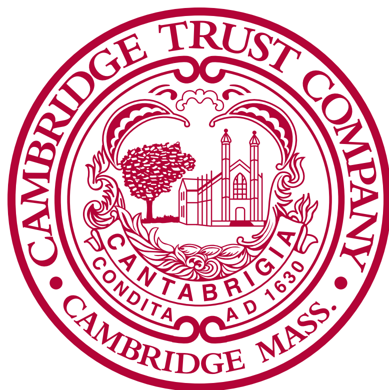
CAMBRIDGE BANCORP



ANNUAL REPORT
2012

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

DIRECTORS

Director	Affiliation
ROBERT J. BETTACCHI	Principal/Owner RJB Consulting Retired Senior Vice President of W.R. Grace & Company and President of Grace Performance Chemicals
JEANETTE G. CLOUGH	President and Chief Executive Officer Mount Auburn Hospital
HAMBLETON LORD	Managing Director Launchpad Venture Group
JEAN K. MIXER	Chief Executive Officer Mixer Consulting
LEON A. PALANDJIAN	Managing Member Intercontinental Capital Management, LLC Portfolio Manager Techari Global Healthcare Fund
ROBERT S. PETERKIN	Professor of Practice Emeritus Harvard Graduate School of Education Principal Peterkin Consulting Group
JOSEPH V. ROLLER II	President and Chief Executive Officer Cambridge Bancorp and Cambridge Trust Company
R. GREGG STONE	Manager Kestrel Management, LLC
ANNE M. THOMAS	Retired Special Counsel City of Somerville
DAVID C. WARNER	Partner J. M. Forbes & Co. LLP
LINDA WHITLOCK	Lead Director Cambridge Bancorp and Cambridge Trust Company Principal The Whitlock Group
KATHRYN A. WILLMORE	Retired Vice President and Secretary of the Corporation Massachusetts Institute of Technology
BYRON E. WOODMAN, JR.	President Monument Financial Advisors, LLC Woodman & Eaton, P.C.

If we could first know where we are, and whither we are tending,
we could then better judge what to do and how to do it.
—Abraham Lincoln

For Lincoln, good judgment about what to do and how to do it follows from knowledge of where we are and of where we are going. That sounds reasonable enough. But how is such knowledge to be acquired and sustained over time? For institutions, as much as for individuals, it begins with thinking about what we are capable of doing. What we are capable of doing is best understood in light of what we aim to do and how we plan to pursue our aims. But the first task is to know our own capabilities, so that we will be better positioned to benefit from and to build upon them.

Since 2008, financial institutions have been faced with the necessity of making the most of current capabilities and actively fostering the growth of new ones under difficult conditions. Where the Bank is now reflects in part, then, where we have been over the past four years. We have been operating in a post-recession economy characterized by slow growth, low interest rates, and broad uncertainty. Throughout this period, I am pleased to report that we have thrived. The Bank has adapted to a challenging environment in a way that corresponds with our long-term vision of where we aim to be, as well as with our underlying principles. In a time marked by widespread concern about bank asset quality and liquidity, Cambridge Trust Company performed admirably and, just as importantly, consistently.

The year ending December 31, 2012 was a record year for Cambridge Trust Company, as the Bank continued to benefit from

investments made in prior years and remained focused on executing its business plans. Net income for the year ending December 31, 2012 of $13,403,000 compared favorably to earnings for the year ended December 31, 2011 of $12,477,000. The $926,000 increase in year-over-year earnings was 7.4%.

Diluted earnings per share (EPS) were $3.45 for the year ended December 31, 2012, compared to $3.25 diluted EPS for the prior year.

There were many factors that contributed to the Bank's sustained earnings growth in a year when net interest margins remained under downward pressure. For the fourth consecutive year, deposits grew by more than $100 million. In fact, the $155.7 million growth in deposits in 2012 represented a record for the Bank. In addition, total loans increased $69.0 million in 2012. The combined effect of the Bank's balance sheet growth produced net interest income for 2012 of $45,875,000 compared to $43,732,000 for the year ended December 31, 2011 – an increase of $2,143,000 (4.9%) – during a period when the Bank's net interest margin declined to 3.58% from 3.90% in 2011.

Year End	2008	2009	2010	2011	2012
Deposits (in thousands)	$ 767,654	$ 872,767	$ 993,808	$1,125,654	$1,281,333
Total Loans (in thousands)	$ 471,814	$ 537,933	$ 568,568	$ 673,265	$ 742,249
Net Interest Margin	4.11%	4.27%	4.15%	3.90%	3.58%
Noninterest Income (in thousands)[A]	$ 16,848	$ 16,618	$ 19,877	$ 18,147	$ 20,489
Net Income (in thousands)	$ 9,613	$ 10,277	$ 13,254	$ 12,477	$ 13,403
Basic Earnings/Share	$ 2.56	$ 2.75	$ 3.53	$ 3.29	$ 3.49
Dividends Declared	$ 1.28	$ 1.34	$ 1.40	$ 1.42	$ 1.50
Book Value	$ 20.29	$ 21.95	$ 23.73	$ 25.39	$ 27.21
Return/Average Assets	1.09%	1.06%	1.25%	1.06%	1.00%
Return/Average Equity	13.46%	13.09%	14.98%	13.26%	13.39%

[A] Includes $2.8 million pre-tax gain on disposition of merchant services portfolio in 2010

Another important driver for Cambridge Trust's earnings growth, especially in 2012, was noninterest income. This diversified revenue source, which accounts for just over 30 percent of total revenues, grew by $2.3 million (12.9%) in 2012 compared to 2011. The upturn was particularly helpful at a time of margin pressure. Wealth Management, which achieved its own revenue record in 2012, accounted for the

majority of noninterest income. Other revenue streams were generated by corporate cash management, the sale of 30-year conforming mortgages in the secondary market, interchange from debit card usage, gains on the disposition of investment securities, and fees from other bank services.

This past year, we introduced a new brand platform built around the theme of “Life’s Bank.” This campaign aims to capture the ethos of responsiveness and personal attention that characterizes the Bank’s approach to customers. Most financial transactions with a bank do not require personal assistance. There are times, however, when life happens and the intervention of an experienced and engaged professional is necessary. This is where Cambridge Trust excels. We will build on this brand message more robustly in 2013.

Earnings returns achieved by Cambridge Trust continue to position the Bank favorably in the industry. The return on average equity in 2012 was 13.39%, and the return on average assets in the same year was 1.00%. It is important that shareholders benefit from the Bank’s consistently strong earnings performance. In that regard, the quarterly dividend was increased by 5.4% to $0.39 per share.

Consumer Banking

Momentum continues to increase in the Bank’s consumer banking business, as earlier investments in capabilities and infrastructure attract new relationships from customers who gravitate to Cambridge Trust’s customer-centric approach to banking. One way to measure success is by the growth in core checking, savings, and money market account balances. In 2012, these balances grew by $100.3 million (15.5%).

We are mindful that convenience and access are hallmarks of a remarkable customer experience. To that end, customers need to have access to the Bank on their terms. Some prefer a branch and others, a phone call to the Customer Resource Center (CRC). A growing number use internet and mobile banking. This past year Cambridge Trust’s internet banking platform was enhanced to provide online loan statements, eBills,

customer alerts, and risk notifications. Most recently, the Bank introduced remote deposit capture that takes convenience to another level. This feature enables customers using mobile banking to take a photograph of a check with a mobile device and transmit the image securely to the Bank for deposit.

Activity in the residential mortgage lending business continued to grow in 2012 as customers sought to refinance mortgages in order to take advantage of historically low interest rates. In 2012, the Bank took significant steps to raise its presence and improve its competitive position, while maintaining its service differentiation.

Cambridge Trust has traditionally held and serviced all of its residential mortgage loans. We adjusted this position in 2012 as it pertained to 30-year conforming mortgages. The Federal Reserve Bank was actively purchasing mortgage-backed securities – essentially buying down rates – to provide stimulus to the economy. In the first half of the year, the Bank began to sell 30-year conforming mortgages in the secondary market, while still retaining servicing of the loans. If our customers have questions about one of their most important financial commitments, they should have the ability to contact a trusted partner.

We enhanced our mortgage banking capabilities further in 2012 by introducing an online application system. This added a new level of convenience for customers, offering them the opportunity to apply for a mortgage online at any time of day or night. The new service streamlines the process for the customer and the Bank. Susan Barry's leadership has been critical to the enhancement of the Bank's mortgage banking capabilities.

To promote and support the Bank's residential loan growth strategy, the Bank added to its mortgage banking team. We were delighted that Todd Spoor, Vice President, Private Mortgage Banking, and Jim Zurn, Consumer Loan Officer, joined the Bank. Todd will focus on business development, and Jim will strengthen our underwriting team.

We were pleased to note in an earlier quarterly report that the Bank opened its twelfth full-service branch in 2012. It is located at 565 Tremont Street in Boston's South End. We have been warmly received in this vibrant and exciting neighborhood. Its residents, businesses, and varied organizations have seen that Cambridge Trust is a good community partner. Branch Manager, John Chambers, who joined the Bank in June, provides the leadership and engagement necessary to achieve success.

It was with mixed feelings that we bid farewell to Helen Van Nostrand, Harvard Square Branch Manager, and Donna Petro, Beacon Hill Branch Manager, who retired in December. Both set high standards for customer service, branch operations, and leadership. We are grateful for their service and for ensuring a smooth management transition. Jo-Ann Bussiere joined the Bank in 2012 and succeeded Helen. Basharat Sheikh, who has been a presence in the Beacon Hill branch for many years, was promoted to Branch Manager.

Business Banking

The protracted period of low interest rates, characterized in 2012 by a federal funds rate trading at 25 basis points and 10-year treasury rates between 1.5%-2.0%, places considerable pressure on net interest margins. Proceeds from maturing securities investments and commercial loans that were made a few years ago are now reinvested at much lower rates. During such periods, it is crucial for the Bank to maintain steady commercial loan growth and to deepen its banking relationships by marketing deposit and cash management services. We achieved positive outcomes on all fronts.

Our commercial lending team had another successful year, producing for the second consecutive year over $50 million in loan growth. The dynamics of building the Bank's loan portfolio are interesting and challenging. Given that loans are regularly amortizing or maturing, new business of $2.00 is required in order to increase loan outstandings by $1.00. To help meet the challenge, the Bank added to its bench two veteran lenders, Steven Mead, Vice President, and Edward Fitzgerald, Vice

President. We also recognized the contributions of one of our portfolio managers and promoted Mark Earnest to Banking Officer.

Critical to the success of any bank's lending business is the loan underwriting process. This is especially true during periods of portfolio growth and changing economic circumstances. Underwriting standards and credit risk management have been hallmarks at Cambridge Trust and continued in 2012. Net charge-offs were only $11,000. The Bank's non-performing loans increased modestly from $1,204,000 at the end of 2011 to $1,570,000 in the year ended 2012. The Allowance for Loan Losses was $10,948,000 on December 31, 2012 or 1.47% of total loans. In 2011, it was $10,159,000 and 1.51%, respectively. We are pleased that Karina Pinella, Senior Credit Analyst Officer, joined the Credit Department in 2012 to strengthen the commercial loan underwriting team.

Deepening commercial loan relationships by offering deposit account and cash management services is the responsibility of our business banking and cash management teams. They collaborate with lenders and branch managers not to sell products, but rather to address customer needs. Judging by the $56.9 million increase in commercial deposits and the uptrend in cash management fees, the group experienced considerable success in 2012. Gene Kalaw, Assistant Vice President, joined the business banking team in 2012, bringing to the Bank his extensive experience and knowledge of Cambridge and surrounding communities. Additionally, in recognition of her customer relationship skills and contributions, Kate Carlson was promoted to Vice President.

While Cambridge Trust has many opportunities to grow the business, some have greater potential than others. Selecting those opportunities with the most potential is important. In this context, in-depth knowledge of the Bank's capabilities vis-à-vis key markets in the community makes a difference, as we have found over the past two years. During this time, the Bank has made significant inroads into the innovation sector through its establishment of an active presence in the locus of entrepreneurial, idea-centered, and technology-driven activity that is Kendall Square. In the 2011 Annual Report, I observed that "the challenge

of differentiating Cambridge Trust and demonstrating value in an industry that has become commoditized is formidable." While that remains the case with respect to the banking industry, our effort to participate in and add value to the innovation sector, beginning with the opening of an office in the Cambridge Innovation Center (CIC) in 2011, has steadily gained momentum and reached a new level of operation.

Jane Mason, Vice President, has elevated the Bank's presence in the innovation sector and attracted new deposit relationships and loan business. New business necessitates appropriate resource allocation, including management oversight. We took the occasion in 2012 to fine-tune our organization to bring the necessary resources and management focus to those key areas, in keeping with our sense of priorities. Robert Davis, Senior Vice President, who has been the Bank's Chief Lending Officer, was appointed Chief Credit Officer; Bob will continue to oversee and develop the Bank's innovation initiative. Martin Millane, Senior Vice President, was appointed Chief Lending Officer, with responsibility for all of the Bank's business banking activities.

Wealth Management

Wealth Management had an exemplary year in 2012, benefitting from the consistent enhancement of its investment management and trust services capabilities. The Department's steady focus on its clients and prospective clients has produced noteworthy growth in assets under management (AUM) and revenues. AUM reached a new high of $1.79 billion at the end of 2012, increasing $327 million (22.3%) from December 2011. Likewise, revenues experienced a healthy uptrend, increasing $958,000 (7.3%) in 2012.

Wealth Management

Year	Gross Revenues (in thousands)	Managed Assets (in millions)
2008	$ 11,749	$ 1,210
2009	$ 11,353	$ 1,383
2010	$ 12,364	$ 1,507
2011	$ 13,152	$ 1,468
2012	$ 14,110	$ 1,795

New Hampshire had an especially strong year. The new Portsmouth office has enhanced the Bank's presence in the Granite State and reaffirms our commitment to grow. In addition, the Bank's subsidiary, Cambridge Trust Company of New Hampshire, Inc., formed in 2010 to take advantage of new trust statutes, has begun to gain traction. What we call "The New Hampshire Advantage" entails offering financial planning opportunities and options for residents and non-residents. The addition in 2012 of Judy Goodnow, Senior Vice President and Trust Officer, to the team was important to our continued growth.

In Massachusetts, we have continued to present Thought Series® events and Wealth Management forums. These have been well received by both clients and prospective clients, with whom we wish to begin a conversation. Toward the end of 2012, we initiated a new program series targeted toward the entrepreneur and small business owner. We will build on this in 2013.

During the year, we recognized the talent and contributions of Alice Flanagan and Kathryn Hersey, who were promoted to Trust Officer and Assistant Vice President and Investment Officer, respectively. In addition, David Strachan was promoted to Senior Vice President and now oversees Trust Administration. He succeeds Melinda Donovan who retired in June after 19 years of dedicated service to Cambridge Trust. We will miss her leadership and professionalism and are grateful to her for developing a solid Trust team.

The coming year will bring at least one important change to Wealth Management – its address. This is a positive development for our employees and, most importantly, our clients. The move to 75 State Street in Boston's Financial District will accommodate the Department's continued growth and provide an attractive and convenient location for client visits. We expect this move to occur in early summer.

* * *

I want to take this time to acknowledge some other employees at Cambridge Trust who were promoted in 2012. Their talents helped us to

add new features to mobile and internet banking, improve production and efficiency in statement operations, and protect the security of our customers and that of the Bank. They are Pooja Bhandary, Assistant Operations Officer, Renèe Daniell, Assistant Operations Officer, and Medard Kadima, Information Security Officer. In addition, I want to acknowledge the retirement of Nancy Zuzolo, Operations Officer, and thank her for her keen oversight of the Deposit Risk Management area.

* * *

Cambridge Trust has consistently benefitted from an engaged and dynamic Board of Directors. At no time has this been more important than during the period of 2008-2012, when the broad economy was in decline and the financial services industry was under threat. The Bank's Board, with its diversity of experience and capabilities, provided insight and guidance during a challenging period.

In 2012, Jane Barrett, founder of J. M. Barrett & Co., Inc., in Concord, Massachusetts, one of the area's leading real estate companies, retired from the Board. Jane has provided leadership in the community and highly valuable support to the Bank. We will miss her sound judgment and advice.

The Bank welcomed a new member to the Board during the year. Hambleton "Ham" Lord is the Managing Director of Launchpad Venture Group, the largest angel investing group in the Northeast. Ham brings more than 25 years' experience in the software industry and deep understanding of the innovation sector to Cambridge Trust. This is particularly timely as the Bank builds its capabilities and presence in the Kendall Square and Boston innovation clusters.

* * *

The year ahead will present similar challenges to those encountered in 2012. We feel well prepared and look to 2013 with enthusiasm and confidence. That confidence is built on knowledge of the Bank's capabilities and especially the talents of its employees. I am very grateful for their dedication and their immense contributions.

As 2013 unfolds and with the anticipated relocation of Wealth Management to 75 State Street in Boston, we will take the opportunity to renovate the Bank's Harvard Square headquarters. This will include major construction on both the first floor and lower level. The work will take most of 2013 to finish. When complete, the Bank will have banking premises that better suit the current and future servicing needs of our customers.

In closing, I want to acknowledge and thank our shareholders for their sustained support and confidence in Cambridge Trust Company. We will strive to maintain the high levels of performance you have come to expect, while always operating with integrity.

Respectfully submitted,

Joseph V. Roller II
President and CEO
March 1, 2013

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Stockholders of Cambridge Bancorp:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Cambridge Bancorp and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Cambridge Bancorp and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Report on Other Legal and Regulatory Requirements

We also have examined in accordance with attestation standards established by the American Institute of Certified Public Accountants, Cambridge Trust Company's internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 1, 2013 expressed an unqualified opinion on the effectiveness of Cambridge Trust Company's internal control over financial reporting.

KPMG LLP

Boston, Massachusetts
March 1, 2013

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2012	2011
	(In thousands)	
ASSETS		
Cash and due from banks	$ 59,923	$ 22,512
Overnight investments	—	—
Total cash and cash equivalents	59,923	22,512
Investment securities:		
Available for sale, at fair value	502,318	470,232
Held to maturity, at amortized cost	71,133	74,256
Total investment securities	573,451	544,488
Loans held for sale, at lower of cost or fair value	1,684	—
Loans:		
Residential mortgage	347,908	330,933
Commercial mortgage	276,428	231,595
Home equity	50,574	61,307
Commercial	47,570	38,260
Consumer	19,769	11,170
Total loans	742,249	673,265
Allowance for loan losses	(10,948)	(10,159)
Net loans	731,301	663,106
Federal Home Loan Bank of Boston stock, at cost	5,010	4,806
Bank owned life insurance	22,903	17,331
Banking premises and equipment, net	6,214	6,216
Accrued interest receivable	3,877	4,423
Other assets	13,623	12,978
Total assets	$1,417,986	$1,275,860
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 329,211	$ 285,724
Interest bearing checking	363,575	316,454
Money market	60,850	58,532
Savings	393,541	328,771
Certificates of deposit	134,156	136,173
Total deposits	1,281,333	1,125,654
Short-term borrowings	—	2,500
Long-term borrowings	20,000	30,000
Other liabilities	11,762	21,073
Total liabilities	1,313,095	1,179,227
Stockholders' equity:		
Common stock, par value $1.00; Authorized 5,000,000 shares; Outstanding: 3,854,951 and 3,805,748 shares, respectively	3,855	3,806
Additional paid-in capital	24,421	23,001
Retained earnings	75,787	68,232
Accumulated other comprehensive income	828	1,594
Total stockholders' equity	104,891	96,633
Total liabilities and stockholders' equity	$1,417,986	$1,275,860

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2012	2011
	(In thousands, except per share data)	
Interest income:		
Interest on loans	$ 33,984	$ 32,401
Interest on taxable investment securities	13,003	13,219
Interest on tax exempt investment securities	2,029	1,987
Dividends on FHLB of Boston stock	25	14
Interest on overnight investments	25	42
Total interest income	49,066	47,663
Interest expense:		
Interest on deposits	2,219	2,745
Interest on borrowed funds	972	1,186
Total interest expense	3,191	3,931
Net interest income	45,875	43,732
Provision for loan losses	800	1,000
Net interest income after provision for loan losses	45,075	42,732
Noninterest income:		
Wealth management income	14,110	13,152
Deposit account fees	2,398	2,179
ATM/Debit card income	1,043	981
Bank owned life insurance income	713	519
Gain on disposition of investment securities	882	552
Gain on loans held for sale	592	—
Other income	751	764
Total noninterest income	20,489	18,147
Noninterest expense:		
Salaries and employee benefits	27,835	25,116
Occupancy and equipment	7,660	7,323
Data processing	3,560	3,594
Professional services	1,585	1,588
Marketing	1,842	1,703
FDIC Insurance	704	752
Other expenses	2,661	2,609
Total noninterest expense	45,847	42,685
Income before income taxes	19,717	18,194
Income tax expense	6,314	5,717
Net income	$ 13,403	$ 12,477
Per share data:		
Basic earnings per common share	$ 3.49	$ 3.29
Diluted earnings per common share	$ 3.45	$ 3.25
Average shares outstanding - basic	3,839,681	3,791,167
Average shares outstanding - diluted	3,879,607	3,834,569

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	2012	**2011**
	(In thousands)	
Net income	$ 13,403	$ 12,477
Other comprehensive income/(loss), net of tax:		
Defined benefit retirement plans:		
Change in unfunded retirement liability	104	(2,941)
Unrealized gains/(losses) on Available for Sale securities:		
Unrealized holding gains/(losses) arising during the period	(302)	2,259
Less: reclassification adjustment for gains recognized in net income	(568)	(351)
Other comprehensive income/(loss)	(766)	(1,033)
Comprehensive income	$ 12,637	$ 11,444

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

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

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
	(In thousands, except per share data)				
Balance at December 31, 2010	$ 3,760	$ 21,456	$ 61,375	$ 2,627	$ 89,218
Comprehensive income	—	—	12,477	(1,033)	11,444
Stock based compensation	10	391	—	—	401
Exercise of stock options	29	714	—	—	743
Stock issued to ESOP and DSP	15	487	—	—	502
Dividends declared ($1.42 per share)	—	—	(5,388)	—	(5,388)
Stock repurchased	(8)	(47)	(232)	—	(287)
Balance at December 31, 2011	3,806	23,001	68,232	1,594	96,633
Comprehensive income	—	—	13,403	(766)	12,637
Stock based compensation	22	529	—	—	551
Exercise of stock options	15	427	—	—	442
Stock issued to ESOP and DSP	15	480	—	—	495
Dividends declared ($1.50 per share)	—	—	(5,764)	—	(5,764)
Stock repurchased	(3)	(16)	(84)	—	(103)
Balance at December 31, 2012	$ 3,855	$ 24,421	$ 75,787	$ 828	$ 104,891

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2012	2011
	(In thousands)	
Cash flows provided by operating activities:		
Net income	$ 13,403	$ 12,477
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	800	1,000
Amortization of deferred charges/(income), net	1,360	561
Depreciation and amortization	1,430	1,441
Bank owned life insurance income	(713)	(519)
Gain on disposition of investment securities	(882)	(552)
Compensation expense from stock option and restricted stock grants	551	401
Change in loans held for sale	(1,684)	—
Change in accrued interest receivable, deferred taxes, other assets and other liabilities	(8,655)	359
Other, net	291	481
Net cash provided by operating activities	5,901	15,649
Cash flows used by investing activities:		
Origination of loans	(205,096)	(211,667)
Purchase of:		
Investment securities - AFS	(201,506)	(235,502)
Investment securities - HTM	(824)	(2,531)
Maturities, calls and principal payments of:		
Loans	135,435	106,443
Investment securities - AFS	130,165	164,920
Investment securities - HTM	3,933	9,526
Proceeds from sale of investment securities - AFS	37,786	38,540
Purchase of bank owned life insurance	(5,000)	(5,001)
Change in FHLB of Boston stock	(204)	—
Purchase of banking premises and equipment	(1,428)	(1,614)
Net cash used by investing activities	(106,739)	(136,886)
Cash flows provided by financing activities:		
Net increase in deposits	155,679	131,846
Net increase/(decrease) in short-term borrowings	(2,500)	598
Repayment of long-term borrowings	(10,000)	—
Proceeds from issuance of common stock	937	1,224
Repurchase of common stock	(103)	(287)
Cash dividends paid on common stock	(5,764)	(5,388)
Net cash provided by financing activities	138,249	127,993
Net increase/(decrease) in cash and cash equivalents	37,411	6,756
Cash and cash equivalents at beginning of year	22,512	15,756
Cash and cash equivalents at end of year	$ 59,923	$ 22,512
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,205	$ 3,946
Cash paid for income taxes	6,350	6,475
Non-cash transactions:		
Change in AOCI, net of taxes	(766)	(1,033)

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012

1. THE BUSINESS

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

The Corporation is a state chartered, federally registered bank holding company headquartered in Cambridge, Massachusetts, that was incorporated in 1983. The Corporation is closely held and has less than five hundred shareholders of record and, accordingly, is not required to file quarterly, annual or other public reports with the Securities and Exchange Commission (“SEC”). The Corporation is the sole stockholder of the Bank, a Massachusetts trust company chartered in 1890 which is a community-oriented commercial bank. The community banking business, the Corporation’s only reportable operating segment, consists of commercial banking, consumer banking, and trust and investment management services and is managed as a single strategic unit.

The Bank offers a full range of commercial and consumer banking services through its network of 12 full-service banking offices in Massachusetts. The Bank is engaged principally in the business of attracting deposits from the public and investing those deposits. The Bank invests those funds in various types of loans, including residential and commercial real estate, and a variety of commercial and consumer loans. The Bank also invests its deposits and borrowed funds in investment securities and has three wholly-owned Massachusetts Security Corporations, CTC Security Corporation, CTC Security Corporation II and CTC Security Corporation III, for this purpose. Deposits at the Bank are insured by the Federal Deposit Insurance Corporation (“FDIC”) for the maximum amount permitted by FDIC Regulations.

Trust and investment management services are offered through the Bank’s full-service branches in Massachusetts and through two wealth management offices located in New Hampshire. The Bank also utilizes its non-depository trust company, Cambridge Trust Company of New Hampshire, Inc., in providing wealth management services in New Hampshire. The assets held for wealth management customers are not assets of the Bank and, accordingly, are not reflected in the accompanying consolidated balance sheets. Total assets managed on behalf of wealth management clients were approximately $1,795,000,000 and $1,468,000,000 at December 31, 2012 and 2011, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

Investment Securities
Investment securities are classified as either held to maturity or available for sale in accordance with the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification ("ASC") 320, "*Investments – Debt and Equity Securities*." Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and are carried at cost, adjusted for the amortization of premiums and the accretion of discounts, using the effective-yield method. U.S. Government Sponsored Enterprise ("GSE") obligations represent debt securities issued by the Federal Farm Credit Bank ("FFCB"), the Federal Home Loan Banks ("FHLB"), the Government National Mortgage Association ("GNMA"), the Federal National Mortgage Association ("FNMA") or the Federal Home Loan Mortgage Corporation ("FHLMC"). Mortgage-backed securities represent Pass-Through Certificates and Collateralized Mortgage Obligations ("CMOs") either issued by, or collateralized by securities issued by, GNMA, FNMA or FHLMC. Mortgage-backed securities are adjusted for amortization of premiums and accretion of discounts, using the effective-yield method over the estimated average lives of the investments.

Debt and equity securities not classified as held to maturity are classified as available for sale and carried at fair value with unrealized after-tax gains and losses reported net as a separate component of stockholders' equity. Stockholders' equity included net unrealized gains of $7,174,000 and $8,044,000 at December 31, 2012 and 2011, respectively. These amounts are net of deferred taxes payable of $4,109,000 and $4,619,000, in each of the respective years. The Corporation classifies its securities based on its intention at the time of purchase.

Declines in the fair value of investment securities below their amortized cost that are deemed to be other-than-temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the Corporation's intent to sell the security or whether it is more likely than not that the Corporation will be required to sell the debt security before its anticipated recovery.

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

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

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

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

The provision for loan losses and the level of the allowance for loan losses reflects management's estimate of probable loan losses inherent in the loan portfolio at the balance sheet date. Management uses a systematic process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, an estimate is made by management of the allowance needed for each of the following segments of the loan portfolio: (a) residential mortgage loans, (b) commercial mortgage loans, (c) home equity loans, (d) commercial & industrial loans, and (e) consumer loans. Portfolio segments are further disaggregated into classes of loans. The establishment of the allowance for each portfolio segment is based on a process consistently applied that evaluates the risk characteristics relevant to each portfolio segment and takes into consideration multiple internal and external factors. Internal factors include (a) historic levels and trends in charge-offs, delinquencies, risk ratings, and foreclosures, (b) level and changes in industry, geographic and credit concentrations, (c) underwriting policies and adherence to such policies, and (d) the experience of, and any changes in, lending and

credit personnel. External factors include (a) conditions and trends in the local and national economy and (b) levels and trends in national delinquent and non-performing loans. An additional unallocated component is maintained based on a judgmental process whereby management considers qualitative and quantitative assessments of other environmental factors not included above.

The Bank evaluates certain loans within the commercial & industrial, commercial mortgage and commercial construction loan portfolios individually for specific impairment. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Loans are selected for evaluation based upon internal risk rating, delinquency status, or non-accrual status. A specific allowance amount is allocated to an individual loan when such loan has been deemed impaired and when the amount of the probable loss is able to be estimated. Estimates of loss may be 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 is collateral dependent.

Risk characteristics relevant to each portfolio segment are as follows:

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

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

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

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

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

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

The provision for loan losses charged to operations is based on management's judgment of the amount necessary to maintain the allowance at a level adequate to provide for probable loan losses. When management believes that the collectability of a loan's principal balance, or portions thereof, is unlikely, the principal amount is charged against the allowance for loan losses. Recoveries on loans that have been previously charged off are credited to the allowance for loan losses as received. The allowance is an estimate, and ultimate losses may vary from current estimates. As adjustments become necessary, they are reported in the results of operations through the provision for loan losses in the period in which they become known.

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. Changes in fair value relating to loans held for sale below the loans cost basis are charged against earnings. Gains and losses on the actual sale of the residential loans are recorded in earnings as net gains (losses) on loans held for sale.

Rights to service mortgage loans for others are recognized as an asset. The total cost of originated loans that are sold with servicing rights retained is allocated between the loan servicing rights and the loans without servicing rights based on their relative fair values. Capitalized loan servicing rights are included in other assets and are amortized as an offset to other income over the period of estimated net servicing income. They are evaluated for impairment at each reporting date based on their fair value. Impairment is measured on an aggregated basis according to interest rate band and period of origination. The fair value is estimated based on the present value of expected cash flows, incorporating assumptions for discount rate, prepayment speed and servicing cost. Any impairment is recognized as a charge to earnings.

Bank Owned Life Insurance

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

Banking Premises and Equipment

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

Other Real Estate Owned

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

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

Income Taxes
The Corporation and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and in the state of Massachusetts and other states as required.

The Corporation uses the asset and liability method of accounting for income taxes. Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred tax assets are reviewed quarterly and reduced by a valuation allowance if, based upon the information available, it is more likely than not that some or all of the deferred tax assets will not be realized.

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

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

Pension and Retirement Plans
The Corporation sponsors a defined benefit pension plan and a postretirement health care plan covering substantially all employees hired before May 2, 2011. Benefits for the pension plan are based primarily on years of service and the employee's average monthly pay during the five highest consecutive plan years of the employee's final ten years. Benefits for the postretirement health care plan are based on years of service. Expense for both of these plans is recognized over the employee's service life utilizing the projected unit credit actuarial cost method. Contributions are periodically made to the pension plan so as to comply with the Employee Retirement Income Security Act ("ERISA") funding standards and the Internal Revenue Code of 1986, as amended.

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

Stock-Based Compensation
The cost of stock-based awards (stock options, restricted stock and/or restricted stock units of the Corporation) is determined at the grant date as measured by the fair value of the award. Stock-based awards requiring future service are recognized as compensation expense over the relevant service period. Stock-based awards that do not require future

service are expensed immediately. The Corporation estimates expected forfeitures in determining compensation expense.

Fair Value Measurements

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

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

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

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

Earnings per Share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding for each period presented. Diluted earnings per share are computed by dividing net income by the weighted average number of common shares outstanding plus the dilutive effect of stock options outstanding.

Subsequent Events

Management has reviewed events occurring through March 1, 2013, the date the consolidated financial statements were issued and determined that no subsequent events occurred requiring accrual or disclosure.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2011, the FASB issued Accounting Standards Update No. 2011-11, *"Balance Sheet (Topic 210), Disclosures about Offsetting Assets and Liabilities"* ("ASU 2011-11"). ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial

statements prepared under U.S. GAAP with financial statements prepared under IFRS. The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. As ASU 2011-11 provides only guidance on the disclosure about offsetting and related arrangements, its adoption on January 1, 2013 should have no impact on the Corporation's consolidated financial statements.

In July 2012, the FASB issued Accounting Standards Update No. 2012-02, *"Testing Indefinite-Lived Assets for Impairment"* ("ASU 2012-02"). The objective of ASU 2012-02 is to reduce the cost and complexity of performing an impairment test for indefinite-lived asset categories by simplifying how an entity performs the testing of those assets. Similar to the amendments to goodwill impairment testing issued in September 2011, an entity has the option first to assess qualitative factors to determine whether the existence of events and circumstances indicates that it is more likely than not that the indefinite-lived intangible asset is impaired. If an entity concludes that it is not more likely than not that the indefinite-lived intangible asset is impaired, then the entity is not required to take further action. If an entity concludes otherwise, then it is required to determine the fair value of the indefinite-lived intangible asset and perform the quantitative impairment test. The provisions of ASU 2012-02 are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of ASU 2012-02 is not expected to have a material impact on the Corporation's consolidated financial position, results of operations or cash flows.

4. CASH AND DUE FROM BANKS

At December 31, 2012 and 2011, cash and due from banks totaled $59,923,000 and $22,512,000, respectively. Of this amount, $8,849,000 and $6,586,000, respectively, were maintained to satisfy the reserve requirements of the Federal Reserve Bank of Boston ("FRB Boston"). Additionally, at December 31, 2012, $1,000,000 was pledged to the New Hampshire Banking Department relating to Cambridge Trust Company of New Hampshire, Inc.'s operations in that State.

5. INVESTMENT SECURITIES

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

	December 31, 2012			
	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Securities available for sale:				
U.S. GSE obligations	$ 100,074	$ 773	$ (23)	$ 100,824
Mortgage-backed securities	371,288	9,808	(60)	381,036
Corporate debt securities	19,001	811	—	19,812
Mutual funds	672	—	(26)	646
Total securities available for sale	491,035	11,392	(109)	502,318
Securities held to maturity:				
U.S. GSE obligations	12,499	220	—	12,719
Mortgage-backed securities	5,322	387	—	5,709
Municipal securities	53,312	4,574	(6)	57,880
Total securities held to maturity	71,133	5,181	(6)	76,308
Total investment securities	$ 562,168	$ 16,573	$ (115)	$ 578,626

	December 31, 2011			
	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Securities available for sale:				
U.S. GSE obligations	$ 92,067	$ 1,675	$ —	$ 93,742
Mortgage-backed securities	341,833	11,073	(76)	352,830
Corporate debt securities	22,997	306	(293)	23,010
Mutual funds	672	—	(22)	650
Total securities available for sale	457,569	13,054	(391)	470,232
Securities held to maturity:				
U.S. GSE obligations	12,495	729	—	13,224
Mortgage-backed securities	8,672	597	—	9,269
Municipal securities	53,089	4,902	—	57,991
Total securities held to maturity	74,256	6,228	—	80,484
Total investment securities	$ 531,825	$ 19,282	$ (391)	$ 550,716

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

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

	Within One Year		After One, But Within Five Years		After Five, But Within Ten Years		After Ten Years	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)							
At December 31, 2012:								
Debt securities available for sale:								
U.S. GSE obligations	$ 40,000	$ 40,356	$ 25,103	$ 25,410	$ 34,971	$ 35,058	$ —	$ —
Mortgage-backed securities	350	366	5,676	5,895	6,417	6,939	358,845	367,836
Corporate debt securities	—	—	19,001	19,812	—	—	—	—
Total debt securities available for sale	40,350	40,722	49,780	51,117	41,388	41,997	358,845	367,836
Debt securities held to maturity:								
U.S. GSE obligations	12,499	12,719	—	—	—	—	—	—
Mortgage-backed securities	25	26	919	984	4,238	4,533	140	166
Municipal securities	461	469	8,974	9,637	32,168	35,071	11,709	12,703
Total debt securities held to maturity	12,985	13,214	9,893	10,621	36,406	39,604	11,849	12,869
Total debt securities	$ 53,335	$ 53,936	$ 59,673	$ 61,738	$ 77,794	$ 81,601	$ 370,694	$ 380,705

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

	Less than One Year		One Year or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
At December 31, 2012:						
U.S. GSE obligations	$ 9,972	$ (23)	$ —	$ —	$ 9,972	$ (23)
Mortgage-backed securities	27,806	(60)	—	—	27,806	(60)
Corporate debt securities	—	—	—	—	—	—
Municipal securities	566	(6)	—	—	566	(6)
Subtotal, debt securities	38,344	(89)	—	—	38,344	(89)
Mutual funds	—	—	646	(26)	646	(26)
Total temporarily impaired securities	$ 38,344	$ (89)	$ 646	$ (26)	$ 38,990	$ (115)

	Less than One Year		One Year or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
At December 31, 2011:						
U.S. GSE obligations	$ —	$ —	$ —	$ —	$ —	$ —
Mortgage-backed securities	6,930	(6)	8,950	(70)	15,880	(76)
Corporate debt securities	8,801	(261)	2,463	(32)	11,264	(293)
Municipal securities	—	—	—	—	—	—
Subtotal, debt securities	15,731	(267)	11,413	(102)	27,144	(369)
Mutual funds	—	—	650	(22)	650	(22)
Total temporarily impaired securities	$ 15,731	$ (267)	$ 12,063	$ (124)	$ 27,794	$ (391)

Securities are evaluated by management for other than temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2012, thirteen debt securities and one equity security had gross unrealized losses, with an aggregate depreciation of 0.29% from the Corporation's amortized cost basis. The largest loss percentage of any single security was 3.93% of its amortized cost. The Corporation believes that the nature and duration of impairment on its debt security positions are primarily a function of interest rate movements and changes in investment spreads, and does not consider full repayment of principal on the reported debt obligations to be at risk. Since nearly all of these securities are rated "investment grade" and a) the Corporation does not intend to sell these securities before recovery, and b) that it is more likely than not that the Corporation will not be required to sell these securities before recovery, the Corporation does not consider these securities to be other-than-temporarily impaired as of December 31, 2012.

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

	Year Ended December 31,	
	2012	2011
	(In thousands)	
Amortized cost of securities sold	$ 36,904	$ 37,988
Gain realized on securities sold	882	552
Proceeds from securities sold	$ 37,786	$ 38,540

6. LOANS AND ALLOWANCE FOR LOAN LOSSES

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

Loans outstanding are detailed by category as follows:

	December 31,	
	2012	2011
	(In thousands)	
Residential real estate:		
Mortgages - fixed rate (30 year)	$ 135,466	$ 176,843
Mortgages - fixed rate (15 year)	106,250	71,595
Mortgages - fixed rate (10 year)	44,327	27,103
Mortgages - adjustable rate	61,736	55,063
Deferred costs net of unearned fees	129	329
Total residential real estate	347,908	330,933
Commercial real estate:		
Mortgages - nonowner occupied	216,643	176,634
Mortgages - owner occupied	51,665	45,340
Construction	7,886	9,426
Deferred costs net of unearned fees	234	195
Total commercial real estate	276,428	231,595
Home equity:		
Home equity - lines of credit	47,359	57,177
Home equity - term loans	3,090	4,010
Deferred costs net of unearned fees	125	120
Total home equity	50,574	61,307
Commercial:		
Commercial and industrial	47,265	37,984
Deferred costs net of unearned fees	305	276
Total commercial	47,570	38,260
Consumer:		
Secured	16,879	9,249
Unsecured	2,870	1,902
Deferred costs net of unearned fees	20	19
Total consumer	19,769	11,170
Total loans	$ 742,249	$ 673,265

Certain directors and officers of the Corporation are customers of the Bank. Loans to these parties are made in the ordinary course of business at the Bank's normal credit terms, including interest rate and collateral requirements, and do not represent more than a normal risk of collection. At December 31, 2012 and 2011, total loans outstanding to these related parties were $752,000 and $786,000, respectively. During 2012, $916,000 of additions and $950,000 of repayments were made to these loans, compared to no additions and $146,000 of repayments made during 2011.

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

	December 31, 2012	December 31, 2011
	(In thousands)	
Non-accrual loans	$ 1,570	$ 1,204
Loans past due >90 days, but still accruing	—	—
Troubled debt restructurings	—	—
Total non-performing loans	$ 1,570	$ 1,204

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

	December 31, 2012	December 31, 2011
	(In thousands)	
Non-accrual loans:		
Residential mortgage loans	$ 708	$ 802
Commercial mortgage loans	—	—
Home equity loans	322	340
Commercial loans	537	51
Consumer loans	3	11
Total	$ 1,570	$ 1,204

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

	December 31, 2012 (In thousands)		
	Residential Mortgages	Home Equity	Consumer
Credit risk profile based on payment activity:			
Performing	$ 347,200	$ 50,252	$ 19,766
Non-performing	708	322	3
Total	$ 347,908	$ 50,574	$ 19,769

	Commercial Mortgages	Commercial
Credit risk profile by internally assigned grade:		
Pass	$ 274,108	$ 43,168
Special mention	—	3,158
Substandard	2,320	1,244
Doubtful	—	—
Total	$ 276,428	$ 47,570

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

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

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

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

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

	December 31, 2012						
	Current	30 - 59 Days	60 - 89 Days	90 Days or Greater	Total Past Due	Total Loans	Greater Than 90 Days But Accruing
	(In thousands)						
Loans receivable:							
Residential mortgage loans	$347,309	$ 366	$ 103	$ 130	$ 599	$347,908	$ —
Commercial mortgage loans	275,612	375	—	441	816	276,428	—
Home equity loans	50,535	39	—	—	39	50,574	—
Commercial loans	47,337	91	142	—	233	47,570	—
Consumer loans	19,265	504	—	—	504	19,769	—
Total	$740,058	$1,375	$ 245	$ 571	$2,191	$742,249	$ —

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

	December 31, 2012						
	Residential Mortgages	Commercial Mortgages	Home Equity	Commercial	Consumer	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	3,792	4,850	551	824	273	658	10,948
Total	$ 3,792	$ 4,850	$ 551	$ 824	$ 273	$ 658	$ 10,948
Loans receivable:							
Individually evaluated for impairment	$ —	$ —	$ —	$ 489	$ —		$ 489
Collectively evaluated for impairment	347,908	276,428	50,574	47,081	19,769		741,760
Total	$ 347,908	$ 276,428	$ 50,574	$ 47,570	$ 19,769		$ 742,249

	December 31, 2011						
	Residential Mortgages	Commercial Mortgages	Home Equity	Commercial	Consumer	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	3,905	4,385	711	742	163	253	10,159
Total	$ 3,905	$ 4,385	$ 711	$ 742	$ 163	$ 253	$ 10,159
Loans receivable:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —		$ —
Collectively evaluated for impairment	330,933	231,595	61,307	38,260	11,170		673,265
Total	$ 330,933	$ 231,595	$ 61,307	$ 38,260	$ 11,170		$ 673,265

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

Changes in the allowance for loan losses were as follows:

	December 31, 2012						
	Residential Mortgages	Commercial Mortgages	Home Equity	Commercial	Consumer	Unallocated	Total
				(In thousands)			
Balance at beginning of year	$ 3,905	$ 4,385	$ 711	$ 742	$ 163	$ 253	$ 10,159
Provision for loan losses	(286)	462	(160)	280	99	405	800
Loans charged off	—	—	—	(282)	(20)	—	(302)
Recoveries	173	3	—	84	31	—	291
Balance at end of year	$ 3,792	$ 4,850	$ 551	$ 824	$ 273	$ 658	$ 10,948

An analysis of mortgage servicing rights follows:

	Mortgage Servicing Rights	Valuation Allowance	Total
		(In thousands)	
Balance at December 31, 2011	$ —	$ —	$ —
Mortgage servicing rights capitalized	225	—	225
Amortization charged against servicing income	(9)	—	(9)
Change in impairment reserve	—	(1)	(1)
Balance at December 31, 2012	$ 216	$ (1)	$ 215

7. FEDERAL HOME LOAN BANK OF BOSTON STOCK

As a voluntary member of the FHLB of Boston ("FHLB Boston"), the Bank is required to invest in stock of the FHLB Boston (which is considered a restricted equity security) in an amount based upon its outstanding advances from the FHLB Boston. At December 31, 2012, the Bank's investment in FHLB Boston stock exceeded its required investment by $2,020,000. No market exists for shares of this stock. The Bank's cost for FHLB Boston stock is equal to its par value. Upon redemption of the stock, which is at the discretion of

the FHLB Boston, the Bank would receive an amount equal to the par value of the stock. At its discretion, the FHLB Boston may also declare dividends on its stock.

The Bank's investment in FHLB 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, 2012, no impairment has been recognized.

8. BANKING PREMISES AND EQUIPMENT

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

	December 31, 2012	December 31, 2011	Estimated Useful Lives
	(In thousands)		
Land	$ 1,116	$ 1,116	
Building and leasehold improvements	11,702	11,121	1-30 years
Equipment, including vaults	14,588	13,742	3-20 years
Subtotal	27,406	25,979	
Accumulated depreciation and amortization	(21,192)	(19,763)	
Total	$ 6,214	$ 6,216	

Total depreciation expense for the years ended December 31, 2012 and 2011 amounted to approximately $1,430,000 and $1,441,000, respectively, and is included in occupancy and equipment expenses in the accompanying consolidated statements of income.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Goodwill	Customer Intangibles	Total Intangibles
		(In thousands)	
Balance at December 31, 2010	$ 412	$ 160	$ 572
Amortization expense	—	(148)	(148)
Balance at December 31, 2011	412	12	424
Amortization expense	—	(12)	(12)
Balance at December 31, 2012	$ 412	$ —	$ 412

The components of intangible assets were as follows:

	December 31, 2012	December 31, 2011
	(In thousands)	
Customer intangibles	$ 3,777	$ 3,777
Accumulated amortization	(3,777)	(3,765)
Net customer intangibles	$ —	$ 12

Goodwill and intangible assets that are not amortized are tested for impairment, based on their fair values, at least annually. As of December 31, 2012, no impairment has been recognized.

10. DEPOSITS

Deposits are summarized as follows:

	December 31, 2012	December 31, 2011
	(In thousands)	
Demand deposits (non-interest bearing)	$ 329,211	$ 285,724
Interest bearing checking	363,575	316,454
Money market	60,850	58,532
Savings	393,541	328,771
Certificates of deposit under $100,000	55,729	57,475
Certificates of deposit $100,000 or greater	78,427	78,698
Total deposits	$ 1,281,333	$ 1,125,654

Certificates of deposit had the following schedule of maturities:

	December 31, 2012	December 31, 2011
	(In thousands)	
Less than 3 months remaining	$ 46,001	$ 54,452
3 to 5 months remaining	27,058	25,998
6 to 11 months remaining	22,860	20,214
12 to 23 months remaining	20,884	15,336
24 to 47 months remaining	14,433	18,843
48 months or more remaining	2,920	1,330
Total certificates of deposit	$ 134,156	$ 136,173

Interest expense on certificates of deposit $100,000 or greater was $642,000 and $653,000 for the years ended December 31, 2012 and 2011, respectively.

11. SHORT-TERM BORROWINGS

Information relating to activity and rates paid on short-term borrowings is presented below:

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(Dollars in thousands)	
Short-term borrowings:		
Average daily balance	$ 17,270	$ 3,978
Average interest rate	0.27%	0.26%
Highest month-end balance	$ 59,000	$ 14,724

12. LONG-TERM BORROWINGS

Long-term borrowings consisted of the following:

	December 31, 2012		December 31, 2011	
	Amount	Rate	Amount	Rate
	(Dollars in thousands)			
Wholesale Repurchase Agreements:				
Due 07/05/2012; callable quarterly beginning 07/05/2009	$ —	—	$ 10,000	5.10%
Due 03/03/2013; callable quarterly beginning 03/03/2011	20,000	3.25%	20,000	3.25%
Total	$ 20,000	3.25%	$ 30,000	3.87%

All short- and long-term borrowings with the FHLB Boston are secured by the Bank's stock in the FHLB Boston and a blanket lien on "qualified collateral" defined principally as 90% of the market value of certain U.S. Government and GSE obligations and 75% of the carrying value of certain residential mortgage loans. Based upon collateral pledged, the Bank's unused borrowing capacity with the FHLB Boston at December 31, 2012 was approximately $303,684,000.

The Bank also has a line of credit with the FRB Boston. At December 31, 2012, the Bank had pledged commercial real estate and commercial & industrial loans with aggregate principal balances of approximately $272,386,000 as collateral for this line of credit. Based upon the collateral pledged, the Bank's unused borrowing capacity with the FRB Boston at December 31, 2012 was approximately $174,117,000.

The Bank's wholesale repurchase agreements are with another financial institution. For financial statement purposes, sales of repurchase agreements are treated as financings. The obligations to repurchase the identical securities that were sold are reflected as liabilities and the securities remain in the asset accounts. The agreements are collateralized by U.S. GSE securities owned by the Bank, which as of December 31, 2012, had a carrying value of approximately $25,159,000.

13. INCOME TAXES

The components of income tax expense were as follows:

	Year Ended December 31,	
	2012	2011
	(In thousands)	
Current:		
Federal	$ 2,971	$ 5,467
State	202	694
Total current expense	3,173	6,161
Deferred:		
Federal	2,449	(346)
State	692	(98)
Total deferred expense (benefit)	3,141	(444)
Total income tax expense	$ 6,314	$ 5,717

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

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(In thousands)	
Provision at statutory rates	$ 6,901	$ 6,368
Increase/(decrease) resulting from:		
State tax, net of federal tax benefit	581	387
Tax-exempt income	(710)	(695)
ESOP dividends	(163)	(152)
Bank owned life insurance	(249)	(182)
Other	(46)	(9)
Total income tax expense	$ 6,314	$ 5,717

As of December 31, 2012 and 2011, the Corporation had no unrecognized tax assets or liabilities.

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

	December 31, 2012	December 31, 2011
	(In thousands)	
Gross deferred tax assets:		
Allowance for loan losses	$ 4,472	$ 4,150
Accrued retirement benefits	2,901	6,328
Depreciation of premises and equipment	753	819
Goodwill	255	376
Rent	210	202
ESOP dividends	190	177
Equity based compensation	271	200
Other	132	96
Total gross deferred tax assets	9,184	12,348
Gross deferred tax liabilities:		
Deferred loan origination costs	(340)	(379)
Mortgage servicing rights	(88)	—
Unrealized gains on AFS securities	(4,108)	(4,619)
Total gross deferred tax liabilities	(4,536)	(4,998)
Net deferred tax asset	$ 4,648	$ 7,350

It is management's belief, that it is more likely than not, that the reversal of deferred tax liabilities and results of future operations will generate sufficient taxable income to realize the deferred tax assets. In addition, the Corporation's net deferred tax asset is supported by recoverable income taxes. Therefore, no valuation allowance was required at either December 31, 2012 or 2011 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, 2012 and 2011, the Corporation had no unrecognized tax benefits or any uncertain tax positions. The Corporation does not expect the total amount of unrecognized tax benefits to significantly increase with the next twelve months.

The Corporation's federal income tax returns are open and subject to examination from the 2009 tax return year and forward. The Corporation's state income tax returns are generally open from the 2009 and later tax return years based on individual state statute of limitations.

14. PENSION AND RETIREMENT PLANS

The Corporation has a noncontributory, defined benefit pension plan ("Pension Plan") covering substantially all employees hired before May 2, 2011. Employees in positions requiring at least 1,000 hours of service per year were eligible to participate upon the attainment of age 21 and the completion of one year of service. Benefits are based primarily on years of service and the employee's average monthly pay during the five highest consecutive plan years of the employee's final ten years. The Corporation also provides supplemental retirement benefits to certain executive officers of the Corporation under the terms of Supplemental Executive Retirement Agreements ("Supplemental Retirement Plan"). The Supplemental Retirement Plan became effective on October 1, 1989. Benefits to be paid under the plan are contractually agreed upon and detailed in individual agreements with the executives. The Corporation uses a December 31 measurement date each year to determine the benefit obligations for these plans.

Projected benefit obligations and funded status were as follows:

	Pension Plan		Supplemental Retirement Plan	
	2012	**2011**	**2012**	**2011**
	(In thousands)			
Change in projected benefit obligation:				
Obligation at beginning of year	$ 28,444	$ 22,355	$ 5,586	$ 4,821
Service cost	1,542	1,200	544	533
Interest cost	1,212	1,174	237	253
Actuarial (gain)/loss	2,097	4,313	592	101
Benefits paid	(715)	(598)	(122)	(122)
Obligation at end of year	32,580	28,444	6,837	5,586
Change in plan assets:				
Fair value at beginning of year	19,445	17,655	—	—
Actual return on plan assets	3,426	388	—	—
Employer contribution	11,000	2,000	122	122
Benefits paid	(715)	(598)	(122)	(122)
Fair value at end of year	33,156	19,445	—	—
Overfunded (underfunded) status at end of year	$ 576	$ (8,999)	$ (6,837)	$ (5,586)

Amounts recognized in the consolidated balance sheets consisted of:

	Pension Plan		Supplemental Retirement Plan	
	2012	2011	2012	2011
	(In thousands)			
Other assets (liabilities)	$ 576	$ (8,999)	$ (6,837)	$ (5,586)

Amounts recognized in accumulated other comprehensive income consisted of:

	Pension Plan		Supplemental Retirement Plan	
	2012	2011	2012	2011
	(In thousands)			
Net actuarial (gain)/loss	$ 9,656	$ 10,280	$ 1,164	$ 573
Prior service cost/(benefit)	(38)	(31)	26	104
	$ 9,618	$ 10,249	$ 1,190	$ 677

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

	Pension Plan		Supplemental Retirement Plan	
	2012	2011	2012	2011
	(In thousands)			
Projected benefit obligation	$ 32,580	$ 28,444	$ 6,837	$ 5,586
Accumulated benefit obligation	27,088	23,915	6,837	5,586
Fair value of plan assets	33,156	19,445	—	—

During 2012, the Corporation contributed $11,000,000 to the Pension Plan which resulted in a funded status in excess of the accumulated benefit obligation as of December 31, 2012.

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

	Pension Plan		Supplemental Retirement Plan	
	2012	2011	2012	2011
	(In thousands)			
Net periodic benefit cost:				
Service cost	$ 1,542	$ 1,200	$ 544	$ 533
Interest cost	1,212	1,174	237	253
Expected return on assets	(1,508)	(1,367)	—	—
Amortization of prior service cost/(benefit)	6	14	79	79
Amortization of net actuarial (gain)/loss	804	353	1	—
Net periodic benefit cost	2,056	1,374	861	865
Amounts recognized in other comprehensive income:				
Net actuarial (gain)/loss	(625)	4,939	592	101
Amortization of prior service cost/(benefit)	(6)	(14)	(79)	(79)
Total recognized in other comprehensive income	(631)	4,925	513	22
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,425	$ 6,299	$ 1,374	$ 887

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

	Pension Plan		Supplemental Retirement Plan	
	2012	2011	2012	2011
Discount rate	4.00%	4.25%	4.00%	4.25%
Rate of compensation increase	4.00%	4.00%	NA	NA

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

	Pension Plan		Supplemental Retirement Plan	
	2012	2011	2012	2011
Discount rate	4.25%	5.25%	4.25%	5.25%
Expected long-term return on plan assets	7.50%	7.50%	NA	NA
Rate of compensation increase	4.00%	4.00%	NA	NA

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

The Corporation maintains an Investment Policy for its defined benefit pension plan. The objective of this policy is to seek a balance between capital appreciation, current income, and preservation of capital, with a longer term tilt towards equities because of the extended time horizon of the pension plan. The Investment Policy guidelines suggest that the target asset allocation percentages are from 50% to 70% in equities, and from 30% to 50% in fixed income debt securities and cash. The Corporation expects to contribute $1,000,000 to its defined benefit pension plan in 2013.

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

	December 31,	
	2012	2011
Equity securities	50%	60%
Debt securities	22	37
Cash and other	28	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 Corporation's market assumptions.

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

	Fair Value as of December 31, 2012			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Asset category:				
Cash and cash equivalents	$ 9,405	$ —	$ —	$ 9,405
Equity securities:				
Common stocks:				
Large cap core	8,968	—	—	8,968
Mid cap core	2,865	—	—	2,865
International	1,987	—	—	1,987
Mutual funds:				
Fixed income	7,162	—	—	7,162
International	1,988	—	—	1,988
Mid cap blend	781	—	—	781
Total	$ 33,156	$ —	$ —	$ 33,156

The Corporation offers postretirement health care benefits for current and future retirees of the Bank. Employees receive a fixed monthly benefit at age 65 toward the purchase of postretirement medical coverage. The benefit received is based on the employee's years

of active service. The Corporation uses a December 31 measurement date each year to determine the benefit obligation for this plan.

Projected benefit obligations and funded status were as follows:

	Postretirement Healthcare Plan	
	2012	2011
	(In thousands)	
Change in projected benefit obligation:		
Obligation at beginning of year	$ 695	$ 655
Service cost	15	11
Interest cost	25	32
Actuarial (gain)/loss	(67)	54
Benefits paid	(40)	(57)
Obligation at end of year	628	695
Change in plan assets:		
Fair value at beginning of year	—	—
Actual return on plan assets	—	—
Employer contribution	40	57
Benefits paid	(40)	(57)
Fair value at end of year	—	—
Overfunded (underfunded) status at end of year	$ (628)	$ (695)

Amounts recognized in the consolidated balance sheets consisted of:

	Postretirement Healthcare Plan	
	2012	2011
	(In thousands)	
Other assets (liabilities)	$ (628)	$ (695)

Amounts recognized in accumulated other comprehensive income consisted of:

	Postretirement Healthcare Plan	
	2012	2011
	(In thousands)	
Net actuarial (gain)/loss	$ (52)	$ 13
Prior service cost/(benefit)	(28)	(36)
	$ (80)	$ (23)

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

	Postretirement Healthcare Plan	
	2012	2011
	(In thousands)	
Projected benefit obligation	$ 628	$ 695
Accumulated benefit obligation	628	695
Fair value of plan assets	—	—

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

	Postretirement Healthcare Plan	
	2012	2011
	(In thousands)	
Net periodic benefit cost:		
Service cost	$ 15	$ 11
Interest cost	25	32
Expected return on assets	—	—
Amortization of prior service cost/(benefit)	(8)	(9)
Amortization of net actuarial (gain)/loss	(1)	—
Net periodic benefit cost	31	34
Amounts recognized in other comprehensive income:		
Net actuarial (gain)/loss	(67)	54
Amortization of prior service cost/(benefit)	8	9
Amortization of net actuarial (gain)/loss	1	—
Total recognized in other comprehensive income	(58)	63
Total recognized in net periodic benefit cost and other comprehensive income	$ (27)	$ 97

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

	Postretirement Healthcare Plan	
	2012	2011
	(In thousands)	
Discount rate	4.00%	4.25%
Rate of compensation increase	NA	NA

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

	Postretirement Healthcare Plan	
	2012	2011
	(In thousands)	
Discount rate	4.25%	5.25%
Expected long-term return on plan assets	NA	NA
Rate of compensation increase	NA	NA

Assumed health care cost trend rates are as follows:

	December 31,	
	2012	2011
Health care cost trend rate assumed for next year	6.00%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2014	2014

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

	One Percentage Point	
	Increase	Decrease
	(In thousands)	
Effect on total service and interest cost	$ —	$ —
Effect on postretirement benefit obligation	15	(14)

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

Year ended December 31,	Pension Plan	Supplemental Retirement Plan	Post-retirement Healthcare Plan	Total
	(In thousands)			
2013	$ 965	$ 366	$ 44	$ 1,375
2014	980	485	43	1,508
2015	1,072	483	43	1,598
2016	1,138	481	41	1,660
2017	1,247	484	42	1,773
2018-2022 inclusive	8,121	3,195	197	11,513
Ten year total	$ 13,523	$ 5,494	$ 410	$ 19,427

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2013 are as follows:

	Pension Plan	Supplemental Retirement Plan	Post-retirement Healthcare Plan	Total
		(In thousands)		
Prior service cost	$ 4	$ (79)	$ (8)	$ (83)
Net (gain)/loss	(650)	(53)	—	(703)
Total	$ (646)	$ (132)	$ (8)	$ (786)

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

The Corporation has an Employee Stock Ownership Plan ("ESOP") for its eligible employees. Employees are eligible to participate upon the attainment of age 21 and the completion of 12 months of service consisting of at least 1,000 hours. It is anticipated that the ESOP will purchase from the Corporation shares presently authorized but unissued at a price determined by an independent appraiser and certified by a committee of the trustees of the ESOP. Purchases of the Corporation's stock by the ESOP will be funded solely by employer contributions. At December 31, 2012 and 2011, the ESOP owned 308,968 shares and 303,298 shares, respectively, of the Corporation's common stock.

Total expenses related to the Profit Sharing and ESOP Plans for the years ended December 31, 2012 and 2011, amounted to approximately $900,000 and $950,000, respectively.

15. STOCK OPTION AND DIRECTOR STOCK PLANS

In 1993, the Corporation adopted a Stock Option Plan for key employees as an incentive for them to assist the Corporation in achieving long-range performance goals. During 2005, the Corporation's shareholders amended the plan to permit the issuance of restricted stock, restricted stock units ("RSUs") and stock appreciation rights ("SARs").

Stock options time-vest over a five-year period. All options expire 10 years from the date granted and have been issued at fair value at the date of grant which, in some instances, may be less than publicly traded values. A summary of stock options outstanding as of December 31, 2012 and 2011, and changes during the years ended on those dates is presented below:

	2012		2011	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options:				
Outstanding at beginning of year	350,535	$ 30.12	384,185	$ 29.71
Granted	—	—	—	—
Forfeited	—	—	(4,000)	28.39
Expired	(22,264)	29.15	(966)	25.67
Exercised	(15,355)	28.76	(28,684)	25.09
Outstanding at end of year	312,916	30.25	350,535	30.12
Exercisable at end of year	257,666	$ 30.48	235,635	$ 30.08

The following table summarizes information about stock options outstanding at December 31, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at 12/31/12	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/12	Weighted Average Exercise Price
$25.00 - $29.99	197,845	3.6 years	$ 28.83	142,595	$ 28.68
$30.00 - $34.99	115,071	1.7 years	$ 32.70	115,071	$ 32.70
	312,916	2.9 years	$ 30.25	257,666	$ 30.48

Restricted stock awards time-vest over a five-year period and have been fair valued as of the date of grant. The holders of restricted stock awards participate fully in the rewards of stock ownership of the Corporation, including voting and dividend rights. A summary of non-vested restricted shares outstanding as of December 31, 2012 and 2011, and changes during the years ended on those dates is presented below:

	2012		2011	
	Number of Shares	Weighted Average Grant Value	Number of Shares	Weighted Average Grant Value
Restricted stock:				
Non-vested at beginning of year	33,978	$ 31.99	32,549	$ 30.57
Granted	23,210	34.46	11,770	34.40
Vested	(10,422)	31.73	(9,041)	30.06
Forfeited	(1,062)	30.54	(1,300)	31.81
Non-vested at end of year	45,704	33.34	33,978	31.99

Restricted stock unit awards vest based upon the Corporation's performance over a three-year period and have been fair valued as of the date of grant. The holders of performance-based RSU awards do not participate in the rewards of stock ownership of the Corporation until vested. A summary of non-vested restricted stock units outstanding as of December 31, 2012 and 2011, and changes during the years ended on those dates is presented below:

	2012		2011	
	Number of Shares	Weighted Average Grant Value	Number of Shares	Weighted Average Grant Value
Restricted stock units:				
Non-vested at beginning of year	18,150	$ 32.56	9,380	$ 30.80
Granted	9,010	34.39	8,770	34.40
Vested (Performance achieved).	—	—	—	—
Forfeited	(955)	31.62	—	—
Expired (Performance not achieved)	—	—	—	—
Non-vested at end of year	26,205	33.22	18,150	32.56

Total expense related to the Stock Option Plan for the years ended December 31, 2012 and 2011, amounted to approximately $546,000 and $401,000, respectively.

In 1993, the Corporation initiated a Director Stock Plan ("DSP"). The DSP provides that Directors of the Corporation receive their annual retainer fee in the form of stock in the Corporation. Total shares issued under the DSP in the years ending December 31, 2012 and 2011 were 4,185 and 4,537, respectively.

16. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

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

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

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

	December 31,	
	2012	2011
	(In thousands)	
Standby letters of credit	$ 6,093	$ 7,858
Commitments to extend credit:		
Unused portion of existing lines of credit	160,394	142,933
Origination of new loans	32,864	28,524
Commitments to sell loans	6,250	—
Liabilities associated with letters of credit	33	40

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

17. COMMITMENTS AND CONTINGENCIES

The Corporation is obligated under various lease agreements covering its main office, branch offices and other locations. These agreements are accounted for as operating leases and their terms expire between 2013 and 2022 and, in some instances, contain options to renew for periods up to twenty years. The total minimum rentals due in future periods under these agreements in effect at December 31, 2012 were as follows:

Year Ended December 31,	Future Minimum Lease Payments
	(In thousands)
2013	$ 3,785
2014	3,907
2015	4,484
2016	3,674
2017	1,302
Thereafter	2,592
Total minimum lease payments	$ 19,744

Several lease agreements contain clauses calling for escalation of minimum lease payments contingent on increases in real estate taxes, gross income adjustments, percentage increases in the consumer price index and certain ancillary maintenance costs. Total rental expense

amounted to approximately $3,777,000 and $3,549,000 for the years ended December 31, 2012 and 2011, respectively.

Under the terms of a sublease agreement, the Corporation will receive minimum annual rental payments of approximately $29,000 through July 31, 2019. Total rental income amounted to approximately $35,000 and $31,000 for the years ended December 31, 2012 and 2011, respectively.

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

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

18. STOCKHOLDERS’ EQUITY

Capital guidelines issued by the Federal Reserve Board (“FRB”) and by the FDIC require that the Corporation and the Bank maintain minimum capital levels for capital adequacy purposes. These regulations also require banks and their holding companies to maintain higher capital levels to be considered “well-capitalized”. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, there are specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The risk-based capital rules are designed to make regulatory capital more sensitive to differences in risk profiles among bank and bank holding companies, to account for off-balance-sheet exposure and to minimize disincentives for holding liquid assets. Management believes that as of December 31, 2012 and 2011, the Corporation and the Bank met all applicable minimum capital requirements and were considered “well-capitalized” by both the FRB and the FDIC. There have been no events or conditions since the end of the year that management believes would have changed the Corporation’s or the Bank’s category.

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

	Actual		Minimum For Capital Adequacy Purposes		Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
At December 31, 2012:						
Cambridge Bancorp:						
Total capital (to risk-weighted assets).....	$ 112,915	15.2%	$ 59,480	8.0%	$ 74,350	10.0%
Tier I capital (to risk-weighted assets).....	103,601	13.9%	29,740	4.0%	44,610	6.0%
Tier I capital (to average assets)	103,601	7.5%	55,069	4.0%	68,836	5.0%
Cambridge Trust Company:						
Total capital (to risk-weighted assets).....	$ 112,025	15.1%	$ 59,480	8.0%	$ 74,350	10.0%
Tier I capital (to risk-weighted assets).....	102,711	13.8%	29,740	4.0%	44,610	6.0%
Tier I capital (to average assets)	102,711	7.5%	55,013	4.0%	68,766	5.0%
At December 31, 2011:						
Cambridge Bancorp:						
Total capital (to risk-weighted assets).....	$ 103,040	15.3%	$ 53,929	8.0%	$ 67,411	10.0%
Tier I capital (to risk-weighted assets).....	94,592	14.0%	26,964	4.0%	40,446	6.0%
Tier I capital (to average assets)	94,592	7.6%	49,979	4.0%	62,474	5.0%
Cambridge Trust Company:						
Total capital (to risk-weighted assets).....	$ 99,404	13.8%	$ 57,680	8.0%	$ 72,100	10.0%
Tier I capital (to risk-weighted assets).....	90,377	12.5%	28,840	4.0%	43,260	6.0%
Tier I capital (to average assets)	90,377	7.3%	49,790	4.0%	62,237	5.0%

19. OTHER INCOME

The components of other income were as follows:

	Year Ended December 31,	
	2012	2011
	(In thousands)	
Safe deposit box income	$ 343	$ 346
Loan fee income..	171	175
Miscellaneous income...	237	243
Total other income	$ 751	$ 764

20. OTHER OPERATING EXPENSES

The components of other operating expenses were as follows:

	Year Ended December 31,	
	2012	2011
	(In thousands)	
Contributions / Public relations	$ 507	$ 454
Director fees	418	415
Printing and supplies	408	362
Postage	313	293
Travel and entertainment	282	274
Dues and memberships	245	227
Security	166	141
Amortization of intangible assets	12	148
Other losses	91	95
Miscellaneous expense	219	200
Total other operating expenses	$ 2,661	$ 2,609

21. OTHER COMPREHENSIVE INCOME

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

	Year Ended December 31, 2012		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
		(In thousands)	
Defined benefit retirement plans:			
Change in unfunded retirement liability	$ 176	$ (72)	$ 104
Unrealized gains/(losses) on AFS securities:			
Unrealized holding gains/(losses) arising during the period	(499)	197	(302)
Reclassification adjustment for gains recognized in net income	(882)	314	(568)
	$ (1,205)	$ 439	$ (766)

	Year Ended December 31, 2011		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
		(In thousands)	
Defined benefit retirement plans:			
Change in unfunded retirement liability	$ (5,010)	$ 2,069	$ (2,941)
Unrealized gains/(losses) on AFS securities:			
Unrealized holding gains/(losses) arising during the period	3,561	(1,302)	2,259
Reclassification adjustment for gains recognized in net income	(552)	201	(351)
	$ (2,001)	$ 968	$ (1,033)

22. EARNINGS PER SHARE

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

	Year Ended December 31, 2012	
	Basic EPS	Diluted EPS
Numerator:		
Net income	$ 13,403,000	$ 13,403,000
Denominator:		
Weighted average common shares outstanding	3,839,681	3,839,681
Dilutive effect of stock options	—	39,926
Total shares	3,839,681	3,879,607
Earnings per share	$ 3.49	$ 3.45

	Year Ended December 31, 2011	
	Basic EPS	Diluted EPS
Numerator:		
Net income	$ 12,477,000	$ 12,477,000
Denominator:		
Weighted average common shares outstanding	3,791,167	3,791,167
Dilutive effect of stock options	—	43,402
Total shares	3,791,167	3,834,569
Earnings per share	$ 3.29	$ 3.25

23. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	December 31, 2012		December 31, 2011	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 59,923	$ 59,923	$ 22,512	$ 22,512
Securities - available for sale	502,318	502,318	470,232	470,232
Securities - held to maturity	71,133	76,308	74,256	80,484
Loans held for sale	1,684	1,687	—	—
Loans, net	731,301	753,285	663,106	685,994
FHLB Boston stock	5,010	5,010	4,806	4,806
Accrued interest receivable	3,877	3,877	4,423	4,423
Mortgage servicing rights	215	254	—	—
Financial liabilities:				
Deposits	1,281,333	1,280,932	1,125,654	1,126,618
Short-term borrowings	—	—	2,500	2,500
Long-term borrowings	20,000	20,121	30,000	30,930

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

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

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

based inputs are not available, the Corporation uses unobservable inputs to determine appropriate valuation adjustments using methodologies applied consistently over time.

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

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

The following table summarizes certain assets reported at fair value:

	Fair Value as of December 31, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
Measured on a recurring basis:				
Securities available for sale:				
U.S. GSE obligations	$ —	$ 100,824	$ —	$ 100,824
Mortgage-backed securities	—	381,036	—	381,036
Corporate debt securities	—	19,812	—	19,812
Mutual funds	646	—	—	646

	Fair Value as of December 31, 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
Measured on a recurring basis:				
Securities available for sale:				
U.S. GSE obligations	$ —	$ 93,742	$ —	$ 93,742
Mortgage-backed securities	—	352,830	—	352,830
Corporate debt securities	—	23,010	—	23,010
Mutual funds	650	—	—	650

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

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

Loans 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 either trades of similar loans or mortgage-backed securities, or at current rates at which similar loans would be made to borrowers with similar credit ratings and for similar remaining maturities. Loans that are deemed to be impaired in accordance with ASC 310, *"Receivables"*, are valued based upon the lower of cost or fair value of the underlying collateral.

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

Mortgage Servicing Rights
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.

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

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

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

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

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

CAMBRIDGE TRUST COMPANY–OFFICERS

Name	Title
Joseph V. Roller II	President & Chief Executive Officer
Lynne M. Burrow	Executive Vice President & Chief Information Officer
Michael A. Duca	Executive Vice President, Wealth Management
Albert R. Rietheimer	Senior Vice President, Chief Financial Officer & Treasurer
Robert C. Davis	Senior Vice President, Chief Credit Officer & Secretary
Martin B. Millane, Jr.	Senior Vice President & Chief Lending Officer
James F. Spencer	Senior Vice President & Chief Investment Officer
Noreen A. Briand	Senior Vice President & Human Resources Director
Thomas A. Johnson	Senior Vice President, Consumer Banking Director & Assistant Secretary
Robert N. Siegrist	Senior Vice President & Marketing Director
David G. Strachan, Jr.	Senior Vice President & Trust Officer
David E. Walker	Senior Vice President & Investment Officer
Julie A. Alix	Vice President & Trust Officer
Elaine M. Arseneault	Vice President
Susan K. Barry	Vice President
Carol J. Bartalussi	Vice President
Jo-Ann E. Bussiere	Vice President
Stephen A. Caputo	Vice President
Kathleen E. Carlson	Vice President & Business Development Officer
Susan I. Chiappisi	Vice President & Trust Officer
Jeffrey B. Churchill	Vice President
Jason R. DeMello	Vice President & Business Development Officer
Michael F. Falvey	Vice President, Commercial Real Estate
Edward F. Fitzgerald, Jr.	Vice President, Business Banking Officer
Ana Maria Foster	Vice President, Compliance & Risk Management Officer
Peter J. Halberstadt	Vice President
John A. Haley	Vice President & Director of Wealth Management Services
Ryan M. Hanna	Vice President & Investment Officer
Eric C. Jussaume	Vice President & Investment Officer
Brian A. Kelley	Vice President
Matthew S. Lieber	Vice President & Trust Officer
M. Lynne Linnehan	Vice President
Robert J. MacAllister	Vice President & Business Development Officer
Andrew J. Mahoney, Jr.	Vice President
Robert P. Maloof	Vice President & Manager, Commercial Credit Department
Jane E. Mason	Vice President, Relationship Manager
Roma A. Mayur	Vice President

CAMBRIDGE TRUST COMPANY–OFFICERS (continued)

Michael T. McGovern .... Vice President, Information Technology Manager
Laura C. McGregor ....Vice President & Trust Officer
Stuart J. McGuirk.. Vice President, Business Analyst & Compliance Officer
Steven J. Mead .... Vice President, Commercial Real Estate
Patricia J. Mullin .... Vice President
Frank Pasciuto.. Vice President
Robert C. Pasciuto, Esq. ....Vice President & Trust Officer
Donna R. Petro .... Vice President
Steven G. Pisan .... Vice President
Salvatore M. Sagarese... Vice President
Joseph P. Sapienza ....Vice President & Controller
Dina M. Scianna... Vice President, Business Development Manager
Stacy Sheehan .... Vice President
Brian J. Sokolowski .... Vice President & Investment Officer
W. Todd Spoor .... Vice President
David S. Tait .... Vice President, Commercial Real Estate
Ann K. Tucker... Vice President
Helen F. Van Nostrand .... Vice President
Eric G. Warasta .... Vice President & Investment Officer
John M. Winslow .... Vice President & Director of Internal Audit
William M. Yates .... Vice President & Business Development Officer
Jennifer A. Casey .... Assistant Vice President & Director of Training
Julia M. Cawley ....Assistant Vice President & Operations Officer
John H. Chambers...Assistant Vice President
Christopher E. Durning...Assistant Vice President
Aimee B. Forsythe ....Assistant Vice President & Investment Officer
Stephen W. Hall ....Assistant Vice President & Information Security Officer
Patricia E. Hartnett..Assistant Vice President
Kathryn L. Hersey..Assistant Vice President & Investment Officer
Eugene K. Kalaw ....Assistant Vice President & Business Development Officer
Patrick J. McCue...Assistant Vice President & Assistant Controller
Ana M. Mojica-Boyd ....Assistant Vice President
Maria Montgomery ....Assistant Vice President
Richard A. Moquin.. Assistant Vice President & Tax Officer
Mary Colt Navins..Assistant Vice President
Susan A. O'Keefe.......................................Assistant Vice President & Business Development Officer
Barbara E. Piacentino...Assistant Vice President & Operations Officer

CAMBRIDGE TRUST COMPANY–OFFICERS (continued)

Stephen I. Sall .... Assistant Vice President & Loan Review Officer
Charles E. Samour .... Assistant Vice President & Security Officer
Angela L. Vitagliano .... Assistant Vice President & Operations Officer
Clinton D. Williams .... Assistant Treasurer
Ping H. Wong .... Assistant Treasurer
Pooja Bhandary .... Assistant Operations Officer
JoAnn M. Cavallaro .... Administrative Officer
Erin J. Cooper .... Business Development Officer
Renée L. Daniell .... Assistant Operations Officer
Mark J. Earnest .... Banking Officer, Portfolio Manager
Alice J. Flanagan .... Trust Officer
Gabriele Fabrizio .... Operations Officer
Medard H. Kadima .... Information Security Officer
Ann C. Kuske .... Operations Officer
Karina Q. Pinella .... Senior Credit Analyst Officer
Maya C. Silvis .... Senior Credit Analyst Officer
Leah Siporin .... Digital Marketing Officer
Peter C. Stoneman .... Consumer Loan Officer
James R. Weishaupt .... Operations Officer
James J. Zurn .... Consumer Loan Officer

CAMBRIDGE TRUST COMPANY OF NEW HAMPSHIRE – OFFICERS

Susan Martore-Baker .... President
Judith V. Goodnow .... Senior Vice President & Trust Officer
Maureen Kelliher .... Senior Vice President & Investment Officer
Brian J. Krol .... Vice President & Investment Officer
Michael P. Panebianco .... Vice President & Trust Officer

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Ambrose, Aliya
Bailey, Adrienne
Basnyat, Nivedita
Bennett, Michael
Bober, Jeffrey
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Carnazzo, Gail
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Costello, Laura
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Mesina, Rosita
Mesquita, Heidy
Miranda, Ana Paula
Mui, Donna
Mulcahy, Deborah
Murphy, Barbara
Nardella, Justine
Nichols, Pamela
O'Leary, Brendan
O'Rourke, Alan
Palacios, Maria Del Mar
Perry Durkee, Christina
Phuyal, Puja
Prager, Robert
Quigley, Maria
Reed, Michael
Ricker, Kelly
Rock, Gloria
Rodriguez, Aileen
Rudden, Thomas
Sands, Janet
Serio, Linda
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Shay, Debbie
Sheikh, Basharat
Small, Jasmine
Sottile, Charlotte
Soul, Jr., Harwood
Sprague, Cynthia
Stephano, Susan
Stone, Jason
Sullivan, Mary
Tamasi, Joanne
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Trebicka, Daniela
Truesdale, Stacey
Truong, Andrew
Usova, Victoria
Vallejo, Ivan
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Vitale, Louis
Vo, Lana
White, Kristen
Wu, Qihui
Yearwood, Carol
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Zelman, Carol Jean

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