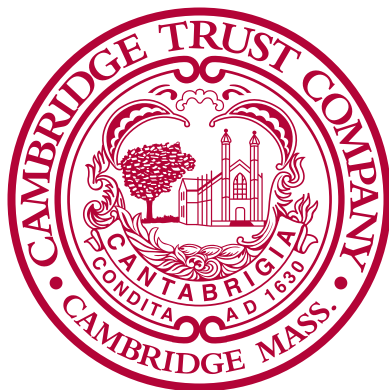
CAMBRIDGE BANCORP



ANNUAL REPORT
2013

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

DIRECTORS

ROBERT J. BETTACCHI	Principal/Owner RJB Consulting Retired Senior Vice President of W.R. Grace & Company and President of Grace Performance Chemicals
DONALD T. BRIGGS	President Federal Realty Boston Senior Vice President – Development Federal Realty Investment Trust
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 Group Wealth Advisors, LLC Monument Group Tax Advisors, LLC Woodman & Eaton, P.C.

We shape our buildings, and afterwards our buildings shape us.
—Winston Churchill

In remarking as he did in 1943 that "our buildings shape us," Churchill was not merely making the unexceptionable observation that we are influenced by our surroundings, much less proposing that we are primarily shaped by them. He was, in fact, thinking of a specific building, namely, the House of Commons, which had been damaged by German bombs during the Blitz of London. His suggestion was that the structure of the debating chamber, which was designed to facilitate open argument between parties seated directly opposite to one another, was worth maintaining in its essentials while being restored. The character of the institution could be preserved while the premises were made suitable for use by future generations. It was the need to renovate which prompted Churchill to reflect upon the principles that were essential for the building's purpose.

Renovations, of course, do not always follow from calamity; they may also represent welcome opportunities. During the past year, Cambridge Trust has been presented with just such an opportunity. Last year in this letter, I noted that: "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. When complete, the Bank will have banking premises that better suit current and future servicing needs of our customers." What I did not explicitly note at the time was that our new premises, in being brought up to date, would continue to reflect the same principles of visibility, accessibility, and effectiveness that have consistently informed the arrangement of our

headquarters. I am happy to report, however, that this is very much the case.

It is not just our new and improved premises that reflect our commitment to our customers, shareholders, and the future. 2013 was characterized by significant achievement—record loan and wealth management growth, the procurement of a long-term lease for the Harvard Square headquarters that potentially extends to mid-century, and a range of exciting new products and investments in technology. These investments and products address changing customer preferences and ultimately will enhance the customer experience.

The Bank had an impressive year in 2013, building on the momentum generated in 2012 through a number of strategic initiatives. The year ending December 31, 2013 produced another earnings record with net income of $14,140,000 compared to earnings of $13,403,000 for the year ending December 31, 2012. The year-over-year increase in earnings of $737,000 was 5.5%.

Diluted earnings per share (EPS) were $3.62 for the year ended December 31, 2013, compared to $3.45 in the prior year.

Similar to prior years, the Bank's performance was driven by a number of factors, the most noteworthy of which were loan growth and wealth management growth, with assets under management (AUM) breaking through $2 billion. Deposits increased $128 million in 2013 over 2012. This marks the fifth consecutive year that deposits grew by more than $100 million.

With total loan growth in 2013 of $200 million, one might justifiably expect a robust increase in net interest income. This was not the case, as this Bank and the industry continued to encounter declining net interest margins. The Federal Reserve Bank's accommodative monetary policy kept short-term rates near zero, with longer term rates declining through the first half of 2013. This decline occurred in response to the Fed's monthly purchase of $85 billion in securities through a program known as *quantitative easing*.

For Cambridge Trust the effect of protracted low interest rates produced a net interest margin that declined from 3.58% in 2012 to 3.35% in 2013. Though one might assume that loan growth of $200 million would produce higher net interest income, it is important to note that a lower average margin affects all of the Bank's earning assets (principally loans and investments), or $1.39 billion, and creates significant drag. In nominal terms, for the year ending December 31, 2013, net interest income was $45,466,000 compared to $45,875,000 in 2012. On a more positive note, these new loans position us well going forward. Moreover, we noted a bottoming out in rates around mid-year and a slight bias higher toward year-end.

Year End	2009	2010	2011	2012	2013
Deposits (in thousands)	$ 872,767	$ 993,808	$1,125,654	$1,281,333	$1,409,047
Total Loans (in thousands)	$ 537,933	$ 568,568	$ 673,265	$ 742,249	$ 942,451
Net Interest Margin	4.27%	4.15%	3.90%	3.58%	3.35%
Noninterest Income (in thousands)[(A)]	$ 16,618	$ 19,877	$ 18,147	$ 20,489	$ 23,181
Net Income (in thousands)	$ 10,277	$ 13,254	$ 12,477	$ 13,403	$ 14,140
Basic Earnings/Share	$ 2.75	$ 3.53	$ 3.29	$ 3.49	$ 3.65
Dividends Declared	$ 1.34	$ 1.40	$ 1.42	$ 1.50	$ 1.59
Book Value	$ 21.95	$ 23.73	$ 25.39	$ 27.21	$ 28.13
Return/Average Assets	1.06%	1.25%	1.06%	1.00%	0.99%
Return/Average Equity	13.09%	14.98%	13.26%	13.39%	13.63%

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

It is especially helpful during periods of protracted margin pressure to have a diversified revenue stream in the form of noninterest income. In 2013, we continued to see a significant upswing in this area. Noninterest income in 2013 was $23,181,000 compared to $20,489,000 in 2012, an increase of $2,692,000 (13.1%). Most of this increase came from the Bank's highly successful Wealth Management business where year-over-year revenues rose $2,155,000 (15.3%). I will have more to say about Wealth Management later in this report.

It would be fair to say that Massachusetts, like most densely populated parts of the country, is over-banked. Consumers and businesses have a wide variety of banks from which to choose. In such a competitive environment, it is critical that we clearly answer the question, "Why bank with Cambridge Trust?" and that we make the answers to that question widely known. To that end, as I reported last year, we have introduced a

new brand platform built around the theme of "Life's Bank." This platform was built on the premise that when the inevitable and often unexpected changes and disruptions of life occur it is good to know that you have a competent, accessible, and responsive partner to assist you. In 2012, I noted that we would build on this brand message in 2013. We have done so with the introduction of two television commercials. Our move into television represents a new media channel for Cambridge Trust and demonstrates an amplified level of sophistication for the brand.

The Bank's sustained earnings growth and returns on average equity and on average assets position it well in the industry. The return on average equity in 2013 of 13.63% and return on average assets of 0.99% place the Bank in a category of high-performing banks. We think it is important that shareholders benefit from the Bank's earnings performance. In that regard, the quarterly dividend was increased by 7.7% to $0.42 per share.

Consumer Banking

Among the many updates from 2013 to share, one stands out. Building off momentum generated in 2012, together with an interest rate environment that drove customers to consider refinancing their mortgages, Cambridge Trust experienced its strongest year ever in terms of loan volume. For the year ending December 31, 2013, residential mortgage loans outstanding increased $110 million (31.7%) to $458 million, compared to year-end 2012.

Not all mortgages are held on the Bank's books. Commencing in 2012, Cambridge Trust sold its 30-year conforming mortgages in the secondary market but retained the loan servicing. Fees generated from such transactions are shown on the income statement as "Gain on loans held for sale." Readers will note a modest decline in this revenue number to $519,000 in 2013 compared to $592,000 in 2012. Rising interest rates in the May/June time frame put the brakes on the "Refi" business for the remainder of 2013, although we did experience an upswing in purchase mortgage activity.

In the business of banking, the immense regulatory compliance requirements are constantly changing. Close oversight is necessary, which is one reason Brian Bacci, Lending Compliance Officer, joined the Bank. We also recognize the importance of maintaining service levels in high volume operations areas. In light of that recognition, we promoted Gabriele Fabrizio to Assistant Vice President.

Technology investments made by the Bank have streamlined and improved services, providing a better experience for the customer. The introduction of an online mortgage application is one example. Today, most customers take advantage of this service, knowing that they may also call or visit one of our skilled mortgage professionals if they have questions. Similarly, an increasing number of Cambridge Trust depositors use a new mobile banking application to deposit checks using their smart phone or tablet. We plan to introduce mobile banking for business customers in 2014.

A significant undertaking in 2013 affecting consumer and business customers was the outsourcing of items processing and statement print processing. As usage of internet and mobile banking has grown, check writing has declined. Through outsourcing, Cambridge Trust can lower its costs by utilizing the scale of an outside party, while maintaining its high quality standards. In addition, the vendor's scale advantage and multiple site operations improve the Bank's disaster readiness.

Undoubtedly, one of the most important investments we made in 2013 was for the renovation of the Bank's Harvard Square headquarters. We are committed to this location and have entered into a lease that provides options extending to 2046. We are also committed to providing a space that recognizes changes in demographics and habits of usage by customers, as well as the need for greater privacy and remote access to bank professionals located away from Harvard Square. To this last point, we have incorporated video conferencing capability throughout the site.

I should also note that we wanted to preserve an attractive and comfortable work environment for our employees. We aimed to maintain a connection with and pay homage to our past, while considering current

and future circumstances. Two questions often asked are, “Is there a fireplace?” and “Will the president sit on the banking floor?” Yes and yes.

Business Banking

There is a certain symmetry to the Business and Consumer Banking stories in 2013. I noted earlier the robust growth in residential mortgage lending. Likewise, commercial lending had its strongest year on record. Commercial loans increased $90 million in 2013, growing to $414 million. The comparable commercial loan growth in 2012 was approximately $54 million. Most of the $90 million loan increase originated in the commercial real estate sector. This diversified portfolio includes multifamily, retail, office, and mixed-use properties. It is worth noting that loan growth from both new and existing customers produced the results; this growth will provide momentum going into 2014. In addition, Glenn Davis, Vice President, joined the lending team in 2013 and made an important contribution to the aforementioned development of this vital sector.

Cambridge Trust also makes loans available to an array of agencies in the nonprofit sector. These agencies provide numerous services to residents in communities we serve. Additionally, in 2013 the Bank made a $1 million loan to Boston Community Capital (BCC). BCC invests in projects that provide affordable housing, good jobs, and new opportunities in low-income communities. Such projects help in the process of connecting these neighborhoods to the mainstream economy.

As the Bank continues to build its commercial loan business, all members of the team are mindful of the need to maintain a strong credit culture. Close oversight and attention to asset quality have been hallmarks of Cambridge Trust. These practices have served the Bank well through various economic cycles. Net recoveries in 2013 were $260,000. Non-performing loans at the end of 2013 were $1,703,000, compared to $1,570,000 at the end of 2012. The Allowance for Loan Losses in December 31, 2013 was $12,708,000 or 1.35% of loans. The comparable numbers in 2012 were $10,948,000 and 1.47%, respectively. The Bank provided more to the Allowance in 2013 than in prior years to reflect the significant loan growth in 2013. We also added to the support team with

the hiring of Justin Drolsbaugh, Commercial Officer, Portfolio Manager, and Rachel Bandi, Senior Credit Analyst Officer. Joining the Business Development team was Leslie Hartwell, Assistant Vice President.

Since its formation in 2011, the Innovation Banking Group has focused on the rapidly changing innovation sector. In this context, they have consistently raised awareness about the value Cambridge Trust brings to growing companies. By establishing its niche and articulating its capabilities, the Bank had a breakthrough year in 2013 with the acquisition of new loan, deposit, and cash management customers. We were especially pleased that Tiffany Ormon, Vice President, joined the group.

Wealth Management

By almost any measure, 2013 represented a landmark year for Cambridge Trust's Wealth Management business. Highlights include record assets under management (AUM), record revenues, new growth in New Hampshire, expanded marketing initiatives, and new premises in Boston.

For the first time AUM exceeded $2 billion, finishing the year ending December 31, 2013, at $2,140,000,000. This represents an increase of $345 million (19.2%) over the prior year-end. Wealth Management revenues also reached new heights, increasing $2,155,000 (15.3%) in 2013 to $16,265,000. Two factors drove this growth. The Bank has been consistently successful in attracting new relationship clients, and 2013 was an especially good year. In addition, growth in 2013 was enhanced by a significant upswing in equity markets. The Dow increased 26.5% and the S&P 29.6% in 2013.

Wealth Management

Year	Gross Revenues (in thousands)	Managed Assets (in millions)
2009	$ 11,353	$ 1,383
2010	$ 12,364	$ 1,507
2011	$ 13,152	$ 1,468
2012	$ 14,110	$ 1,795
2013	$ 16,265	$ 2,140

Over the long term, the leverage of rising equity prices on AUM is one of the benefits of assisting clients with the management of their investments and with other matters relating to their family's needs. We think that there is considerable opportunity to continue our growth. The appointment of Brian Bickford, Senior Vice President and Investment Officer, to our New Hampshire team will help us to maximize that opportunity. I also want to acknowledge the promotion of Aimee Forsythe to Vice President. Aimee plays a key role in trading and compliance.

When there is a good story to tell and valuable insights to share, it is important that the Bank project these messages in the market. In this instance, as part of Cambridge Trust's expanded brand awareness campaign, we incorporated a Wealth Management theme into one of the Bank's television advertisements. We also introduced a video series, accessible on the Bank's website (www.cambridgetrust.com), featuring Jim Spencer, Chief Investment Officer. "Finding Opportunity in a Complex Market," provides an inside look at how today's headlines are tomorrow's opportunities. This will be a regular video series that over time will grow to include other members of the Wealth Management team, including both Investment and Trust Officers.

Clearly, the capstone for 2013 for Wealth Management – and Cambridge Trust – was the relocation of all Massachusetts Wealth Management staff to 75 State Street in Boston's Financial District. The move makes a strong statement about the strategic importance of Wealth Management. It testifies to the Bank's commitment to grow the business over the long term. Moreover, we created an office environment that is consistent with and conducive to the kind of sophisticated financial advice our clients expect.

* * * * * *

There are other employees of the Bank that I want to recognize in this report. Their contributions had a positive impact on the Bank's performance, across many areas of the organization. Alan Collopy was promoted to Operations Officer; Joseph Lombardi to Assistant Controller; and Basharat Sheikh to Assistant Treasurer. We were also very fortunate to have Joseph Cardarelli, Vice President, Information Technology Manager

and Linda Sullivan, Human Resources Officer, join the Bank team during 2013.

* * * * * *

Board governance and oversight have been consistent strengths of Cambridge Trust. Our engaged, diverse, and experienced Board helps to ensure that management executes on its plans to achieve strategic goals. In 2013, Donald Briggs was appointed to the Board. Don is President – Federal Realty Boston and Senior Vice President – Development for Federal Realty Investment Trust, an equity real estate investment trust specializing in the ownership, management, and redevelopment of high-quality retail real estate in the country's best markets. His extensive real estate development experience and familiarity with the greater Boston market have made Don a valuable contributor to the Board.

* * * * * *

Back in 2011, a year marked by considerable uncertainty in the global economy and financial markets, I observed that under such conditions, "challenges multiply at a rapid pace. In attempting to keep up with or even to exceed that pace, organizations and individuals may find themselves moving quickly in a number of directions all at once." Such activity may yield the impression of productivity. But when efforts, no matter how strenuous, do not build upon a firm base of existing achievements and positions, it is that much harder to build momentum.

Although the global financial crisis has abated, the pressure to maintain our focus on the positions that are the key sources of our momentum and to continue building remain. That pressure, however, is not wholly negative. To be sure, it entails dealing with challenges arising from external conditions. Yet it also entails the need continually to excel in view of our own standards and our commitment to betterment across the board.

As I look out over the next three to five years, I am confident that we can continue to execute on our strategy as we have consistently done in the past. But keeping up with our past achievements and maintaining our current capabilities is not enough. The changing and more intensely

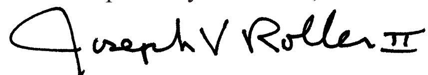
competitive environment during this period will challenge us in ways that we may not fully perceive at this time. Nimbleness, foresight, innovation, and a readiness to take action will be requirements, not merely attractive options.

While we cannot know the future, we can know our own capabilities well enough to gain insight into how they can be improved. As Peter Drucker once noted, “Knowledge has to be improved, challenged, and increased constantly, or it vanishes.” The task of improving our knowledge of what we *can* do requires being willing to think in innovative ways about what we *might* do beyond our current capabilities. It involves knowing that we can always do better and insisting upon finding new approaches to problem-solving, as well as idea generation and development. Ideation (the process of generating new ideas) occurs most fruitfully under conditions of openness and collaboration. We are already taking steps to enhance our environment in this regard.

2013 has been a year in which the Bank made significant strides with respect to the task of building momentum for the future. It was a year in which we generated new sources of momentum, rather than merely drawing fuel from ones we had previously established. We look forward to reporting on the Bank’s progress across all fronts in 2014 through our forthcoming quarterly reports.

In closing, I wish to express my appreciation to our shareholders for your confidence in Cambridge Trust Company and for your support. We will remain focused on performing at a high level, while operating with accountability and integrity.

Respectfully submitted,



Joseph V. Roller II
President and CEO
February 26, 2014

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, 2013 and 2012, and the related consolidated statements of income, comprehensive 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, 2013 and 2012, 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, 2013, 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 February 26, 2014 expressed an unqualified opinion on the effectiveness of Cambridge Trust Company's internal control over financial reporting.

KPMG LLP

Boston, Massachusetts
February 26, 2014

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 88,107	$ 59,923
Investment securities:		
Available for sale, at fair value	388,793	502,318
Held to maturity, at amortized cost	59,181	71,133
Total investment securities	447,974	573,451
Loans held for sale, at lower of cost or fair value	403	1,684
Loans:		
Residential mortgage	458,176	347,908
Commercial mortgage	363,294	276,428
Home equity	46,635	50,574
Commercial	50,758	47,570
Consumer	23,588	19,769
Total loans	942,451	742,249
Allowance for loan losses	(12,708)	(10,948)
Net loans	929,743	731,301
Federal Home Loan Bank of Boston stock, at cost	6,231	5,010
Bank owned life insurance	23,555	22,903
Banking premises and equipment, net	9,951	6,214
Accrued interest receivable	3,626	3,877
Other assets	24,120	13,623
Total assets	$1,533,710	$1,417,986
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 382,255	$ 329,211
Interest bearing checking	335,010	363,575
Money market	78,410	60,850
Savings	489,160	393,541
Certificates of deposit	124,212	134,156
Total deposits	1,409,047	1,281,333
Long-term borrowings	—	20,000
Other liabilities	15,380	11,762
Total liabilities	1,424,427	1,313,095
Stockholders' equity:		
Common stock, par value $1.00; Authorized 10,000,000 shares; Outstanding: 3,884,851 and 3,854,951 shares, respectively	3,885	3,855
Additional paid-in capital	26,027	24,421
Retained earnings	83,479	75,787
Accumulated other comprehensive income	(4,108)	828
Total stockholders' equity	109,283	104,891
Total liabilities and stockholders' equity	$1,533,710	$1,417,986

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2013	2012
	(In thousands, except per share data)	
Interest income:		
Interest on loans	$ 35,669	$ 33,984
Interest on taxable investment securities	9,905	13,003
Interest on tax exempt investment securities	2,028	2,029
Dividends on FHLB of Boston stock	20	25
Interest on overnight investments	39	25
Total interest income	47,661	49,066
Interest expense:		
Interest on deposits	1,970	2,219
Interest on borrowed funds	224	972
Total interest expense	2,194	3,191
Net interest income	45,467	45,875
Provision for loan losses	1,500	800
Net interest income after provision for loan losses	43,967	45,075
Noninterest income:		
Wealth management income	16,265	14,110
Deposit account fees	2,567	2,398
ATM/Debit card income	1,182	1,043
Bank owned life insurance income	652	713
Gain on disposition of investment securities	1,121	882
Gain on loans held for sale	519	592
Other income	875	751
Total noninterest income	23,181	20,489
Noninterest expense:		
Salaries and employee benefits	26,995	27,835
Occupancy and equipment	8,163	7,660
Data processing	4,012	3,560
Professional services	1,548	1,585
Marketing	1,822	1,842
FDIC Insurance	739	704
Other expenses	2,832	2,661
Total noninterest expense	46,111	45,847
Income before income taxes	21,037	19,717
Income tax expense	6,897	6,314
Net income	$ 14,140	$ 13,403
Per share data:		
Basic earnings per common share	$ 3.65	$ 3.49
Diluted earnings per common share	$ 3.62	$ 3.45
Average shares outstanding - basic	3,839,146	3,839,681
Average shares outstanding - diluted	3,907,201	3,879,607

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,	
	2013	2012
	(In thousands)	
Net income	$ 14,140	$ 13,403
Other comprehensive income/(loss), net of tax:		
Defined benefit retirement plans:		
Change in unfunded retirement liability	5,671	104
Unrealized gains/(losses) on Available for Sale securities:		
Unrealized holding gains/(losses) arising during the period	(9,887)	(302)
Less: reclassification adjustment for gains recognized in net income	(720)	(568)
Other comprehensive income/(loss)	(4,936)	(766)
Comprehensive income	$ 9,204	$ 12,637

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, 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
Comprehensive income	—	—	14,140	(4,936)	9,204
Stock based compensation	—	439	—	—	439
Exercise of stock options	22	638	—	—	660
Stock issued to ESOP and DSP	17	578	—	—	595
Dividends declared ($1.59 per share)	—	—	(6,164)	—	(6,164)
Stock repurchased	(9)	(49)	(284)	—	(342)
Balance at December 31, 2013	$ 3,885	$ 26,027	$ 83,479	$ (4,108)	$ 109,283

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,	
	2013	2012
	(In thousands)	
Cash flows provided by operating activities:		
Net income	$ 14,140	$ 13,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,500	800
Amortization of deferred charges/(income), net	720	1,360
Depreciation and amortization	1,569	1,430
Bank owned life insurance income	(652)	(713)
Gain on disposition of investment securities	(1,121)	(882)
Compensation expense from stock option and restricted stock grants	439	551
Change in loans held for sale	1,281	(1,684)
Change in accrued interest receivable, deferred taxes, other assets and other liabilities	4,998	(8,655)
Other, net	321	291
Net cash provided by operating activities	23,195	5,901
Cash flows used by investing activities:		
Origination of loans	(333,266)	(205,096)
Purchase of:		
Investment securities - AFS	(55,577)	(201,506)
Investment securities - HTM	(4,427)	(824)
Maturities, calls and principal payments of:		
Loans	132,692	135,435
Investment securities - AFS	117,713	130,165
Investment securities - HTM	16,361	3,933
Proceeds from sale of investment securities - AFS	35,557	37,786
Purchase of bank owned life insurance	—	(5,000)
Change in FHLB of Boston stock	(1,221)	(204)
Purchase of banking premises and equipment	(5,306)	(1,428)
Net cash used by investing activities	(97,474)	(106,739)
Cash flows provided by financing activities:		
Net increase in deposits	127,714	155,679
Net decrease in short-term borrowings	—	(2,500)
Repayment of long-term borrowings	(20,000)	(10,000)
Proceeds from issuance of common stock	1,255	937
Repurchase of common stock	(342)	(103)
Cash dividends paid on common stock	(6,164)	(5,764)
Net cash provided by financing activities	102,463	138,249
Net increase in cash and cash equivalents	28,184	37,411
Cash and cash equivalents at beginning of year	59,923	22,512
Cash and cash equivalents at end of year	$ 88,107	$ 59,923
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,196	$ 3,205
Cash paid for income taxes	3,610	6,350
Non-cash transactions:		
Change in AOCI, net of taxes	(4,936)	(766)

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

1. THE BUSINESS

The accompanying consolidated financial statements include the accounts of Cambridge Bancorp (the "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 two thousand 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, a wealth management office located in Boston, and 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 $2,140,000,000 and $1,795,000,000 at December 31, 2013 and 2012, 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 losses of $3,432,000 at December 31, 2013 and net unrealized gains of $7,174,000 at December 31, 2012. These amounts are net of deferred taxes receivable of $1,847,000 and net taxes payable of $4,109,000, 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 February 26, 2014, the date the consolidated financial statements were issued and determined that no subsequent events occurred requiring accrual or disclosure.

3. RECENT ACCOUNTING PRONOUNCEMENTS

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 were 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 on January 1, 2013 did not have any impact on the Corporation's consolidated financial statements.

In February 2013, the FASB issued Accounting Standards Update No. 2013-02, *"Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income"* (ASU 2013-02"). ASU 2013-02 requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income or as a separate disclosure in the notes to the financial statements. The new standard was effective for annual periods beginning January 1, 2013. As ASU 2013-02 provides only guidance on the disclosure of amounts reclassified out of accumulated other comprehensive income, its adoption did not have any impact on the Corporation's consolidated financial statements.

4. CASH AND DUE FROM BANKS

At December 31, 2013 and 2012, cash and due from banks totaled $88,107,000 and $59,923,000, respectively. Of this amount, $8,977,000 and $8,849,000, respectively, were maintained to satisfy the reserve requirements of the Federal Reserve Bank of Boston ("FRB Boston"). Additionally, at both December 31, 2013 and 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, 2013			
	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Securities available for sale:				
U.S. GSE obligations	$ 75,056	$ 54	$ (1,866)	$ 73,244
Mortgage-backed securities	296,336	2,594	(6,608)	292,322
Corporate debt securities	22,008	622	(16)	22,614
Mutual funds	672	—	(59)	613
Total securities available for sale	394,072	3,270	(8,549)	388,793
Securities held to maturity:				
U.S. GSE obligations	—	—	—	—
Mortgage-backed securities	3,327	214	—	3,541
Municipal securities	55,854	2,239	(179)	57,914
Total securities held to maturity	59,181	2,453	(179)	61,455
Total investment securities	$ 453,253	$ 5,723	$ (8,728)	$ 450,248

	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

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, 2013:								
Debt securities available for sale:								
U.S. GSE obligations	$ —	$ —	$ 50,077	$ 49,263	$ 24,979	$ 23,981	$ —	$ —
Mortgage-backed securities	—	—	3,092	3,301	1,819	1,979	291,425	287,042
Corporate debt securities	—	—	21,008	21,619	1,000	995	—	—
Total debt securities available for sale	—	—	74,177	74,183	27,798	26,955	291,425	287,042
Debt securities held to maturity:								
U.S. GSE obligations	—	—	—	—	—	—	—	—
Mortgage-backed securities	36	38	1,124	1,190	2,036	2,169	131	144
Municipal securities	1,150	1,165	12,196	12,829	33,491	34,867	9,017	9,053
Total debt securities held to maturity	1,186	1,203	13,320	14,019	35,527	37,036	9,148	9,197
Total debt securities	$ 1,186	$ 1,203	$ 87,497	$ 88,202	$ 63,325	$ 63,991	$ 300,573	$ 296,239

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, 2013:						
U.S. GSE obligations	$ 63,176	$ (1,866)	$ —	$ —	$ 63,176	$ (1,866)
Mortgage-backed securities	205,790	(5,726)	21,182	(882)	226,972	(6,608)
Corporate debt securities	2,994	(16)	—	—	2,994	(16)
Municipal securities	6,636	(121)	514	(58)	7,150	(179)
Subtotal, debt securities	278,596	(7,729)	21,696	(940)	300,292	(8,669)
Mutual funds	—	—	613	(59)	613	(59)
Total temporarily impaired securities	$278,596	$ (7,729)	$ 22,309	$ (999)	$300,905	$ (8,728)

	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)

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, 2013, ninety-five debt securities and one equity security had gross unrealized losses, with an aggregate depreciation of 2.82% from the Corporation's amortized cost basis. The largest unrealized loss percentage of any single security was 10.42% (or $33,000) of its amortized cost. The largest unrealized dollar loss of any single security was $382,000 (or 7.70%) 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, 2013.

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

	Year Ended December 31,	
	2013	2012
	(In thousands)	
Amortized cost of securities sold	$ 34,436	$ 36,904
Gain realized on securities sold	1,121	882
Proceeds from securities sold	$ 35,557	$ 37,786

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,	
	2013	2012
	(In thousands)	
Residential real estate:		
Mortgages - fixed rate (20 & 30 year)	$ 134,498	$ 135,466
Mortgages - fixed rate (15 year)	123,627	106,250
Mortgages - fixed rate (10 year)	56,426	44,327
Mortgages - adjustable rate	143,159	61,736
Deferred costs net of unearned fees	466	129
Total residential real estate	458,176	347,908
Commercial real estate:		
Mortgages - nonowner occupied	304,509	216,643
Mortgages - owner occupied	44,999	51,665
Construction	13,584	7,886
Deferred costs net of unearned fees	202	234
Total commercial real estate	363,294	276,428
Home equity:		
Home equity - lines of credit	43,521	47,359
Home equity - term loans	2,985	3,090
Deferred costs net of unearned fees	129	125
Total home equity	46,635	50,574
Commercial:		
Commercial and industrial	50,513	47,265
Deferred costs net of unearned fees	245	305
Total commercial	50,758	47,570
Consumer:		
Secured	20,931	16,879
Unsecured	2,643	2,870
Deferred costs net of unearned fees	14	20
Total consumer	23,588	19,769
Total loans	$ 942,451	$ 742,249

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, 2013 and 2012, total loans outstanding to these related parties were $729,000 and $752,000, respectively. During 2013, $50,000 of additions and $73,000 of repayments were made to these loans, compared to $916,000 of additions and $950,000 of repayments made during 2012.

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

	December 31, 2013	December 31, 2012
	(In thousands)	
Non-accrual loans	$ 1,582	$ 1,570
Loans past due >90 days, but still accruing	121	—
Troubled debt restructurings	—	—
Total non-performing loans	$ 1,703	$ 1,570

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

	December 31, 2013	December 31, 2012
	(In thousands)	
Non-accrual loans:		
Residential mortgage loans	$ 645	$ 708
Commercial mortgage loans	379	—
Home equity loans	340	322
Commercial loans	218	537
Consumer loans	—	3
Total	$ 1,582	$ 1,570

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

December 31, 2013 (In thousands)	Residential Mortgages	Home Equity	Consumer
Credit risk profile based on payment activity:			
Performing	$ 457,531	$ 46,174	$ 23,588
Non-performing	645	461	—
Total	$ 458,176	$ 46,635	$ 23,588

December 31, 2013 (In thousands)	Commercial Mortgages	Commercial
Credit risk profile by internally assigned grade:		
Pass	$ 362,195	$ 47,366
Special mention	470	1,080
Substandard	629	2,312
Doubtful	—	—
Total	$ 363,294	$ 50,758

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, 2013						
	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	$457,673	$ 289	$ 201	$ 13	$ 503	$458,176	$ —
Commercial mortgage loans	362,527	767	—	—	767	363,294	—
Home equity loans	46,157	38	—	440	478	46,635	121
Commercial loans	50,429	252	77	—	329	50,758	—
Consumer loans	23,091	496	1	—	497	23,588	—
Total	$939,877	$1,842	$ 279	$ 453	$2,574	$942,451	$ 121

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

	December 31, 2013						
	Residential Mortgages	Commercial Mortgages	Home Equity	Commercial	Consumer	Unallocated	Total
	(In thousands)						
Allowance for loan losses:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	4,490	5,954	476	845	302	641	12,708
Total	$ 4,490	$ 5,954	$ 476	$ 845	$ 302	$ 641	$ 12,708
Loans receivable:							
Individually evaluated for impairment	$ —	$ 379	$ —	$ 131	$ —		$ 510
Collectively evaluated for impairment	458,176	362,915	46,635	50,627	23,588		941,941
Total	$ 458,176	$ 363,294	$ 46,635	$ 50,758	$ 23,588		$ 942,451

	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

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, 2013						
	Residential Mortgages	Commercial Mortgages	Home Equity	Commercial	Consumer	Unallocated	Total
				(In thousands)			
Balance at beginning of year	$ 3,792	$ 4,850	$ 551	$ 824	$ 273	$ 658	$ 10,948
Provision for loan losses	639	1,096	(60)	(191)	33	(17)	1,500
Loans charged off	—	—	(15)	(25)	(21)	—	(61)
Recoveries	59	8	—	237	17	—	321
Balance at end of year	$ 4,490	$ 5,954	$ 476	$ 845	$ 302	$ 641	$ 12,708

An analysis of mortgage servicing rights follows:

	Mortgage Servicing Rights	Valuation Allowance	Total
		(In thousands)	
Balance at December 31, 2011	$ —	$ —	$ —
Mortgage servicing rights capitalized	223	—	223
Amortization charged against servicing income	(7)	—	(7)
Change in impairment reserve	—	(1)	(1)
Balance at December 31, 2012	216	(1)	215
Mortgage servicing rights capitalized	263	—	263
Amortization charged against servicing income	(83)	—	(83)
Change in impairment reserve	—	(11)	(11)
Balance at December 31, 2013	$ 396	$ (12)	$ 384

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, 2013, the Bank's investment in FHLB Boston stock exceeded its required investment by $3,001,000. 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, 2013, 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,		**Estimated**
	2013	**2012**	**Useful Lives**
	(In thousands)		
Land	$ 1,116	$ 1,116	
Building and leasehold improvements	12,577	11,702	1-30 years
Equipment, including vaults	16,399	14,519	3-20 years
Construction in process	2,620	69	
Subtotal	32,712	27,406	
Accumulated depreciation and amortization	(22,761)	(21,192)	
Total	$ 9,951	$ 6,214	

Total depreciation expense for the years ended December 31, 2013 and 2012 amounted to approximately $1,569,000 and $1,430,000, 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, 2011	$ 412	$ 12	$ 424
Amortization expense	—	(12)	(12)
Balance at December 31, 2012	412	—	412
Amortization expense	—	—	—
Balance at December 31, 2013	$ 412	$ —	$ 412

Goodwill and intangible assets that are not amortized are tested for impairment, based on their fair values, at least annually. As of December 31, 2013, no impairment has been recognized.

10. DEPOSITS

Deposits are summarized as follows:

	December 31, 2013	December 31, 2012
	(In thousands)	
Demand deposits (non-interest bearing)	$ 382,255	$ 329,211
Interest bearing checking	335,010	363,575
Money market	78,410	60,850
Savings	489,160	393,541
Certificates of deposit under $100,000	52,025	55,729
Certificates of deposit $100,000 or greater	72,187	78,427
Total deposits	$ 1,409,047	$ 1,281,333

Certificates of deposit had the following schedule of maturities:

	December 31, 2013	December 31, 2012
	(In thousands)	
Less than 3 months remaining	$ 44,631	$ 46,001
3 to 5 months remaining	21,546	27,058
6 to 11 months remaining	23,042	22,860
12 to 23 months remaining	20,707	20,884
24 to 47 months remaining	10,036	14,433
48 months or more remaining	4,250	2,920
Total certificates of deposit	$ 124,212	$ 134,156

Interest expense on certificates of deposit $100,000 or greater was $533,000 and $642,000 for the years ended December 31, 2013 and 2012, respectively.

11. SHORT-TERM BORROWINGS

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

	Year Ended December 31, 2013	Year Ended December 31, 2012
	(Dollars in thousands)	
Short-term borrowings:		
Average daily balance	$ 42,753	$ 17,270
Average interest rate	0.26%	0.27%
Highest month-end balance	$ 72,000	$ 59,000

12. LONG-TERM BORROWINGS

Long-term borrowings consisted of the following:

	December 31, 2013		December 31, 2012	
	Amount	**Rate**	**Amount**	**Rate**
	(Dollars in thousands)			
Wholesale Repurchase Agreements:				
Due 03/03/2013; callable quarterly beginning 03/03/2011	$ —	—	$ 20,000	3.25%

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, 2013 was approximately $264,263,000.

The Bank also has a line of credit with the FRB Boston. At December 31, 2013, the Bank had pledged commercial real estate and commercial & industrial loans with aggregate principal balances of approximately $260,704,000 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, 2013 was approximately $161,829,000.

13. INCOME TAXES

The components of income tax expense were as follows:

	Year Ended December 31,	
	2013	**2012**
	(In thousands)	
Current:		
Federal	$ 6,324	$ 2,971
State	1,009	202
Total current expense	7,333	3,173
Deferred:		
Federal	(340)	2,449
State	(96)	692
Total deferred (benefit)/expense	(436)	3,141
Total income tax expense	$ 6,897	$ 6,314

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,	
	2013	2012
	(In thousands)	
Provision at statutory rates	$ 7,363	$ 6,901
Increase/(decrease) resulting from:		
State tax, net of federal tax benefit	593	581
Tax-exempt income	(710)	(710)
ESOP dividends	(176)	(163)
Bank owned life insurance	(228)	(249)
Other	55	(46)
Total income tax expense	$ 6,897	$ 6,314

As of December 31, 2013 and 2012, the Corporation had no unrecognized tax assets or liabilities.

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

	December 31,	
	2013	2012
	(In thousands)	
Gross deferred tax assets:		
Allowance for loan losses	$ 5,191	$ 4,472
Accrued retirement benefits	—	2,901
Unrealized gains on AFS securities	1,847	—
Depreciation of premises and equipment	338	753
Goodwill	129	255
Rent	228	210
ESOP dividends	206	190
Equity based compensation	231	271
Other	171	132
Total gross deferred tax assets	8,341	9,184
Gross deferred tax liabilities:		
Unrealized gains on AFS securities	—	(4,108)
Accrued retirement benefits	(616)	—
Deferred loan origination costs	(444)	(340)
Mortgage servicing rights	(157)	(88)
Total gross deferred tax liabilities	(1,217)	(4,536)
Net deferred tax asset	$ 7,124	$ 4,648

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, 2013 or 2012 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, 2013 and 2012, 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 in the next twelve months.

The Corporation's federal income tax returns are open and subject to examination from the 2010 tax return year and forward. The Corporation's state income tax returns are generally open from the 2010 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**	
	2013	**2012**	**2013**	**2012**
	(In thousands)			
Change in projected benefit obligation:				
Obligation at beginning of year	$ 32,580	$ 28,444	$ 6,837	$ 5,586
Service cost	1,539	1,542	630	544
Interest cost	1,300	1,212	273	237
Actuarial (gain)/loss	(4,386)	2,097	(1,402)	592
Benefits paid	(824)	(715)	(122)	(122)
Obligation at end of year	30,209	32,580	6,216	6,837
Change in plan assets:				
Fair value at beginning of year	33,156	19,445	—	—
Actual return on plan assets	5,307	3,426	—	—
Employer contribution	1,000	11,000	122	122
Benefits paid	(824)	(715)	(122)	(122)
Fair value at end of year	38,639	33,156	—	—
Overfunded (underfunded) status at end of year	$ 8,430	$ 576	$ (6,216)	$ (6,837)

Amounts recognized in the consolidated balance sheets consisted of:

	Pension Plan		Supplemental Retirement Plan	
	2013	2012	2013	2012
	(In thousands)			
Other assets (liabilities)	$ 8,430	$ 576	$ (6,216)	$ (6,837)

Amounts recognized in accumulated other comprehensive income consisted of:

	Pension Plan		Supplemental Retirement Plan	
	2013	2012	2013	2012
	(In thousands)			
Net actuarial (gain)/loss	$ 1,709	$ 9,656	$ (344)	$ 1,164
Prior service cost/(benefit)	(34)	(38)	—	26
	$ 1,675	$ 9,618	$ (344)	$ 1,190

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

	Pension Plan		Supplemental Retirement Plan	
	2013	2012	2013	2012
	(In thousands)			
Projected benefit obligation	$ 30,209	$ 32,580	$ 6,216	$ 6,837
Accumulated benefit obligation	25,513	27,088	6,216	6,837
Fair value of plan assets	38,639	33,156	—	—

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 and 2013.

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

	Pension Plan		Supplemental Retirement Plan	
	2013	2012	2013	2012
	(In thousands)			
Net periodic benefit cost:				
Service cost	$ 1,539	$ 1,542	$ 630	$ 544
Interest cost	1,300	1,212	273	237
Expected return on assets	(2,487)	(1,508)	—	—
Amortization of prior service cost/(benefit)	(4)	6	79	79
Amortization of net actuarial (gain)/loss	741	804	53	1
Net periodic benefit cost	1,089	2,056	1,035	861
Amounts recognized in other comprehensive income:				
Net actuarial (gain)/loss	(7,947)	(625)	(1,402)	592
Amortization of prior service cost/(benefit)	4	(6)	(79)	(79)
Total recognized in other comprehensive income	(7,943)	(631)	(1,481)	513
Total recognized in net periodic benefit cost and other comprehensive income	$ (6,854)	$ 1,425	$ (446)	$ 1,374

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

	Pension Plan		Supplemental Retirement Plan	
	2013	2012	2013	2012
Discount rate	5.00%	4.00%	5.00%	4.00%
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	
	2013	2012	2013	2012
Discount rate	4.00%	4.25%	4.00%	4.25%
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 60% to 85% in equities, from 10% to 55% in fixed income debt securities and cash, and from 0% to 10% in real assets. The Corporation does not expect to make a contribution to its defined benefit pension plan in 2014.

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

	December 31,	
	2013	**2012**
Equity securities	74%	50%
Debt securities	23	22
Cash and equivalents	3	28
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, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
Asset category:				
Cash and cash equivalents	$ 1,147	$ —	$ —	$ 1,147
Equity securities:				
Common stocks:				
Large cap core	14,381	—	—	14,381
Mid cap core	3,394	—	—	3,394
International	2,630	—	—	2,630
Mutual funds:				
Fixed income	8,993	—	—	8,993
Mid cap blend	1,731	—	—	1,731
International	6,363	—	—	6,363
Total	$ 38,639	$ —	$ —	$ 38,639

There were no transfers between fair value levels during the years ended December 31, 2013 and 2012.

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	
	2013	**2012**
	(In thousands)	
Change in projected benefit obligation:		
Obligation at beginning of year	$ 628	$ 695
Service cost	14	15
Interest cost	22	25
Actuarial (gain)/loss	(124)	(67)
Benefits paid	(32)	(40)
Obligation at end of year	508	628
Change in plan assets:		
Fair value at beginning of year	—	—
Actual return on plan assets	—	—
Employer contribution	32	40
Benefits paid	(32)	(40)
Fair value at end of year	—	—
Overfunded (underfunded) status at end of year	$ (508)	$ (628)

Amounts recognized in the consolidated balance sheets consisted of:

	Postretirement Healthcare Plan	
	2013	**2012**
	(In thousands)	
Other assets (liabilities)	$ (508)	$ (628)

Amounts recognized in accumulated other comprehensive income consisted of:

	Postretirement Healthcare Plan	
	2013	**2012**
	(In thousands)	
Net actuarial (gain)/loss	$ (170)	$ (52)
Prior service cost/(benefit)	(20)	(28)
	$ (190)	$ (80)

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

	Postretirement Healthcare Plan	
	2013	2012
	(In thousands)	
Projected benefit obligation	$ 508	$ 628
Accumulated benefit obligation	508	628
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	
	2013	2012
	(In thousands)	
Net periodic benefit cost:		
Service cost	$ 14	$ 15
Interest cost	22	25
Expected return on assets	—	—
Amortization of prior service cost/(benefit)	(8)	(8)
Amortization of net actuarial (gain)/loss	(5)	(1)
Net periodic benefit cost	23	31
Amounts recognized in other comprehensive income:		
Net actuarial (gain)/loss	(124)	(67)
Amortization of prior service cost/(benefit)	8	8
Amortization of net actuarial (gain)/loss	5	1
Total recognized in other comprehensive income	(111)	(58)
Total recognized in net periodic benefit cost and other comprehensive income	$ (88)	$ (27)

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

	Postretirement Healthcare Plan	
	2013	2012
Discount rate	5.00%	4.00%
Rate of compensation increase	NA	NA

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

	Postretirement Healthcare Plan	
	2013	2012
Discount rate	4.00%	4.25%
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,	
	2013	2012
Health care cost trend rate assumed for next year	5.00%	6.00%
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	$ 396	$ (363)
Effect on postretirement benefit obligation	9,422	(8,670)

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)		
2014	$ 1,017	$ 472	$ 35	$ 1,524
2015	1,108	470	36	1,614
2016	1,150	468	35	1,653
2017	1,212	473	34	1,719
2018	1,363	560	33	1,956
2019-2023 inclusive	8,764	3,185	173	12,122
Ten year total	$ 14,614	$ 5,628	$ 346	$ 20,588

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2014 are as follows:

	Pension Plan	Supplemental Retirement Plan	Post-retirement Healthcare Plan	Total
		(In thousands)		
Prior service cost	$ 4	$ —	$ (8)	$ (4)
Net (gain)/loss	—	—	(12)	(12)
Total	$ 4	$ —	$ (20)	$ (16)

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, 2013 and 2012, the ESOP owned 314,773 shares and 308,968 shares, respectively, of the Corporation's common stock.

Total expenses related to the Profit Sharing and ESOP Plans for the years ended December 31, 2013 and 2012, amounted to approximately $516,000 and $900,000, 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, 2013 and 2012, and changes during the years ended on those dates is presented below:

	2013		2012	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options:				
Outstanding at beginning of year	312,916	$ 30.25	350,535	$ 30.12
Granted	—	—	—	—
Forfeited	—	—	—	—
Expired	(42,121)	34.11	(22,264)	29.15
Exercised	(22,018)	28.95	(15,355)	28.76
Outstanding at end of year	248,777	29.71	312,916	30.25
Exercisable at end of year	248,777	$ 29.71	257,666	$ 30.48

The following table summarizes information about stock options outstanding at December 31, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at 12/31/13	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/13	Weighted Average Exercise Price
$25.00 - $29.99	180,827	2.6 years	$ 28.89	180,827	$ 28.89
$30.00 - $34.99	67,950	1.8 years	$ 31.92	67,950	$ 31.92
	248,777	2.4 years	$ 29.71	248,777	$ 29.71

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, 2013 and 2012, and changes during the years ended on those dates is presented below:

	2013		2012	
	Number of Shares	Weighted Average Grant Value	Number of Shares	Weighted Average Grant Value
Restricted stock:				
Non-vested at beginning of year	45,704	$ 33.34	33,978	$ 31.99
Granted	1,200	40.09	23,210	34.46
Vested	(14,852)	32.82	(10,422)	31.73
Forfeited	(300)	32.03	(1,062)	30.54
Non-vested at end of year	31,752	33.85	45,704	33.34

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, 2013 and 2012, and changes during the years ended on those dates is presented below:

	2013		**2012**	
	Number of Shares	**Weighted Average Grant Value**	**Number of Shares**	**Weighted Average Grant Value**
Restricted stock units:				
Non-vested at beginning of year	26,205	$ 33.22	18,150	$ 32.56
Granted	9,880	40.70	9,010	34.39
Vested (Performance achieved)	—	—	—	—
Forfeited	—	—	(955)	31.62
Expired (Performance not achieved)	(8,870)	30.80	—	—
Non-vested at end of year	27,215	36.73	26,205	33.22

Total expense related to the Stock Option Plan for the years ended December 31, 2013 and 2012, amounted to approximately $404,000 and $546,000, 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, 2013 and 2012 were 4,821 and 4,185, 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 are primarily comprised of 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,	
	2013	2012
	(In thousands)	
Standby letters of credit	$ 18,775	$ 6,093
Commitments to extend credit:		
Unused portion of existing lines of credit	170,354	160,394
Origination of new loans	22,894	32,864
Commitments to sell loans	800	6,250
Liabilities associated with letters of credit	145	33

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

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 2014 and 2022 and, in some instances, contain options to renew for periods up to twenty-five years. The total minimum rentals due in future periods under these agreements in effect at December 31, 2013 were as follows:

Year Ended December 31,	Future Minimum Lease Payments
	(In thousands)
2014	$ 3,461
2015	4,023
2016	3,658
2017	2,673
2018	2,463
Thereafter	4,674
Total minimum lease payments	$ 20,952

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 $4,009,000 and $3,777,000 for the years ended December 31, 2013 and 2012, 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 $32,000 and $35,000 for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, 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, 2013:						
Cambridge Bancorp:						
Total capital (to risk-weighted assets)	$ 123,992	13.4%	$ 74,117	8.0%	$ 92,646	10.0%
Tier I capital (to risk-weighted assets).....	112,881	12.2%	37,058	4.0%	55,588	6.0%
Tier I capital (to average assets)	112,881	7.6%	59,160	4.0%	73,950	5.0%
Cambridge Trust Company:						
Total capital (to risk-weighted assets)	$ 121,869	13.2%	$ 74,117	8.0%	$ 92,646	10.0%
Tier I capital (to risk-weighted assets).....	110,758	12.0%	37,058	4.0%	55,588	6.0%
Tier I capital (to average assets)	110,758	7.5%	59,048	4.0%	73,810	5.0%
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%

19. OTHER INCOME

The components of other income were as follows:

	Year Ended December 31,	
	2013	2012
	(In thousands)	
Safe deposit box income	$ 345	$ 343
Loan fee income...	282	171
Miscellaneous income..	248	237
Total other income	$ 875	$ 751

20. OTHER OPERATING EXPENSES

The components of other operating expenses were as follows:

	Year Ended December 31,	
	2013	2012
	(In thousands)	
Contributions / Public relations	$ 489	$ 507
Director fees	473	418
Printing and supplies	373	408
Travel and entertainment	325	282
Postage	283	313
Dues and memberships	276	245
Security	254	166
Other losses	129	91
Amortization of intangible assets	—	12
Miscellaneous expense	230	219
Total other operating expenses	$ 2,832	$ 2,661

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, 2013		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
		(In thousands)	
Defined benefit retirement plans:			
Change in unfunded retirement liability	$ 9,587	$ (3,916)	$ 5,671
Unrealized gains/(losses) on AFS securities:			
Unrealized holding gains/(losses) arising during the period	(15,441)	5,554	(9,887)
Reclassification adjustment for gains recognized in net income	(1,121)	401	(720)
	$ (6,975)	$ 2,039	$ (4,936)

	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)

Reclassifications out of Accumulated Other Comprehensive Income ("AOCI") are presented below:

Year Ended December 31, 2013		
Details about AOCI Components	Amount Reclassified from AOCI	Affected Line Item on the Statement of Income
	(In thousands)	
Unrealized gains/(losses) on AFS securities:		
	$ 1,121	Gain on disposition of investment securities
	(401)	Income tax expense
	$ 720	Net income

22. EARNINGS PER SHARE

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

	Year Ended December 31, 2013	
	Basic EPS	Diluted EPS
Numerator:		
Net income	$ 14,015,000	$ 14,140,000
Denominator:		
Weighted average common shares outstanding	3,839,146	3,839,146
Dilutive effect of stock options	—	68,055
Total shares	3,839,146	3,907,201
Earnings per share	$ 3.65	$ 3.62

	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

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, 2013		December 31, 2012	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 88,107	$ 88,107	$ 59,923	$ 59,923
Securities - available for sale	388,793	388,793	502,318	502,318
Securities - held to maturity	59,181	61,455	71,133	76,308
Loans held for sale	403	405	1,684	1,687
Loans, net	929,743	935,837	731,301	753,285
FHLB Boston stock	6,231	6,231	5,010	5,010
Accrued interest receivable	3,626	3,626	3,877	3,877
Mortgage servicing rights	384	438	215	254
Financial liabilities:				
Deposits	1,409,047	1,407,948	1,281,333	1,280,932
Long-term borrowings	—	—	20,000	20,121

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, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	(In thousands)			
Measured on a recurring basis:				
Securities available for sale:				
U.S. GSE obligations	$ —	$ 73,244	$ —	$ 73,244
Mortgage-backed securities	—	292,322	—	292,322
Corporate debt securities	—	22,614	—	22,614
Mutual funds	613	—	—	613

	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

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

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
Joseph D. Cardarelli . . . . . Vice President & Information Technology Manager
Susan I. Chiappisi . . . . . Vice President & Trust Officer
Jeffrey B. Churchill . . . . . Vice President
Glenn P. Davis . . . . . Vice President, Commercial Real Estate
Jason R. DeMello . . . . . Vice President & Business Development Officer
Edward F. Fitzgerald, Jr. . . . . . Vice President, Business Banking Officer
Aimee B. Forsythe . . . . . Vice President & Investment 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

CAMBRIDGE TRUST COMPANY – OFFICERS (continued)

Name	Title
Jane E. Mason	Vice President, Relationship Manager
Roma A. Mayur	Vice President
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
Tiffany N. Ormon	Vice President
Frank Pasciuto	Vice President
Robert C. Pasciuto, Esq.	Vice President & Trust Officer
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
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
Gabriele Fabrizio	Assistant Vice President & Operations Officer
Stephen W. Hall	Assistant Vice President & Information Security Officer
Patricia E. Hartnett	Assistant Vice President
Leslie L. Hartwell	Assistant Vice President & Business Development Officer
Kathryn L. Hersey	Assistant Vice President & Investment Officer
Eugene K. Kalaw	Assistant Vice President & Business Development Officer
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 Banking Operations Manager
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
Basharat H. Sheikh . . . . Assistant Treasurer
Clinton D. Williams . . . . Assistant Treasurer
Ping H. Wong . . . . Assistant Treasurer
Brian T. Bacci . . . . Lending Compliance Officer
Rachel S. Bandi. . . . . Senior Credit Analyst Officer
Pooja Bhandary . . . . Assistant Operations Officer
JoAnn M. Cavallaro . . . . Administrative Officer
Alan M. Collopy . . . . Operations Officer
Erin J. Cooper . . . . Business Development Officer
Renée L. Daniell . . . . Assistant Operations Officer
Justin H. Drolsbaugh. . . . . Commercial Officer, Portfolio Manager
Mark J. Earnest . . . . Banking Officer, Portfolio Manager
Alice J. Flanagan. . . . . Trust Officer
Medard H. Kadima . . . . Information Security Officer
Ann C. Kuske . . . . Operations Officer
Joseph D. Lombardi . . . . Assistant Controller
Karina Q. Pinella. . . . . Senior Credit Analyst Officer
Leah Siporin . . . . Digital Marketing Officer
Peter C. Stoneman. . . . . Consumer Loan Officer
Linda G. Sullivan . . . . Human Resources Officer
James R. Weishaupt . . . . Operations Officer
James J. Zurn . . . . Consumer Loan Officer

CAMBRIDGE TRUST COMPANY OF NEW HAMPSHIRE – OFFICERS

Susan Martore-Baker . . . . President
Brian A. Bickford . . . . Senior Vice President & Investment Officer
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

CAMBRIDGE TRUST COMPANY – EMPLOYEES

Ambrose, Aliya
Alvarez, Yolamary
Bailey, Adrienne
Basnyat, Nivedita
Bennett, Michael
Bober, Jeffrey
Burke, Sandra
Carnazzo, Gail
Catanzano, Joseph
Cedrone, Jeffrey
Chowdhury, Farzana
Cole, Jeffrey
Cope, Andrea
Costello, Laura
Cronburg, Wendy
Curtin, Stephen
Dalomba, Christian
Dean, Shellie
DeAngelis, Maryellen
DeDominicis, Catherine
DePierro, Caityln
Dillon, Janice
Diloyan, Anahit
Djatsa, Viviane
Dodge, Jeanne
Dutt, Anita
Fin, Bernadette
Flanagan, Ryan
Flores, Cynthia
Frederique, Jude
Frost, David
Gallant, Derek
Gentle, Nerissa
Gielczyk, Michael
Gilkes, Yvette
Gilpin, Kaitlyn
Greco, Randi
Greene, Mary
Hamblen, Sally
Hanna, Amy
Howard, Margaret
Hutchinson, Beverly
Islam, Khondaker
Jacobs, Catherine
Jorge, Adelaide
Kantor, Jasmine
Kaufman, Theresa
Keenan, Robert
Kingsford, Alessandra
Kirwin, Marie
Kumari, Anita
Kuzmich, Katherine
Kvitman, Marina
LaMorticelli, René
Layne, Tanisha
Lazzari, Linda
Leonard, Ketline
Leonard, Sean
Lettieri, Robyn
Levine, Patricia
Lim, Raymond
Liu, Rose
Lombardo, Joseph
Lucas, Nicole
Manessis, Demetrios
Marcantonio, Paul
McCarty, William
McGilvray, Elizabeth
McWilliams, Katherine
Mei, Yi Lan
Membrino, Patricia
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
Park, David
Perry Durkee, Christina
Phuyal, Puja
Prager, Robert
Quigley, Maria
Reed, Michael
Resende, Jonathan
Ricker, Kelly
Rudden, Thomas
Sands, Janet
Serio, Linda
Shahi, Bala
Shay, Debbie
Small, Jasmine
Smith, Zachary
Sottile, Charlotte
Soul, Jr., Harwood
Sprague, Cynthia
Stephano, Susan
Stone, Jason
Sullivan, Mary
Tamasi, Joanne
Thain, Lina
Toronto, Melissa
Trebicka, Daniela
Truesdale, Stacey
Truong, Andrew
Usova, Victoria
Vallejo, Ivan
Vaudo Tobin, Rita
Vitale, Louis
Vo, Lana
White, Kristen
Wu, Qihui
Yearwood, Carol
Zaring, Victoria
Zelman, Carol Jean

CAMBRIDGE TRUST COMPANY OF NEW HAMPSHIRE – EMPLOYEES

Cannon, Susan
Schwechheimer, Brenda
Talbot, Michele
Travers, Janelle

Cambridge Trust Company

Corporate Headquarters

1336 Massachusetts Avenue • Cambridge, MA 02138
617-876-5500

Branch Offices

Harvard Square • 1336 Massachusetts Avenue • Cambridge, MA 02138

Huron Village • 353 Huron Avenue • Cambridge, MA 02138

Kendall Square • 326 Main Street • Cambridge, MA 02142

Porter Square • 1720 Massachusetts Avenue • Cambridge, MA 02138

University Park at MIT • 350 Massachusetts Avenue • Cambridge, MA 02139

Beacon Hill • 65 Beacon Street • Boston, MA 02108

South End • 565 Tremont Street • Boston, MA 02118

361 Trapelo Road • Belmont, MA 02478

75 Main Street • Concord, MA 01742

1690 Massachusetts Avenue • Lexington, MA 02420

152 Lincoln Road • Lincoln, MA 01773

494 Boston Post Road • Weston, MA 02493

Wealth Management Offices

75 State Street • Boston, MA 02109

116 North Main Street • Concord, NH 03301

One Harbour Place • Portsmouth, NH 03801

Innovation Banking Group Office

Cambridge Innovation Center • One Broadway • Cambridge, MA 02142

Website

www.cambridgetrust.com