1.7%, to $47.0 million, from $46.2 million at December 31, 2020, primarily due to increase in the cash surrender value of the policies during 2021.

Goodwill and Merger Related intangibles. Goodwill and merger related intangible assets totaled $54.5 million and $54.9 million at December 31, 2021 and December 31, 2020, respectively.

Other Assets. Other assets decreased by $6.9 million, or 8.3% to $76.4 million at December 31, 2021, from $83.2 million at December 31, 2020, primarily due to reductions in the fair value of loan level derivative assets, partially offset by the increase in funded status of the Company's pension plan and additional investments made in low-income housing credit partnerships .

Deposits. Total deposits increased by $928.1 million, or 27.3%, to $4.33 billion at December 31, 2021, from $3.40 billion at December 31, 2020.

- Core deposits, which the Company defines as all deposits other than certificates of deposit, increased by $1.02 billion, or 32.4%, to $4.17 billion at December 31, 2021 from $3.15 billion at December 31, 2020.
- The cost of total deposits for the year ended December 31, 2021 was 0.13%, as compared to 0.25% for the year ended December 31, 2020, a reduction of 12 basis points. At December 31, 2021, the spot cost of deposits was 0.18%.
- Certificates of deposit totaled $162.1 million at December 31, 2021, a decrease of $92.8 million, or 36.4%, from $254.8 million at December 31, 2020. Total brokered certificates of deposit, which are included within certificates of deposit, were $2.7 million and $30.8 million at December 31, 2021 and December 31, 2020, respectively.

Borrowings. At December 31, 2021 and December 31, 2020, borrowings consisted solely of advances from the FHLB of Boston. Total borrowings decreased by $16.5 million, or 50.0%, to $16.5 million at December 31, 2021, from $33.0 million at December 31, 2020 as the Company utilized excess cash to pay down borrowings.

Shareholders' Equity. Total shareholders' equity increased $36.1 million, or 9.0%, to $437.8 million at December 31, 2021, from $401.7 million at December 31, 2020, primarily due to net income of $54.0 million, partially offset by dividend payments of $16.6 million.

The Company's ratio of tangible common equity to tangible assets decreased 99 basis points to 7.92% at December 31, 2021, as compared to 8.91% at December 31, 2020. Tangible book value per share grew by $4.94, or 9.9%, to $55.01 as of December 31, 2021, as compared to $50.07 as of December 31, 2020.

GAAP to Non-GAAP Reconciliations (dollars in thousands except per share data)

Statement on Non-GAAP Measures: The Company believes the presentation of the following non-GAAP financial measures provides useful supplemental information that is essential to an investor's proper understanding of the results of operations and financial condition of the Company. Management uses non-GAAP financial measures in its analysis of the Company's performance. These non-GAAP measures should not be viewed as substitutes for the financial measures determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

	For the Year Ended December 31,				
Operating Net Income / Operating Diluted Earnings Per Share	**2021**	**2020**	**2019**	**2018**	**2017**
	(dollars in thousands, except share data)				
Net Income (a GAAP measure)	$ 54,024	$ 31,959	$ 25,257	$ 23,881	$ 14,816
Add: Merger expenses	—	6,368	4,721	201	—
Add: (Gain) loss on disposition of investment securities	—	(69)	79	(2)	3
Add: Provision for credit losses established for acquired Wellesley loans	—	8,638	—	—	—
Add: Branch and office closure expenses	787	1,244	—	—	—
Add: Impact of the Tax Cuts and Job Acts of 2017 [(1)]	—	—	—	—	3,869
Add: Wealth management system conversion expenses	331	—	—	—	—
Tax effect of non-operating adjustments [(2)]	(314)	(4,270)	(901)	(56)	(1)
Operating Net Income (a non-GAAP measure)	**$ 54,828**	**$ 43,870**	**$ 29,156**	**$ 24,024**	**$ 18,687**
Less: Dividends and Undistributed Earnings Allocated to Participating Securities (a non-GAAP measure)	(252)	(64)	(243)	(239)	(157)
Operating Income Applicable to Common Shareholders (a non-GAAP measure)	$ 54,576	$ 43,806	$ 28,913	$ 23,785	$ 18,530
Weighted Average Diluted Shares	6,990,603	6,344,409	4,661,720	4,098,633	4,065,754
Operating Diluted Earnings Per Share (a non-GAAP measure)	**$ 7.81**	**$ 6.90**	**$ 6.20**	**$ 5.80**	**$ 4.56**

(1) Income adjustment related to the re-measurement of net deferred tax assets due to the Tax Cuts and Jobs Act.
(2) The net tax benefit associated with non-operating items is determined by assessing whether each non-operating item is included or excluded from net taxable income and applying the Company's combined marginal tax rate to only those items included in net taxable income.

The following tables summarize the calculation of the Company's tangible common equity ratio and tangible book value per share for the periods indicated:

	December 31, 2021	December 31, 2020	December 31, 2019	December 31, 2018	December 31, 2017
	(in thousands, except share data)				
Tangible Common Equity:					
Shareholders' equity (GAAP)	$ 437,837	$ 401,732	$ 286,561	$ 167,026	$ 147,957
Less: Goodwill and acquisition related intangibles (GAAP)	(54,529)	(54,889)	(34,544)	(412)	(412)
Tangible Common Equity (a non-GAAP measure)	$ 383,308	$ 346,843	$ 252,017	$ 166,614	$ 147,545
Total assets (GAAP)	$ 4,891,544	$ 3,949,297	$ 2,855,563	$ 2,101,384	$ 1,949,934
Less: Goodwill and acquisition related intangibles (GAAP)	(54,529)	(54,889)	(34,544)	(412)	(412)
Tangible assets (a non-GAAP measure)	$ 4,837,015	$ 3,894,408	$ 2,821,019	$ 2,100,972	$ 1,949,522
Tangible Common Equity Ratio (a non-GAAP measure)	7.92%	8.91%	8.93%	7.93%	7.57%
Tangible Book Value Per Share:					
Tangible Common Equity (a non-GAAP measure)	$ 383,308	$ 346,843	$ 252,017	$ 166,614	$ 147,545
Common shares outstanding	6,968,192	6,926,728	5,400,868	4,107,051	4,082,188
Tangible Book Value Per Share (a non-GAAP measure)	$ 55.01	$ 50.07	$ 46.66	$ 40.57	$ 36.14

The following tables summarize the calculation of the Company's efficiency and operating ratios for the periods indicated:

	For the Year Ended December 31,				
	2021	2020	2019	2018	2017
	(dollars in thousands)				
Efficiency Ratio: (1)					
Noninterest expense	$ 100,484	$ 98,085	$ 78,175	$ 63,987	$ 59,292
Net interest and dividend income	$ 127,981	$ 120,233	$ 78,696	$ 63,588	$ 57,604
Total noninterest income	44,324	39,525	36,401	32,989	30,224
Total revenue	$ 172,305	$ 159,758	$ 115,097	$ 96,577	$ 87,828
Efficiency Ratio	**58.32%**	**61.40%**	**67.92%**	**66.25%**	**67.51%**
Operating Efficiency Ratio: (2)					
Noninterest expense	$ 100,484	$ 98,085	$ 78,175	$ 63,987	$ 59,292
Merger expenses and Capital Raise Expenses (Pretax)	—	(6,368)	(4,721)	(201)	—
Branch and office closure expenses (Pretax)	(787)	(1,244)	—	—	—
Wealth management system conversion expenses (Pretax)	(331)	—	—	—	—
Operating expense (a non-GAAP measure)	$ 99,366	$ 90,473	$ 73,454	$ 63,786	$ 59,292
Total revenue	$ 172,305	$ 159,758	$ 115,097	$ 96,577	$ 87,828
Add: (Gain) loss on disposition of investment securities	—	(69)	79	(2)	3
Operating revenue (a non-GAAP measure)	$ 172,305	$ 159,689	$ 115,176	$ 96,575	$ 87,831
Operating Efficiency Ratio (a non-GAAP measure)	**57.67%**	**56.66%**	**63.78%**	**66.05%**	**67.51%**

	For the Year Ended December 31,				
	2021	2020	2019	2018	2017
			(dollars in thousands)		
Operating Return on Tangible Common Equity: (3)					
Operating Net Income (a non-GAAP measure)	$ 54,828	$ 43,870	$ 29,156	$ 24,024	$ 18,687
Average common equity	$ 417,768	$ 351,477	$ 221,617	$ 155,546	$ 141,488
Average goodwill and merger related intangibles	(54,707)	(46,476)	(24,577)	(412)	(412)
Average tangible common equity (a non-GAAP measure)	$ 363,061	$ 305,001	$ 197,040	$ 155,134	$ 141,076
Operating Return on Tangible Common Equity (a non-GAAP measure)	**15.10%**	**14.38%**	**14.80%**	**15.49%**	**13.24%**
Operating Return on Average Assets: (4)					
Operating Net Income (a non-GAAP measure)	$ 54,828	$ 43,870	$ 29,156	$ 24,024	$ 18,687
Average assets	$ 4,343,873	$ 3,523,249	$ 2,600,316	$ 1,980,580	$ 1,875,136
Operating Return on Average Assets (a non-GAAP measure)	**1.26%**	**1.25%**	**1.12%**	**1.21%**	**1.00%**

(1) The efficiency ratio represents noninterest expense as a percentage of the sum of net interest and dividend income and noninterest income.
(2) Operating efficiency ratio represents operating expense as a percentage of operating revenue.
(3) Operating return on tangible common equity represents operating net income as a percentage of average tangible common equity.
(4) Operating return on average assets represents operating net income as a percentage of average assets.

INVESTMENT SECURITIES

The Company's securities portfolio consists of securities available for sale ("AFS") and securities held to maturity ("HTM"). The largest component of the securities portfolio is mortgage-backed securities, all of which are issued by U.S. government agencies or U.S. government-sponsored enterprises.

Securities available for sale consist of certain U.S. Government Sponsored Enterprises ("GSE") obligations, U.S. GSE mortgage-backed securities, and corporate debt securities. These securities are carried at fair value, and unrealized gains and losses net of applicable income taxes are recognized as a separate component of shareholders' equity.

The fair value of securities available for sale totaled $197.8 million and included gross unrealized gains of $1.2 million and gross unrealized losses of $4.7 million at December 31, 2021. At December 31, 2020, the fair value of securities available for sale totaled $237.0 million and included gross unrealized gains of $3.2 million and gross unrealized losses of $406,000.

Securities classified as held to maturity consist of certain U.S. GSE mortgage-backed securities, corporate debt securities, and state, county, and municipal securities. Securities held to maturity as of December 31, 2021 are carried at their amortized cost of $977.1 million. At December 31, 2020, the amortized cost of securities held to maturity totaled $247.7 million.

The following table sets forth the fair value of available for sale investment securities, the amortized costs of held to maturity , and the percentage distribution at the dates indicated.

	December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Available for sale securities				
U.S. GSE obligations	$ 23,011	12%	$ 23,617	10%
Mortgage-backed securities	173,028	87%	210,630	89%
Corporate debt securities	1,764	1%	2,783	1%
Total securities available for sale	$ 197,803	100%	$ 237,030	100%
Held to maturity securities				
Mortgage-backed securities	$ 864,983	88%	$ 137,435	55%
Corporate debt securities	6,997	1%	6,989	3%
Municipal securities	105,081	11%	103,248	42%
Total securities held to maturity	$ 977,061	100%	$ 247,672	100%
Total	$ 1,174,864		$ 484,702	

The following table sets forth the composition and maturities of investment securities. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years		Total	
At December 31, 2021	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)	Amortized Cost	Weighted Average Yield (1)
					(dollars in thousands)					
Available for sale securities										
U.S. GSE obligations	$ —	—	$ 9,996	0.5%	$ 5,000	2.3%	$ 8,000	2.6%	$ 22,996	1.6%
Mortgage-backed securities	—	—	8,324	1.9%	50,031	1.5%	118,176	1.0%	176,531	1.2%
Corporate debt securities	763	0.6%	980	2.7%	—	—	—	—	1,743	1.8%
Total available for sale securities	$ 763	0.6%	$ 19,300	1.2%	$ 55,031	1.6%	$ 126,176	1.1%	$ 201,270	1.2%
Held to maturity securities										
Mortgage-backed securities	$ —	—	$ 41	0.2%	$ 63,165	2.4%	$ 801,777	1.5%	$ 864,983	1.6%
Corporate debt securities	6,997	2.5%	—	—	—	—	—	—	6,997	2.5%
Municipal securities	3,812	4.5%	18,922	3.5%	37,772	3.4%	44,575	2.7%	105,081	3.2%
Total held to maturity securities	$ 10,809	3.2%	$ 18,963	3.5%	$ 100,937	2.8%	$ 846,352	1.6%	$ 977,061	1.8%
Total	$ 11,572	3.1%	$ 38,263	2.3%	$ 155,968	2.4%	$ 972,528	1.5%	$ 1,178,331	1.7%

(1) Weighted Average Yield is shown on a fully taxable equivalent basis using a federal tax rate of 21% for 2021.

The Company did not record an allowance for credit losses on its investment securities as of December 31, 2021 or 2020. The Company regularly reviews debt securities for expected credit loss using both qualitative and quantitative criteria, as necessary based on the composition of the portfolio at period end.

LOANS

The Company's lending activities are conducted principally in Eastern Massachusetts and Southern New Hampshire. The Company grants single- and multi-family residential loans, C&I loans, CRE loans, construction loans, and a variety of consumer loans. Most of the loans granted by the Company are secured by real estate collateral. Repayment of the Company's residential loans is generally dependent on the health of the employment market in the borrowers' geographic areas and that of the general economy, with liquidation of the underlying real estate collateral being typically viewed as the primary source of repayment in the event of borrower default. The repayment of C&I loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower. As borrower cash flow may be difficult to predict, liquidation of the underlying collateral securing these loans is typically viewed as the primary source of repayment in the event of borrower default. However, collateral typically consists of equipment, inventory, accounts receivable, or other business assets that may fluctuate in value, so the liquidation of collateral in the event of default is often an insufficient source of repayment. For renewable energy loans, cash flow is dependent on energy output and is generated from the contracted sale of energy credits or wholesale energy sales as well as state mandated incentive programs. For PPP loans, the SBA generally guarantees 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount subject to program requirements. The Company's CRE loans are primarily made based on the cash flow from the collateral property and secondarily on the underlying collateral provided by the borrower, with liquidation of the underlying real estate collateral typically being viewed as the primary source of repayment in the event of borrower default. The Company's construction loans are primarily made based on the borrower's expected ability to execute and the future completed value of the collateral property, with sale of the underlying real estate collateral typically being viewed as the primary source of repayment.

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

	December 31,			
	2021	% of Total	2020	% of Total
	(dollars in thousands)			
Residential mortgage				
Mortgages - fixed rate	$ 716,456	22%	$ 535,804	17%
Mortgages - adjustable rate	679,675	21%	734,593	23%
Construction	13,012	0%	25,495	1%
Deferred costs, net of unearned fees	5,936	0%	2,976	0%
Total residential mortgages	1,415,079	43%	1,298,868	41%
Commercial mortgage				
Mortgages - non-owner occupied	1,272,135	38%	1,064,317	35%
Mortgages - owner occupied	150,632	4%	153,474	5%
Construction	86,246	3%	139,075	4%
Deferred costs, net of unearned fees	1,989	0%	2,096	0%
Total commercial mortgages	1,511,002	45%	1,358,962	44%
Home equity				
Home equity - lines of credit	85,639	3%	102,460	3%
Home equity - term loans	2,017	0%	3,503	0%
Deferred costs, net of unearned fees	304	0%	231	0%
Total home equity	87,960	3%	106,194	3%
Commercial and industrial				
Commercial and industrial	247,024	7%	225,441	7%
PPP loans	22,856	1%	124,201	4%
Unearned fees, net of deferred costs	(434)	0%	(1,787)	0%
Total commercial and industrial	269,446	8%	347,855	11%
Consumer				
Secured	34,308	1%	41,409	1%
Unsecured	1,303	0%	341	0%
Deferred costs, net of unearned fees	8	0%	19	0%
Total consumer	35,619	1%	41,769	1%
Total loans	$ 3,319,106	100%	$ 3,153,648	100%

Residential Mortgage. Residential real estate loans held in portfolio were to $1.42 billion at December 31, 2021, an increase of $116.2 million, or 8.9%, from $1.30 billion at December 31, 2020 and consisted of one-to-four family residential mortgage loans or for the construction thereof. The residential mortgage portfolio represented 43% and 41% of total loans at December 31, 2021 and December 31, 2020, respectively.

The average loan balance outstanding in the residential portfolio was $502,000 and the largest individual residential mortgage loan outstanding was $5.5 million as of December 31, 2021. At December 31, 2021, this loan was performing in accordance with its original terms.

The Bank offers fixed and adjustable-rate residential mortgage and construction loans with maturities up to 30 years. One-to-four family residential mortgage loans are generally underwritten according to Federal National Mortgage Association ("Fannie Mae") or Federal Home Loan Mortgage Corporation ("Freddie Mac") guidelines, and we refer to loans that conform to such guidelines as "conforming loans." The Bank generally originates and purchases both fixed and adjustable-rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which increased to $548,250 in 2021 from $510,400 in 2020, for one-unit properties. In addition, the Bank also offers loans above conforming lending limits typically referred to as "jumbo" loans and interest only loans. These loans are typically underwritten to jumbo conforming guidelines; however, the Bank may choose to hold a jumbo loan within its portfolio with underwriting criteria that does not exactly match conforming guidelines. The Bank may also, from time to time, purchase residential loans that are either jumbo, conforming, or meet our CRA requirements. Purchases have historically been made to satisfy CRA requirements for lending to low- and moderate-income borrowers within the Bank's CRA Assessment Area.

Generally, our residential construction loans are based on complete value per plans and specifications, with loan proceeds used to construct the house for single family primary residence. Loans are provided for terms up to 12 months during the construction phase, with loan-to-values that generally do not exceed 80% on as complete basis. The loans then convert to permanent financing at terms up to 360 months.

The Company does not offer reverse mortgages, nor does it offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. The Company does not offer "subprime loans" (loans that are made with low down payments to borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios) or Alt-A loans (defined as loans having less than full documentation).

Residential real estate loans are originated both for sale to the secondary market, as well as for retention in the Bank's loan portfolio. The decision to sell a loan to the secondary market or retain within the portfolio is determined based on a variety of factors, including, but not limited to, the Bank's asset/liability position, the current interest rate environment, and customer preference.

Indemnification. In general, the Company does not sell loans with recourse, except to the extent that it arises from standard loan-sale contract provisions. These provisions cover violations of representations and warranties and, under certain circumstances, first payment default by borrowers. These indemnifications may include the repurchase of loans by the Company and are considered customary provisions in the secondary market for conforming mortgage loan sales. Repurchases and losses have been rare, and no provision is made for losses at the time of sale. There were no such repurchases for the year ended December 31, 2021.

The Company was servicing mortgage loans sold to others without recourse of approximately $170.8 million at December 31, 2021 and $188.2 million at December 31, 2020.

The table below presents residential real estate loan origination activity for the periods indicated:

	For the Year Ended December 31,		
	2021	2020	2019
		(dollars in thousands)	
Originations for retention in portfolio	$ 556,715	$ 378,247	$ 229,163
Originations for sale to the secondary market	22,583	82,620	17,537
Total	$ 579,298	$ 460,867	$ 246,700

Loans are sold with servicing retained or released. The table below presents residential real estate loan sale activity for the periods indicated:

	For the Year Ended December 31,		
	2021	2020	2019
		(dollars in thousands)	
Loans sold with servicing rights retained	$ 25,361	$ 60,453	$ 82,932
Loans sold with servicing rights released	2,465	18,024	7,006
Total	$ 27,826	$ 78,477	$ 89,938

Loans sold with the retention of servicing typically result in the capitalization of servicing rights. Loan servicing rights are included in other assets and subsequently amortized as an offset to other income over the estimated period of servicing. The net balance of capitalized servicing rights amounted to $1.1 million and $1.2 million at December 31, 2021 and 2020, respectively.

Commercial Mortgage. CRE loans were $1.51 billion as of December 31, 2021, an increase of $152.0 million, or 11.2%, from $1.36 billion at December 31, 2020. The CRE loan portfolio represented 45% and 44% of total loans at December 31, 2021 and December 31, 2020, respectively. The average loan balance outstanding in this portfolio was $1.9 million and the largest individual CRE loan outstanding was $30.0 million as of December 31, 2021. At December 31, 2021, this commercial mortgage was performing in accordance with its original terms.

CRE loans are secured by a variety of property types inclusive of multi-family dwellings, retail facilities, office buildings, commercial mixed use, lodging, industrial and warehouse properties, and other specialized properties.

Generally, our CRE loans are for terms of up to 10 years, with loan-to-values that generally do not exceed 75%. Amortization schedules are long-term, and thus, a balloon payment is generally due at maturity. Under most circumstances, the Bank will offer to rewrite or otherwise extend the loan at prevailing interest rates.

Generally, our commercial construction loans are speculative in nature, with loan proceeds used to acquire and develop real estate property for sale or rental. Loans are typically provided for terms up to 36 months during the construction phase, with loan-to-values that generally do not exceed 75% on both an “as is” and “as complete and stabilized” basis. Construction projects are primarily for the development of residential property types, inclusive of one-to-four family and multifamily properties.

Home Equity. The home equity portfolio totaled $88.0 million and $106.2 million at December 31, 2021 and 2020, respectively. The home equity portfolio represented 3% of total loans at both December 31, 2021 and 2020. At December 31, 2021, the largest home equity line of credit was a $3.5 million line of credit and had an outstanding balance of $2.6 million at December 31, 2021. At December 31, 2021, this line of credit was performing in accordance with its original terms.

Home equity lines of credit are extended as both first and second mortgages on owner-occupied residential properties in the Bank’s market area. Home equity lines of credit are generally underwritten with the same criteria that we use to underwrite one-to-four family residential mortgage loans.

Our home equity lines of credit are revolving lines of credit, which generally have a term between 15 and 20 years, with draws available for the first 10 years. Our 15-year lines of credit are interest only during the first 10 years and amortize on a five-year basis thereafter. Our 20-year lines of credit are interest only during the first 10 years and amortize on a 10-year basis thereafter. We generally originate home equity lines of credit with loan-to-value ratios of up to 80% when combined with the principal balance of the existing first mortgage loan, although loan-to-value ratios may occasionally exceed 80% on a case-by-case basis. Maximum combined loan-to-values are determined based on an applicant’s loan/line amount and the estimated property value. Lines of credit above $1.0 million generally will not exceed combined loan-to-value of 75%. Rates are adjusted monthly based on changes in a designated market index. We also offer home equity term loans, which are extended as second mortgages on owner-occupied residential properties in our market area. Our home equity term loans are fixed rate second mortgage loans, which generally have a term between five and 20 years.

Commercial and Industrial ("C&I"). The C&I portfolio totaled $269.4 million at December 31, 2021, a decrease of $78.4 million, or 22.5%, from $347.9 million at December 31, 2020. C&I loans represented 8% and 11% of total loans at December 31, 2021 and 2020, respectively. The average loan balance outstanding in this portfolio, excluding PPP loans and the associated deferred PPP processing fees, was $548,000, and the largest individual commercial and industrial loan outstanding was $9.1 million as of December 31, 2021. At December 31, 2021, this loan was performing in accordance with its original terms.

The Company’s C&I loan customers represent various small- and middle-market established businesses involved in professional and financial services, accommodation and food services, utilities, health care, wholesale trade, manufacturing, distribution, retailing, and non-profits. Most clients are privately owned businesses with markets that range from local to national in scope. Many of the loans to this segment are secured by liens on corporate assets and the personal guarantees of the principals. The Company also makes loans to entrepreneurial and technology businesses, where regional economic strength or weakness impacts the relative risks in this loan category, in addition to renewable energy lending which is more specialized in nature. The Company has expanded its exposure within renewable energy lending but otherwise there are no significant concentrations in any one business sector, and loan risks are generally diversified among many borrowers.

Loans under the SBA’s PPP program, net of associated deferred PPP processing fees, totaled $22.2 million at December 31, 2021 and $124.2 million at December 31, 2020, respectively, and are included in the C&I portfolio.

At December 31, 2021, commercial renewable energy loans totaled $110.2 million and the average loan balance outstanding in this portfolio was $2.5 million. The largest individual loan outstanding was $8.1 million, and this loan was performing in accordance with its original terms at December 31, 2021.

Consumer Loans. The consumer loan portfolio totaled $35.6 million at December 31, 2021, a decrease of $6.2 million, or 14.7%, from $41.8 million at December 31, 2020. Consumer loans represented 1% of the total loan portfolio at both December 31, 2021 and December 31, 2020. The average loan balance outstanding in this portfolio was $12,000 and the largest individual consumer loan outstanding was $3.5 million as of December 31, 2021. At December 31, 2021, this loan was performing in accordance with its original terms.

Consumer loans include secured and unsecured loans, lines of credit, and personal installment loans. Unsecured consumer loans generally have greater risk compared to longer-term loans secured by improved, owner-occupied real estate, particularly consumer loans that are secured by rapidly depreciable assets. The secured consumer loans and lines portfolio are generally fully secured by pledged assets, such as bank accounts or investments.

Loan Portfolio Maturities. The following table summarizes the dollar amount of loans maturing in our portfolio based on their loan type and contractual terms to maturity at December 31, 2021. The table does not include any estimate of prepayments, which can significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

	December 31, 2021				
	One Year or Less	One to Five Years	After Five Years through Fifteen Years	After Fifteen Years	Total
	(dollars in thousands)				
Residential mortgage	$ 2,907	$ 7,308	$ 123,082	$ 1,281,782	$ 1,415,079
Commercial mortgage	8,810	299,205	1,077,694	125,293	1,511,002
Home equity	252	3,932	68,111	15,665	87,960
Commercial and industrial	31,793	68,422	134,304	34,927	269,446
Consumer	35,509	41	69	—	35,619
Total	$ 79,271	$ 378,908	$ 1,403,260	$ 1,457,667	$ 3,319,106

Loan Portfolio by Interest Rate Type. The following table summarizes the dollar amount of loans maturing over one year in our portfolio based on whether the loan has a fixed, adjustable, or floating rate of interest at December 31, 2021. Floating rate loans are tied to a market index while adjustable-rate loans are adjusted based on the contractual terms of the loan.

	December 31, 2021			
	Fixed	Adjustable	Floating	Total
	(dollars in thousands)			
Residential mortgage	$ 724,778	$ 687,356	$ 38	$ 1,412,172
Commercial mortgage	525,536	423,817	552,839	1,502,192
Home equity	2,210	—	85,498	87,708
Commercial and industrial	63,368	27,914	146,371	237,653
Consumer	110	—	-	110
Total	$ 1,316,002	$ 1,139,087	$ 784,746	$ 3,239,835

NONPERFORMING LOANS AND TROUBLED DEBT RESTRUCTURINGS ("TDRs")

The composition of nonperforming loans is as follows:

	December 31,				
	2021	2020	2019	2018	2017
	(dollars in thousands)				
Non-accrual loans	$ 4,628	$ 7,744	$ 4,160	$ 525	$ 1,148
Loans past due > 90 days, but still accruing	—	407	1,264	—	—
Troubled debt restructurings	758	811	227	117	150
Total non-performing loans	$ 5,386	$ 8,962	$ 5,651	$ 642	$ 1,298
Accruing troubled debt restructured loans	$ —	$ —	$ —	$ 6	$ 29
Nonperforming loans as a percentage of gross loans	0.16%	0.28%	0.25%	0.04%	0.10%
Nonperforming loans as a percentage of total assets	0.11%	0.23%	0.20%	0.03%	0.07%

Total non-performing loans decreased by $3.6 million at December 31, 2021 as compared to December 31, 2020, primarily due to lower commercial real estate loans on nonaccrual.

The Company continues to closely monitor the portfolio of non-performing loans for which management has concerns regarding the ability of the borrowers to perform. The majority of the loans are secured by real estate and are considered to have adequate collateral value to cover the loan balances at December 31, 2021 and December 31, 2020, although such values may fluctuate with changes in the economy and the real estate market. In addition to the monitoring and review of loan performance internally, the Company has contracted with an independent organization to review the Company’s commercial and CRE loan portfolios. This independent review was performed in each of the past five years.

Non-accrual Loans. Loans are typically placed on non-accrual status when any payment of principal and/or interest is 90 days or more past due unless the collateral is sufficient to cover both principal and interest and the loan is in the process of collection. The Company monitors closely the performance of its loan portfolio. The status of delinquent loans, as well as situations identified as potential problems, is reviewed on a regular basis by management.

Troubled Debt Restructurings. Loans are considered restructured in a troubled debt restructuring when the Company has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring a loan in lieu of aggressively enforcing the collection of the loan may benefit the Company by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability of the loan. Loans which are already on non-accrual status at the time of the restructuring generally remain on non-accrual status for approximately six months or longer before management considers such loans for return to accruing status. Accruing restructured loans are placed into nonaccrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term. Troubled debt restructurings are individually evaluated for credit losses.

Pursuant to Section 4013 of the CARES Act, financial institutions can suspend the requirements under U.S. GAAP related to TDRs for modifications made before December 31, 2020 to loans that were current as of December 31, 2019. On January 3, 2021, the President signed into law the Consolidated Appropriations Act, 2021 (the "CAA"). As a result of the CAA, the suspension of TDR accounting has been extended to the earlier of January 1, 2022, or the date that is 60 days after the date on which the national emergency concerning the COVID-19 pandemic declared by the President of the United States of America terminates. The requirement that a loan be not more than 30 days past due as of December 31, 2019 was still applicable. In response to the COVID-19 pandemic and its economic impact to customers, a short-term modification program that complies with the CARES Act was implemented to provide temporary payment relief to those borrowers directly impacted by COVID-19. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date. Under recently issued guidance, provided these loans were current as of either year end or the date of the modification, these loans are not considered TDR loans at December 31, 2021 and will not be reported as past due during the deferral period. As of December 31, 2021, the Company had $4.7 million of loans in deferral.

ALLOWANCE FOR CREDIT LOSSES

The following table summarizes the ratios related to the Company's allowance for credit losses and certain asset quality indicators for the years indicated:

	For the Year Ended December 31, 2021	2020	2019
		(dollars in thousands)	
Period-end loans outstanding (net of unearned fees and deferred costs)	$ 3,319,106	$ 3,153,648	$ 2,226,728
Average loans outstanding (net of unearned fees and deferred costs)	$ 3,240,876	$ 2,856,631	$ 1,969,696
Loans on non-accrual	$ 4,628	$ 7,744	$ 4,160
Allowance for credit losses balance at end of period	$ 34,496	$ 36,016	$ 18,180
Net (charge-offs) recoveries to average loans outstanding- Total	0.00%	(0.02)%	(0.08)%
Non-accrual loans to loans outstanding at year end	0.16%	0.28%	0.19%
Allowance for credit losses to total loans (ex. PPP loans)	1.05%	1.19%	0.82%
Ratio of allowance for credit losses on loans to loans on non-accrual	745.38%	465.08%	437.02%
Ratio of allowance for credit losses to loans outstanding	1.04%	1.14%	0.82%

The level of charge-offs depends on many factors, including the national and regional economy. Cyclical lagging factors may result in charge-offs being higher than historical levels. Although the allowance is allocated between categories, the entire allowance is available to absorb losses attributable to all loan categories. Management believes that the allowance for credit losses is adequate.

	For the Year Ended December 31, 2021			2020			2019		
	Average Balance	Net (Charge-offs) Recoveries	Net (Charge-offs) Recoveries to Total Average Loans	Average Balance	Net (Charge-offs) Recoveries	Net (Charge-offs) Recoveries to Total Average Loans	Average Balance	Net (Charge-offs) Recoveries	Net (Charge-offs) Recoveries to Total Average Loans
				(dollars in thousands)					
Residential mortgages	$ 1,343,112	(4)%	0.00 %	$ 1,160,998	— %	0.00 %	$ 842,472	— %	0.00 %
Commercial mortgages	1,424,126	30	0.00	1,253,401	(264)	(0.01)	893,107	(1,270)	(0.07)
Home equity	94,949	—	0.00	97,574	—	0.00	78,996	—	0.00
Commercial and industrial	338,494	140	0.00	304,194	(150)	(0.01)	120,844	(285)	(0.01)
Consumer	40,195	(12)	0.00	40,465	(25)	0.00	34,277	(37)	0.00
Total	$ 3,240,876	154 %	0.00 %	$ 2,856,632	(439) %	(0.02) %	$ 1,969,696	(1,592) %	(0.08)%

The following table presents the allocation of the allowance for credit losses for loans by loan category:

	At December 31,					
	2021			2020		
	Allowance Amount	% of Allowance	% of Total Loans	Allowance Amount	% of Allowance	% of Total Loans
	(dollars in thousands)					
Residential mortgages	$ 13,383	39 %	43 %	$ 13,067	36 %	41 %
Commercial mortgages	17,133	49	46	18,564	52	48
Home equity	406	1	2	552	2	4
Commercial and industrial	2,989	9	8	3,309	9	6
Consumer	585	2	1	524	1	1
Total Allowance	$ 34,496	100 %	100 %	$ 36,016	100 %	100 %

See additional discussion regarding the allowance for credit losses, in Item 7 under the caption “Critical Accounting Estimates” and in Note 7 to the Audited Consolidated Financial Statements.

SOURCES OF FUNDS

General. Deposits traditionally have been our primary source of funds for our investment and lending activities. The Company also borrows from the FHLB of Boston or the Federal Reserve Bank of Boston (“FRB of Boston”), and utilizes brokered deposits to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes, and to manage our cost of funds. The Company's additional sources of funds are scheduled payments and prepayments of principal and interest on loans and investment securities, fee income, and proceeds from the sales of loans and securities.

Deposits. The Company accepts deposits primarily from customers in the communities in which its branches and offices are located, as well as from small- and medium-sized businesses and other customers throughout its lending area. We rely on our competitive pricing and products, convenient locations, and client service to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of relationship checking for consumers and businesses, statement savings accounts, certificates of deposit, money market accounts, interest on lawyer trust accounts, commercial and regular checking accounts, and individual retirement accounts. Deposit rates and terms are based primarily on current business strategies, market interest rates, liquidity requirements, and our deposit growth goals. The Bank may also access the brokered deposit market for funding.

The following table sets forth the Company’s deposits for the periods indicated:

	December 31,			
	2021		2020	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Demand deposits (non-interest bearing)	$ 1,393,935	32.1%	$ 1,006,132	29.7%
Interest bearing checking	763,188	17.6%	625,650	18.4%
Money market	1,104,238	25.5%	532,218	15.6%
Savings	907,722	21.0%	984,262	28.9%
Retail certificates of deposit under $250,000	99,196	2.3%	127,202	3.7%
Retail certificates of deposit of $250,000 or greater	60,171	1.4%	96,831	2.8%
Wholesale certificates of deposit	2,702	0.1%	30,788	0.9%
Total	$ 4,331,152	100.0%	$ 3,403,083	100.0%

At December 31, 2021, we had a total of $159.4 million in certificates of deposit, excluding brokered deposits, of which $129.1 million had remaining maturities of one year or less. The Company had total brokered deposits of $2.7 million, $30.8 million, and $7.1 million at December 31, 2021, 2020, and 2019 respectively.

The amount of deposits above the FDIC's limit of $250,000 was $2.19 billion and $1.52 billion as of December 31, 2021 and 2020, respectively.

Retail certificates of deposit of $250,000 or greater by maturity are as follows:

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Within three months	$ 30,889	$ 18,080
Over 3 months, within six months	5,243	22,550
Over six months, within twelve months	11,142	44,664
Over twelve months.	12,897	11,537
Total	$ 60,171	$ 96,831

Interest expense on retail certificates of deposit of $250,000 or greater was $551,000, $832,000, and $1.3 million for the years ended December 31, 2021, 2020, and 2019, respectively.

The following table sets forth certificates of deposit classified by interest rate as of the dates indicated:

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Interest Rate:		
0.00% to 0.50%	$ 107,025	$ 122,310
0.51% to 1.00%	37,265	34,422
1.00% to 1.99%	7,115	62,194
2.00% to 2.99%	10,664	35,895
Total	$ 162,069	$ 254,821

Borrowings. Total borrowings were $16.5 million, a decrease of $16.5 million as compared to $33.0 million at December 31, 2020. The Company's borrowings consisted of advances from the FHLB of Boston. FHLB of Boston advances are collateralized by a blanket pledge agreement on the Company's FHLB of Boston stock and residential mortgages held in the Bank's portfolios.

The Company's remaining borrowing capacity at the FHLB of Boston at December 31, 2021 was approximately $779.0 million. In addition, the Company has a $10.0 million line of credit with the FHLB of Boston.

The Company had no borrowings outstanding with the FRB of Boston at both December 31, 2021 and 2020. The Company's remaining borrowing capacity at the FRB of Boston at December 31, 2021 was approximately $419.6 million.

See NOTE 12 - BORROWINGS, for a schedule, including related interest rates and other information.

NET INTEREST MARGIN

Net interest income represents the difference between interest earned, primarily on loans and investments, and interest paid on funding sources, primarily deposits and borrowings. Interest rate spread is the difference between the average rate earned on total interest-earning assets and the average rate paid on total interest-bearing liabilities. Net interest margin is the amount of net interest income, on a fully taxable-equivalent basis, expressed as a percentage of average interest-earning assets. The average rate earned on earning assets is the amount of annualized taxable equivalent interest income expressed as a percentage of average earning assets. The average rate paid on interest-bearing liabilities is equal to annualized interest expense as a percentage of average interest-bearing liabilities.

The following table sets forth the distribution of the Company's daily average assets, liabilities and shareholders' equity, and average rates earned or paid on a fully taxable equivalent basis for each of the periods indicated:

	Year Ended								
	December 31, 2021			December 31, 2020			December 31, 2019		
	Average Balance	Interest Income/ Expenses(1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expenses (1)	Rate Earned/ Paid (1)
	(dollars in thousands)								
ASSETS									
Interest-earning assets									
Loans (2)									
Taxable	$ 3,203,126	$ 120,019	3.75%	$ 2,832,796	$ 119,447	4.22%	$ 1,952,374	$ 84,382	4.32%
Tax-exempt	37,750	1,525	4.04	23,835	1,115	4.68	17,322	740	4.27
Securities available for sale (3)									
Taxable	217,096	2,617	1.21	136,776	2,337	1.71	154,256	2,884	1.87
Securities held to maturity									
Taxable	424,499	6,847	1.61	152,789	3,711	2.43	204,909	5,079	2.48
Tax-exempt	104,114	3,329	3.20	89,841	3,145	3.50	75,432	2,897	3.84
Cash and cash equivalents	141,278	150	0.11	69,783	187	0.27	50,839	731	1.44
Total interest-earning assets (4)	4,127,863	134,487	3.26%	3,305,820	129,942	3.93%	2,455,132	96,713	3.94%
Non-interest-earning assets	251,652			245,316			162,529		
Allowance for credit losses	(35,642)			(27,887)			(17,345)		
Total assets	$ 4,343,873			$ 3,523,249			$ 2,600,316		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest-bearing deposits									
Checking accounts	$ 675,753	$ 265	0.04%	$ 554,000	$ 682	0.12%	$ 417,226	$ 440	0.11%
Savings accounts	957,039	861	0.09	937,247	3,378	0.36	827,279	8,708	1.05
Money market accounts	765,021	2,769	0.36	350,117	1,277	0.36	189,836	2,481	1.31
Certificates of deposit	209,311	1,079	0.52	259,568	1,958	0.75	221,299	4,012	1.81
Total interest-bearing deposits	2,607,124	4,974	0.19%	2,100,932	7,295	0.35%	1,655,640	15,641	0.94%
Subordinated debt	—	—	—	5,408	444	8.21	—	—	—
Other borrowed funds	18,466	559	3.03	123,693	1,406	1.14	86,712	2,002	2.31
Total interest-bearing liabilities	2,625,590	5,533	0.21%	2,230,033	9,145	0.41%	1,742,352	17,643	1.01%
Non-interest-bearing liabilities									
Demand deposits	1,197,056			838,653			567,500		
Other liabilities	103,459			103,086			68,847		
Total liabilities	3,926,105			3,171,772			2,378,699		
Shareholders' equity	417,768			351,477			221,617		
Total liabilities & shareholders' equity	$ 4,343,873			$ 3,523,249			$ 2,600,316		
Net interest income on a fully taxable equivalent basis		128,954			120,797			79,070	
Less taxable equivalent adjustment		(1,019)			(895)			(764)	
Net interest income		$ 127,935			$ 119,902			$ 78,306	
Net interest spread (5)			3.05%			3.52%			2.93%
Net interest margin (6)			3.12%			3.65%			3.22%

(1) Annualized on a fully taxable equivalent basis calculated using a federal tax rate of 21% for 2021, 2020, and 2019.

(2) Non-accrual loans are included in average amounts outstanding.

(3) Average balances of securities available for sale calculated utilizing amortized cost.

(4) Federal Home Loan Bank stock balance is excluded from interest-earning assets and dividend income is excluded from interest income.

(5) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets, inclusive of PPP loans originated during 2021 and 2020, and the weighted average cost of interest-bearing liabilities.

(6) Net interest margin represents net interest income on a fully tax equivalent basis as a percentage of average interest-earning assets, inclusive of PPP loans originated during 2021 and 2020.

Rate/Volume Analysis

The following table describes the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected the Company's interest income and interest expense during the periods indicated. Information is provided in each category with respect to: (i) changes attributable to changes in volumes (changes in average balance multiplied by prior year average rate), (ii) changes attributable to changes in rate (change in average interest rate multiplied by prior year average balance), and (iii) changes attributable to the combined impact of volumes and rates have been allocated proportionately to separate volume and rate categories.

	Year Ended December 31, 2021 Compared with Year Ended December 31, 2020 Increase/(Decrease) Due to Change in			Year Ended December 31, 2020 Compared with Year Ended December 31, 2019 Increase/(Decrease) Due to Change in		
	Volume	Rate	Total	Volume	Rate	Total
	(dollars in thousands)			(dollars in thousands)		
Interest income						
Loans						
Taxable	$ 14,676	$ (14,104)	$ 572	$ 37,171	$ (2,106)	$ 35,065
Tax-exempt	579	(169)	410	299	76	375
Securities available for sale						
Taxable	1,103	(823)	280	(311)	(236)	(547)
Securities held to maturity						
Taxable	4,735	(1,599)	3,136	(1,268)	(100)	(1,368)
Tax-exempt	472	(288)	184	520	(272)	248
Cash and cash equivalents	119	(156)	(37)	203	(747)	(544)
Total interest income	$ 21,684	$ (17,139)	$ 4,545	$ 36,614	$ (3,385)	$ 33,229
Interest expense						
Deposits						
Checking accounts	125	(542)	(417)	160	82	242
Savings accounts	70	(2,587)	(2,517)	1,030	(6,360)	(5,330)
Money market accounts	1,502	(10)	1,492	1,280	(2,484)	(1,204)
Certificates of deposit	(334)	(545)	(879)	601	(2,655)	(2,054)
Total interest-bearing deposits	1,363	(3,684)	(2,321)	3,071	(11,417)	(8,346)
Subordinated debt	(444)	—	(444)	444	—	444
Other borrowed funds	(1,869)	1,022	(847)	656	(1,252)	(596)
Total interest expense	$ (950)	$ (2,662)	$ (3,612)	$ 4,171	$ (12,669)	$ (8,498)
Change in net interest income	$ 22,634	$ (14,477)	$ 8,157	$ 32,443	$ 9,284	$ 41,727

Excluding the impact of merger-related loan accretion and the impact of PPP loans, the adjusted net interest margin for the year ended December 31, 2021 was 2.93%, representing a 43 basis points decrease over the adjusted net interest margin for the year ended December 31, 2020 of 3.36%.

	Year Ended December 31, 2021		
	Average Balance	Interest Income/ Expenses	Rate Earned/ Paid
		(dollars in thousands)	
Total interest-earning assets (GAAP)	$ 4,127,863		
Net interest income on a fully taxable equivalent basis (GAAP)		$ 128,954	
Net interest margin on a fully taxable equivalent basis (GAAP)			3.12%
Less: Paycheck Protection Program loan impact	(102,979)	(6,089)	-0.07%
Less: Accretion of loan fair value adjustments		(4,771)	-0.12%
Adjusted net interest margin on a fully taxable equivalent basis	**$ 4,024,884**	**$ 118,094**	**2.93%**

MARKET RISK AND ASSET LIABILITY MANAGEMENT

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

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

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

Interest Rate Sensitivity. The Company actively manages its interest rate sensitivity position. The objectives of interest rate risk management are to control exposure of net interest income to risks associated with interest rate movements and to achieve sustainable growth in net interest income. Responsibility for the management of the Company's interest rate sensitivity position falls under the authority of the Board of Directors (the "Board") which, in turn, has assigned authority for its formulation, revision and administration to the Risk Committee of the Board of Directors who reviews, approves and reports on information provided by the Investment and Asset/Liability Committee (the "ALCO" or the "Committee"). The Company manages interest rate sensitivity by changing the mix, pricing, and re-pricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offerings of loan and selected deposit terms, and through wholesale funding. Wholesale funding consists of, but is not limited to, multiple sources, including borrowings with the FHLB of Boston, the FRB of Boston's discount window, and certificates of deposit from institutional brokers.

The Company uses several tools to manage its interest rate risk including interest rate sensitivity analysis, or gap analysis, market value of portfolio equity analysis, interest rate simulations under various rate scenarios, and net interest margin reports. The results of these reports are compared to limits established by the Company's ALCO policies and appropriate adjustments may be made if the results are outside the established limits.

The following table demonstrates the annualized result of an interest rate simulation (excluding purchase accounting adjustments and PPP fee income) and the estimated effect that a parallel interest rate shift, or "instantaneous shock," in the yield curve and subjective adjustments in deposit pricing might have on the Company's projected net interest income over the next 12 months.

As of December 31, 2021:

Change in Interest Rates (in Basis Points)	Year 1 Percentage Change in Net Interest Income
Parallel rate shocks	
+300	(4.3)
+200	(3.4)
+100	(1.6)
–100	(4.4)

The following table demonstrates the annualized result of an interest rate simulation (excluding purchase accounting adjustments and PPP fee income) and the estimated effect that a gradual interest rate shift in the yield curve and subjective adjustments in deposit pricing might have on the Company's projected net interest income over the next 12 months.

As of December 31, 2021:

Change in Interest Rates (in Basis Points)	Year 1 Percentage Change in Net Interest Income
Gradual rate shifts	
+200	3.00
–100	(0.2)

These simulations assume that there is no growth in interest-earning assets or interest-bearing liabilities over the next 12 months. The changes to net interest income shown above are in compliance with the Company's policy guidelines.

These estimates of changes in the Company's net interest income require us to make certain assumptions including loan- and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain and, as a result, we cannot precisely predict the impact of changes in interest rates on net interest income. Although our analysis provides an indication of our interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates and will differ from actual results.

Economic Value of Equity Analysis. The Company also analyzes the sensitivity of the Bank's financial condition to changes in interest rates through our economic value of equity model. This analysis measures the difference between estimated changes in the present value of the Bank's assets and estimated changes in the present value of the Bank's liabilities assuming various changes in current interest rates.

The Bank's economic value of equity analysis as of December 31, 2021, estimated that, in the event of an instantaneous 200 basis point increase in interest rates, the Bank would experience a 5.7% increase in the economic value of equity for the next 12 months, resulting in an economic value of equity ratio of 9.4%. At the same date, our analysis estimated that, in the event of an instantaneous 100 basis point decrease in interest rates, the Bank would experience a 23.5% increase in the economic value of equity, resulting in an economic value of equity ratio of 10.1%. The estimates within the economic value of equity calculation are significantly impacted by management's assumption that the value of non-maturity deposits do not fall below their stated balance as of December 31, 2021. This assumption has the impact of increasing the Bank's economic value of equity in the falling rate scenario as lower market rates increase the value of the loan and investment portfolios while the value of the non-maturity deposit base remains static. The Company believes retaining customer relationships is the most desirable strategy over the long term.

The estimates of changes in the economic value of our equity require us to make certain assumptions including loan- and mortgage-related investment prepayment speeds, reinvestment rates, and deposit maturities and decay rates. These assumptions are inherently uncertain and, as a result, we cannot precisely predict the impact of changes in interest rates on the economic value of our equity. Although our economic value of equity analysis provides an indication of our interest rate risk exposure at a particular point in time, such estimates are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on the economic value of our equity and will differ from actual results.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity. Liquidity is defined as the Company's ability to generate adequate cash to meet its needs for day-to-day operations and material long- and short-term commitments. Liquidity risk is the risk of potential loss if the Company were unable to meet its funding requirements at a reasonable cost. The Company manages its liquidity based on demand and specific events and uncertainties to meet current and future financial and contractual obligations of a short-term nature. The Company's objective in managing liquidity is to respond to the needs of depositors and borrowers, as well as increase to earnings enhancement opportunities in a changing marketplace.

The Company's liquidity position is managed on a daily basis as part of the daily settlement function and continuously as part of the formal asset liability management process. The Bank's liquidity is maintained by managing its core deposits as the primary source, selling investment securities, selling loans in the secondary market, borrowing from the FHLB of Boston and FRB of Boston, and purchasing wholesale certificates of deposit as its secondary sources. At December 31, 2021, the Company had access to funds totaling $1.70 billion.

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

Quarterly, the Risk Committee reviews the Company's liquidity needs and reports any findings (if required) to the Board of Directors.

Capital Adequacy. Total shareholders' equity was $437.8 million at December 31, 2021, as compared to $401.7 million at December 31, 2020. The Company's equity increased primarily due to net income of $54.0 million, partially offset by regular dividend payments of $16.6 million paid during the year. Book value per share was $62.83 and $58.00, at December 31, 2021 and 2020, respectively.

The Company and the Bank are subject to various regulatory capital requirements. As of December 31, 2021, the Company and the Bank exceeded the regulatory minimum levels to be considered "well capitalized." See NOTE 18 – SHAREHOLDERS' EQUITY to the Consolidated Financial Statements for additional discussion of regulatory capital requirements.

Contractual Obligations, Commitments, and Contingencies

As of December 31, 2021 and December 31, 2020, the Company had outstanding commitments to extend credit of $809.4 million and $584.5 million, respectively, and commitments associated with outstanding letters of credit of $18.9 million and $9.4 million, respectively. Since commitments associated with commitments to extend credit and outstanding letters of credit may expire unused, the total outstanding may not necessarily reflect the actual future cash funding requirements.

As of December 31, 2021, 2020 and 2019, the Company had no exposure to future cash requirements associated with known uncertainties or capital expenditures of a material nature.

As of December 31, 2021, the Company had cash and cash equivalents of $180.2 million compared with $75.8 million at December 31, 2020, an increase of $104.4 million, or 137.7%.

In the ordinary course of business, the Company has entered into numerous contractual obligations and commitments. The following table summarizes the Company's contractual cash obligations by maturity at December 31, 2021:

	Payments Due — By Period as of December 31, 2021				
CONTRACTUAL OBLIGATIONS	**Total**	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**After Five Years**
			(dollars in thousands)		
FHLBB advances	$ 16,510	$ 289	$ 16,221	$ —	$ —
Retirement benefit obligations	30,286	2,657	5,608	5,938	16,083
Lease obligations	37,086	7,211	12,913	9,000	7,962
Certificates of deposit	162,069	132,212	23,505	6,352	—
Total contractual cash obligations	$ 245,951	$ 142,369	$ 58,247	$ 21,290	$ 24,045

Further discussion regarding commitments and contingencies can be found in NOTE 16 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK and NOTE 17 – COMMITMENTS AND CONTINGENCIES to the Consolidated Financial Statements.

FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily include commitments to originate and sell loans, standby letters of credit, unused lines of credit, and unadvanced portions of construction loans. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in these particular classes of financial instruments.

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

Off-Balance-Sheet Arrangements. Our significant off-balance-sheet arrangements consist of the following:

- commitments to originate and sell loans,
- standby and commercial letters of credit,
- unused lines of credit,
- unadvanced portions of construction loans,
- unadvanced portions of other loans,
- loan related derivatives, and
- risk participation agreements.

Off-balance-sheet arrangements are more fully discussed in NOTE 16 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK to the Consolidated Financial Statements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The information required by this item is included in Item 7 of this report under "Market Risk and Asset Liability Management."

Item 8. Financial Statements and Supplementary Data.

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

		December 31, 2021		December 31, 2020
		(dollars in thousands, except par value)		
Assets				
Cash and cash equivalents	$	180,153	$	75,785
Investment securities				
Available for sale, at fair value (amortized cost $201,270 and $234,252, respectively)		197,803		237,030
Held to maturity, at amortized cost (fair value $971,092 and $260,139, respectively)		977,061		247,672
Total investment securities		1,174,864		484,702
Loans held for sale, at lower of cost or fair value		1,490		6,909
Loans				
Residential mortgage		1,415,079		1,298,868
Commercial mortgage		1,511,002		1,358,962
Home equity		87,960		106,194
Commercial and industrial		269,446		347,855
Consumer		35,619		41,769
Total loans		3,319,106		3,153,648
Less: allowance for credit losses on loans		(34,496)		(36,016)
Net loans		3,284,610		3,117,632
Federal Home Loan Bank of Boston Stock, at cost		4,816		5,734
Bank owned life insurance		46,970		46,169
Banking premises and equipment, net		17,326		18,158
Right-of-use asset operating leases		31,273		34,927
Deferred income taxes, net		9,985		11,639
Accrued interest receivable		9,162		9,514
Goodwill		51,912		51,912
Merger-related intangibles, net		2,617		2,977
Other assets		76,366		83,239
Total assets	$	4,891,544	$	3,949,297
Liabilities				
Deposits				
Demand	$	1,393,935	$	1,006,132
Interest-bearing checking		763,188		625,650
Money market		1,104,238		532,218
Savings		907,722		984,262
Certificates of deposit		162,069		254,821
Total deposits		4,331,152		3,403,083
Borrowings		16,510		32,992
Operating lease liabilities		33,871		37,448
Other liabilities		72,174		74,042
Total liabilities		4,453,707		3,547,565
Shareholders' Equity				
Common stock, par value $1.00; Authorized: 10,000,000 shares; Outstanding: 6,968,192 shares and 6,926,728 shares, respectively		6,968		6,927
Additional paid-in capital		229,205		226,967
Retained earnings		202,874		165,404
Accumulated other comprehensive income (loss)		(1,210)		2,434
Total shareholders' equity		437,837		401,732
Total liabilities and shareholders' equity	$	4,891,544	$	3,949,297

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	For the Year Ended December 31,		
	2021	2020	2019
Interest and dividend income			
Interest on taxable loans	$ 120,019	$ 119,447	$ 84,382
Interest on tax-exempt loans	1,205	880	584
Interest on taxable investment securities	9,464	6,048	7,963
Interest on tax-exempt investment securities	2,630	2,485	2,289
Dividends on FHLB of Boston stock	46	331	390
Interest on overnight investments	150	187	731
Total interest and dividend income	133,514	129,378	96,339
Interest expense			
Interest on deposits	4,974	7,295	15,641
Interest on borrowed funds	559	1,406	2,002
Interest on subordinated debt	—	444	—
Total interest expense	5,533	9,145	17,643
Net interest and dividend income	127,981	120,233	78,696
Provision for (release of) credit losses	(1,294)	18,310	3,004
Net interest and dividend income after provision for (release of) credit losses	129,275	101,923	75,692
Noninterest income			
Wealth management revenue	35,037	29,751	26,499
Deposit account fees	1,939	2,595	3,185
ATM/Debit card income	1,567	1,308	1,413
Bank owned life insurance income	801	747	612
Gain (loss) on disposition of investment securities	—	69	(79)
Gain on loans sold, net	832	1,850	1,170
Loan related derivative income	2,124	1,479	1,674
Other income	2,024	1,726	1,927
Total noninterest income	44,324	39,525	36,401
Noninterest expense			
Salaries and employee benefits	65,127	58,975	47,494
Occupancy and equipment	13,898	13,004	10,855
Data processing	8,829	7,662	6,232
Professional services	5,391	4,190	3,623
Marketing	2,536	1,818	1,760
FDIC insurance	1,318	992	291
Non-operating expenses	1,118	7,612	4,721
Other expenses	2,267	3,832	3,199
Total noninterest expense	100,484	98,085	78,175
Income before income taxes	73,115	43,363	33,918
Income tax expense	19,091	11,404	8,661
Net income	$ 54,024	$ 31,959	$ 25,257
Share data:			
Weighted average shares outstanding, basic	6,926,257	6,289,481	4,629,255
Weighted average shares outstanding, diluted	6,990,603	6,344,409	4,661,720
Basic earnings per share	$ 7.76	$ 5.07	$ 5.41
Diluted earnings per share	$ 7.69	$ 5.03	$ 5.37

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the Year Ended December 31,		
	2021	2020	2019
		(dollars in thousands)	
Net income	$ 54,024	$ 31,959	$ 25,257
Other comprehensive income (loss), net of tax:			
Available for sale securities			
Unrealized holding gains (losses)	(4,622)	2,800	2,500
Less: reclassification adjustment for gains (losses) realized in net income	—	(57)	62
Total unrealized gains (losses) on available for sale securities	(4,622)	2,743	2,562
Interest rate swaps designated as cash flow hedges			
Unrealized holding gains (losses)	(959)	4,758	713
Less: reclassification adjustment for gains (losses) realized in net income	(1,864)	(1,354)	108
Total unrealized gains (losses) on interest rate swaps	(2,823)	3,404	821
Defined benefit retirement plans			
Change in retirement liabilities	3,801	(1,232)	623
Other comprehensive income (loss)	(3,644)	4,915	4,006
Comprehensive income	$ 50,380	$ 36,874	$ 29,263

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

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

	For the Year Ended December 31,				
	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	(dollars in thousands, except per share data)				
Balance at December 31, 2018	$ 4,107	$ 38,271	$ 131,135	$ (6,487)	$ 167,026
Net income	—	—	25,257	—	25,257
Other comprehensive income	—	—	—	4,006	4,006
Share based compensation and other share-based activity	20	2,150	—	—	2,170
Dividends declared ($2.04 per share)	—	—	(9,517)	—	(9,517)
Common stock issued for Optima merger	723	58,694	—	—	59,417
Common stock offering	551	37,651	—	—	38,202
Balance at December 31, 2019	$ 5,401	$ 136,766	$ 146,875	$ (2,481)	$ 286,561
Balance at December 31, 2019	$ 5,401	$ 136,766	$ 146,875	$ (2,481)	$ 286,561
Cumulative effect of accounting changes (Note 3)	—	—	(347)	—	(347)
Net income	—	—	31,959	—	31,959
Other comprehensive income	—	—	—	4,915	4,915
Share based compensation and other share-based activity	23	4,541	—	—	4,564
Dividends declared ($2.12 per share)	—	—	(13,083)	—	(13,083)
Common stock issued for Wellesley merger	1,503	85,660	—	—	87,163
Balance at December 31, 2020	$ 6,927	$ 226,967	$ 165,404	$ 2,434	$ 401,732
Balance at December 31, 2020	$ 6,927	$ 226,967	$ 165,404	$ 2,434	$ 401,732
Net income	—	—	54,024	—	54,024
Other comprehensive loss	—	—	—	(3,644)	(3,644)
Share based compensation and other share-based activity	41	2,238	—	—	2,279
Dividends declared ($2.38 per share)	—	—	(16,554)	—	(16,554)
Balance at December 31, 2021	$ 6,968	$ 229,205	$ 202,874	$ (1,210)	$ 437,837

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 54,024	$ 31,959	$ 25,257
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for (release of) credit losses	(1,294)	18,310	3,004
Amortization (accretion) of deferred charges and fees, net	(1,434)	(780)	166
(Accretion), depreciation, and amortization, net	(1,838)	(8,134)	828
Bank owned life insurance income	(801)	(747)	(612)
(Gain) loss on disposition of investment securities	—	(69)	79
Share-based compensation and other share-based activity	2,279	4,564	2,170
Change in accrued interest receivable	352	253	(162)
Deferred income tax expense (benefit)	2,899	(665)	110
Change in other assets, net	5,473	(22,863)	(11,667)
Change in other liabilities, net	429	20,332	11,166
Change in loans held for sale	5,419	(5,363)	(1,546)
Net cash provided by operating activities	65,508	36,797	28,793
CASH FLOWS FROM INVESTING ACTIVITIES			
Origination of loans	(1,327,044)	(1,070,321)	(790,097)
Proceeds from principal payments of loans	1,170,430	1,022,516	524,907
Proceeds from loan pool sale	—	—	74,412
Proceeds from calls/maturities of securities available for sale	42,169	47,087	49,832
Purchase of securities available for sale	(9,927)	(140,570)	(23,450)
Proceeds from sales of securities available for sale	—	10,821	26,552
Proceeds from calls/maturities of securities held to maturity	70,800	56,007	72,655
Purchase of securities held to maturity	(801,775)	(33,818)	(48,906)
Redemption of FHLB of Boston stock	918	8,505	456
Purchase of banking premises and equipment	(2,033)	(2,218)	(1,896)
Net cash acquired in business combinations	—	43,063	2,063
Net cash used in investing activities	(856,462)	(58,928)	(113,472)
CASH FLOWS FROM FINANCING ACTIVITIES			
Change in demand, interest bearing, money market and savings accounts	1,020,821	422,866	171,961
Change in certificates of deposit	(92,552)	(138,213)	(101,928)
Change in borrowings	(16,393)	(224,989)	28,823
Proceeds from common stock offering (net of underwriting fees)	—	—	38,202
Redemption of subordinated debt	—	(10,000)	—
Cash dividends paid on common stock	(16,554)	(13,083)	(9,517)
Net cash provided by financing activities	895,322	36,581	127,541
Net change in cash and cash equivalents	104,368	14,450	42,862
Cash and cash equivalents at beginning of period	75,785	61,335	18,473
Cash and cash equivalents at end of period	$ 180,153	$ 75,785	$ 61,335
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid during the period for:			
Interest	$ 5,656	$ 9,172	$ 17,918
Income taxes	9,054	14,628	7,770
Significant non-cash transactions			
Right-of-use assets for lessee operating leases	—	—	33,587
Right-of-use liabilities for lessee operating leases	—	—	35,054
Transfer of other real estate owned	—	2,293	163
Common Stock issued to shareholders due to merger	—	87,163	59,417
Fair value of assets acquired, net of cash acquired	—	961,668	548,801
Fair value of liabilities assumed	—	917,569	491,447

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

1. THE BUSINESS

The accompanying consolidated financial statements include the accounts of Cambridge Bancorp (the "Company") and its wholly owned subsidiary, Cambridge Trust Company (the "Bank"), and the Bank's subsidiaries, Cambridge Trust Company of New Hampshire, Inc., CTC Security Corporation, and CTC Security Corporation III. References to the Company herein relate to the consolidated group of companies. All significant intercompany accounts and transactions have been eliminated in preparation of the consolidated financial statements.

The Company is a state-chartered, federally registered bank holding company headquartered in Cambridge, Massachusetts, incorporated in 1983. The Company is the sole shareholder of the Bank, a Massachusetts trust company chartered in 1890 which is a commercial bank. The Company is a private bank offering a full range of private banking and wealth management services to its clients. The private banking business, the Company's only reportable operating segment, is managed as a single strategic unit.

As a private bank, the Company focuses on four core services that center around client needs. The core services include Wealth Management, Commercial Banking, Residential Lending, and Personal Banking. The Bank offers a full range of commercial and consumer banking services through its network of 19 banking offices in Massachusetts and New Hampshire. 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 two wholly owned Massachusetts security corporations, CTC Security Corporation and CTC Security Corporation III, for this purpose. Deposits at the Bank are insured by the Federal Deposit Insurance Corporation ("FDIC") for the maximum amount permitted by FDIC Regulations.

Trust and investment management services are offered through the Bank's private banking offices in Massachusetts and New Hampshire, and its wealth management offices located in Boston and Wellesley, Massachusetts and Concord, Manchester, and Portsmouth, New Hampshire. The Bank also has a non-depository trust company, Cambridge Trust Company of New Hampshire, Inc., which allows non-New Hampshire residents the opportunity to take advantage of the state's favorable trust laws. The assets held for wealth management clients are not assets of the Bank and, accordingly, are not reflected in the accompanying consolidated balance sheets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates. The allowance for credit losses, the valuation of deferred tax assets, and the valuation of assets acquired and liabilities assumed in business combinations are particularly subject to change.

Reclassifications

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

Cash and Cash Equivalents

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

Investment Securities

Investment securities are classified as either "held to maturity" or "available for sale" in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 320, *Investments – Debt Securities.* Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost.

Debt 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 shareholders' equity. The Company classifies its securities based on its intention at the time of purchase.

Purchase premiums and discounts are recognized in interest income using the effective yield or straight-line method over the term of the securities, except for callable debt securities for which the purchase premiums are recognized through the earliest call date. Gains and losses on the sale of debt securities are recorded on the trade date and determined using the specific identification method.

Allowance for Credit Losses - Held to Maturity Securities

The Company measures expected credit losses on held to maturity debt securities on a collective basis by security type and risk rating where available. The reserve for each pool is calculated based on a Probability of Default/Loss Given Default ("PD/LGD") basis taking into consideration the expected life of each security. Held to maturity securities which are issued by the United States of America ("U.S.") or are guaranteed by U.S. federal agencies do not currently have an allowance for credit loss as the Company determined these securities are either backed by the full faith and credit of the U.S. government and/or there is an unconditional commitment to make interest payments and to return the principal investment in full to investors when a debt security reaches maturity. The Company will evaluate this position no less than annually, however, certain items which may cause the Company to change this methodology include legislative changes that remove a government-sponsored enterprise's ("GSE") ability to draw funds from the U.S. government, or legislative changes to housing policy that reduce or eliminate the U.S. government's implicit guarantee on such securities. For securities which are not U.S. treasury or agency backed, risk ratings are generally sourced from Moody's or Standard & Poor's. The Company updates loss given default, probability of default, and recovery rates for each security as that information becomes available but no less than annually. The expected remaining life to maturity of each applicable security is updated quarterly. Any expected credit losses on held to maturity securities would be presented as an allowance rather than as a direct write-down through the consolidated statements of income if the Company does not intend to sell or believes that it is more likely than not that the Company will be required to sell the security.

Allowance for Credit Losses - Available for Sale Securities

The Company measures expected credit losses on available for sale securities based upon the gain or loss position of the security. For available for sale debt securities in an unrealized loss position, which the Company does not intend to sell, or it is not more likely than not that the Company will be required to sell the security before recovery of the Company's amortized cost, the Company evaluates qualitative criteria to determine any expected loss. This includes among other items the financial health of, and specific prospects for the issuer, including whether the issuer is in compliance with the terms and covenants of the security. The Company also evaluates quantitative criteria including determining whether there has been an adverse change in expected future cash flows of the security. If the Company does not expect to recover the entire amortized cost basis of the security, an allowance for credit losses would be recorded, with a related charge to earnings, limited by the amount of the fair value of the security less its amortized cost. If the Company intends to sell the security or it is more likely than not that the Company will be required to sell the debt security before recovery of its amortized cost basis, the Company recognizes the entire difference between the security's amortized cost basis and its fair value in earnings.

Loans

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 credit losses. Loans are considered delinquent when a payment of principal and/or interest becomes past due 30 days following its scheduled payment due date. Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Loans are removed from non-accrual when they become less than 90 days past due and when concern no longer exists as to the collectability of principal or interest.

Allowance for Credit Losses - Loans

Losses on loan receivables are estimated and recognized upon origination of the loan, based on expected credit losses for the life of the loan balance as of the period end date. The Company's methodology for calculating the allowance for credit losses ("ACL") on loans consists of quantitative and qualitative components. The Company uses a discounted cash flow method incorporating probability of default and loss given default forecasted based on statistically derived economic variable loss drivers combined with qualitative factors, to estimate expected credit losses. This process includes estimates which involve modeling loss projections attributable to existing loan balances, considering historical experience, current conditions, and future expectations for homogeneous pools of loans over the reasonable and supportable forecast period. The reasonable and supportable forecast period is determined based upon the accuracy level of historical loss forecast estimates, the specific loan level models and methodology utilized, and considers material changes in growth and credit strategy, and business changes. For periods beyond a reasonable and supportable forecast interval, the Company reverts to historical information over a period for which comparable data is available. The historical information either experienced by the Company, or by a selection of peer banks when appropriate, is derived from a combination of recessionary and non-recessionary performance periods for which data is available. Similar to the reasonable and supportable forecast period, the Company reassesses the reversion period at the segment level, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time.

The Company generally segments its loan receivable population into homogeneous pools of loans. Consistent with the Company's other assumptions, the Company regularly reviews segmentation to determine whether the homogenous pools remain relevant as risk characteristics change. When a loan no longer meets the criteria of its initial pooling as a result of credit deterioration or other changes, the Company may evaluate the credit for estimated losses on an individual basis if the Company determines that the credit no longer retains the same risk characteristics. To the extent that there are a multitude of these loans with new similar risk characteristics, the Company would anticipate a change to the pooling methodology. Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective evaluation. For loans with real estate collateral, when management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

The qualitative component of the ACL considers (i) the uncertainty of forward-looking scenarios; (ii) certain portfolio characteristics, such as portfolio concentrations, real estate values, changes in the number and amount of non-accrual and past due loans; and (iii) model limitations; among other factors. Qualitative adjustments are considered when management believes expected credit losses are not representative of historical loss experience alone, and should be adjusted to reflect the current conditions and characteristics of the Company's own portfolio. They are made at the segment level, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time.

The Company evaluates the allowance for credit losses on loans quarterly. The Company regularly reviews its collection experience (including delinquencies and net charge-offs) in determining its allowance for credit losses. The Company also considers its historical loss experience to date based on actual defaulted loans and overall portfolio indicators including delinquent and non-accrual loans, trends in loan volume and lending terms, credit policies and other observable environmental factors such as unemployment and interest rate changes.

The underlying assumption estimates and assessments the Company uses to estimate the allowance for credit losses reflects the Company's best estimate of model assumptions and forecasted conditions at that time. Changes in such estimates can significantly affect the allowance and provision for (release of) credit losses. It is possible and likely that the Company will experience credit losses that are different from the current estimates.

The provision for (release of) credit losses charged to income is based on management's judgment of the amount necessary to maintain the allowance at a level to provide for expected credit losses for the life of the loan balances as of the evaluation date. When management believes that the collectability of a loan's principal balance, or portions thereof, is unlikely, the principal amount is charged against the allowance for credit losses. Recoveries on loans that have been previously charged off are credited to the allowance for credit losses, generally at the time cash is received on a charged-off account. 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 (release of) credit losses in the period in which they become known.

Risk characteristics relevant to each portfolio segment are as follows:

Residential mortgage and home equity loans – The Company generally does not originate loans in these segments with a loan-to-value ratio greater than 80%, unless covered by private mortgage insurance, and in all cases not greater than a loan-to-value ratio of 97%. The Company does not originate subprime loans. Loans in these segments are secured by one-to-four family residential real estate, and repayment is primarily dependent on the credit quality of the individual borrower.

Commercial mortgage loans – This includes multi-family properties and construction. The Company generally does not originate loans in this segment with a loan-to-value ratio greater than 75%. Loans in this segment are secured by owner-occupied and nonowner-occupied commercial real estate ("CRE"), and repayment is primarily dependent on the cash flows of the property (if nonowner-occupied) or of the business (if owner-occupied).

Commercial and industrial loans ("C&I") – Loans in this segment are made to businesses and are generally secured by equipment, accounts receivable, or inventory, as well as the personal guarantees of the principal owners of the business, and repayment is primarily dependent on the cash flows generated by the business. In addition, this segment includes loans issued under the U. S. Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). These loans are guaranteed and are not evaluated for an allowance for credit losses because the Company expects the guarantees will be effective, if necessary.

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

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

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

Allowance for Credit Losses - Unfunded Commitments

The expected credit losses for unfunded commitments are measured over the contractual period of the Company's exposure to credit risk. The estimate of credit loss incorporates assumptions for both the likelihood and amount of funding over the estimated life of the commitments, for the risk of loss, and current conditions and expectations. Management periodically reviews and updates its assumptions for estimated funding rates based on historical rates, and factors such as portfolio growth, changes to organizational structure, economic conditions, borrowing habits, or any other factor which could impact the likelihood that funding will occur. The Company does not reserve for unfunded commitments which are unconditionally cancellable.

Acquired Loans

Acquired loans are recorded at fair value at the date of acquisition based on a discounted cash flow methodology that considers various factors, including the type of loan and related collateral, classification status, fixed or variable interest rate, term of loan and whether or not the loan was amortizing, and a discount rate reflecting the Company's assessment of risk inherent in the cash flow estimates. Purchased loans are grouped together according to similar risk characteristics and are treated in the aggregate when applying various valuation techniques. These cash flow evaluations are inherently subjective as they may be susceptible to significant change.

Effective January 1, 2020, loans acquired in a business combination that have experienced more-than-insignificant deterioration in credit quality since origination are considered purchased credit deteriorated ("PCD") loans. The Company evaluates acquired loans for deterioration in credit quality based on, but not limited to, the following: (1) non-accrual status; (2) troubled debt restructured designation; (3) risk ratings of special mention, substandard or doubtful; (4) watchlist credits; and (5) delinquency status, including loans that are current on acquisition date, but had been previously delinquent. At the acquisition date, an estimate of expected credit losses is made for groups of PCD loans with similar risk characteristics and individual PCD loans without similar risk characteristics. This initial allowance for credit losses is allocated to individual PCD loans and added to the purchase price or acquisition date fair values to establish the initial amortized cost basis of the PCD loans. As the initial allowance for credit losses is added to the purchase price, there is no credit loss expense recognized upon acquisition of a PCD loan. Any difference between the unpaid principal balance of PCD loans and the amortized cost basis is considered to relate to noncredit factors and results in a discount or premium. Discounts and premiums are recognized through interest income on a level-yield method over the life of the loans.

For acquired loans not deemed PCD at acquisition, the differences between the initial fair value and the unpaid principal balance are recognized as interest income on a level-yield basis over the lives of the related loans. At the acquisition date, an initial allowance for expected credit losses is estimated and recorded as provision for credit losses. The subsequent measurement of expected credit losses for all acquired loans is the same as the subsequent measurement of expected credit losses for originated loans.

Allowance for Loan Losses

Prior to the adoption of ASC Topic 326 – *Financial Instruments – Credit Losses ("CECL")* on January 1, 2020, the Company calculated its provision for loan losses and the level of the allowance for loan losses to reflect management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management used a systematic process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, an estimate was made by management of the allowance needed for each of the following segments of the loan portfolio: (a) residential mortgage loans, (b) commercial mortgage loans, (c) home equity loans, (d) C&I loans, and (e) consumer loans. Portfolio segments were further disaggregated into classes of loans. The establishment of the allowance for each portfolio segment was based on a process that evaluated the risk characteristics relevant to each portfolio segment and took into consideration multiple internal and external factors. Internal factors included, but were not limited to, (a) historic levels and trends in charge-offs, delinquencies, risk ratings, and foreclosures, (b) level and changes in industry, geographic, and credit concentrations, (c) underwriting policies and adherence to such policies, (d) the growth and vintage of the portfolios, and (e) the experience of, and any changes in, lending and credit personnel. External factors included, but were not limited to, (a) conditions and trends in the local and national economy and (b) levels and trends in national delinquent and non-performing loans.

The Company evaluated certain loans individually for specific impairment. A loan was considered impaired when, based on current information and events, it was probable that the Company would be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Loans were selected for evaluation based upon internal risk rating, delinquency status, or non-accrual status. A specific allowance amount was allocated to an individual loan when such loan had been deemed impaired and when the amount of the probable loss was able to be estimated. Estimates of loss were determined by the present value of anticipated future cash flows, the loan's observable fair market value, or the fair value of the collateral, if the loan was collateral dependent.

Loans Held for Sale

Residential mortgage loans originated and intended for sale in the secondary market are classified as held for sale at the time of their origination and are carried at the lower of cost or fair value on an individual loan basis. Changes in fair value relating to loans held for sale below the loans cost basis are charged against gain on loans sold. Gains and losses on the actual sale of the residential loans are recorded in earnings as gains on loans sold, net on the consolidated statements of income.

Bank Owned Life Insurance

Bank owned life insurance ("BOLI") represents life insurance on the lives of certain active and former employees who have provided positive consent allowing the Company to be the beneficiary of such policies. Since the Company is the primary beneficiary of the insurance policies, increases in the cash value of the policies, as well as insurance proceeds received in excess of cash surrender value, are recorded in noninterest income, and are not subject to income taxes. Applicable regulations generally limit the Company's investment in bank-owned life insurance to 25% of its Tier 1 capital plus its allowance for credit losses. The Company 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.

Leases

The Company leases office space, certain branch locations under noncancelable operating leases, and one automated teller machine ("ATM") location, several of which have renewal options to extend lease terms. Upon commencement of a new lease, the Company will recognize a right-of-use ("ROU") asset and corresponding lease liability. The Company makes the decision on whether to renew an option to extend a lease by considering various factors. The Company will recognize an adjustment to its ROU asset and lease liability when lease agreements are amended and executed. The discount rate used in determining the present value of lease payments is based on the Company's incremental borrowing rate for borrowings with terms similar to each lease at commencement date. The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. For real estate leases, non-lease components and other non-components, such as common area maintenance charges, real estate taxes, and insurance, are not included in the measurement of the lease liability since they are generally able to be segregated.

Marketing Expense

Advertising costs are expensed as incurred.

Other Real Estate Owned

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

Goodwill, Core Deposit Intangibles, and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in a business combination. Core deposit intangible ("CDI") represents a premium paid to acquire the core deposits of an institution and is recorded as an intangible asset. Goodwill and intangible assets that are not amortized are tested for impairment, based on their fair values, at least annually. There was no goodwill impairment recognized during 2021, 2020, or 2019. 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. The Company is amortizing the CDI on a straight-line basis over a ten-year period.

Mortgage servicing rights ("MSR") are recognized as separate assets when rights are acquired through purchase or through sale of financial assets with servicing rights retained. The fair value of the servicing rights is determined by estimating the present value of future net cash flows, taking into consideration market loan prepayment speeds, discount rates, servicing costs, and other economic factors. For purposes of measuring impairment, the underlying loans are generally stratified into relatively homogeneous pools based on predominant risk characteristics. Because of the small size of this asset class, and its relative homogeneity, only one stratum is used. If the aggregate carrying value of the capitalized mortgage servicing rights for this stratum exceeds its fair value, MSR impairment is recognized in earnings through a valuation allowance for the difference. As the loans are repaid and net servicing revenue is earned, the MSR asset is amortized as an offset to loan servicing income. Servicing revenues are expected to exceed this amortization expense. However, if actual prepayment experience or defaults exceed what was originally anticipated, net servicing revenues may be less than expected and mortgage servicing income may be negative.

Income Taxes

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, the Commonwealth of Massachusetts, the state of New Hampshire, the state of Maine, and other states as required. For the tax year ended December 31, 2021, the Company expects to file taxes in Massachusetts, New Hampshire, and Maine.

Income taxes are accounted for under the asset and liability method. 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 income tax expenses in the period of enactment. Deferred tax assets are reviewed quarterly and reduced by a valuation allowance if, based upon the information available, it is more likely than not that some or all of the deferred tax assets will not be realized.

Interest and penalties related to unrecognized tax benefits, if incurred, are recognized as a component of income tax expense.

Wealth Management Fee Revenue

The Company earns wealth management fees for providing investment management, trust administration, and financial planning services to clients. The Company's performance obligation under these contracts is satisfied over time as the wealth management services are provided. Fees are recognized monthly based on the monthly value of the assets under management and the applicable fee rate, or at a fixed annual rate, depending on the terms of the contract. No performance-based incentives are earned on wealth management contracts.

The Company also earns trust fees for servicing as trustee for certain clients. As trustee, the Company serves as a fiduciary, administers the client's trust, and in some cases, manages the assets of the trust. The Company's performance obligation under these agreements is satisfied over time as the administrative and management services are provided. Fees are recognized monthly based on a percentage of the market value of the account or at a fixed annual rate as outlined in the agreement. The Company also earns fees for trust related activities. The Company's performance obligation under these agreements is satisfied at a point in time and recognized when these services have been performed.

Other Banking Fee Income

The Company charges a variety of fees to its clients for services provided on the deposit and deposit management related accounts. Each fee is either transaction-based or assessed monthly. The types of fees include service charges on accounts, wire transfer fees, maintenance fees, ATM fee charges, and other miscellaneous charges related to the accounts. These fees are not governed by individual contracts with clients. They are charged to clients based on disclosures presented to these clients upon opening these accounts, along with updated disclosures when changes are made to the fee structures. The transaction-based fees are recognized in revenue when charged to the client based on specific activity on the client's account. Monthly service and maintenance charges are recognized in the month they are earned and are charged directly to the client's account.

Pension and Retirement Plans

The Company sponsors a defined benefit pension plan (the "Pension Plan") and a postretirement health care plan covering substantially all employees hired before May 2, 2011. Effective December 31, 2017, the accrual of benefits for all participants in the Pension Plan was frozen. Benefits for the postretirement health care plan are based on years of service. Expenses for the postretirement health care plan are recognized over the employee's service life utilizing the projected unit credit actuarial cost method. Effective November 7, 2019, the postretirement health care plan was frozen for employees hired after that date.

The Company also sponsors non-qualified retirement programs that provide supplemental retirement benefits to certain current and former executives. Prior to 2016, the Company provided individual non-qualified defined benefit supplemental executive retirement plans (“DB SERPs”) to certain executives. The DB SERPs generally provide for an annual benefit payable in equal monthly installments following the executive’s retirement and continuing for at least the remainder of his or her lifetime, with such annual benefit generally based on the executive’s years of service and his or her highest three consecutive years of base salary and bonus. In 2016, the Company’s Board of Directors discontinued the use of DB SERPs for new entrants to the Company’s non-qualified retirement programs. Instead, new entrants are provided with individual non-qualified defined contribution supplemental executive retirement plans (“DC SERPs”). Under the DC SERPs, the Company may contribute an amount equal to 10% of the executive’s base salary and bonus to his or her account under the Company’s non-qualified deferred compensation plan, the Executive Deferred Compensation Plan. Expense for the DB SERPs is recognized over the executive’s service life utilizing the projected unit credit actuarial cost method. Expense for the DC SERPs is recognized as incurred.

The Company 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 Company matches employee contributions up to 100% of the first 4% of each participant’s salary, eligible bonus, and eligible incentive. Each year, the Company may also make a discretionary contribution to the PSP based on eligible salary, bonus, and incentive. Employees are eligible to participate in the PSP on the first day of their initial date of service. Employees are also eligible to participate in the discretionary contribution portion of the PSP on the first date of their initial date of service. The employee must be employed on the last day of the calendar year or retire at the normal retirement age of 65 during the calendar year to receive the discretionary contribution.

Share-Based Compensation

Share-based compensation plans provide for stock option awards, restricted stock awards, time-based restricted stock units (“RSUs”), and performance-based restricted stock units (“PRSUs”).

Compensation expense for restricted stock awards is recognized over the service period based on the fair value at the date of grant. RSUs and PRSUs are valued at the fair market value of the Company’s common stock as of the award date. PRSUs’ compensation expense is based on the most recent performance assumption available and is adjusted as assumptions change. If the goals are not met, vesting does not occur, no compensation cost will be recognized and any recognized compensation costs will be reversed. Stock-based awards that do not require future service are expensed in the year of grant.

Derivative Instruments and Hedging Activities

Derivatives are recognized as either assets or liabilities on the consolidated balance sheets and are measured at fair value. The accounting for changes in the fair value of such derivatives depends on the intended use of the derivative and resulting designation. For derivatives not designated as hedges, changes in fair value of the derivative instruments are recognized in earnings in noninterest income.

For derivatives designated as fair value hedges, changes in the fair value of such derivatives are recognized in earnings together with the changes in the fair value of the related hedged item. The net amount, if any, represents hedge ineffectiveness and is reflected in earnings.

For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is recorded in other comprehensive income (loss) and recognized in earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of cash flow hedges is recognized directly in earnings.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair values of its financial instruments in accordance with accounting guidance that requires an entity to base fair value on exit price and maximize the use of observable inputs and minimize the use of unobservable inputs to determine the exit price.

ASC 820, “*Fair Value Measurements and Disclosures”* establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data and requires fair value measurements to be disclosed by level within the hierarchy. The three broad levels defined by the fair value hierarchy are as follows:

> Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reported date. The type of financial instruments included in Level 1 are highly liquid cash instruments with quoted prices such as government or agency securities, listed equities, and money market securities, as well as listed derivative instruments.

Level 2 – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments includes cash instruments for which quoted prices are available but traded less frequently, derivative instruments whose fair value has been derived using a model where inputs to the model are directly observable in the market or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed. Instruments which are generally included in this category are corporate bonds and loans, mortgage whole loans, municipal bonds, and over-the-counter derivatives.

Level 3 – Instruments that have little to no pricing observability as of the reported date. These financial instruments do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment to estimation. Instruments that are included in this category generally include certain commercial mortgage loans, certain private equity investments, distressed debt, non-investment grade residual interests in securitizations, as well as certain highly structured over-the-counter derivative contracts.

Earnings per Common Share

Earnings per common share is computed using the more dilutive two-class method prescribed under ASC Topic 260, "Earnings Per Share." ASC Topic 260 provides that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share pursuant to the two-class method. The Company has determined that its outstanding non-vested stock awards are participating securities.

Under the two-class method, basic earnings per common share is computed by dividing net earnings allocated to common stock by the weighted-average number of common shares outstanding during the applicable period, excluding outstanding participating securities. Diluted earnings per common share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of common stock equivalents. A reconciliation of the weighted-average shares used in calculating basic earnings per common share and the weighted average common shares used in calculating diluted earnings per common share for the reported periods is provided in NOTE 20 - EARNINGS PER SHARE.

Subsequent Events

Management has reviewed events occurring through March 14, 2022, the date the consolidated financial statements were issued and determined that no subsequent events occurred requiring adjustment to or disclosure in these consolidated financial statements.

3. RECENTLY ISSUED AND ADOPTED ACCOUNTING STANDARDS

Accounting Pronouncements Adopted in 2021

Accounting Standards Update ("ASU") 2020-04 - *Facilitation of the Effects of Reference Rate Reform on Financial Reporting* ("ASU 2020-04"). On March 12, 2020, the FASB issued ASU 2020-04 and related amendments to ease the potential burden in accounting for reference rate reform. The amendments in ASU 2020-04 are elective and apply to all entities that have contracts, hedging relationships, and other transactions that reference the London Inter-bank Offer Rate ("LIBOR") or another reference rate expected to be discontinued due to reference rate reform. The new guidance provides the following optional expedients:

- Simplify accounting analyses for contract modifications.
- Allow hedging relationships to continue without de-designation if there are qualifying changes in the critical terms of an existing hedging relationship due to reference rate reform.
- Allow a change in the systematic and rational method used to recognize in earnings the components excluded from the assessment of hedge effectiveness.
- Allow a change in the designated benchmark interest rate to a different eligible benchmark interest rate in a fair value hedging relationship.
- Allow the shortcut method for a fair value hedging relationship to continue for the remainder of the hedging relationship.
- Simplify the assessment of hedge effectiveness and provide temporary optional expedients for cash flow hedging relationships affected by reference rate reform.
- Allow a one-time election to sell or transfer debt securities classified as held to maturity that reference a rate affected by reference rate reform and that are classified as held to maturity before January 1, 2020.

The amendments are effective for all entities from the beginning of an interim period that includes the issuance date of the ASU. An entity may elect to apply the amendments prospectively through December 31, 2022. The Company adopted ASU 2020-04 and related amendments on December 31, 2021, and the adoption of this guidance did not have a material impact on the Company's consolidated balance sheets, statements of income, and cash flows.

4. MERGERS

Wellesley Bancorp, Inc.

On June 1, 2020, the Company completed its merger with Wellesley Bancorp, Inc. ("Wellesley"), adding 6 banking offices in Massachusetts. Under the terms of the Agreement and Plan of Merger, each outstanding share of Wellesley common stock was converted into 0.580 shares of the Company's common stock. As a result of the merger, former Wellesley stockholders received an aggregate of 1,502,814 shares of the Company's common stock. The total consideration paid amounted to $88.8 million, based on the closing price of $58.00 of the Company's common stock, the value of Wellesley's exercisable options, and cash paid for fractional shares on May 31, 2020.

The Company recorded total assets of $985.6 million, assumed total liabilities of $917.6 million, and recorded $20.7 million in goodwill.

The Company accounted for the merger using the acquisition method pursuant to ASC Topic 805, "Business Combinations." Accordingly, the Company recorded merger expenses of $6.4 million during the year ended at December 31, 2020. Additionally, on June 1, 2020, the Company recorded $8.6 million in provision for credit losses to reflect the impact of CECL on the acquired loans.

The acquisition method requires the acquirer to recognize the assets acquired and the liabilities assumed at their fair values as of the acquisition date. The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the date of the acquisition:

	At June 1, 2020 Net Assets Acquired at Fair Value (dollars in thousands)	
Total Purchase Price	$	88,766
Assets		
Cash and cash equivalents	$	44,667
Investments		23,331
Gross Loans		870,033
Allowance for loan loss		—
Premises and equipment		4,012
Other assets		43,587
Total assets acquired		985,630
Liabilities		
Deposits		760,878
Borrowings & Subordinated debt		132,482
Other liabilities		24,209
Total liabilities assumed		917,569
Net Assets Acquired	$	68,061
Goodwill	**$**	**20,705**

Fair value adjustments to assets acquired and liabilities assumed are generally amortized using either an effective yield or straight-line basis over periods consistent with the average life, useful life, and/or contractual term of the related assets and liabilities.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Cash and Cash Equivalents

The fair values of cash and cash equivalents approximate the respective carrying amounts because the instruments are payable on demand or have short-term maturities.

Investments

The fair values of securities were based on quoted market prices for identical securities received from an independent, nationally recognized, third-party pricing service. Prices provided by the independent pricing service were based on recent trading activity and other observable information including, but not limited to, market interest rate curves, referenced credit spreads, and estimated prepayment rates where applicable.

Loans

Fair value was determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected, as adjusted for an estimate of default rate and prepayments, and then applying a market-based discount rate to those cash flows.

Premises and Equipment

The fair value of premises was determined based upon appraisals by licensed real estate appraisers. The appraisal was based upon the best and highest use of the property with the final value determined based upon an analysis of the cost, sales comparison, and income capitalization approaches for the property appraised.

Deposits

The fair value of acquired savings and transaction deposit accounts was assumed to approximate the carrying value as these accounts have no stated maturity and are payable on demand. The fair value of time deposits was determined based on the present value of the contractual cash flows over the remaining period to maturity using a market interest rate.

Borrowings

The fair value represents the adjustment necessary because the weighted average interest rate of the Federal Home Loan Bank borrowings differed from the cost of similar funding at the time of acquisition.

Subordinated Debt

The fair value represents the adjustment necessary because the interest rate of the subordinated debt differed from the cost of similar funding at the time of acquisition.

Selected Pro Forma Results

The following summarizes the pro forma results of operations as if the Company merged with Wellesley on January 1, 2020 (2019 amounts represent combined results for the Company and Wellesley). The selected pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the financial results of the combined companies had the acquisition actually been completed at the beginning of the periods presented, nor does it indicate future results for any other interim or full-year period.

	For the Year Ended December 31,	
	2020	2019
	(dollars in thousands)	
Net interest and dividend income after provision for loan losses	$ 159,547	$ 111,753
Net Income	70,954	36,491

Excluded from the pro forma results of operations for the year ended December 31, 2020 and December 31, 2019 are merger-related costs of approximately $6.4 million and $7.6 million, respectively, recognized by the Company. These costs primarily consisted of contract terminations arising due to the merger, the acceleration of certain compensation and benefit costs, and other merger expenses. The provision recorded on acquired loans of $8.6 million was also excluded as a material, non-recurring adjustment.

Optima Bank & Trust Company

The Company completed its merger with Optima Bank & Trust Company ("Optima") on April 17, 2019. Under the terms of the Agreement and Plan of Merger, each outstanding share of Optima common stock was converted into $32.00 in cash or 0.3468 shares of the Company's common stock, with the transaction structured as 95 percent common stock and 5 percent cash. As a result of the merger, former Optima shareholders received an aggregate of approximately 722,746 shares of the Company's common stock and an aggregate of approximately $3.5 million in cash. The total consideration paid amounted to $64.3 million.

The Company accounted for the merger using the acquisition method and recorded total assets of $555.7 million, including $30.8 million in goodwill, and assumed total liabilities of $491.4 million. Additionally, the Company recorded merger expenses of $3.9 million during the year ended December 31, 2019.

5. CASH AND CASH EQUIVALENTS

At December 31, 2021 and December 31,2020, cash and due from banks totaled $180.2 million and $75.8 million, respectively. There were no amounts required to be maintained at the Federal Reserve Bank of Boston ("FRB of Boston") at December 31, 2021 and December 31, 2020. At December 31, 2021 and December 31, 2020, the Company pledged $500,000 to the New Hampshire Banking Department relating to Cambridge Trust Company of New Hampshire, Inc.'s operations in that state. The Company also pledged cash collateral to derivative counterparties totaling $13.3 million and $29.9 million at December 31, 2021 and December 31, 2020, respectively. See NOTE 21 - DERIVATIVES AND HEDGING ACTIVITIES for a discussion of the Company's derivative and hedging activities.

6. INVESTMENT SECURITIES

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

	December 31, 2021				December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)							
Available for sale securities								
U.S. Government Sponsored Enterprise obligations	$ 22,996	$ 246	$ (231)	$ 23,011	$ 22,995	$ 641	$ (19)	$ 23,617
Mortgage-backed securities	176,531	959	(4,462)	173,028	208,515	2,502	(387)	210,630
Corporate debt securities	1,743	24	(3)	1,764	2,742	41	—	2,783
Total available for sale securities	$ 201,270	$ 1,229	$ (4,696)	$ 197,803	$ 234,252	$ 3,184	$ (406)	$ 237,030
Held to maturity securities								
Mortgage-backed securities	$ 864,983	$ 3,981	$ (13,258)	$ 855,706	$ 137,435	$ 6,784	$ (97)	$ 144,122
Corporate debt securities	6,997	26	—	7,023	6,989	197	—	7,186
Municipal securities	105,081	3,798	(516)	108,363	103,248	5,643	(60)	108,831
Total held to maturity securities	$ 977,061	$ 7,805	$ (13,774)	$ 971,092	$ 247,672	$ 12,624	$ (157)	$ 260,139
Total	$ 1,178,331	$ 9,034	$ (18,470)	$ 1,168,895	$ 481,924	$ 15,808	$ (563)	$ 497,169

All of the Company's mortgage-backed securities have been issued by, or are collateralized by securities issued by, either the Government National Mortgage Association ("Ginnie Mae" or "GNMA"), the Federal National Mortgage Association ("Fannie Mae" or "FNMA"), or the Federal Home Loan Mortgage Corporation ("Freddie Mac" or "FHLMC").

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

	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years		Total	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
At December 31, 2021					(dollars in thousands)					
Available for sale securities										
U.S. Government Sponsored Enterprise obligations	$ —	$ —	$ 9,996	$ 9,765	$ 5,000	$ 5,048	$ 8,000	$ 8,198	$ 22,996	$ 23,011
Mortgage-backed securities	—	—	8,324	8,497	50,031	49,382	118,176	115,149	176,531	173,028
Corporate debt securities	763	759	980	1,005	—	—	—	—	1,743	1,764
Total available for sale securities	$ 763	$ 759	$ 19,300	$ 19,267	$ 55,031	$ 54,430	$ 126,176	$ 123,347	$ 201,270	$ 197,803
Held to maturity securities										
Mortgage-backed securities	$ —	$ —	$ 41	$ 41	$ 63,165	$ 65,241	$ 801,777	$ 790,424	$ 864,983	$ 855,706
Corporate debt securities	6,997	7,023	—	—	—	—	—	—	6,997	7,023
Municipal securities	3,812	3,864	18,922	19,532	37,772	39,683	44,575	45,284	105,081	108,363
Total held to maturity securities	$ 10,809	$ 10,887	$ 18,963	$ 19,573	$ 100,937	$ 104,924	$ 846,352	$ 835,708	$ 977,061	$ 971,092
Total	$ 11,572	$ 11,646	$ 38,263	$ 38,840	$ 155,968	$ 159,354	$ 972,528	$ 959,055	$ 1,178,331	$ 1,168,895

The following tables show the Company's investment securities with gross unrealized losses, for which an allowance for credit losses has not been recorded at December 31, 2021 or at December 31, 2020, aggregated by investment category and length of time that individual investment securities have been in a continuous loss position:

	December 31, 2021					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Available for sale securities						
U.S. Government Sponsored Enterprise obligations	$ 4,881	$ (115)	$ 4,884	$ (116)	$ 9,765	$ (231)
Mortgage-backed securities	74,724	(2,253)	47,871	(2,209)	122,595	(4,462)
Corporate debt securities	760	(3)	—	—	760	(3)
Total available for sale securities	$ 80,365	$ (2,371)	$ 52,755	$ (2,325)	$ 133,120	$ (4,696)
Held to maturity securities						
Mortgage-backed securities	$ 740,966	$ (12,509)	$ 15,345	$ (749)	$ 756,311	$ (13,258)
Municipal securities	12,607	(194)	5,716	(322)	18,323	(516)
Total held to maturity securities	$ 753,573	$ (12,703)	$ 21,061	$ (1,071)	$ 774,634	$ (13,774)
Total	$ 833,938	$ (15,074)	$ 73,816	$ (3,396)	$ 907,754	$ (18,470)

	December 31, 2020					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(dollars in thousands)					
Available for sale securities						
U.S. Government Sponsored Enterprise obligations	$ 4,981	$ (19)	$ —	$ —	$ 4,981	$ (19)
Mortgage-backed securities	91,094	(384)	944	(3)	92,038	(387)
Total available for sale securities	$ 96,075	$ (403)	$ 944	$ (3)	$ 97,019	$ (406)
Held to maturity securities						
Mortgage-backed securities	$ 16,340	$ (97)	$ —	$ —	$ 16,340	$ (97)
Municipal securities	6,221	(60)	—	—	6,221	(60)
Total held to maturity securities	$ 22,561	$ (157)	$ —	$ —	$ 22,561	$ (157)
Total	$ 118,636	$ (560)	$ 944	$ (3)	$ 119,580	$ (563)

As of December 31, 2021, 182 debt securities had gross unrealized losses, with an aggregate depreciation of 1.99% from the Company's amortized cost basis. The largest unrealized dollar loss of any single security was $365,000, or 3.7% of its amortized cost. The largest unrealized loss percentage of any single security was 6.8% of its amortized cost, or $181,000.

The Company believes that the nature and duration of unrealized losses on its debt security positions are primarily a function of interest rate movements and changes in investment spreads and does not consider full repayment of principal on the reported debt obligations to be at risk. Since nearly all of these securities are rated "investment grade" and (a) the Company does not intend to sell these securities before recovery and (b) it is more likely than not that the Company will not be required to sell these securities before recovery, the Company does not expect to suffer a credit loss as of December 31, 2021.

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

	For the Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Amortized cost of securities sold	$ —	$ 10,752	$ 26,631
Gross gains realized on securities sold	—	111	—
Gross losses realized on securities sold	—	(42)	(79)
Net proceeds from securities sold	$ —	$ 10,821	$ 26,552

The Company monitors the credit quality of certain debt securities through the use of credit rating among other factors on a quarterly basis. The following tables summarize the credit rating of the Company's debt securities portfolio at December 31, 2021 and December 31, 2020.

	December 31, 2021				
	Mortgage-backed Securities (1)	Corporate Debt Securities	Municipal Securities	U.S. GSE Obligations	Total
	(dollars in thousands)				
Available for sale securities, at fair value					
AAA/AA/A	$ 173,028	$ 759	$ —	$ 23,011	$ 196,798
BBB/BB/B	—	1,005	—	—	1,005
Total available for sale securities	$ 173,028	$ 1,764	$ —	$ 23,011	$ 197,803
Held to maturity securities, at amortized cost					
AAA/AA/A	$ 864,983	$ 6,997	$ 105,081	$ —	$ 977,061
Total held to maturity securities	$ 864,983	$ 6,997	$ 105,081	$ —	$ 977,061

	December 31, 2020				
	Mortgage-backed Securities (1)	Corporate Debt Securities	Municipal Securities	U.S. GSE Obligations	Total
	(dollars in thousands)				
Available for sale securities, at fair value					
AAA/AA/A	$ 210,630	$ 1,779	$ —	$ 23,617	$ 236,026
BBB/BB/B	—	1,004	—	—	1,004
Total available for sale securities	$ 210,630	$ 2,783	$ —	$ 23,617	$ 237,030
Held to maturity securities, at amortized cost					
AAA/AA/A	$ 137,435	$ 6,989	$ 102,973	$ —	$ 247,397
BBB/BB/B	—	—	275	—	275
Total held to maturity securities	$ 137,435	$ 6,989	$ 103,248	$ —	$ 247,672

(1) Includes Agency mortgage-backed pass-through securities and collateralized mortgage obligations issued by GSEs and U.S. government agencies, such as FNMA, FHLMC, and GNMA that are not rated by Moody's or Standard & Poor's. Each security contains a guarantee by the issuing GSE or agency and therefore carries an implicit guarantee of the U.S. government. These have been categorized as AAA/AA/A.

7. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans outstanding are detailed by category as follows:

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Residential mortgage		
Mortgages - fixed rate	$ 716,456	$ 535,804
Mortgages - adjustable rate	679,675	734,593
Construction	13,012	25,495
Deferred costs, net of unearned fees	5,936	2,976
Total residential mortgages	1,415,079	1,298,868
Commercial mortgage		
Mortgages - non-owner occupied	1,272,135	1,064,317
Mortgages - owner occupied	150,632	153,474
Construction	86,246	139,075
Deferred costs, net of unearned fees	1,989	2,096
Total commercial mortgages	1,511,002	1,358,962
Home equity		
Home equity - lines of credit	85,639	102,460
Home equity - term loans	2,017	3,503
Deferred costs, net of unearned fees	304	231
Total home equity	87,960	106,194
Commercial and industrial		
Commercial and industrial	247,024	223,415
PPP loans	22,856	126,227
Unearned fees, net of deferred costs	(434)	(1,787)
Total commercial and industrial	269,446	347,855
Consumer		
Secured	34,308	41,409
Unsecured	1,303	341
Deferred costs, net of unearned fees	8	19
Total consumer	35,619	41,769
Total loans	$ 3,319,106	$ 3,153,648

The Coronavirus Aid, Relief, and Economic Security Act, (the "CARES Act"), was signed into law on March 27, 2020, and provided emergency economic relief to individuals and businesses impacted by the novel coronavirus ("COVID-19") pandemic. The CARES Act authorized the SBA to temporarily guarantee loans under a new 7(a) loan program called the PPP. As a qualified SBA lender, the Company was authorized to originate PPP loans.

In the first round of the PPP, which ended in August of 2020, an eligible business could apply for a PPP loan up to the lesser of: (1) 2.5 times its average monthly "payroll costs", or (2) $10.0 million. In the second round of the PPP, which ended on May 31, 2021, PPP loans were available both to first-time borrowers and to borrowers that previously received funding in the first round. The maximum PPP loan size remained the same for the second round for first-time borrowers, but, for borrowers that received a PPP loan in the first round, the maximum size of a PPP loan was the lesser of: (1) 2.5 times its average monthly "payroll costs" or (2) $2.0 million. Eligibility requirements during the second round of PPP were also more restrictive for borrowers that received a PPP loan in the first round, therefore, not all previous recipients of PPP loans in the first round qualified for a second PPP loan.

PPP loans have: (a) an interest rate of 1.0%, (b) a two year or five-year loan term to maturity; and (c) principal and interest payments deferred until the SBA remits the forgiven amount to the Company or 10 months from the end of the covered period, as defined. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by the loan forgiveness amount under the PPP so long as employee and compensation levels of the business are maintained and 60% of the loan proceeds are used for payroll expense, with the remaining 40%

of the loan proceeds used for other qualifying expenses. The Company did not record an allowance for credit losses for PPP loans at December 31, 2021 or 2020 due to the SBA guarantee.

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

Asset Quality

The Company's philosophy toward managing its loan portfolios is predicated upon careful monitoring, which stresses early detection and response to delinquent and default situations. The Company seeks to make arrangements to resolve any delinquent or default situation over the shortest possible time frame. As a general rule, loans more than 90 days past due with respect to principal or interest are classified as non-accrual loans. The Company may use discretion regarding other loans over 90 days past due if the loan is well secured and/or in process of collection.

The following tables set forth information regarding non-performing loans disaggregated by loan category:

	December 31, 2021				
	Residential Mortgage	Commercial Mortgage	Home Equity	Commercial and Industrial	Total
	(dollars in thousands)				
Non-performing loans:					
Non-accrual loans	$ 3,777	$ 517	$ 223	$ 111	$ 4,628
Troubled debt restructurings	652	—	—	106	758
Total	$ 4,429	$ 517	$ 223	$ 217	$ 5,386

	December 31, 2020				
	Residential Mortgage	Commercial Mortgage	Home Equity	Commercial and Industrial	Total
	(dollars in thousands)				
Non-performing loans:					
Non-accrual loans	$ 3,695	$ 3,917	$ —	$ 132	$ 7,744
Loans past due >90 days, but still accruing	—	—	—	407	407
Troubled debt restructurings	689	—	—	122	811
Total	$ 4,384	$ 3,917	$ —	$ 661	$ 8,962

It is the Company's policy to reverse any accrued interest when a loan is put on non-accrual status; as such, the Company did not record any interest income on non-accrual loans during the years ended December 31, 2021 and December 31, 2020.

Troubled Debt Restructurings ("TDRs")

Loans are considered restructured in a troubled debt restructuring when the Company has granted concessions to a borrower due to the borrower's financial condition that it otherwise would not have considered. These concessions may include modifications of the terms of the debt such as deferral of payments, extension of maturity, reduction of principal balance, reduction of the stated interest rate other than normal market rate adjustments, or a combination of these concessions. Debt may be bifurcated with separate terms for each tranche of the restructured debt. Restructuring a loan in lieu of aggressively enforcing the collection of the loan may benefit the Company by increasing the ultimate probability of collection.

Restructured loans are classified as accruing or non-accruing based on management's assessment of the collectability of the loan. Loans which are already on non-accrual status at the time of the restructuring generally remain on non-accrual status for approximately six months or longer before management considers such loans for return to accruing status. Accruing restructured loans are placed into non-accrual status if and when the borrower fails to comply with the restructured terms and management deems it unlikely that the borrower will return to a status of compliance in the near term. TDRs are individually evaluated for credit losses.

There were no new TDRs during the year ended December 31, 2021. There was one new TDR during the year ended December 31, 2020. At December 31, 2021, four loans were determined to be TDRs with a total carrying value of $758,000. There were no TDR defaults during the year ended December 31, 2021. As of December 31, 2020, four loans were determined to be TDRs with a total carrying value of $811,000. There were no TDR defaults during the year ended December 31, 2020.

The allowance for credit losses includes a specific reserve for TDRs of approximately $85,000 and $90,000 as of December 31, 2021 and December 31, 2020, respectively. As of December 31, 2021 and December 31, 2020, there were no significant commitments to lend additional funds to borrowers whose loans were restructured.

Pursuant to Section 4013 of the CARES Act, financial institutions could suspend the requirements under U.S. GAAP related to TDRs for modifications made before December 31, 2020 to loans that were current as of December 31, 2019. On January 3, 2021, the President of the United State of America signed into law the Consolidated Appropriations Act, 2021 (the “CAA”). As a result of the CAA, the suspension of TDR accounting was extended to January 1, 2022. The requirement that a loan be not more than 30 days past due as of December 31, 2019 is still applicable. In response to the COVID-19 pandemic and its economic impact to customers, a short-term modification program that complies with the CARES Act was implemented to provide temporary payment relief to those borrowers directly impacted by COVID-19. The deferred payments along with interest accrued during the deferral period are due and payable on the maturity date. Under recently issued guidance, provided these loans were current as of either year end or the date of the modification, these loans are not considered TDR loans at December 31, 2021 and will not be reported as past due during the deferral period. As of December 31, 2021, the Company had $4.7 million of loans in deferral.

Loans by Credit Quality Indicator. The following tables contain period-end balances of loans receivable disaggregated by credit quality indicator:

	Credit Quality Indicator - by Origination Year as of December 31, 2021							
	2021	2020	2019	2018	2017	Prior	Revolving loans amortized cost basis	Total
	(dollars in thousands)							
Residential Mortgage:								
Current	$ 535,071	$ 329,501	$ 135,139	$ 101,108	$ 77,702	$ 232,129	$ —	$ 1,410,650
Non-performing	—	151	—	330	54	3,894	—	4,429
Total	$ 535,071	$ 329,652	$ 135,139	$ 101,438	$ 77,756	$ 236,023	$ —	$ 1,415,079
Home equity:								
Current	$ —	$ 719	$ 3,088	$ 4,469	$ 5,060	$ 5,475	$ 68,926	$ 87,737
Non-performing	—	—	223	—	—	—	—	223
Total	$ —	$ 719	$ 3,311	$ 4,469	$ 5,060	$ 5,475	$ 68,926	$ 87,960
Consumer:								
Current	$ 14,427	$ 8,758	$ 1,544	$ 3,168	$ 1,838	$ 5,357	$ 527	$ 35,619
Non-performing	—	—	—	—	—	—	—	—
Total	$ 14,427	$ 8,758	$ 1,544	$ 3,168	$ 1,838	$ 5,357	$ 527	$ 35,619

	Credit Quality Indicator - by Origination Year as of December 31, 2021							
	2021	2020	2019	2018	2017	Prior	Revolving loans amortized cost basis	Total
	(dollars in thousands)							
Commercial Mortgage:								
Credit risk profile by internally assigned grade:								
1-6 (Pass)	$ 319,633	$ 248,691	$ 320,189	$ 158,462	$ 93,016	$ 298,791	$ —	$ 1,438,782
7 (Special Mention)	—	1,096	40,879	22,471	2,913	4,131	—	71,490
8 (Substandard)	—	—	—	—	—	730	—	730
9 (Doubtful)	—	—	—	—	—	—	—	—
10 (Loss)	—	—	—	—	—	—	—	—
Total	$ 319,633	$ 249,787	$ 361,068	$ 180,933	$ 95,929	$ 303,652	$ —	$ 1,511,002
Commercial and Industrial:								
Credit risk profile by internally assigned grade:								
1-6 (Pass)	$ 83,614	$ 77,073	$ 38,299	$ 34,360	$ 19,727	$ 4,622	$ 353	$ 258,048
7 (Special Mention)	318	350	5,523	406	161	859	10	7,627
8 (Substandard)	—	792	2,331	504	—	144	—	3,771
9 (Doubtful)	—	—	—	—	—	—	—	—
10 (Loss)	—	—	—	—	—	—	—	—
Total	$ 83,932	$ 78,215	$ 46,153	$ 35,270	$ 19,888	$ 5,625	$ 363	$ 269,446

	Credit Quality Indicator - by Origination Year as of December 31, 2020							
	2020	2019	2018	2017	2016	Prior	Revolving loans amortized cost basis	Total
	(dollars in thousands)							
Residential Mortgage:								
Current	$ 398,267	$ 221,019	$ 158,962	$ 144,256	$ 106,360	$ 265,620	$ —	$ 1,294,484
Non-performing	—	—	782	58	1,454	2,090	—	4,384
Total	$ 398,267	$ 221,019	$ 159,744	$ 144,314	$ 107,814	$ 267,710	$ —	$ 1,298,868
Home equity:								
Current	$ 2,131	$ 6,024	$ 7,997	$ 6,976	$ 2,119	$ 5,191	$ 75,756	$ 106,194
Non-performing	—	—	—	—	—	—	—	—
Total	$ 2,131	$ 6,024	$ 7,997	$ 6,976	$ 2,119	$ 5,191	$ 75,756	$ 106,194
Consumer:								
Current	$ 16,192	$ 5,819	$ 3,652	$ 2,643	$ 4,879	$ 8,032	$ 552	$ 41,769
Non-performing	—	—	—	—	—	—	—	—
Total	$ 16,192	$ 5,819	$ 3,652	$ 2,643	$ 4,879	$ 8,032	$ 552	$ 41,769

	Credit Quality Indicator - by Origination Year as of December 31, 2020							
	2020	2019	2018	2017	2016	Prior	Revolving loans amortized cost basis	Total
	(dollars in thousands)							
Commercial Mortgage:								
Credit risk profile by internally assigned grade:								
1-6 (Pass)	$ 282,870	$ 396,026	$ 197,473	$ 106,489	$ 126,537	$ 221,257	$ —	$ 1,330,652
7 (Special Mention)	—	872	13,445	1,270	85	8,304	—	23,976
8 (Substandard)	—	145	—	—	215	3,300	—	3,660
9 (Doubtful)	—	—	—	—	—	674	—	674
10 (Loss)	—	—	—	—	—	—	—	—
Total	$ 282,870	$ 397,043	$ 210,918	$ 107,759	$ 126,837	$ 233,535	$ —	$ 1,358,962
Commercial and Industrial:								
Credit risk profile by internally assigned grade:								
1-6 (Pass)	$ 210,356	$ 51,424	$ 37,286	$ 23,700	$ 2,920	$ 7,373	$ 416	$ 333,475
7 (Special Mention)	534	3,407	3,725	420	180	1,001	10	9,277
8 (Substandard)	1,333	1,116	544	—	1,907	203	—	5,103
9 (Doubtful)	—	—	—	—	—	—	—	—
10 (Loss)	—	—	—	—	—	—	—	—
Total	$ 212,223	$ 55,947	$ 41,555	$ 24,120	$ 5,007	$ 8,577	$ 426	$ 347,855

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

- Performing – These loans are accruing and are considered having low to moderate risk.
- Non-performing – These loans are on non-accrual or are past due more than 90 days but are still accruing or are restructured. These loans may contain greater than average risk.

With respect to commercial mortgages and commercial loans, the Company utilizes a 10-grade internal loan rating system as an indicator of credit quality. The grades are as follows:

- Loans rated 1-6 (Pass) – These loans are considered "pass" rated with low to moderate risk.
- Loans rated 7 (Special Mention) – These loans have potential weaknesses warranting close attention, which, if left uncorrected, may result in deterioration of the credit at some future date.

- Loans rated 8 (Substandard) – These loans have well-defined weaknesses that jeopardize the orderly liquidation of the debt under the original loan terms. Loss potential exists but is not identifiable in any one customer.
- Loans rated 9 (Doubtful) – These loans have pronounced weaknesses that make full collection highly questionable and improbable.
- Loans rated 10 (Loss) – These loans are considered uncollectible and continuance as a bankable asset is not warranted.

Delinquencies

The past due status of a loan is determined in accordance with its contractual repayment terms. All loan types are reported past due when one scheduled payment is due and unpaid for 30 days or more. Loan delinquencies can be attributed to many factors, such as but not limited to, a continuing weakness in, or deteriorating, economic conditions in the region in which the collateral is located, the loss of a tenant or lower lease rates for commercial borrowers, or the loss of income for consumers and the resulting liquidity impacts on the borrowers.

The following tables contain period-end balances of loans receivable disaggregated by past due status:

	December 31, 2021						
	30-59 Days	60-89 Days	90 Days or greater	Total Past Due	Current Loans	Total	Amortized Cost 90+ Days Past Due and Accruing
	(dollars in thousands)						
Residential mortgages	$ 8,470	$ 415	$ 1,488	$ 10,373	$ 1,404,706	$ 1,415,079	$ —
Commercial mortgages	476	—	—	476	1,510,526	1,511,002	—
Home equity	314	643	—	957	87,003	87,960	—
Commercial and Industrial	5	437	—	442	269,004	269,446	—
Consumer loans	—	—	—	—	35,619	35,619	—
Total	$ 9,265	$ 1,495	$ 1,488	$ 12,248	$ 3,306,858	$ 3,319,106	$ —

	December 31, 2020						
	30-59 Days	60-89 Days	90 Days or Greater	Total Past Due	Current Loans	Total	Amortized Cost 90+ Days Past Due and Accruing
	(dollars in thousands)						
Residential mortgages	$ 12,647	$ 2,450	$ 2,335	$ 17,432	$ 1,281,436	$ 1,298,868	$ —
Commercial mortgages	1,080	—	674	1,754	1,357,208	1,358,962	—
Home equity	843	353	—	1,196	104,998	106,194	—
Commercial and Industrial	276	1,917	409	2,602	345,253	347,855	407
Consumer loans	3,120	—	—	3,120	38,649	41,769	—
Total	$ 17,966	$ 4,720	$ 3,418	$ 26,104	$ 3,127,544	$ 3,153,648	$ 407

There were no significant commitments to lend additional funds to borrowers whose loans were on non-accrual status at December 31, 2021 and December 31, 2020.

Allowance for Credit Losses

The following tables contain changes in the allowance for credit losses disaggregated by loan category:

	For the Year Ended December 31, 2021						
	Residential Mortgage	Commercial Mortgage	Home Equity	Commercial and Industrial	Consumer	Unfunded Commitments	Total
	(dollars in thousands)						
Allowance for credit loss:							
Allowance for credit losses - loan portfolio:							
Balance at December 31, 2020	$ 13,067	$ 18,564	$ 552	$ 3,309	$ 524	$ —	$ 36,016
Charge-offs	(4)	—	—	(41)	(42)	—	(87)
Recoveries	—	30	—	181	30	—	241
Provision for (Release of) credit losses - loan portfolio	320	(1,461)	(146)	(460)	73	—	(1,674)
Allowance for credit losses - loan portfolio	$ 13,383	$ 17,133	$ 406	$ 2,989	$ 585	$ —	$ 34,496
Allowance for credit losses - unfunded commitments:							
Balance at December 31, 2020	$ —	$ —	$ —	$ —	$ —	$ 1,004	$ 1,004
Provision for credit losses - unfunded commitments	—	—	—	—	—	380	380
Allowance for credit losses- unfunded commitments	$ —	$ —	$ —	$ —	$ —	$ 1,384	$ 1,384
Total allowance for credit loss	**$ 13,383**	**$ 17,133**	**$ 406**	**$ 2,989**	**$ 585**	**$ 1,384**	**$ 35,880**

	For the Year Ended December 31, 2020						
	Residential Mortgages	Commercial Mortgages	Home Equity	Commercial & Industrial	Consumer	Unfunded Commitments	Total
	(dollars in thousands)						
Allowance for credit loss:							
Allowance for credit losses - loan portfolio:							
Balance at December 31, 2019	$ 5,141	$ 10,905	$ 461	$ 1,475	$ 198	$ —	$ 18,180
Adoption of ASC 326	2,061	(1,447)	(205)	(492)	288	—	205
Provision for acquired loans	2,880	3,625	188	1,577	12	—	8,282
Initial allowance for PCD	35	382	—	20	—	—	437
Charge-offs	—	(264)	—	(400)	(40)	—	(704)
Recoveries	—	—	—	250	15	—	265
Provision for credit losses loan portfolio	2,950	5,363	108	879	51	—	9,351
Allowance for credit losses - loan portfolio	$ 13,067	$ 18,564	$ 552	$ 3,309	$ 524	$ —	$ 36,016
Allowance for credit losses - unfunded commitments:							
Balance at December 31, 2019	$ —	$ —	$ —	$ —	$ —	$ 50	$ 50
Adoption of ASC 326	—	—	—	—	—	276	276
Acquired loan commitments	—	—	—	—	—	356	356
Provision for credit losses- unfunded commitments	—	—	—	—	—	322	322
Allowance for credit losses-unfunded commitments	—	—	—	—	—	1,004	1,004
Total allowance for credit loss	**$ 13,067**	**$ 18,564**	**$ 552**	**$ 3,309**	**$ 524**	**$ 1,004**	**$ 37,020**

8. FEDERAL HOME LOAN BANK ("FHLB") OF BOSTON STOCK

As a voluntary member of the FHLB of Boston, the Company is required to invest in stock of the FHLB of Boston (which is considered a restricted equity security) in an amount based upon its outstanding advances from the FHLB of Boston. At December 31, 2021 and 2020, the Company's investment in FHLB of Boston stock totaled $4.8 million and $5.7 million, respectively. No market exists for shares of this stock. The Company's cost for FHLB of Boston stock is equal to its par value. Upon redemption of the stock, which is at the discretion of the FHLB of Boston, the Bank would receive an amount equal to the par value of the stock. At its discretion, the FHLB of Boston may also declare dividends on its stock.

The Company's investment in FHLB of Boston stock is reviewed for impairment at each reporting date based on the ultimate recoverability of the cost basis of the stock. As of December 31, 2021 and December 31, 2020, no impairment has been recognized.

9. BANKING PREMISES AND EQUIPMENT

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

	December 31, 2021	December 31, 2020	Estimated Useful Lives
	(dollars in thousands)		
Land	$ 1,516	$ 1,516	
Building and leasehold improvements	20,254	20,017	3-30 years
Equipment, including vaults	18,592	17,097	3-20 years
Work in process	19	138	
Subtotal	40,381	38,768	
Accumulated depreciation and amortization	(23,055)	(20,610)	
Total	$ 17,326	$ 18,158	

Total depreciation expense for the years ended December 31, 2021, 2020, and 2019 amounted to $2.6 million, $2.5 million, and $2.0 million, and is included in occupancy and equipment expenses in the accompanying consolidated statements of income.

10. INTANGIBLE ASSETS

Core deposit intangibles ("CDI"). The Company recorded an asset for CDI of $3.6 million related to the Optima merger. Amortization of CDI totaled $361,000, $361,000, and $271,000 for the years ended December 31, 2021, 2020, and 2019, respectively. At December 31, 2021 and 2020, the carrying value of CDI assets totaled $2.6 million and $3.0 million, respectively. The weighted-average remaining amortization period for CDI was 7.3 years at December 31, 2021.

Mortgage servicing rights. Periodically, the Company sells certain residential mortgage loans to the secondary market. Generally, these loans are sold without recourse or other credit enhancements.

The Company sells loans and either releases or retains the servicing rights. For loans sold with servicing rights retained, the Company provides the servicing for the loans on a per-loan fee basis. Mortgage loans sold and servicing rights retained during the years ended December 31, 2021, 2020, and 2019 were $25.3 million, $60.5 million, and $82.9 million, respectively.

The following table provides an analysis of mortgage servicing rights, which are included in other assets:

	Mortgage Servicing Rights	Valuation Allowance	Total
		(dollars in thousands)	
Balance at December 31, 2018	$ 666	$ —	$ 666
Mortgage servicing rights acquired as a result of the merger	334	—	334
Mortgage servicing rights capitalized	618	—	618
Amortization charged against servicing income	(271)	—	(271)
Change in impairment reserve	—	(26)	(26)
Balance at December 31, 2019	$ 1,347	$ (26)	$ 1,321
Balance at December 31, 2019	$ 1,347	$ (26)	$ 1,321
Mortgage servicing rights acquired as a result of the merger	50	—	50
Mortgage servicing rights capitalized	536	—	536
Amortization charged against servicing income	(572)	—	(572)
Change in impairment reserve	—	(116)	(116)
Balance at December 31, 2020	$ 1,361	$ (142)	$ 1,219
Balance at December 31, 2020	$ 1,361	$ (142)	$ 1,219
Mortgage servicing rights capitalized	281	—	281
Amortization charged against servicing income	(559)	—	(559)
Change in impairment reserve	—	142	142
Balance at December 31, 2021	$ 1,083	$ —	$ 1,083

The fair value of the Company's mortgage servicing rights portfolio was $1.5 million and $1.2 million as of December 31, 2021 and 2020, respectively. The fair value of mortgage servicing rights is estimated based on the present value of expected cash flows, incorporating assumptions for discount rate, prepayment speed, and servicing cost.

The weighted-average amortization period for mortgage servicing rights portfolio was 5.7 years and 3.3 years at December 31, 2021 and 2020, respectively.

The estimated aggregate future amortization expense for mortgage servicing rights for each of the next five years and thereafter is as follows:

	Future Amortization Expense (dollars in thousands)
2022	$ 177
2023	150
2024	126
2025	105
2026	88
Thereafter	437
Total	$ 1,083

11. DEPOSITS

Deposits are summarized as follows:

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Demand deposits (non-interest bearing)	$ 1,393,935	$ 1,006,132
Interest bearing checking	763,188	625,650
Money market	1,104,238	532,218
Savings	907,722	984,262
Retail certificates of deposit under $250,000	99,196	127,202
Retail certificates of deposit $250,000 or greater	60,171	96,831
Wholesale certificates of deposit	2,702	30,788
Total deposits	$ 4,331,152	$ 3,403,083

Certificates of deposit had the following schedule of maturities:

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
2021	$ —	$ 215,206
2022	132,212	23,006
2023	19,062	11,997
2024	4,443	2,156
2025	2,182	2,456
2026	4,170	—
Total certificates of deposit	$ 162,069	$ 254,821

Related Party Deposits

Deposit accounts of directors, executive officers, and their respective affiliates totaled $7.5 million and $7.7 million as of December 31, 2021 and 2020, respectively.

12. BORROWINGS

Federal Home Loan Bank Advances

At December 31, 2021 the Company did not have any outstanding short-term advances from the FHLB of Boston. At December 31, 2020, the Company had $15.0 million of short-term advances outstanding from the FHLB of Boston, with a weighted average rate 2.14%.

Information relating to long-term borrowings from the FHLB of Boston is presented below:

	December 31, 2021		December 31, 2020	
	Amount	Rate	Amount	Rate
	(dollars in thousands)			
2022	$ 221	1.84%	$ 595	1.84%
2023*	16,221	3.69	17,240	3.61
	$ 16,442	3.67%	$ 17,835	3.55%

*Includes a $15 million advance with an interest rate of 3.80%, that is callable by the FHLB of Boston on January 27, 2022.

At December 31, 2021 and December 31, 2020, the total balance of long-term borrowings from the FHLB of Boston on the consolidated balance sheets includes a remaining fair value adjustment of $68,000 and $157,000, respectively.

Federal Reserve Bank PPP Loan Facility ("PPPLF") Advances

During the year ended December 31, 2021, the Company did not borrow funds from the Federal Reserve Bank's PPPLF.

During the year ended December 31, 2020, in order to fund a portion of the Company's PPP loan originations, the Company borrowed $85.4 million from the Federal Reserve Bank's PPPLF, which carried a rate of 0.35% fixed for the term of the corresponding PPP loan. The Company pledged eligible PPP loans as collateral for the borrowings. As of December 31, 2020, all of the Company's borrowings under the PPPLF were repaid.

Subordinated Debt

In the fourth quarter of 2020, the Company redeemed $10.0 million in subordinated debt, bearing a 6.0% coupon, which was assumed as part of the Wellesley merger.

Unused Borrowing Capacity with the FHLB of Boston and FRB of Boston

All short- and long-term borrowings with the FHLB of Boston are secured by the Company's stock in the FHLB of Boston and a blanket lien on "qualified collateral" defined principally as 60% - 70% of the carrying value of certain residential mortgage loans. Based upon collateral pledged, the Bank's unused borrowing capacity with the FHLB of Boston at December 31, 2021 was approximately $779.0 million.

The Company also has a line of credit with the FRB of Boston. At December 31, 2021 and 2020, the Company had pledged CRE and C&I loans with aggregate principal balances of approximately $652.3 million and $734.3 million, respectively, as collateral for this line of credit. Based upon the collateral pledged, the Company's unused borrowing capacity with the FRB of Boston at December 31, 2021 and 2020 was approximately $419.6 million and $562.4 million, respectively.

13. INCOME TAXES

The components of income tax expense were as follows:

	For the Year Ended December 31, 2021	2020	2019
		(dollars in thousands)	
Current tax expense			
Federal	$ 11,330	$ 7,877	$ 5,954
State	4,862	4,192	2,597
	16,192	12,069	8,551
Deferred tax expense (benefit)			
Federal	1,840	(250)	(63)
State	1,059	(415)	173
	2,899	(665)	110
Total income tax expense	$ 19,091	$ 11,404	$ 8,661

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

	For the Year Ended December 31, 2021	2020	2019
		(dollars in thousands)	
Income tax expense at statutory rate of 21.0%	$ 15,354	$ 9,106	$ 7,123
Increase/(decrease) resulting from:			
State tax, net of federal tax benefit	4,678	2,984	2,188
Tax-exempt income	(795)	(694)	(599)
ESOP dividends	(145)	(125)	(124)
Bank owned life insurance	(165)	(157)	(129)
Compensation limited under 162(m)	226	511	—
Benefit from stock compensation	(46)	—	(150)
Non-deductible acquisition costs	—	186	236
Non-deductible expenses	55	—	—
Impact of CARES Act	—	(539)	—
Other	(71)	132	116
Total income tax expense	$ 19,091	$ 11,404	$ 8,661

The CARES Act was signed into law on March 27, 2020, to help stimulate the United States economy. One of the business tax provisions of the CARES Act included allowing net operating losses ("NOL") generated by the Company in tax years 2018 and 2019 to be carried back up to five years at the tax rates in effect during those periods, rather than carried forward at current federal tax rates of 21%. The effect of the Act allowed the Company to recognize lower tax expense associated with NOL carryforwards from 2018 and 2019 (as a result of the Optima Bank and Trust merger) and resulted in a benefit of $539,000 during the year ended December 31, 2020.

The Company's 2021 and 2020 net deferred tax assets were measured using a 27.92% tax rate, and consisted of the following components:

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Gross deferred tax assets		
Allowance for credit losses	$ 10,019	$ 10,336
Accrued retirement benefits	—	1,576
Unrealized losses on available for sale securities	982	—
Incentive compensation	1,905	1,591
Equity based compensation	1,347	1,343
Lease liabilities	9,458	10,455
ESOP dividends	193	166
Intangibles and fair value marks (merger related)	658	1,971
Other	265	226
Total gross deferred tax assets	24,827	27,664
Gross deferred tax liabilities		
Deferred loan origination costs	(2,324)	(1,434)
Retirement benefits	(535)	—
Unrealized gains on available for sale securities	—	(641)
Depreciation of premises and equipment	(1,997)	(1,816)
Right-of-use asset	(8,733)	(9,751)
Mortgage servicing rights	(303)	(340)
Goodwill	(115)	(115)
Derivative transactions	(835)	(1,928)
Total gross deferred tax liabilities	(14,842)	(16,025)
Net deferred tax asset	$ 9,985	$ 11,639

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. Therefore, no valuation allowance was required at either December 31, 2021 and December 31, 2020 for the deferred tax assets. It should be noted, however, that factors beyond management's control, such as the general state of the economy and real estate values, can affect future levels of taxable income and that no assurance can be given that sufficient taxable income will be generated in future periods to fully absorb deductible temporary differences.

At December 31, 2021 and December 31, 2020, the Company had no unrecognized tax benefits or any uncertain tax positions. The Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next 12 months.

The Company's federal income tax returns are open and subject to examination from the 2018 tax return year and forward. The Company's state income tax returns are open from the 2018 and later tax return years based on individual states' statute of limitations.

14. PENSION AND RETIREMENT PLANS

The Company has a noncontributory, defined benefit pension plan ("Pension Plan") covering substantially all employees hired before May 2, 2011. The Company also provides supplemental retirement benefits to certain current and former executive officers of the Company under the terms of Supplemental Executive Retirement Agreements ("Supplemental Retirement Plan"). The Company also offers postretirement health care benefits for current and future retirees of the Bank. Certain 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. Effective November 7, 2019, the postretirement health care plan was frozen for employees hired after that date. The Company uses a December 31st measurement date each year to determine the benefit obligations for these plans.

Projected benefit obligations and funded status were as follows:

	Pension Plan		Supplemental Retirement Plan	
	2021	2020	2021	2020
	(dollars in thousands)			
Change in projected benefit obligation				
Obligation at beginning of year	$ 50,117	$ 45,401	$ 10,505	$ 9,622
Service cost	—	—	400	355
Interest cost	1,211	1,438	223	283
Actuarial (gain) loss	(1,838)	4,827	(451)	840
Benefits paid	(1,615)	(1,549)	(602)	(595)
Obligation at end of year	47,875	50,117	10,075	10,505
Change in plan assets				
Fair value at beginning of year	55,802	50,131	—	—
Actual return on plan assets	6,451	7,220	—	—
Employer contribution	—	—	602	595
Benefits paid	(1,615)	(1,549)	(602)	(595)
Fair value at end of year	60,638	55,802	—	—
Funded status at end of year	$ 12,763	$ 5,685	$ (10,075)	$ (10,505)

The funded status of the Company's Pension Plan is included within other assets and the funded status of the Company's Supplemental Retirement Plan is included within other liabilities on the Company's consolidated balance sheets at December 31, 2021 and 2020.

	Pension Plan		Supplemental Retirement Plan	
	2021	2020	2021	2020
	(dollars in thousands)			
Accumulated benefit obligation	$ 47,875	$ 50,117	$ 9,472	$ 9,909

Amounts recognized in accumulated other comprehensive income (loss) consisted of:

	Pension Plan		Supplemental Retirement Plan	
	2021	2020	2021	2020
	(dollars in thousands)			
Net actuarial (gain) loss	$ (206)	$ 4,517	$ 1,468	$ 1,959
Prior service credit	—	(3)	—	—
Total	$ (206)	$ 4,514	$ 1,468	$ 1,959

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

	Pension Plan		Supplemental Retirement Plan	
	2021	2020	2021	2020
	(dollars in thousands)			
Net periodic benefit cost				
Service cost	$ —	$ —	$ 400	$ 355
Interest cost	1,211	1,438	223	283
Expected return on assets	(3,566)	(3,201)	—	—
Amortization of prior service credit	(3)	(4)	—	—
Amortization of net actuarial loss	—	—	40	8
Net periodic benefit cost	(2,358)	(1,767)	663	646
Amounts recognized in other comprehensive income (loss)				
Net actuarial loss/(gain)	(4,723)	807	(451)	840
Amortization of prior service credit	3	4	—	—
Amortization of net actuarial loss	—	—	(40)	(8)
Total recognized in other comprehensive income (loss)	(4,720)	811	(491)	832
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (7,078)	$ (956)	$ 172	$ 1,478

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

	Pension Plan		Supplemental Retirement Plan	
	2021	2020	2021	2020
Discount rate	2.79%	2.45%	2.63%	2.21%
Rate of compensation increase	N/A	N/A	4.00%	4.00%

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

	Pension Plan		Supplemental Retirement Plan	
	2021	2020	2021	2020
Discount rate	2.45%	3.22%	2.21%	3.04%
Expected long-term return on plan assets	6.50%	6.50%	N/A	N/A
Rate of compensation increase	N/A	N/A	4.00%	4.00%

To develop the expected long-term rate of return on assets assumption for the Pension Plan, the Company considered the historical returns and the future expectations for returns for each asset class, as well as target asset allocations of the pension portfolio.

The Company maintains an Investment Policy for its Pension Plan. The objective of this policy is to seek a balance between capital appreciation, current income, and preservation of capital, with a longer-term weighting towards equities because of the extended time horizon of the Pension Plan.

The Investment Policy guidelines suggest that the target asset allocation percentages are from 30% to 60% in domestic large cap equities, from 5% to 20% in domestic small/mid cap equities, from 0% to 20% in international equities, and from 20% to 60% in cash and fixed income.

The Company's Pension Plan weighted-average asset allocations by asset category were as follows:

	December 31,	
	2021	2020
Equity securities	68%	42%
Debt securities	29	46
Other	—	9
Cash and equivalents	3	3
Total	100%	100%

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

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

The following table summarizes the various categories of the Pension Plan's assets:

	Fair Value as of December 31, 2021			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Asset category				
Cash and cash equivalents	$ 1,689	$ —	$ —	$ 1,689
Fixed income	—	13,338	—	13,338
Equity securities				
Common stock				
Large cap core	16,940	—	—	16,940
Small cap core	2,359	—	—	2,359
Mutual funds				
Domestic equity	10,413	—	—	10,413
International	6,579	—	—	6,579
Domestic fixed income	9,320	—	—	9,320
Total	$ 47,300	$ 13,338	$ —	$ 60,638

	Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
	(dollars in thousands)			
Asset category				
Cash and cash equivalents	$ 1,527	$ —	$ —	$ 1,527
Fixed income	—	14,402	—	14,402
Equity securities				
Common stock				
Large cap core	12,604	—	—	12,604
Small cap core	1,767	—	—	1,767
Mutual funds				
Domestic equity	9,306	—	—	9,306
International	4,868	—	—	4,868
Domestic fixed income	11,328	—	—	11,328
Total	$ 41,400	$ 14,402	$ —	$ 55,802

There were no transfers between fair value levels during the years ended December 31, 2021 and 2020.

The Company 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 Company uses a December 31 measurement date each year to determine the benefit obligation for this plan. On November 7, 2019, the Company announced its decision to freeze the accrual of benefits to new hires within the plan.

Projected benefit obligations and funded status were as follows:

	Postretirement Healthcare Plan	
	2021	2020
	(dollars in thousands)	
Change in projected benefit obligation		
Obligation at beginning of year	$ 761	$ 689
Service cost	31	30
Interest cost	18	21
Actuarial (gain) loss	(62)	51
Benefits paid	(19)	(30)
Obligation at end of year	729	761
Change in plan assets		
Fair value at beginning of year	—	—
Employer contribution	19	30
Benefits paid	(19)	(30)
Fair value at end of year	—	—
Funded status at end of year	$ (729)	$ (761)

The funded status of the Company's Postretirement Healthcare Plan is included within other liabilities on the Company's consolidated balance sheets at December 31, 2021 and 2020.

	Postretirement Healthcare Plan	
	2021	2020
	(dollars in thousands)	
Accumulated benefit obligation	$ 729	$ 761

Amounts recognized in accumulated other comprehensive income (loss) consisted of:

	Postretirement Healthcare Plan	
	2021	2020
	(dollars in thousands)	
Net actuarial (gain) loss	$ (44)	$ 18

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

	Postretirement Healthcare Plan	
	2021	2020
	(dollars in thousands)	
Net periodic benefit cost		
Service cost	$ 31	$ 30
Interest cost	18	21
Net periodic benefit cost	49	51
Amounts recognized in other comprehensive income (loss)		
Net actuarial (gain) loss	(62)	51
Total recognized in other comprehensive income	(62)	51
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ (13)	$ 102

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

	Postretirement Healthcare Plan	
	2021	2020
Discount rate	2.85%	2.52%
Rate of compensation increase	N/A	N/A

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

	Postretirement Healthcare Plan	
	2021	2020
Discount rate	2.52%	3.26%
Expected long-term return on plan assets	N/A	N/A
Rate of compensation increase	N/A	N/A

Assumed health care cost trend rates are as follows:

	Postretirement Healthcare Plan	
	2021	2020
Health care cost trend rate assumed for next year	4.00%	4.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%	4.00%
Year that the rate reaches the ultimate trend rate	2021	2020

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

	Pension Plan	Supplemental Retirement Plan	Postretirement Healthcare Plan	Total
		(dollars in thousands)		
Year-ended December 31,				
2022	$ 2,008	$ 615	$ 34	$ 2,657
2023	2,116	611	34	2,761
2024	2,206	607	34	2,847
2025	2,275	603	33	2,911
2026	2,395	599	33	3,027
2027-2031	12,443	3,479	161	16,083
Total	$ 23,443	$ 6,514	$ 329	$ 30,286

Employee Profit Sharing and 401(k) Plan

The Company 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 Company matches employee contributions up to 100% of the first 4% of each participant's salary, eligible bonus, and eligible incentive. Employees are eligible to participate in the PSP on the first day of their initial date of service. Each year, the Company may also make a discretionary contribution to the PSP.

Employee Stock Ownership Plan

The Company has an Employee Stock Ownership Plan ("ESOP") for its eligible employees. Employees are eligible to participate upon the attainment of age 21 and the completion of 12 months of service consisting of at least 1,000 hours. Purchases of the Company's stock by the ESOP will be funded by employer contributions or reinvestment of cash dividends.

Total expenses related to the Profit Sharing and ESOP Plans for the years ended December 31, 2021, 2020, and 2019 amounted to $4.0 million, $3.6 million, and $2.8 million, respectively.

Defined Contribution SERP Plan ("DC SERP")

For executives participating in the DC SERP plan, the Company made a discretionary contribution of 10% of each executive's base salary and bonus to his or her account under the Company's DC SERP. Total expenses related to the Company's DC SERP for the years ended December 31, 2021, 2020, and 2019 amounted to $201,000, $209,000, and $167,000, respectively.

15. SHARE-BASED COMPENSATION

In 2017, the Company adopted the 2017 Equity and Cash Incentive Plan (the "2017 Plan") and all future awards are anticipated to be made under the 2017 Plan. The 2017 Plan permits the issuance of restricted stock, restricted stock units (both time and performance-based), stock options, and stock appreciation rights.

Restricted stock awards time-vest either over a three-year or five-year period and are fair valued as of the date of grant. The holders of restricted stock awards participate fully in the rewards of stock ownership of the Company, including voting and dividend rights. A summary of restricted stock outstanding as of December 31, 2021 and 2020, and changes during the years ended on those dates, is presented below:

	December 31, 2021		December 31, 2020	
	Number of Shares	Weighted Average Grant Value	Number of Shares	Weighted Average Grant Value
Restricted stock				
Non-vested at beginning of year	31,649	$ 73.07	36,121	$ 70.25
Granted	18,781	82.06	12,790	72.48
Vested	(11,691)	71.27	(13,846)	66.55
Forfeited	(4,117)	75.97	(3,416)	67.50
Non-vested at end of year	34,622	$ 78.20	31,649	$ 73.07

Performance-based restricted stock units vest based upon the Company's performance over a three-year period and are fair valued as of the date of grant. The holders of performance-based restricted stock units do not participate in the rewards of stock ownership of the Company until vested. A summary of non-vested performance-based restricted stock units outstanding as of December 31, 2021 and 2020, and changes during the years ended on those dates, is presented below:

	2021		2020	
	Number of Units	Weighted Average Grant Value	Number of Units	Weighted Average Grant Value
Performance-based restricted stock units				
Non-vested at beginning of year	75,246	$ 73.41	57,256	$ 72.82
Granted	32,697	77.00	36,067	71.36
Vested (Performance achieved)	(30,059)	76.56	(8,623)	62.54
Forfeited	(3,185)	75.06	(9,454)	70.21
Non-vested at end of year	74,699	$ 73.59	75,246	$ 73.41

Time-based restricted stock units vest over a three-year-period and have been fair valued as of the date of the grant. The holders of time-based restricted stock units do not participate in the rewards of stock ownership of the Company until vested. A summary of non-vested time-based restricted stock units outstanding as of December 31, 2021 and 2020, and changes during the years ended on those dates, is presented below:

	December 31, 2021		December 31, 2020	
	Number of Shares	Weighted Average Grant Value	Number of Shares	Weighted Average Grant Value
Time-based restricted stock units				
Non-vested at beginning of year	14,968	$ 74.84	12,658	$ 74.27
Granted	7,464	$ 77.00	9,120	$ 74.69
Vested	(7,899)	74.95	(4,958)	74.62
Forfeited	(697)	75.64	(1,852)	70.86
Non-vested at end of year	13,836	$ 75.91	14,968	$ 74.84

The following table presents the amounts recognized in the consolidated statements of income for restricted stock, time-based restricted stock units, and performance-based restricted stock units:

	For the Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands)		
Share-based compensation expense	$ 3,476	$ 4,923	$ 2,632
Related income tax benefit	$ 970	$ 1,375	$ 733

The 2017 Plan allows Directors of the Company to receive their annual retainer fee in the form of stock in the Company. Total shares issued under the 2017 Plan in the years ended December 31, 2021 and 2020 were 5,941 and 8,403, respectively.

16. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

To meet the financing needs of its customers, the Company is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments are primarily comprised of commitments to extend credit, commitments to sell residential real estate mortgage loans 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 Company'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 Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Off-balance-sheet financial instruments with contractual amounts that present credit risk included the following:

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
Financial instruments whose contractual amount represents credit risk:		
Commitments to extend credit:		
Unused portion of existing lines of credit	$ 809,383	$ 584,520
Origination of new loans	70,633	94,399
Standby letters of credit	18,880	9,430
Financial instruments whose notional amount exceeds the amount of credit risk:		
Commitments to sell residential mortgage loans	3,920	17,644

Standby letters of credit are conditional commitments issued by the Company 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 Company 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 CRE.

See NOTE 21 - DERIVATIVES AND HEDGING ACTIVITIES for a discussion of the Company's derivatives and hedging activities.

17. COMMITMENTS AND CONTINGENCIES

Lease Commitments. The Company 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 2022 and 2032 and, in some instances, contain options to renew for periods up to 25 years.

The Company recognizes its operating leases on its consolidated balance sheet by recording a lease liability, representing the Company's legal obligation to make lease payments, and a ROU asset, representing the Company's legal right to use the leased office space and banking centers. The Company, by policy, does not include renewal options for leases as part of its ROU assets and lease liabilities unless they are deemed reasonably certain to exercise. The Company does not have any material sub-lease agreements.

Operating lease expenses are comprised of operating lease costs and variable lease costs, net of sublease income, and are recognized over the lease term.

Variable lease payments that are not dependent on an index or a rate or changes in variable payments based on an index or rate after the commencement date are excluded from the measurement of the lease liability, recognized in the period incurred and included within variable lease costs below.

The Company determines whether a contract contains a lease based on whether a contract, or a part of a contract, conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The discount rate is determined as either the rate implicit in the lease or, when a rate cannot be readily determined, the Company's incremental borrowing rate. The incremental borrowing rate is the rate of interest that the Company would have to pay to borrow on a collateralized basis over a similar term.

The components of operating lease cost and other related information are as follows:

	For the Year Ended December 31,	
	2021	2020
	(dollars in thousands)	
Operating lease cost	$ 6,976	$ 6,691
Variable lease cost (Cost excluded from lease payments)	13	2
Sublease income	(65)	(65)
Total operating lease cost	$ 6,924	$ 6,628
Other Information		
Cash paid for amounts included in the measurement of lease liabilities - operating cash flows for operating leases	$ 7,259	$ 6,547
Operating Lease - Operating cash flows (Liability reduction)	6,252	5,430
Weighted average lease term - operating leases	6.13 Years	6.90 Years
Weighted average discount rate - operating leases	2.94%	2.98%

The total minimum lease payments due in future periods under these agreements in effect at December 31, 2021 and December 31, 2020 were as follows:

December 31, 2021	Future Minimum Lease Payments
	(dollars in thousands)
2022	$ 7,211
2023	6,828
2024	6,085
2025	5,118
2026	3,882
Thereafter	7,962
Total minimum lease payments	$ 37,086
Less: interest	(3,215)
Total lease liability	$ 33,871

December 31, 2020	Future Minimum Lease Payments
	(dollars in thousands)
2021	$ 7,173
2022	6,789
2023	6,362
2024	5,493
2025	4,517
Thereafter	11,347
Total minimum lease payments	41,681
Less: interest	(4,233)
Total lease liability	$ 37,448

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 was \$7.3 million, \$7.0 million, and \$5.7 million for the years ended December 31, 2021, 2020, and 2019, respectively.

Change in Control Agreements. The Company has entered into agreements with its Chief Executive Officer and with certain other senior officers, whereby, following the occurrence of a change in control of the Company, 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.

18. SHAREHOLDERS’ EQUITY

Capital guidelines issued by the Federal Reserve Bank and by the FDIC require that the Company 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 Company’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 Capital Rules: (i) include “Common Equity Tier 1” (“CET1”) and related regulatory capital ratio of CET1 to risk-weighted assets; (ii) specify that Tier 1 capital consists of CET1 and “Additional Tier 1 capital” instruments meeting certain revised requirements; (iii) mandate that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital; and (iv) expand the scope of the deductions from and adjustments to capital as compared to existing regulations. Under the Capital Rules, for most banking organizations, including the Company, the most common form of Additional Tier 1 capital is non-cumulative perpetual preferred stock, and the most common forms of Tier 2 capital are subordinated notes and a portion of the allowance for credit losses, in each case, subject to the Capital Rules’ specific requirements.

Pursuant to the Capital Rules, effective January 1, 2015, the minimum capital ratios are as follows:

- 4.5% CET1 to risk-weighted assets;
- 6.0% Tier 1 capital (that is, CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total capital (that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (called “leverage ratio”).

Additionally, the Company is required to maintain additional capital conservation buffer of 2.5% of CET1, effectively resulting in minimum ratios inclusive of the capital conservation buffer of (i) CET1 to risk-weighted assets of at least 7%, (ii) Tier 1 capital to risk-weighted assets of at least 8.5%, and (iii) total capital to risk-weighted assets of at least 10.5%.

Management believes that as of December 31, 2021 and 2020, the Company and the Bank met all applicable minimum capital requirements and were considered “well-capitalized” by both the Federal Reserve Board and the FDIC.

The Company adopted ASU 2016-13 on January 1, 2020. The joint federal bank regulatory agencies issued an interim final rule that allows banking organizations to phase-in the effects of the CECL accounting standard in their regulatory capital, over a three-year period from January 1, 2022 through December 31, 2024. The Company did not elect to delay the adoption of CECL and did not adopt the transition period for regulatory capital.

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

	Actual		Minimum Capital Required For Capital Adequacy Plus Capital Conservation Buffer		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
At December 31, 2021						
Cambridge Bancorp:						
Total capital (to risk-weighted assets)	$ 420,398	13.6%	$ 325,617	10.5%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	384,518	12.4%	263,595	8.5%	N/A	N/A
Common equity tier I capital (to risk-weighted assets)	384,518	12.4%	217,078	7.0%	N/A	N/A
Tier 1 capital (to average assets)	384,518	8.3%	185,015	4.0%	N/A	N/A
Cambridge Trust Company:						
Total capital (to risk-weighted assets)	$ 409,806	13.2%	$ 325,587	10.5%	$ 310,082	10.0%
Tier 1 capital (to risk-weighted assets)	373,926	12.1%	263,570	8.5%	248,066	8.0%
Common equity tier I capital (to risk-weighted assets)	373,926	12.1%	217,058	7.0%	201,554	6.5%
Tier 1 capital (to average assets)	373,926	8.1%	185,003	4.0%	231,254	5.0%

	Actual		Minimum Capital Required For Capital Adequacy Plus Capital Conservation Buffer		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
At December 31, 2020						
Cambridge Bancorp:						
Total capital (to risk-weighted assets)	$ 378,393	13.9%	$ 285,145	10.5%	N/A	N/A
Tier 1 capital (to risk-weighted assets)	344,409	12.7%	230,832	8.5%	N/A	N/A
Common equity tier I capital (to risk-weighted assets)	344,409	12.7%	190,097	7.0%	N/A	N/A
Tier 1 capital (to average assets)	344,409	8.9%	155,009	4.0%	N/A	N/A
Cambridge Trust Company:						
Total capital (to risk-weighted assets)	$ 376,209	13.9%	$ 285,117	10.5%	$ 271,540	10.0%
Tier 1 capital (to risk-weighted assets)	342,229	12.6%	230,809	8.5%	217,232	8.0%
Common equity tier I capital (to risk-weighted assets)	342,229	12.6%	190,078	7.0%	176,501	6.5%
Tier 1 capital (to average assets)	342,229	8.8%	154,999	4.0%	193,748	5.0%

19. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is defined as all changes to shareholders' equity except investments by and distributions to shareholders. Net income is a component of comprehensive income (loss), with all other components referred to in the aggregate as "other comprehensive income (loss)." The Company's other comprehensive income (loss) consists of unrealized gains or losses on securities held at year-end classified as available for sale and, cash flow hedges, and the component of the unfunded retirement liability computed in accordance with the requirements of ASC Topic 715, "*Compensation – Retirement Benefits.*" The before-tax and after-tax amount of each of these categories, as well as the tax (expense)/benefit of each, is summarized as follows:

	For the Year Ended December 31, 2021			For the Year Ended December 31, 2020			For the Year Ended December 31, 2019		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
	(dollars in thousands)								
Available for sale securities									
Unrealized holding gains (losses)	$ (6,245)	$ 1,623	$ (4,622)	$ 3,630	$ (830)	$ 2,800	$ 3,267	$ (767)	$ 2,500
Reclassification adjustment for (gains) losses realized in net income	—	—	—	(73)	16	(57)	81	(19)	62
Interest rate swaps designated as cash flow hedges									
Unrealized holding gains (losses)	(1,329)	370	(959)	6,602	(1,844)	4,758	984	(271)	713
Reclassification adjustment for (gains) losses recognized in net income	(2,587)	723	(1,864)	(1,879)	525	(1,354)	150	(42)	108
Defined benefit retirement plans									
Net change in retirement liability	5,273	(1,472)	3,801	(1,695)	463	(1,232)	864	(241)	623
Total other comprehensive income (loss)	$ (4,888)	$ 1,244	$ (3,644)	$ 6,585	$ (1,670)	$ 4,915	$ 5,346	$ (1,340)	$ 4,006

Reclassifications out of accumulated other comprehensive income (loss) ("AOCI") are presented below:

Details about Accumulated Other Comprehensive Income (Loss) Components	For the Year Ended December 31, 2021	2020	2019	Affected Line Item in the Statement where Net Income is Presented
	(dollars in thousands)			
Unrealized gains (losses) on available for sale securities	$ —	$ 73	$ (81)	Gain (loss) on disposition of investment securities
Unrealized gains (losses) on derivatives	2,587	1,879	(150)	Interest on taxable loans
Tax (expense) benefit	(723)	(541)	61	Income tax expense
Net of tax	$ 1,864	$ 1,411	$ (170)	Net income

20. EARNINGS PER SHARE

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

	For the Year Ended December 31,		
	2021	2020	2019
	(dollars in thousands, except per share data)		
Earnings per common share - basic:			
Numerator:			
Net income	$ 54,024	$ 31,959	$ 25,257
Less dividends and undistributed earnings allocated to participating securities	(250)	(47)	(210)
Net income applicable to common shareholders	$ 53,774	$ 31,912	$ 25,047
Denominator:			
Weighted average common shares outstanding	6,926	6,289	4,629
Earnings per common share - basic	$ 7.76	$ 5.07	$ 5.41
Earnings per common share - diluted:			
Numerator:			
Net income	$ 54,024	$ 31,959	$ 25,257
Less dividends and undistributed earnings allocated to participating securities	(250)	(47)	(210)
Net income applicable to common shareholders	$ 53,774	$ 31,912	$ 25,047
Denominator:			
Weighted average common shares outstanding	6,926	6,289	4,629
Dilutive effect of common stock equivalents	65	55	33
Weighted average diluted common shares outstanding	6,991	6,344	4,662
Earnings per common share - diluted	$ 7.69	$ 5.03	$ 5.37

21. DERIVATIVES AND HEDGING ACTIVITIES

The Company utilizes interest rate swaps and floors to mitigate exposure to interest rate risk and to facilitate the needs of its customers. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts principally related to the Company's assets.

Cash Flow Hedges of Interest Rate Risk

The Company uses interest floors to manage its exposure to interest rate movements. Interest rate floors designated as cash flow hedges involve the receipt of variable-rate amounts from a counterparty if interest rates fall below the strike rate on the contract in exchange for an up-front premium.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in AOCI and subsequently reclassified into interest income in the same period(s) during which the hedged transaction affects earnings. Gains and losses on the derivative representing hedge components excluded from the assessment of effectiveness are recognized over the life of the hedge on a systematic and rational basis. The earnings recognition of excluded components is presented in interest income. Amounts reported in AOCI related to derivatives will be reclassified to interest income as interest payments are received on the Company's variable-rate assets.

Non-designated Hedges

Derivatives not designated as hedges are not speculative and result from a service the Company provides to certain customers. For the Company's customers, these are interest rate swaps and risk participation agreements.

Interest Rate Swaps. The Company enters into interest rate swap contracts to help commercial loan borrowers manage their interest rate risk. The interest rate swap contracts with commercial loan borrowers allow them to convert floating-rate loan payments to fixed rate loan payments. When the Company enters into an interest rate swap contract with a commercial loan borrower, it simultaneously enters into a “mirror” swap contract with a third party. The third party exchanges the client’s fixed-rate loan payments for floating-rate loan payments. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings. Because these derivatives have mirror-image contractual terms, the changes in fair value substantially offset each other through earnings. Fees earned in connection with the execution of derivatives related to this program are recognized in earnings through loan related derivative income.

The credit risk associated with swap transactions is the risk of default by the counterparty. To minimize this risk, the Company enters into interest rate agreements only with highly rated counterparties that management believes to be creditworthy. The notional amounts of these agreements do not represent amounts exchanged by the parties and, thus, are not a measure of the potential loss exposure.

Risk Participation Agreements. The Company enters into risk participation agreements (“RPAs”) with other banks participating in commercial loan arrangements. Participating banks guarantee the performance on borrower-related interest rate swap contracts. RPAs are derivative financial instruments and are recorded at fair value. These derivatives are not designated as hedges and therefore, changes in fair value are recognized in earnings with a corresponding offset within other assets or other liabilities.

Under a risk participation-out agreement, a derivative asset, the Company participates out a portion of the credit risk associated with the interest rate swap position executed with the commercial borrower, for a fee paid to the participating bank. Under a risk participation-in agreement, a derivative liability, the Company assumes, or participates in, a portion of the credit risk associated with the interest rate swap position with the commercial borrower for a fee received from the other bank.

The following tables present the notional amount, the location, and fair values of derivative instruments in the Company’s consolidated balance sheets:

	December 31, 2021					
	Derivative Assets			Derivative Liabilities		
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
	(dollars in thousands)			(dollars in thousands)		
Derivatives designated as hedging instruments						
Interest rate contracts	$ 150,000	Other Assets	$ 3,513	$ —	Other Liabilities	$ —
Total derivatives designated as hedging instruments			$ 3,513			$ —
Derivatives not designated as hedging instruments						
Loan related derivative contracts						
Interest rate swaps with customers	$ 522,581	Other Assets	$ 23,431	—	Other Liabilities	$ —
Mirror swaps with counterparties	—	Other Assets	—	522,581	Other Liabilities	23,431
Risk participation agreements-out to counterparties	47,988	Other Assets	107	—	Other Liabilities	—
Risk participation agreements-in with counterparties	—	Other Assets	—	109,510	Other Liabilities	293
Total derivatives not designated as hedging instruments			$ 23,538			$ 23,724

	December 31, 2020					
	Derivative Assets			Derivative Liabilities		
	Notional Amount	Balance Sheet Location	Fair Value	Notional Amount	Balance Sheet Location	Fair Value
	(dollars in thousands)			(dollars in thousands)		
Derivatives designated as hedging instruments						
Interest rate contracts	$ 150,000	Other Assets	$ 7,618	$ —	Other Liabilities	$ —
Total derivatives designated as hedging instruments			$ 7,618			$ —
Derivatives not designated as hedging instruments						
Loan related derivative contracts						
Interest rate swaps with customers	$ 409,493	Other Assets	$ 38,415	$ —	Other Liabilities	$ —
Mirror swaps with counterparties	—	Other Assets	—	409,493	Other Liabilities	38,415
Risk participation agreements-out to counterparties	26,580	Other Assets	51	—	Other Liabilities	—
Risk participation agreements-in with counterparties	—	Other Assets	—	104,956	Other Liabilities	496
Total derivatives not designated as hedging instruments			$ 38,466			$ 38,911

The following tables presents the effect of cash flow hedge accounting on AOCI as of the periods presented:

	For the Year Ended December 31, 2021						
	Amount of Gain or (Loss) Recognized in OCI	Amount of Gain or (Loss) Recognized in OCI Included Component	Amount of Gain or (Loss) Recognized in OCI Excluded Component	Location of Gain or (Loss)	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
	(dollars in thousands)				(dollars in thousands)		
Interest rate contracts	$ (3,916)	$ (4,087)	$ 171	Interest Income	$ 2,641	$ 2,836	$ (195)

	For the Year Ended December 31, 2020						
	Amount of Gain or (Loss) Recognized in OCI	Amount of Gain or (Loss) Recognized in OCI - Included Component	Amount of Gain or (Loss) Recognized in OCI - Excluded Component	Location of Gain or (Loss)	Amount of Gain or (Loss) Reclassified from AOCI into Income	Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component	Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component
	(dollars in thousands)				(dollars in thousands)		
Interest rate contracts	$ 4,723	$ 5,650	$ (927)	Interest Income	$ 1,879	$ 2,074	$ (195)

The Company estimates that an additional $2.0 million will be reclassified out of AOCI into earnings, as an increase to interest income over the next twelve months.

The following table presents the effect of the Company's derivative financial instruments on the consolidated statements of income as of the periods presented:

	For the Year Ended December 31, 2021 Interest Income	For the Year Ended December 31, 2020 Interest Income
	(dollars in thousands)	
Total amount of income presented in the consolidated statements of income in which the effects of cash flow hedges are recorded	$ 2,641	$ 1,879
Gain or (loss) on cash flow hedging relationships in Subtopic 815-20		
Interest rate contracts:		
Amount of gain (loss) reclassed from AOCI into income	$ 2,587	$ 1,879
Amount of loss reclassed from AOCI into income - Included Component	2,782	2,074
Amount of loss reclassed from AOCI into income - Excluded Component	$ (195)	$ (195)

The following table presents the effect of the Company's derivative financial instruments that are not designated as hedging instruments on the consolidated statements of income as of the periods presented:

		Amount of Gain or (Loss) Recognized in Income on Derivatives		
		For the Year Ended December 31,		
		2021	2020	2019
	Location of Gain or (Loss)		(dollars in thousands)	
Other contracts	Loan related derivative income	$ (124)	$ 155	$ 311

Credit-risk-related Contingent Features

By entering into derivative transactions, the Company is exposed to credit risk to the extent that counterparties to the derivative contracts do not perform as required. Should a counterparty fail to perform under the terms of a derivative contract, the Company's credit exposure on interest rate swaps is limited to the net positive fair value and accrued interest of all swaps with each counterparty. The Company seeks to minimize counterparty credit risk through credit approvals, limits, monitoring procedures, and obtaining collateral, where appropriate. Institutional counterparties must have an investment grade credit rating and be approved by the Company's Board of Directors. As such, management believes the risk of incurring credit losses on derivative contracts with institutional counterparties is remote.

The Company has agreements with its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its derivative obligations. In addition, the Company also has agreements with certain of its derivative counterparties that contain a provision where if the Company fails to maintain its status as a well- capitalized institution, then the counterparty could terminate the derivative position(s) and the Company would be required to settle its obligations under the agreements.

Balance Sheet Offsetting

Certain financial instruments may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements or similar agreements. The Company's derivative transactions with institutional counterparties are generally executed under International Swaps and Derivative Association ("ISDA") master agreements which include "right of set-off" provisions. In such cases there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. Generally, the Company does not offset such financial instruments for financial reporting purposes.

The following tables present the information about financial instruments that are eligible for offset in the consolidated balance sheets as of December 31, 2021 and 2020:

	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Recognized	Gross Amounts Not Offset: Financial Instruments	Gross Amounts Not Offset: Collateral Pledged (Received)	Net Amount
	December 31, 2021 (dollars in thousands)					
Offsetting of Derivative Assets						
Derivative Assets	$ 27,051	$ —	$ 27,051	$ 6,365	$ —	$ 20,686
Offsetting of Derivative Liabilities						
Derivative Liabilities	$ 23,724	$ —	$ 23,724	$ 6,365	$ 14,011	$ 3,348

	Gross Amounts Recognized	Gross Amounts Offset	Net Amounts Recognized	Gross Amounts Not Offset: Financial Instruments	Gross Amounts Not Offset: Collateral Pledged (Received)	Net Amount
	December 31, 2020 (dollars in thousands)					
Offsetting of Derivative Assets						
Derivative Assets	$ 46,084	$ —	$ 46,084	$ 7,649	$ —	$ 38,435
Offsetting of Derivative Liabilities						
Derivative Liabilities	$ 38,911	$ —	$ 38,911	$ 7,649	$ 30,724	$ 538

As of December 31, 2021 and December 31, 2020, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $14.0 million and $30.7 million, respectively. As of December 31, 2021 and December 31, 2020, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted cash collateral of $13.3 million and $29.9 million, respectively, against these agreements. If the Company had breached any of these provisions at December 31, 2021 or December 31, 2020, it could have been required to settle its obligations under the agreements at their termination value of $14.0 million and $30.7 million, respectively.

22. FAIR VALUE MEASUREMENTS

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

	December 31, 2021 Carrying Value	December 31, 2021 Estimated Fair Value	December 31, 2020 Carrying Value	December 31, 2020 Estimated Fair Value
	(dollars in thousands)			
Financial assets				
Cash and cash equivalents	$ 180,153	$ 180,153	$ 75,785	$ 75,785
Securities available for sale	197,803	197,803	237,030	237,030
Securities held to maturity	977,061	971,092	247,672	260,139
Loans, net	3,284,610	3,230,339	3,117,632	3,092,021
Loans held for sale	1,490	1,528	6,909	7,101
FHLB of Boston stock	4,816	4,816	5,734	5,734
Accrued interest receivable	9,162	9,162	9,514	9,514
Mortgage servicing rights	1,083	1,518	1,219	1,219
Interest rate contracts	3,513	3,513	7,618	7,618
Loan level interest rate swaps	23,431	23,431	38,415	38,415
Risk participation agreements out to counterparties	107	107	51	51
Financial liabilities				
Deposits	4,331,152	4,330,991	3,403,083	3,403,832
Borrowings	16,510	16,523	32,992	34,284
Loan level interest rate swaps	23,431	23,431	38,415	38,415
Risk participation agreements in with counterparties	293	293	496	496

The Company follows ASC Topic 820, *Fair Value Measurements and Disclosures,* for financial assets and liabilities. ASC Topic 820 defines fair value, establishes a framework for measuring fair value, and expands disclosure requirements about fair value measurements. ASC Topic 820, among other things, emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions the market participants would use in pricing the asset or liability. In addition, ASC Topic 820 specifies a hierarchy of valuation techniques based on whether the types of valuation information ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

Under ASC Topic 820, fair values are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When available, the Company uses quoted market prices to determine fair value. If quoted prices are not available, fair value is based upon valuation techniques, such as matrix pricing or other models that use, where possible, current market-based or independently sourced market parameters, such as interest rates. If observable market-based inputs are not available, the Company uses unobservable inputs to determine appropriate valuation adjustments using methodologies applied consistently over time.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters, such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks.

Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time, they are susceptible to material near-term changes. The fair values disclosed do not reflect any premium or discount that could result from offering significant holdings of financial instruments at bulk sale, nor do they reflect the possible tax ramifications or estimated transaction costs. Changes in economic conditions may also dramatically affect the estimated fair values.

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale, derivative instruments, and hedges are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, mortgage servicing rights, other real estate owned, and collateral dependent impaired loans. The Company uses an exit price notion for its fair value disclosures.

The following tables summarize certain assets reported at fair value on a recurring basis:

	Fair Value as of December 31, 2021			
	Level 1	**Level 2**	**Level 3**	**Total**
		(dollars in thousands)		
Measured on a recurring basis				
Securities available for sale				
U.S. GSE obligations	$ —	$ 23,011	$ —	$ 23,011
Mortgage-backed securities	—	173,028	—	173,028
Corporate debt securities	—	1,764	—	1,764
Other assets				
Interest rate swaps with customers	—	23,431	—	23,431
Risk participation agreements out to counterparties	—	107	—	107
Interest rate contracts	—	3,513	—	3,513
Other liabilities				
Mirror swaps with counterparties	—	23,431	—	23,431
Risk participation agreements in with counterparties	—	293	—	293

	Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Measured on a recurring basis				
Securities available for sale				
U.S. GSE obligations	$ —	$ 23,617	$ —	$ 23,617
Mortgage-backed securities	—	210,630	—	210,630
Corporate debt securities	—	2,783	—	2,783
Other assets				
Interest rate swaps with customers	—	38,415	—	38,415
Risk participation agreements out to counterparties	—	51	—	51
Interest rate contracts	—	7,618	—	7,618
Other liabilities				
Mirror swaps with counterparties	—	38,415	—	38,415
Risk participation agreements in with counterparties	—	496	—	496

The following table presents the carrying value of assets held at December 31, 2021 and 2020, which were measured at fair value on a non-recurring basis:

	December 31, 2021			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Items recorded at fair value on a non-recurring basis				
Assets				
Loans held for sale	$ 1,490	$ —	$ —	$ 1,490
Individually evaluated collateral dependent loans	—	—	130	130
Total	$ 1,490	$ —	$ 130	$ 1,620

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
		(dollars in thousands)		
Items recorded at fair value on a non-recurring basis				
Assets				
Mortgage servicing rights	$ —	$ —	$ 1,219	$ 1,219
Loans held for sale	6,909	—	—	6,909
Individually evaluated collateral dependent loans	—	—	672	672
Other real estate owned	—	—	1,820	1,820
Total	$ 6,909	$ —	$ 3,711	$ 10,620

Individually evaluated collateral dependent loans. Collateral dependent loans are carried at the lower of cost or fair value of the collateral less estimated costs to sell which approximates fair value. The Company uses the appraisal value of the collateral and applies certain adjustments depending on the nature, quality, and type of collateral securing the loan.

Loans held for sale. Loans held for sale are carried at the lower of fair value or carrying value (unpaid principal and unamortized loans fees).

Other Real Estate Owned. These properties are carried at fair value less estimated costs to sell.

Mortgage servicing rights. These assets are carried at the fair value determined by estimating the present value of future net cash flows, taking into consideration market loan prepayment speeds, discount rates, servicing costs, and other economic factors.

There were no transfers between fair value levels for the years ended December 31, 2021 and 2020.

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

Investment Securities

For investment securities, fair values are primarily based upon valuations obtained from a national pricing service which uses matrix pricing with inputs that are observable in the market or can be derived from, or corroborated by, observable market data. When available, quoted prices in active markets for identical securities are utilized.

Loans Held for Sale

For loans held for sale, fair values are estimated using projected future cash flows, discounted at rates based upon either trades of similar loans or mortgage-backed securities, or at current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities.

Loans

For most categories of loans, fair values are estimated using projected future cash flows, discounted at rates based upon current rates at which similar loans would be made to borrowers with similar credit ratings, and for similar remaining maturities. Projected estimated cash flows are adjusted for prepayment assumptions, liquidity premium assumptions, and credit loss assumptions. Loans that are deemed to be impaired in accordance with ASC Topic 310, *Receivables*, are valued based upon the lower of cost or fair value of the underlying collateral.

FHLB of Boston Stock

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

Deposits

The fair value of non-maturity deposit accounts is the amount payable on demand at the reporting date. This amount does not take into account the value of the Company's long-term relationships with core depositors. The fair value of fixed-maturity certificates of deposit is estimated using a replacement cost of funds approach and is based upon rates currently offered for deposits of similar remaining maturities.

Borrowings

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

Other Financial Assets

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

Derivative Instruments and Hedges

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The Company incorporates credit valuation adjustments to appropriately reflect nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings.

Off-Balance-Sheet Financial Instruments

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

Values Not Determined

In accordance with ASC Topic 820, the Company has not estimated fair values for non-financial assets such as banking premises and equipment, goodwill, the intangible value of the Company's portfolio of loans serviced for itself, and the intangible value inherent in the Company's deposit relationships (i.e., core deposits), among others. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

23. CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY

The condensed balance sheets of Cambridge Bancorp, the Parent Company, as of December 31, 2021 and December 31, 2020 and the condensed statements of income and cash flows for each of the years in the three-year period ended December 31, 2021 are presented below. The statements of changes in shareholders' equity are identical to the consolidated statements of changes in shareholders' equity and are therefore not presented here.

CONDENSED BALANCE SHEET

	December 31, 2021	December 31, 2020
	(dollars in thousands)	
ASSETS		
Cash and cash equivalents	$ 10,303	$ 1,920
Goodwill	33	33
Other assets	289	260
Investment in subsidiary	427,212	399,519
Total assets	$ 437,837	$ 401,732
SHAREHOLDERS' EQUITY		
Shareholders' equity	$ 437,837	$ 401,732
Total shareholders' equity	$ 437,837	$ 401,732

CONDENSED STATEMENTS OF INCOME

	For the Year Ended December 31, 2021	2020	2019
		(dollars in thousands)	
Income			
Dividends from subsidiary	$ 25,995	$ 21,639	$ 10,732
Total income	25,995	21,639	10,732
Expenses			
Interest expense	—	444	—
Other expenses	150	110	132
Total expenses	150	554	132
Income before income taxes and equity in undistributed income of subsidiary	25,845	21,085	10,600
Income tax benefit	(42)	(153)	(36)
Income of parent company	25,887	21,238	10,636
Equity in undistributed income of subsidiary	28,137	10,721	14,621
Net income	$ 54,024	$ 31,959	$ 25,257

CONDENSED STATEMENTS OF CASH FLOWS

	For the Year Ended December 31,		
	2021	2020	2019
		(dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 54,024	$ 31,959	$ 25,257
Adjustments to reconcile net income to net cash provided by operating activities			
Deferred income tax benefit	(42)	(153)	—
Change in other assets, net	—	3,032	(13)
Change in other liabilities, net	13	444	—
Undistributed income of subsidiary	(28,137)	(10,721)	(14,621)
Net cash provided by operating activities	25,858	24,561	10,623
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid in business combinations	—	(534)	(3,525)
Investment in subsidiary	—	—	(38,202)
Net cash used in investing activities	—	(534)	(41,727)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from the issuance of common stock	519	452	38,576
Repurchase of common stock	(1,440)	(556)	(687)
Redemption of subordinate debt	—	(10,600)	—
Cash dividends paid on common stock	(16,554)	(13,083)	(9,517)
Net cash provided by/(used in) financing activities	(17,475)	(23,787)	28,372
Net increase (decrease) in cash	8,383	240	(2,732)
Cash at beginning of year	1,920	1,680	4,412
Cash at end of year	$ 10,303	$ 1,920	$ 1,680
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Significant non-cash transactions			
Common Stock issued to shareholders due to merger	$ —	$ 87,163	$ 59,417

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Cambridge Bancorp

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Cambridge Bancorp and subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended and the related notes (collectively, "the financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013, and our report dated March 14, 2022 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the Company's Audit Committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

<u>Allowance for Credit Losses – Qualitative Factors</u>

Critical Audit Matter Description

As described in Notes 2 and 7 to the financial statements, the Company has recorded an allowance for credit losses for its loan portfolio in the amount of $34.5 million as of December 31, 2021, representing management's estimate of credit losses over the remaining expected life of the Company's loan portfolio as of that date. Management determined this amount, and corresponding provision for (release of) credit loss expense, pursuant to the application of Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses.*

The Company's methodology to determine its allowance for credit losses incorporates qualitative assessments of its current loan portfolio and economic conditions, and the application of forecasted economic conditions. We determined that performing procedures relating to these components of the Company's methodology is a critical audit matter.

The principal considerations for our determination are (i) the application of significant judgment and estimation on the part of management, which in turn led to a high degree of auditor judgment and subjectivity in performing procedures and evaluating audit evidence obtained, and (ii) significant audit effort was necessary in evaluating management's methodology, significant assumptions and calculations.

How the Critical Audit Matter was Addressed in the Audit

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the financial statements. These procedures included testing the effectiveness of controls relating to the Company's determination of qualitative factors and forecasted economic conditions. These procedures also included, among others, testing management's process for determining the qualitative reserve component, evaluating the appropriateness of management's methodology relating to the qualitative reserve component and testing the completeness and accuracy of data utilized by management.

/s/ Wolf & Company, P.C.

Boston, Massachusetts
March 14,2022

We have served as the Company's auditor since 2020.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Cambridge Bancorp:

Opinion on the Internal Control Over Financial Reporting

We have audited Cambridge Bancorp and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the December 31, 2021 consolidated financial statements of the Company and our report dated March 14, 2022 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Wolf & Company, P.C.
Boston, Massachusetts
March 14, 2022

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Cambridge Bancorp:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows of Cambridge Bancorp and subsidiaries (the Company) for the year ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations of the Company and its cash flows for the year ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/ KPMG LLP

We served as the Company's auditor from 2006 to 2019.

Boston, Massachusetts
March 16, 2020

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

On March 16, 2020, the Company's Audit Committee dismissed KPMG LLP ("KPMG"), Boston, Massachusetts, Auditor Firm ID: 185, as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2020, and all quarterly periods therein. The Company's Audit Committee participated in and approved the decision to change its independent registered public accounting firm.

The audit reports of KPMG on the consolidated financial statements of the Company as of and for the years ended December 31, 2019 and 2018 did not contain an adverse opinion or disclaimer of opinion, and were not qualified or modified, or expected to be modified or qualified, as to uncertainty, audit scope, or accounting principles.

During the fiscal years ended December 31, 2019 and 2018 and the subsequent interim period through March 16, 2020, there were no: (1) disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to KPMG's satisfaction, would have caused KPMG to make reference in connection with its opinion to the subject matter, or (2) reportable events under Item 304(a)(1)(v) of Regulation S-K.

Also, on March 16, 2020, the Company engaged Wolf & Company, P.C. ("Wolf & Company") as the Company's independent registered public accounting firm starting with the fiscal year ending December 31, 2020. The engagement was approved by the Company's Audit Committee. During the fiscal years ended December 31, 2019 and 2018, and the subsequent interim period prior to the engagement of Wolf & Company, the Company did not consult with Wolf & Company regarding any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

As required by Rules 13a-15 and 15d-15 of the Securities Exchange Act of 1934, the Company has evaluated, with the participation of management, including the Chief Executive Officer and the Chief Financial Officer, as of the end of the period covered by this report, the effectiveness of the design and operation of its disclosure controls and procedures.

Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective as of December 31, 2021 in ensuring that material information required to be disclosed by the Company, including its consolidated subsidiaries:

a) was made known to the certifying officers by others within the Company and its consolidated subsidiaries in the reports that it files or submits under the Exchange Act; and

b) is recorded, processed, summarized, and reported within the time periods specified in the Securities Exchange Commission rules and forms.

On a quarterly basis, the Company evaluates the disclosure controls and procedures and may, from time to time, make changes aimed at enhancing their effectiveness and to ensure that the Company's systems evolve with its business.

Changes in Internal Controls over Financial Reporting

The Company completed a wealth management system conversion during the fourth quarter of 2021 and implemented certain controls and procedures in connection with the conversion. We believe these controls and procedures mitigate the risk of weaknesses in internal control over financial reporting.

There were no other changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting in 2021.

Management's Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance to the Company's Chief Executive Officer and Chief Financial Officer regarding the reliability of financial reporting and preparation of the Company's financial statements in accordance with accounting principles generally accepted in the U.S.

In designing and evaluating the Company's disclosure controls and procedures, the Company and its management recognize that any controls and procedures, no matter how well designed and operated, can provide only a reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2021. In making this assessment, management used the criteria set forth in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013. Based on management's assessment, the Company believes that, as of December 31, 2021, the Company's internal control over financial reporting is effective based on the criteria established by *Internal Control—Integrated Framework* issued by COSO in 2013.

Wolf & Company, P.C, an independent registered public accounting firm, has audited the Company's consolidated financial statements included in this Annual Report on Form 10-K and, as part of its audit, has issued its report, included herein on page 102, on the effectiveness of the Company's internal control over financial reporting.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated herein by reference to the captions “Proposal 1: Election of Directors,” “Committees of the Board of Directors – Audit Committee,” “Information about the Company’s Executive Officers Who are not Directors,” and “Code of Ethics” in the Company’s definitive proxy statement for the 2022 Annual Meeting of Shareholders (the “Proxy Statement”), which will be filed with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

Item 11. Executive Compensation.

The information required by this Item is incorporated herein by reference to the captions “Compensation Discussion and Analysis,” “Director Compensation,” “Executive Compensation Tables,” “Compensation Committee Interlocks and Insider Participation,” and “Compensation Committee Report” in the Proxy Statement, which are incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated herein by reference to the caption “Security Ownership of Certain Beneficial Owners and Management” and “Securities Authorized for Issuance Under Equity Compensation Plans” in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated herein by reference to the captions “Transactions with Related Persons” and Board of Directors Independence” in the Proxy Statement.

Item 14. Principal Accounting Fees and Services.

Our independent registered public accounting firm is Wolf & Company, P.C., Boston, Massachusetts, Auditor Firm ID: 392

The information required by this Item is incorporated herein by reference to the caption “Independent Registered Public Accounting Firm Fees and Services” in the Proxy Statement.

PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a) Documents filed as a Part of this Annual Report on Form 10-K:

(1) Financial Statements—Included in Item 8 of this Annual Report on Form 10-K.

Audited Consolidated Financial Statements

(2) Financial Statement Schedules

1. **Financial Statements**. The financial statements of the Company required in response to this item are listed in response to Part II, Item 8 of this Annual Report on Form 10-K.
2. **Financial Statement Schedules**. There are no financial statement schedules that are required to be filed as part of this form since they are not applicable, or the information is included in the consolidated financial statements.
3. **Exhibits**. The following exhibits are included as part of this Form 10-K.

(3) Index to Exhibits.

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated December 5, 2018, by and between Cambridge Bancorp, Cambridge Trust Company and Optima Bank & Trust Company (incorporated by reference to Exhibit 2.1 of the Form 8-K filed with the SEC on December 6, 2018)
2.2	Agreement and Plan of Merger, dated December 5, 2019, by and between Cambridge Bancorp, Cambridge Trust Company, Wellesley Bancorp, Inc., and Wellesley Bank (incorporated by reference to Exhibit 2.1 of the Form 8-K filed with the SEC on December 5, 2019)
3.1	Articles of Organization (incorporated by reference to Exhibit 3.1 of the Form 8-K filed with the SEC on June 19, 2018)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)
4.1	Specimen stock certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)
4.2#	Description of Cambridge Bancorp Securities Registered under Section 12 of the Securities Exchange Act of 1934.
10.1**	Cambridge Bancorp 2017 Equity and Cash Incentive Plan (incorporated by reference to Exhibit 10.2 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)
10.2**	Cambridge Bancorp Director Stock Plan, amended as of April 25, 2011 (incorporated by reference to Exhibit 10.3 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)
10.3**	2016 Annual Incentive Plan (incorporated by reference to Exhibit 10.4 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)
10.4**	The Executive Nonqualified Excess Plan of Cambridge Trust Company (incorporated by reference to Exhibit 10.5 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)

10.5**	Cambridge Trust Company Amended and Restated Supplemental Executive Retirement Agreement for Denis K. Sheahan, dated July 7, 2017 (incorporated by reference to Exhibit 10.6 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)
10.6**	Cambridge Trust Company Supplemental Executive Retirement Agreement for Martin B. Millane, Jr., dated January 1, 2016 (incorporated by reference to Exhibit 10.11 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)
10.7**	Change in Control Agreement with Denis K. Sheahan, dated December 21, 2015 (incorporated by reference to Exhibit 10.12 of Amendment No. 2 of the Registration Statement File No. 1-38184 on Form 10 filed with the SEC on October 4, 2017)
10.8**	Change in Control Agreement with Mr. Michael Carotenuto, dated April 26, 2019 (incorporated by reference to Exhibit 10.1 of the Form 8-K filed with the SEC on April 29, 2019)
10.9**	Agreement with Mr. Martin Millane, dated April 26, 2019 (incorporated by reference to Exhibit 10.2 of the Form 8-K filed with the SEC on April 29, 2019)
10.11**	Change in Control Agreement with Ms. Jennifer Pline, dated April 26, 2019 (incorporated by reference to Exhibit 10.3 of the Form 8-K filed with the SEC on April 29, 2019)
10.12**	Change in Control Agreement with Daniel R. Morrison, dated December 5, 2018 (incorporated by reference to Exhibit 10.18 of the Form 10-K filed with the SEC on March 18, 2019)
10.22**	Cambridge Trust Company Supplemental Executive Retirement Agreement for Jennifer A. Pline, dated January 30, 2017 (incorporated by reference to Exhibit 10.22 of the Form 10-K filed with the SEC on March 18, 2019)
10.23**	Offer Letter for Thomas J. Fontaine, dated December 5, 2019 (incorporated by reference to Exhibit 10.30 of the Form 10-K filed with the SEC on March 15, 2021)
10.24**	Change in Control Agreement with Thomas J. Fontaine, dated December 5, 2019 (incorporated by reference to Exhibit 10.31 of the Form 10-K filed with the SEC on March 15, 2021)
10.25**	Cambridge Trust Company Supplemental Executive Retirement Agreement for Thomas J. Fontaine, dated December 5, 2019 (incorporated by reference to Exhibit 10.32 of the Form 10-K filed with the SEC on March 15, 2021)
10.26**	Cambridge Trust Company Supplemental Executive Retirement Agreement for Michael F. Carotenuto, dated February 7, 2022 (incorporated by reference to Exhibit 10.1 of the Form 8-K filed on February 9, 2022)
21#	Subsidiaries of the Registrant
23.1#	Consent of Wolf & Company P.C. dated March 14, 2022
23.2#	Consent of KPMG LLP dated March 14, 2022
31.1#	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2#	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1#	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2#	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive data File because XBRL tags are embedded within the Inline XBRL
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page interactive data file (formatted as Inline XBRL and contained in Exhibit 101)_

\# Filed herewith.

** Management Compensatory plans or arrangements.

Item 16. Form 10-K Summary.

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CAMBRIDGE BANCORP

March 14, 2022	By: /s/ Denis K. Sheahan Denis K. Sheahan Chairman, President & Chief Executive Officer
March 14, 2022	By: /s/ Michael F. Carotenuto Michael F. Carotenuto Executive Vice President, Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Denis K. Sheahan Denis K. Sheahan	Chairman, President & Chief Executive Officer (Principal Executive Officer)	March 14, 2022
/s/ Michael F. Carotenuto Michael F. Carotenuto	Executive Vice President, Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 14, 2022
/s/ Jeanette G. Clough Jeanette G. Clough	Director	March 14, 2022
/s/ Thomas J. Fontaine Thomas J. Fontaine	Executive Vice President and Chief Banking Officer	March 14, 2022
/s/ Christine Fuchs Christine Fuchs	Director	March 14, 2022
/s/ Simon R. Gerlin Simon R. Gerlin	Director	March 14, 2022
/s/ Pamela A. Hamlin Pamela A. Hamlin	Director	March 14, 2022
/s/ Kathryn M. Hinderhofer Kathryn M. Hinderhofer	Director	March 14, 2022
/s/ Edward F. Jankowski Edward F. Jankowski	Director	March 14, 2022
/s/ Hambleton Lord Hambleton Lord	Director	March 14, 2022
/s/ Thalia M. Meehan Thalia M. Meehan	Director	March 14, 2022
/s/ Daniel R. Morrison Daniel R. Morrison	Director	March 14, 2022
/s/ Leon A. Palandjian Leon A. Palandjian	Director	March 14, 2022
/s/ Laila S. Partridge Laila S. Partridge	Director	March 14, 2022
/s/ Jody A. Rose Jody A. Rose	Director	March 14, 2022
/s/ Cathleen A. Schmidt Cathleen A. Schmidt	Director	March 14, 2022
/s/ R. Gregg Stone R. Gregg Stone	Director	March 14, 2022

Cambridge Trust Directors and Officers

Directors

Jeanette G. Clough
Retired President and Chief Executive Officer
Mount Auburn Hospital

Thomas J. Fontaine
Executive Vice President and Chief Banking Officer
Cambridge Trust

Christine Fuchs
Retired Equity Analyst and Sector Portfolio Manager
Wellington Management

Simon R. Gerlin
Chief Financial Officer and Executive Vice President of Finance
MassDevelopment

Pamela A. Hamlin
President
York Creative Collective

Kathryn M. Hinderhofer
Retired Executive Vice President of Operations and Technology
National Bank Holdings Corp

Edward F. Jankowski
Retired Senior Vice President-Residential Lending and Corporate Compliance
Rockland Trust Company

Hambleton D. Lord
Chairman
Launchpad Venture Group
Chairman & Co-Founder
Seraf

Thalia M. Meehan
Retired Team Lead and Portfolio Manager
Putnam Investments

Daniel R. Morrison
Retired Chief Executive Officer
Cambridge Trust New Hampshire

Leon A. Palandjian
Chief Risk Officer
Intercontinental Real Estate Corporation

Laila S. Partridge
Contingent Managing Director
Techstars, Inc.

Jody A. Rose
President
Hack.Diversity

Cathleen A. Schmidt
Retired Executive Director and CEO
McLane Middleton Professional Association

Denis K. Sheahan
Chairman, President and Chief Executive Officer
Cambridge Bancorp and Cambridge Trust Company

R. Gregg Stone
Lead Director
Cambridge Bancorp and Cambridge Trust Company
Manager
Kestrel Management, LLC

Officers

Michael F. Carotenuto
Executive Vice President and Chief Financial Officer

Martin B. Millane Jr.
Executive Vice President and Chief Lending Officer

Kerri A. Mooney
Senior Vice President and Director of Private Banking Offices

Puneet Nevatia
Senior Vice President and Chief Information Officer

Jennifer A. Pline, CFA
Executive Vice President and Head of Wealth Management

Pilar Pueyo
Senior Vice President and Director of Human Resources

Danielle Remis Hackel
Senior Vice President and Chief Marketing Officer

John J. Sullivan
Senior Vice President and Director of Consumer Lending

Corporate Headquarters

Harvard Square
1336 Massachusetts Avenue
Cambridge, MA 02138
617-876-2790

Private Banking Offices

Massachusetts

Belmont
361 Trapelo Road
Belmont, MA 02478
617-484-0892

Boston - Beacon Hill
65 Beacon Street
Boston, MA 02108
617-523-3551

Boston - Financial District
One Federal Street
Boston, MA 02110
617-778-5860

Cambridge - Harvard Square
1336 Massachusetts Avenue
Cambridge, MA 02138
617-876-2790

Cambridge - Huron Village
353 Huron Avenue
Cambridge, MA 02138
617-661-1317

Cambridge - Kendall Square
415 Main Street
Cambridge, MA 02142
617-441-0951

Cambridge - Porter Square
1720 Massachusetts Avenue
Cambridge, MA 02138
617-661-0398

Concord
75 Main Street
Concord, MA 01742
978-369-9909

Lexington
1690 Massachusetts Avenue
Lexington, MA 02420
781-863-0976

Needham
865 Central Ave., H-302
Needham, MA 02492
781-489-7040

Newton Centre
776-1 Beacon Street
Newton Centre, MA 02459
617-778-5888

Wellesley - Lower Falls
29 Washington Street
Wellesley, MA 02481
781-489-4500

Wellesley - Linden Square
197 Linden Street
Wellesley, MA 02482
781-489-7630

Weston
494 Boston Post Road
Weston, MA 02493
781-893-5500

New Hampshire

Bedford
99 South River Road
Bedford, NH 03110
603-488-6040

Dover
920 Central Avenue
Dover, NH 03820
603-516-1175

North Hampton
26 Lafayette Road
North Hampton, NH 03862
603-433-9633

Portsmouth
143 Daniel Street
Portsmouth, NH 03801
603-433-9611

Stratham
17 Portsmouth Avenue
Stratham, NH 03885
603-773-5222

Wealth Management Offices

Massachusetts

Boston
75 State Street, 18th Floor
Boston, MA 02109
617-876-5500

Wellesley
100 Worcester Street, Suite 300
Wellesley, MA 02481

New Hampshire

Concord
11 South Main Street, Suite 502
Concord, NH 03301
603-226-1212

Manchester
1000 Elm Street, Suite 201
Manchester, NH 03101
603-657-9015

Portsmouth
Two Harbour Place, First Floor
Portsmouth, NH 03801
603-373-6010

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