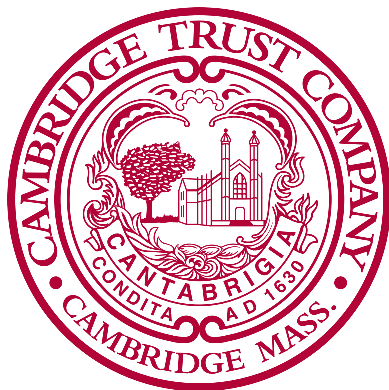
CAMBRIDGE BANCORP



ANNUAL REPORT
2014

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 Executive Vice President – Development Federal Realty Investment Trust
JEANETTE G. CLOUGH	President and Chief Executive Officer Mount Auburn Hospital
SARAH G. GREEN	Retired First Vice President and Chief Operating Officer Federal Reserve Bank of Richmond
HAMBLETON LORD	Managing Director Launchpad Venture Group
LEON A. PALANDJIAN	Lead Director Cambridge Bancorp and Cambridge Trust Company 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	Chairman, 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	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.

Change is a controlling fact of economic life.
–John Kenneth Galbraith

Change happens everywhere and at all times. The ubiquity of change in social and economic experience corresponds to the fact that "life happens" at the level of individual experience. Our awareness of that latter fact serves as the basis for a firm commitment that we have made to customers: "We're here for you when life happens." The pervasiveness of economic change, however, has larger structural implications with respect to how the Bank works across the board. To acknowledge the controlling nature of the fact of change does not entail ceding control to the unforeseen. Rather, it entails a commitment to driving and directing change as much as it does to adapting to it.

To the extent that, on balance, the force of intentional change aimed at conserving what matters most in a given institution overmatches that of unintended change, the quality of that institution will be maintained or improved. The corollary, however, is that to the extent that the force of intentional change within an institution does not overmatch that of unintended change that institution may not continue to exist, much less thrive.

The past year at Cambridge Trust Company provided us with a vivid example of the way in which change may be directed to ensure growth and bring about betterment. To walk into the main office of the Bank is to be welcomed by new and improved surroundings. Yet it is also to walk into the same Bank that customers and employees have come to trust over the years.

In my first letter to shareholders some years back, I shared with readers a passage from a book by the author who is quoted above in different context. Back then, I recalled the following passage from *A Tenured Professor:* "Once Marvin went to Cambridge Trust in Harvard Square to cash a check. … The president of the bank came forward from his desk at the back of the large enclosure which he shared democratically with … officials, loan officers and secretaries. He shook hands warmly with Marvin … and then carried Marvin's check away to be cashed."

A "Marvin" of today could still meet the president on the banking floor. It is a floor that has been reimagined, however, to provide customers with an enhanced banking experience fit for the twenty-first century. The changes that customers do see correspond to ones that they do not see. By improving the customer experience and expanding into new markets, we have made positive changes both behind the scenes and in full view. Our focus on accessible and responsive service shows up in all that we do.

In 2014 Cambridge Trust achieved another record year in earnings. Net income for the year ending December 31, 2014 was $14,944,000 compared to $14,140,000 for the year ending December 31, 2013. The year-over-year increase in earnings of $804,000 was 5.7%.

Diluted earnings per share (EPS) were $3.78 for the year ended December 31, 2014, compared to $3.62 in the prior year.

In numerical terms, the Bank's record earnings performance was produced by a sustained and robust increase in commercial and consumer loans, as well as continued double digit growth in Wealth Management revenue. This increase reflects the success of the management and employee team in executing the Bank's business plans. It also reflects our commitment to consistent, measurable betterment.

Total loans grew $138 million in 2014 or 14.7%. This growth took total loans outstanding over the $1 billion threshold. Market conditions remained intensely competitive in both the consumer and commercial sectors. Moreover, the Federal Reserve Bank maintained its accommodative monetary policy keeping short-term interest rates at near

zero. This, combined with relatively low longer-term rates kept pressure on interest margins across the industry. Cambridge Trust's net interest margin in 2014 declined by two basis points to 3.33% compared to 3.35% for the year ended December 31, 2013.

Despite the ongoing downward pressure on net interest margins, (see table below), Cambridge Trust produced net interest income of $48.3 million for the year ending December 31, 2014, compared to $45.5 million in the prior year. The increase of $2.8 million (6.2%) in 2014 benefitted from current loan growth, as well as from the momentum created from 2013's record $200 million increase in loans.

Year End	2010	2011	2012	2013	2014
Deposits (in thousands)	$ 993,808	$1,125,654	$1,281,333	$1,409,047	$1,370,536
Total Loans (in thousands)	$ 568,568	$ 673,265	$ 742,249	$ 942,451	$1,080,766
Net Interest Margin	4.15%	3.90%	3.58%	3.35%	3.33%
Noninterest Income (in thousands)[(A)]	$ 19,877	$ 18,147	$ 20,489	$ 23,181	$ 24,464
Net Income (in thousands)	$ 13,254	$ 12,477	$ 13,403	$ 14,140	$ 14,944
Basic Earnings/Share	$ 3.53	$ 3.29	$ 3.49	$ 3.65	$ 3.81
Dividends Declared	$ 1.40	$ 1.42	$ 1.50	$ 1.59	$ 1.68
Book Value	$ 23.73	$ 25.39	$ 27.21	$ 28.13	$ 29.50
Return/Average Assets	1.25%	1.06%	1.00%	0.99%	0.98%
Return/Average Equity	14.98%	13.26%	13.39%	13.63%	12.87%

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

As noted in prior annual reports, Cambridge Trust benefitted immensely from the revenues generated by its Wealth Management group. In 2014 the group's investment management and fiduciary services produced revenues of $18.0 million compared to $16.3 million in 2013, an increase of $1.7 million (10.4%).

The Bank continued to achieve admirable returns on equity and assets in line with industry standards for high-performing banks. The return on average equity was 12.87% in 2014 and return on average assets was 0.98%.

New technology is important to consumers ... when it increases their personal freedom, makes life more convenient, or facilitates desired experiences.
−C.K. Prahalad and Venkatram Ramaswamy

Consumer Banking

If ever there was an area of the Bank characterized by change, surely it was Consumer Banking. Most of the changes were made to better position Cambridge Trust to compete in a competitive and rapidly evolving market. Some were made in response to external factors such as incessant regulatory changes. There were also some personnel changes, as described below.

Consumer lending, primarily residential mortgage and home equity loans, has been a core strength for the Bank, especially in the last year. In 2014 we introduced and promoted new products in each area and the outcome was rewarding. Residential mortgage loans increased $49 million (10.7%) to $507.2 million. Home equity loans increased $9.9 million (21.3%) to $56.6 million. The multi-channel marketing campaign for the Bank's new home equity product produced higher-than-expected new sales. There is upside potential to interest income as we have begun to see growing line usage among new and existing customers.

I should note that there were changes in management in this area, as we bid farewell to three long-term employees who were instrumental in building, managing, and overseeing the business. We thank Robert Davis, Susan Barry, and Gabriele Fabrizio for their service, and wish them well in retirement. We also welcomed Vidalia "Val" DiVito, Vice President, who will lead our consumer lending business, and Laura Ganat, Assistant Vice President.

Cambridge Trust's sustained investments in technology benefitted customers, the Bank, and the environment. Our e-banking customers have made active use of recently introduced capabilities to receive loan and deposit information electronically, which improves access and timeliness, strengthens security, enhances satisfaction, and reduces paper.

The introduction of iPads in each of our branches facilitates a better customer experience. Managers and other service representatives may easily provide timely digital solutions for customers signing up for new services like eStatements or learning about other Bank services.

As more and more of our customers gravitate to mobile banking, we continue to strive to make more effective use of the Bank's branch infrastructure. In this regard, we asked James Zurn to take on new responsibilities as Retail Administrator for Sales and Service, and promoted him to Vice President. We also promoted two branch managers to Vice President: Ana Mojica and Maria Montgomery have provided the leadership that has produced impressive growth at their respective branches in Cambridge.

One of the primary threats faced by all industries involves cyber security. We invest significantly in building barriers to protect the Bank and its customers from illegal intrusions. Just as importantly, we provide training for our employees and guidance to our customers on how best to protect personal and business information. The threat is constant, as is our vigilance. With the retirement of Charles Samour, we welcomed Walter McIrney, Assistant Vice President and Security Officer, and promoted Jason Stone to Information Security Officer.

During the year there were well publicized instances of compromised credit and debit cards resulting from data breaches at several retail chains. This is especially troublesome for the banking industry since liability for card fraud is carried by the card issuer and not the retailer where the incursion occurred.

Banks have been pushing for the introduction of what is called Europay, MasterCard and Visa (EMV) chip card technology, a global standard that is commonly used outside the United States. In October of 2015, merchants, with the exception of gas stations, will be required to accept chip cards. Cambridge Trust has already introduced this technology and is prepared for industry adoption.

Community development may be defined as conscious acceleration of ... change by combining outside assistance with organized local self-determination and effort.
−Sri S. Venugopal

Business Banking

Commercial lending has been one of the driving forces behind the Bank's earnings performance. Record loan growth of $90 million in 2013 propelled earnings growth in 2014. Although not quite at 2013 levels, the commercial lending team had a very successful year, as loans increased $77 million. Commercial real estate loans accounted for the change with lenders expanding existing business relationships and adding new ones. Two new lenders, Martin Fenton and John Quintal, joined the lending team as Vice Presidents in 2014 and have already made an impact.

The innovation economy continued to flourish in Massachusetts, nowhere more so than in the densely populated Cambridge/Boston tech ecosystem. There has been an immense convergence of ideas, talent, and capital that has produced a breakout year for funded start-ups. The Bank's Innovation Banking Group has established its presence in this exciting sector, achieving new levels of growth in 2014.

Cambridge Trust consistently demonstrates our active commitment to community development. We consider it our responsibility to seek and identify those opportunities where the talents and resources of the Bank can improve circumstances in and around the communities we serve. In 2014 we undertook an important initiative to expand and deepen the Bank's community development lending activities. We asked two experienced lenders, Stephen Caputo, Vice President, and Dina Scianna, Vice President, to provide the leadership for this effort. There is much to be done in the area of affordable housing and other sectors of the vibrant communities in which we have been fortunate to thrive. Cambridge Trust will continue to take a good story and make it better.

There are other ways the Bank supports community development. Last year I mentioned that we made a $1 million investment in Boston

Community Capital's Boston Community Loan Fund. In 2014 we made a $1 million investment in the Massachusetts Housing Investment Corporation (MHIC). MHIC, founded in 1990, is an innovative private financier of affordable housing and community development throughout Massachusetts, providing financing that would not otherwise be available.

As we undertake larger and more complex loans, it is critically important to maintain the Bank's consistently strong credit underwriting standards. Our shareholders expect nothing less. Non-performing loans were $1.6 million on December 31, 2014, slightly lower compared to the prior year-end. In 2014 we provided $1.6 million, a similar amount to 2013, to the Bank's Allowance for Loan Losses. This provision was primarily in response to loan growth. The Allowance at year-end 2014 was $14.3 million, or 1.32% of total loans outstanding. At December 31, 2013, the Allowance for Loan Losses was $12.7 million, or 1.35% of total loans outstanding. From time to time, we do charge off loans but we are persistent in seeking recoveries. In 2014 there were net recoveries of $11,377.

Wealth Management

Cambridge Trust's Wealth Management business had another successful year, reaching new highs for assets under management (AUM) and revenues. In 2014 AUM grew $150 million (7.0%) to almost $2.3 billion. Revenues reached $18.0 million for the year ending December 31, 2014, increasing $1.7 million (10.4%) compared to revenues in 2013.

Wealth Management

Year	Gross Revenues (in thousands)	Managed Assets (in millions)
2010	$ 12,364	$ 1,507
2011	$ 13,152	$ 1,468
2012	$ 14,110	$ 1,795
2013	$ 16,265	$ 2,140
2014	$ 17,954	$ 2,290

I have found over the years that record performances such as that achieved by Wealth Management are not often attributable solely to one factor. Rather these achievements depend upon numerous factors, including leadership, plan execution, and, of course, teamwork. In 2014 we were pleased that Judith Noel, Senior Vice President and Trust Officer, joined the Granite State team, which will surely help to support New Hampshire's successful growth strategy.

The timing for an expansion of the Granite State team was deliberate because we will open an office in Manchester, NH and relocate our Concord, NH office in the first quarter of 2015. And, in Massachusetts we recognized Alice Flanagan's many contributions and promoted her to Assistant Vice President.

Over the past decade, through various thoughtful initiatives, the Wealth Management brand has become stronger. The highly successful Thought Series® now in its ninth year has positioned Wealth Management as a thought leader on a variety of subjects. Benefits from these stimulating events are many and real, including heightened engagement by customers and the growth of the Bank as a site of opportunity, innovation, and learning. Like our neighbor across the street at Harvard, we are committed to asking questions and thinking through ideas in communal settings.

Each year Wealth Management builds on its well-established brand by offering insightful articles on the Bank's website and extending its reach to more segments of the community. The Bank is Lead Corporate Partner for The Philanthropy Connection (TPC). This forward looking organization is a "group of like-minded women joining together to engage in collective philanthropy." In our Portsmouth, New Hampshire and Boston Wealth Management offices, we sponsored a "Women and Wealth Series" and an event that addressed life and estate planning issues facing same-sex couples.

During 2014 Wealth Management introduced two new investment strategies. The Capital Appreciation – All Equity Portfolio aims to provide long-term capital appreciation by investing in a concentrated number of global equity securities that are trading for less than intrinsic value. The

Sustainable and Responsible Investing (SRI) Portfolio targets undervalued high-quality companies that provide long-term competitive financial returns and make a positive impact in the communities and environments in which they operate. The Bank's overriding strategy is to provide a range of investment alternatives that address the diverse interests, needs, and risk appetites of our clients.

* * * * * *

The changes that have occurred across the sectors of our business have provided more value to our customers, strengthened the Bank's competitive position, and helped to sustain earnings performance. To leverage further these many positive developments, it is crucial for the Bank to "get the word out" to wider groups of prospective customers. Each year we have refined and enhanced our marketing initiatives and messaging to increase awareness and to elevate the "Life's Bank" brand platform.

Cambridge Trust enhanced its digital strategy in 2014 by creating a new, more responsive website, improving email communications, and heightening our presence on social media channels. Our overall aim is to increase and improve the ways we connect and engage with customers. We developed new content to better align brand values with those of our customers. All content posted has the intent of extending the "Life's Bank" experience and brand beyond the branches and Wealth Management offices, and integrating it into the day-to-day digital lives of our customers and prospects.

We made some organizational adjustments in 2014 that bring better alignment with achieving the Bank's business objectives. There were also three important promotions that reflect the long-term leadership responsibilities of three members of the management team. Appointed to Executive Vice President were Thomas Johnson, Martin Millane, and Albert Rietheimer.

A recognized core strength of Cambridge Trust Company has been corporate governance, which is so important to the health and well-being

of this fine institution. The Board of Directors is engaged, knowledgeable about the Bank's strategy and operations, and generous with its insights and guidance. During the year, Leon Palandjian was appointed Lead Director of the Board.

In July we were saddened to learn about the passing of our good friend and former Director, James Stockwell. When Jim retired from the Board in 2005 after serving for forty-one years, I noted that he consistently emphasized the importance of developing and executing strategic and tactical plans. We all benefitted from his wisdom on this, and many other matters.

In 2014 we were sorry to see Jean Mixer step down from the Board after serving with distinction for eight years. We were pleased, however, to welcome Sarah (Sally) Green as a new member of the Board. Sally has spent most of her career at the Federal Reserve Bank, first in Boston and subsequently in Richmond, Virginia where she was First Vice President and Chief Operating Officer. The Bank will benefit significantly from Sally's operations, technology, regulatory, and leadership background.

In 2015 Cambridge Trust will undergo a planned change in leadership, which was announced in June 2014. The process for identifying and appointing my successor is well underway. Under the leadership of former Lead Director, Linda Whitlock, the Search Committee is overseeing the transition process. This is both an interesting and exciting time for the Bank, and there will be more to say in 2015.

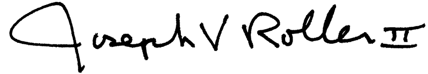
* * * * * *

I have had a wonderful experience these past fourteen years, and a unique vantage point from which to observe this institution's growth and development. Each year when reviewing the Bank's progress and activities in the annual report, I have tried to convey a theme or sense of the organization's qualities. In speaking about this Bank, its management team, and its current and former employees, it is fitting to use terms such as "responsible," "accountable," "caring," "generous," and "dedicated." Year

after year, the entire team has delivered an extraordinary performance. I am fortunate to have worked with such a fine group, and I thank them.

In closing, I also want to thank the many customers who have entrusted their financial matters to Cambridge Trust. Likewise, to you our shareholders, thank you for your investment and confidence in the Bank. Its foundation is firm; its future is bright.

Respectfully submitted,



Joseph V. Roller II
President and CEO
February 27, 2015

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, 2014 and 2013, 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, 2014 and 2013, 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, 2014, 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 27, 2015 expressed an unqualified opinion on the effectiveness of Cambridge Trust Company's internal control over financial reporting.

KPMG LLP

Boston, Massachusetts
February 27, 2015

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(In thousands)	
ASSETS		
Cash and cash equivalents	$ 17,440	$ 88,107
Investment securities:		
Available for sale, at fair value	339,791	388,793
Held to maturity, at amortized cost	79,646	59,181
Total investment securities	419,437	447,974
Loans held for sale, at lower of cost or fair value	284	403
Loans:		
Residential mortgage	507,216	458,176
Commercial mortgage	441,842	363,294
Home equity	56,579	46,635
Commercial	49,492	50,758
Consumer	25,637	23,588
Total loans	1,080,766	942,451
Allowance for loan losses	(14,269)	(12,708)
Net loans	1,066,497	929,743
Federal Home Loan Bank of Boston stock, at cost	7,955	6,231
Bank owned life insurance	29,220	23,555
Banking premises and equipment, net	8,367	9,951
Accrued interest receivable	3,925	3,626
Other assets	20,567	24,120
Total assets	$1,573,692	$1,533,710
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Demand	$ 390,286	$ 382,255
Interest bearing checking	352,661	335,010
Money market	74,654	78,410
Savings	430,040	489,160
Certificates of deposit	122,895	124,212
Total deposits	1,370,536	1,409,047
Short-term borrowings	69,000	—
Other liabilities	17,898	15,380
Total liabilities	1,457,434	1,424,427
Stockholders' equity:		
Common stock, par value $1.00; Authorized 10,000,000 shares; Outstanding: 3,940,536 and 3,884,851 shares, respectively	3,941	3,885
Additional paid-in capital	28,264	26,027
Retained earnings	91,098	83,479
Accumulated other comprehensive income (loss)	(7,045)	(4,108)
Total stockholders' equity	116,258	109,283
Total liabilities and stockholders' equity	$1,573,692	$1,533,710

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

CAMBRIDGE BANCORP AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2014	2013
	(In thousands, except per share data)	
Interest income:		
Interest on loans	$ 40,481	$ 35,669
Interest on taxable investment securities	7,085	9,905
Interest on tax exempt investment securities	2,664	2,028
Dividends on FHLB of Boston stock	101	20
Interest on overnight investments	40	39
Total interest income	50,371	47,661
Interest expense:		
Interest on deposits	1,950	1,970
Interest on borrowed funds	148	224
Total interest expense	2,098	2,194
Net interest income	48,273	45,467
Provision for loan losses	1,550	1,500
Net interest income after provision for loan losses	46,723	43,967
Noninterest income:		
Wealth management income	17,954	16,265
Deposit account fees	2,416	2,567
ATM/Debit card income	1,247	1,182
Bank owned life insurance income	665	652
Gain on disposition of investment securities	1,073	1,121
Gain on loans held for sale	170	519
Other income	939	875
Total noninterest income	24,464	23,181
Noninterest expense:		
Salaries and employee benefits	27,799	26,995
Occupancy and equipment	8,510	8,163
Data processing	4,567	4,012
Professional services	2,008	1,548
Marketing	2,117	1,822
FDIC Insurance	793	739
Other expenses	3,213	2,832
Total noninterest expense	49,007	46,111
Income before income taxes	22,180	21,037
Income tax expense	7,236	6,897
Net income	$ 14,944	$ 14,140
Per share data:		
Basic earnings per common share	$ 3.81	$ 3.65
Diluted earnings per common share	$ 3.78	$ 3.62
Average shares outstanding - basic	3,886,692	3,839,146
Average shares outstanding - diluted	3,957,416	3,907,201

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,	
	2014	2013
	(In thousands)	
Net income	$ 14,944	$ 14,140
Other comprehensive income/(loss), net of tax:		
Defined benefit retirement plans:		
Change in unfunded retirement liability	(6,222)	5,671
Unrealized gains/(losses) on Available for Sale securities:		
Unrealized holding gains/(losses) arising during the period	3,973	(9,887)
Less: reclassification adjustment for gains recognized in net income	(688)	(720)
Other comprehensive income/(loss)	(2,937)	(4,936)
Comprehensive income	$ 12,007	$ 9,204

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, 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
Comprehensive income	—	—	14,944	(2,937)	12,007
Stock based compensation	18	491	—	—	509
Exercise of stock options	42	1,254	—	—	1,296
Stock issued to ESOP and DSP	15	614	—	—	629
Dividends declared ($1.68 per share)	—	—	(6,602)	—	(6,602)
Stock repurchased	(19)	(122)	(723)	—	(864)
Balance at December 31, 2014	$ 3,941	$ 28,264	$ 91,098	$ (7,045)	$ 116,258

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,	
	2014	2013
	(In thousands)	
Cash flows provided by operating activities:		
Net income	$ 14,944	$ 14,140
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,550	1,500
Amortization of deferred charges/(income), net	1,060	720
Depreciation and amortization	1,817	1,569
Bank owned life insurance income	(665)	(652)
Gain on disposition of investment securities	(1,073)	(1,121)
Compensation expense from stock option and restricted stock grants	509	439
Change in loans held for sale	119	1,281
Change in accrued interest receivable, deferred taxes, other assets and other liabilities	(2,216)	4,998
Other, net	56	321
Net cash provided by operating activities	16,101	23,195
Cash flows used by investing activities:		
Origination of loans	(301,863)	(333,266)
Purchase of:		
Investment securities - AFS	(43,741)	(55,577)
Investment securities - HTM	(24,295)	(4,427)
Maturities, calls and principal payments of:		
Loans	163,161	132,692
Investment securities - AFS	68,190	117,713
Investment securities - HTM	3,776	16,361
Proceeds from sale of investment securities - AFS	30,013	35,557
Purchase of bank owned life insurance	(5,000)	—
Change in FHLB of Boston stock	(1,724)	(1,221)
Purchase of banking premises and equipment	(233)	(5,306)
Net cash used by investing activities	(111,716)	(97,474)
Cash flows provided by financing activities:		
Net change in deposits	(38,511)	127,714
Net change in short-term borrowings	69,000	—
Repayment of long-term borrowings	—	(20,000)
Proceeds from issuance of common stock	1,925	1,255
Repurchase of common stock	(864)	(342)
Cash dividends paid on common stock	(6,602)	(6,164)
Net cash provided by financing activities	24,948	102,463
Net (decrease) increase in cash and cash equivalents	(70,667)	28,184
Cash and cash equivalents at beginning of year	88,107	59,923
Cash and cash equivalents at end of year	$ 17,440	$ 88,107
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 2,094	$ 2,196
Cash paid for income taxes	8,490	3,610
Non-cash transactions:		
Change in AOCI, net of taxes	(2,937)	(4,936)

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 $2,290,000,000 and $2,140,000,000 at December 31, 2014 and 2013, 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 $148,000 and $3,432,000 at December 31, 2014 and 2013, respectively. These amounts are net of deferred taxes receivable of $80,000 and $1,847,000, 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, unless covered by private mortgage insurance, and in all cases not greater than a loan-to-value ratio of 95 percent. The Bank 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 inherent 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 27, 2015, the date the consolidated financial statements were issued and determined that no subsequent events occurred requiring accrual or disclosure.

3. RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued Accounting Standards Update No. 2014-04, "*Receivables – Troubled Debt Restructuring by Creditors (Subtopic 310-40) – Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*" ("ASU 2014-04"). This update is intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. This new guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2014 and interim periods within annual periods beginning after December 15, 2015. The Corporation does not expect ASU 2014-04 to have a material effect on its consolidated financial statements.

4. CASH AND DUE FROM BANKS

At December 31, 2014 and 2013, cash and due from banks totaled $17,440,000 and $88,107,000, respectively. Of this amount, $9,830,000 and $8,977,000, respectively, were maintained to satisfy the reserve requirements of the Federal Reserve Bank of Boston ("FRB Boston"). Additionally, at both December 31, 2014 and 2013, $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, 2014			
	Amortized	Unrealized		Fair
	Cost	Gains	Losses	Value
	(In thousands)			
Securities available for sale:				
U.S. GSE obligations	$ 91,033	$ 93	$ (655)	$ 90,471
Mortgage-backed securities	245,309	2,571	(2,200)	245,680
Corporate debt securities	3,005	14	(3)	3,016
Mutual funds	672	—	(48)	624
Total securities available for sale	340,019	2,678	(2,906)	339,791
Securities held to maturity:				
Mortgage-backed securities	2,176	117	—	2,293
Municipal securities	77,470	3,681	(13)	81,138
Total securities held to maturity	79,646	3,798	(13)	83,431
Total investment securities	$ 419,665	$ 6,476	$ (2,919)	$ 423,222

	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:				
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

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, 2014:								
Debt securities available for sale:								
U.S. GSE obligations	$ —	$ —	$ 81,042	$ 80,566	$ 9,991	$ 9,905	$ —	$ —
Mortgage-backed securities	61	64	2,087	2,212	839	911	242,322	242,493
Corporate debt securities	2,005	2,002	—	—	1,000	1,014	—	—
Total debt securities available for sale	2,066	2,066	83,129	82,778	11,830	11,830	242,322	242,493
Debt securities held to maturity:								
Mortgage-backed securities	10	11	2,089	2,201	4	4	73	77
Municipal securities	942	961	16,137	16,622	32,138	33,948	28,253	29,607
Total debt securities held to maturity	952	972	18,226	18,823	32,142	33,952	28,326	29,684
Total debt securities	$ 3,018	$ 3,038	$ 101,355	$ 101,601	$ 43,972	$ 45,782	$ 270,648	$ 272,177

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, 2014:						
U.S. GSE obligations	$ 15,018	$ (26)	$ 44,351	$ (629)	$ 59,369	$ (655)
Mortgage-backed securities	24,005	(103)	121,933	(2,097)	145,938	(2,200)
Corporate debt securities	—	—	2,002	(3)	2,002	(3)
Municipal securities	1,336	(3)	836	(10)	2,172	(13)
Subtotal, debt securities	40,359	(132)	169,122	(2,739)	209,481	(2,871)
Mutual funds	—	—	624	(48)	624	(48)
Total temporarily impaired securities	$ 40,359	$ (132)	$169,746	$ (2,787)	$210,105	$ (2,919)
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)

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, 2014, sixty-two debt securities and one equity security had gross unrealized losses, with an aggregate depreciation of 1.37% from the Corporation's amortized cost basis. The largest unrealized loss percentage of any single security was 7.10% (or $48,000) of its amortized cost. The largest unrealized dollar loss of any single security was $123,000 (or 3.03%) 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, 2014.

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

	Year Ended December 31,	
	2014	**2013**
	(In thousands)	
Amortized cost of securities sold	$ 28,940	$ 34,436
Gain realized on securities sold	1,073	1,121
Proceeds from securities sold	$ 30,013	$ 35,557

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, 2014	December 31, 2013
	(In thousands)	
Residential real estate:		
Mortgages - fixed rate (20 & 30 year)	$ 151,973	$ 134,498
Mortgages - fixed rate (15 year)	117,753	123,627
Mortgages - fixed rate (10 year)	53,054	56,426
Mortgages - adjustable rate	183,796	143,159
Deferred costs net of unearned fees	640	466
Total residential real estate	507,216	458,176
Commercial real estate:		
Mortgages - nonowner occupied	370,871	304,509
Mortgages - owner occupied	46,954	44,999
Construction	23,879	13,584
Deferred costs net of unearned fees	138	202
Total commercial real estate	441,842	363,294
Home equity:		
Home equity - lines of credit	53,492	43,521
Home equity - term loans	2,934	2,985
Deferred costs net of unearned fees	153	129
Total home equity	56,579	46,635
Commercial:		
Commercial and industrial	49,263	50,513
Deferred costs net of unearned fees	229	245
Total commercial	49,492	50,758
Consumer:		
Secured	23,749	20,931
Unsecured	1,873	2,643
Deferred costs net of unearned fees	15	14
Total consumer	25,637	23,588
Total loans	$ 1,080,766	$ 942,451

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, 2014 and 2013, total loans outstanding to these related parties were $842,000 and $729,000, respectively. During 2014, $280,000 of additions and $167,000 of repayments were made to these loans, compared to $50,000 of additions and $73,000 of repayments made during 2013.

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

	December 31, 2014	December 31, 2013
	(In thousands)	
Non-accrual loans	$ 1,620	$ 1,582
Loans past due >90 days, but still accruing	9	121
Troubled debt restructurings	—	—
Total non-performing loans	$ 1,629	$ 1,703

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

	December 31, 2014	December 31, 2013
	(In thousands)	
Non-accrual loans:		
Residential mortgage loans	$ 846	$ 645
Commercial mortgage loans	337	379
Home equity loans	326	340
Commercial loans	106	218
Consumer loans	5	3
Total	$ 1,620	$ 1,585

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

December 31, 2014 (In thousands)	Residential Mortgages	Home Equity	Consumer
Credit risk profile based on payment activity:			
Performing	$ 506,370	$ 56,253	$ 25,632
Non-performing	846	326	5
Total	$ 507,216	$ 56,579	$ 25,637

	Commercial Mortgages	Commercial
Credit risk profile by internally assigned grade:		
Pass	$ 440,085	$ 43,508
Special mention	1,177	3,436
Substandard	580	2,548
Doubtful	—	—
Total	$ 441,842	$ 49,492

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 90 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, 2014						
	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	$ 506,227	$ 170	$ 151	$ 668	$ 989	$ 507,216	$ —
Commercial mortgage loans	441,217	413	212	—	625	441,842	—
Home equity loans	56,260	—	—	319	319	56,579	—
Commercial loans	49,300	164	19	9	192	49,492	9
Consumer loans	25,634	3	—	—	3	25,637	—
Total	$1,078,638	$ 750	$ 382	$ 996	$ 2,128	$1,080,766	$ 9

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

	December 31, 2014						
	Residential Mortgages	Commercial Mortgages	Home Equity	Commercial	Consumer	Unallocated	Total
				(In thousands)			
Allowance for loan losses:							
Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Collectively evaluated for impairment	5,174	7,285	679	750	328	53	14,269
Total	$ 5,174	$ 7,285	$ 679	$ 750	$ 328	$ 53	$ 14,269
Loans receivable:							
Individually evaluated for impairment	$ —	$ 337	$ —	$ 157	$ —		$ 494
Collectively evaluated for impairment	507,216	441,505	56,579	49,335	25,637		$1,080,272
Total	$507,216	$ 441,842	$56,579	$49,492	$25,637		$1,080,766

	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

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.

During the 3rd Quarter of 2014, the Corporation updated its methodology for determining its allowance for loan losses to better reflect changes in the risk profile of its loan portfolio including greater disaggregation of environmental factors, an update to assigned risk allocations for qualitative factors, and an update to the historical loss experience term look-back period. The impact of that change in methodology is reflected in the following table.

Changes in the allowance for loan losses were as follows:

	December 31, 2014						
	Residential Mortgages	Commercial Mortgages	Home Equity	Commercial	Consumer	Unallocated	Total
				(In thousands)			
Balance at beginning of year	$ 4,490	$ 5,954	$ 476	$ 845	$ 302	$ 641	$ 12,708
Provision for loan losses	697	1,232	113	(71)	(21)	(400)	1,550
Change in methodology	—	90	90	(6)	14	(188)	—
Loans charged off	(13)	—	—	(20)	(12)	—	(45)
Recoveries	—	9	—	2	45	—	56
Balance at end of year	$ 5,174	$ 7,285	$ 679	$ 750	$ 328	$ 53	$ 14,269

An analysis of mortgage servicing rights follows:

	Mortgage Servicing Rights	Valuation Allowance	Total
		(In thousands)	
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
Mortgage servicing rights capitalized	63	—	63
Amortization charged against servicing income	(127)	—	(127)
Change in impairment reserve	—	12	12
Balance at December 31, 2014	$ 332	$ —	$ 332

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, 2014, the Bank’s investment in FHLB Boston stock exceeded its required investment by $2,530,000. 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, 2014, 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**
	2014	**2013**	**Useful Lives**
	(In thousands)		
Land	$ 1,116	$ 1,116	
Building and leasehold improvements	12,506	12,577	1-30 years
Equipment, including vaults	9,215	16,399	3-20 years
Construction in process	290	2,620	
Subtotal	23,127	32,712	
Accumulated depreciation and amortization	(14,760)	(22,761)	
Total	$ 8,367	$ 9,951	

Total depreciation expense for the years ended December 31, 2014 and 2013 amounted to approximately $1,817,000 and $1,569,000, respectively, and is included in occupancy and equipment expenses in the accompanying consolidated statements of income.

9. GOODWILL AND OTHER INTANGIBLE ASSETS

At December 31, 2014 and 2013, the carrying value of goodwill, which is included in other assets, totaled $412,000. Goodwill and intangible assets that are not amortized are tested for impairment, based on their fair values, at least annually. As of December 31, 2014, no impairment has been recognized.

10. DEPOSITS

Deposits are summarized as follows:

	December 31, 2014	December 31, 2013
	(In thousands)	
Demand deposits (non-interest bearing)	$ 390,286	$ 382,255
Interest bearing checking	352,661	335,010
Money market	74,654	78,410
Savings	430,040	489,160
Certificates of deposit under $100,000	49,768	52,025
Certificates of deposit $100,000 or greater	73,127	72,187
Total deposits	$ 1,370,536	$ 1,409,047

Certificates of deposit had the following schedule of maturities:

	December 31, 2014	December 31, 2013
	(In thousands)	
Less than 3 months remaining	$ 41,987	$ 44,631
3 to 5 months remaining	21,661	21,546
6 to 11 months remaining	24,607	23,042
12 to 23 months remaining	16,533	20,707
24 to 47 months remaining	12,515	10,036
48 months or more remaining	5,592	4,250
Total certificates of deposit	$ 122,895	$ 124,212

Interest expense on certificates of deposit $100,000 or greater was $472,000 and $533,000 for the years ended December 31, 2014 and 2013, respectively.

11. BORROWINGS

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

	Year Ended December 31, 2014	Year Ended December 31, 2013
	(Dollars in thousands)	
Short-term borrowings:		
Average daily balance	$ 69,915	$ 42,753
Average interest rate	0.21%	0.26%
Highest month-end balance	$ 117,000	$ 72,000

There were no long-term borrowings outstanding at either December 31, 2014 or 2013.

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, 2014 was approximately $219,596,000.

The Bank also has a line of credit with the FRB Boston. At December 31, 2014, the Bank had pledged commercial real estate and commercial & industrial loans with aggregate principal balances of approximately $278,558,000 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, 2014 was approximately $138,105,000.

12. INCOME TAXES

The components of income tax expense were as follows:

	Year Ended December 31,	
	2014	2013
	(In thousands)	
Current:		
Federal	$ 6,639	$ 6,324
State	1,356	1,009
Total current expense	7,995	7,333
Deferred:		
Federal	(592)	(340)
State	(167)	(96)
Total deferred (benefit)/expense	(759)	(436)
Total income tax expense	$ 7,236	$ 6,897

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,	
	2014	2013
	(In thousands)	
Provision at statutory rates	$ 7,763	$ 7,363
Increase/(decrease) resulting from:		
State tax, net of federal tax benefit	773	593
Tax-exempt income	(938)	(710)
ESOP dividends	(189)	(176)
Bank owned life insurance	(233)	(228)
Other	60	55
Total income tax expense	$ 7,236	$ 6,897

As of December 31, 2014 and 2013, the Corporation had no unrecognized tax assets or liabilities.

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

	December 31,	
	2014	2013
	(In thousands)	
Gross deferred tax assets:		
Allowance for loan losses	$ 5,829	$ 5,191
Accrued retirement benefits	3,923	—
Unrealized losses on AFS securities	80	1,847
Incentive compensation	624	—
Depreciation of premises and equipment	—	338
Equity based compensation	273	231
Rent	253	228
ESOP dividends	221	206
Goodwill	4	129
Other	174	171
Total gross deferred tax assets	11,381	8,341
Gross deferred tax liabilities:		
Accrued retirement benefits	—	(616)
Deferred loan origination costs	(492)	(444)
Depreciation of premises and equipment	(340)	—
Mortgage servicing rights	(135)	(157)
Total gross deferred tax liabilities	(967)	(1,217)
Net deferred tax asset	$ 10,414	$ 7,124

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, 2014 or 2013 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, 2014 and 2013, 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 2011 tax return year and forward. The Corporation's state income tax returns are generally open from the 2011 and later tax return years based on individual state statute of limitations.

13. 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	
	2014	2013	2014	2013
	(In thousands)			
Change in projected benefit obligation:				
Obligation at beginning of year	$ 30,209	$ 32,580	$ 6,216	$ 6,837
Service cost	1,291	1,539	527	630
Interest cost	1,480	1,300	311	273
Actuarial loss/(gain)	8,718	(4,386)	1,279	(1,402)
Benefits paid	(734)	(824)	(122)	(122)
Obligation at end of year	40,964	30,209	8,211	6,216
Change in plan assets:				
Fair value at beginning of year	38,639	33,156	—	—
Actual return on plan assets	2,495	5,307	—	—
Employer contribution	—	1,000	122	122
Benefits paid	(734)	(824)	(122)	(122)
Fair value at end of year	40,400	38,639	—	—
Overfunded (underfunded) status at end of year	$ (564)	$ 8,430	$ (8,211)	$ (6,216)

Amounts recognized in the consolidated balance sheets consisted of:

	Pension Plan		Supplemental Retirement Plan	
	2014	2013	2014	2013
	(In thousands)			
Other (liabilities)/assets	$ (564)	$ 8,430	$ (8,211)	$ (6,216)

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

	Pension Plan		Supplemental Retirement Plan	
	2014	2013	2014	2013
	(In thousands)			
Net actuarial loss/(gain)	$ 10,790	$ 1,709	$ 935	$ (344)
Prior service (benefit)	(29)	(34)	—	—
	$ 10,761	$ 1,675	$ 935	$ (344)

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

	Pension Plan		Supplemental Retirement Plan	
	2014	2013	2014	2013
	(In thousands)			
Projected benefit obligation	$ 40,964	$ 30,209	$ 8,211	$ 6,216
Accumulated benefit obligation	34,572	25,513	8,211	6,216
Fair value of plan assets	40,400	38,639	—	—

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

	Pension Plan		Supplemental Retirement Plan	
	2014	2013	2014	2013
	(In thousands)			
Net periodic benefit cost:				
Service cost	$ 1,291	$ 1,539	$ 527	$ 630
Interest cost	1,481	1,300	311	273
Expected return on assets	(2,859)	(2,487)	—	—
Amortization of prior service (benefit)/cost	(4)	(4)	—	79
Amortization of net actuarial loss	—	741	—	53
Net periodic (benefit)/cost	(91)	1,089	838	1,035
Amounts recognized in other comprehensive income:				
Net actuarial loss/(gain)	9,082	(7,947)	1,279	(1,402)
Amortization of prior service cost/(benefit)	4	4	—	(79)
Total recognized in other comprehensive (loss)/income	9,086	(7,943)	1,279	(1,481)
Total recognized in net periodic benefit cost and other comprehensive (loss)/income	$ 8,995	$ (6,854)	$ 2,117	$ (446)

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

	Pension Plan		Supplemental Retirement Plan	
	2014	2013	2014	2013
Discount rate	4.00%	5.00%	4.00%	5.00%
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	
	2014	2013	2014	2013
Discount rate	5.00%	4.00%	5.00%	4.00%
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 2015.

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

	December 31,	
	2014	2013
Equity securities	74%	74%
Debt securities	20	23
Cash and equivalents	6	3
Total	100%	100%

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

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

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

	Fair Value as of December 31, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Asset category:				
Cash and cash equivalents	$ 2,270	$ —	$ —	$ 2,270
Equity securities:				
Common stocks:				
Large cap core	16,003	—	—	16,003
Mid cap core	3,393	—	—	3,393
Small cap core	14	—	—	14
International	2,794	—	—	2,794
Mutual funds:				
Fixed income	8,006	—	—	8,006
Mid cap blend	1,622	—	—	1,622
International	6,278	—	—	6,278
Total	$ 40,380	$ —	$ —	$ 40,380

There were no transfers between fair value levels during the years ended December 31, 2014 and 2013.

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	
	2014	2013
	(In thousands)	
Change in projected benefit obligation:		
Obligation at beginning of year	$ 508	$ 628
Service cost	12	14
Interest cost	23	22
Actuarial loss/(gain)	129	(124)
Benefits paid	(26)	(32)
Obligation at end of year	646	508
Change in plan assets:		
Fair value at beginning of year	—	—
Actual return on plan assets	—	—
Employer contribution	26	32
Benefits paid	(26)	(32)
Fair value at end of year	—	—
Overfunded (underfunded) status at end of year	$ (646)	$ (508)

Amounts recognized in the consolidated balance sheets consisted of:

	Postretirement Healthcare Plan	
	2014	2013
	(In thousands)	
Other liabilities	$ (646)	$ (508)

Amounts recognized in accumulated other comprehensive loss consisted of:

	Postretirement Healthcare Plan	
	2014	2013
	(In thousands)	
Net actuarial loss	$ 25	$ 170
Prior service cost	12	20
	$ 37	$ 190

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

	Postretirement Healthcare Plan	
	2014	2013
	(In thousands)	
Projected benefit obligation	$ 646	$ 508
Accumulated benefit obligation	646	508
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	
	2014	2013
	(In thousands)	
Net periodic benefit cost:		
Service cost	$ 12	$ 14
Interest cost	23	22
Expected return on assets	—	—
Amortization of prior service (benefit)	(8)	(8)
Amortization of net actuarial (gain)	(16)	(5)
Net periodic benefit cost	11	23
Amounts recognized in other comprehensive income:		
Net actuarial loss/(gain)	129	(124)
Amortization of prior service cost	8	8
Amortization of net actuarial loss	16	5
Total recognized in other comprehensive loss/(income)	153	(111)
Total recognized in net periodic benefit cost and other comprehensive loss/(income)	$ 164	$ (88)

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

	Postretirement Healthcare Plan	
	2014	2013
Discount rate	4.00%	5.00%
Rate of compensation increase	NA	NA

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

	Postretirement Healthcare Plan	
	2014	2013
Discount rate	5.00%	4.00%
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,	
	2014	2013
Health care cost trend rate assumed for next year	4.00%	5.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.00%	5.00%
Year that the rate reaches the ultimate trend rate	2015	2014

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

	One Percentage Point	
	Increase	Decrease
	(In thousands)	
Effect on total service and interest cost	$ —	$ —
Effect on postretirement benefit obligation	12	(11)

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)		
2015	$ 1,142	$ 369	$ 29	$ 1,540
2016	1,178	492	29	1,699
2017	1,229	501	28	1,758
2018	1,340	596	27	1,963
2019	1,381	596	26	2,003
2020-2024 inclusive	8,512	3,095	155	11,762
Ten year total	$ 14,782	$ 5,649	$ 294	$ 20,725

The estimated amounts that will be amortized from accumulated other comprehensive income into net periodic benefit cost during 2015 are as follows:

	Pension Plan	Supplemental Retirement Plan	Post-retirement Healthcare Plan	Total
		(In thousands)		
Prior service cost	$ 4	$ —	$ —	$ 4
Net loss	712	—	8	720
Total	$ 716	$ —	$ 8	$ 724

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 12 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, 2014 and 2013, the ESOP owned 320,534 shares and 314,773 shares, respectively, of the Corporation's common stock.

Total expenses related to the Profit Sharing and ESOP Plans for the years ended December 31, 2014 and 2013, amounted to approximately $900,000 and $516,000, respectively.

14. 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, 2014 and 2013, and changes during the years ended on those dates is presented below:

	2014		2013	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Stock options:				
Outstanding at beginning of year	248,777	$ 29.71	312,916	$ 30.25
Granted	—	—	—	—
Forfeited	—	—	—	—
Expired	(29,624)	30.79	(42,121)	34.11
Exercised	(42,156)	29.38	(22,018)	28.95
Outstanding at end of year	176,997	29.61	248,777	29.71
Exercisable at end of year	176,997	$ 29.61	248,777	$ 29.71

The following table summarizes information about stock options outstanding at December 31, 2014:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding at 12/31/14	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/14	Weighted Average Exercise Price
$25.00 - $29.99	147,839	1.7 years	$ 28.97	147,839	$ 28.97
$30.00 - $34.99	29,158	2.1 years	$ 32.87	29,158	$ 32.87
	176,997	1.8 years	$ 29.61	176,997	$ 29.61

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, 2014 and 2013, and changes during the years ended on those dates is presented below:

	2014		2013	
	Number of Shares	Weighted Average Grant Value	Number of Shares	Weighted Average Grant Value
Restricted stock:				
Non-vested at beginning of year	31,752	$ 33.85	45,704	$ 33.34
Granted	19,368	41.88	1,200	40.09
Vested	(10,742)	33.85	(14,852)	32.82
Forfeited	(1,292)	33.62	(300)	32.03
Non-vested at end of year	39,086	37.84	31,752	33.85

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, 2014 and 2013, and changes during the years ended on those dates is presented below:

	2014		2013	
	Number of Shares	Weighted Average Grant Value	Number of Shares	Weighted Average Grant Value
Restricted stock units:				
Non-vested at beginning of year	27,215	$ 36.73	26,205	$ 33.22
Granted	9,118	44.02	9,880	40.70
Vested (Performance achieved)	—	—	—	—
Forfeited	(1,420)	37.86	—	—
Expired (Performance not achieved)	(8,325)	34.44	(8,870)	30.80
Non-vested at end of year	26,588	39.85	27,215	36.73

Total expense related to the Stock Option Plan for the years ended December 31, 2014 and 2013, amounted to approximately $525,000 and $404,000, 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, 2014 and 2013 were 4,392 and 4,821, respectively.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

To meet the financing needs of its customers, the Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments 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, 2014	December 31, 2013
	(In thousands)	
Standby letters of credit	$ 14,989	$ 18,775
Commitments to extend credit:		
Unused portion of existing lines of credit	206,074	170,354
Origination of new loans	58,418	22,894
Commitments to sell loans	—	800
Liabilities associated with letters of credit	105	145

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

16. COMMITMENTS AND CONTINGENCIES

The Corporation is obligated under various lease agreements covering its main office, branch offices and other locations. These agreements are accounted for as operating leases and their terms expire between 2015 and 2025 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, 2014 were as follows:

Year Ended December 31,	Future Minimum Lease Payments
	(In thousands)
2015	$ 4,114
2016	3,761
2017	2,910
2018	2,568
2019	2,084
Thereafter	3,264
Total minimum lease payments	$ 18,701

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

amounted to approximately $3,998,000 and $4,009,000 for the years ended December 31, 2014 and 2013, 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 $33,000 and $32,000 for the years ended December 31, 2014 and 2013, 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.

17. STOCKHOLDERS’ EQUITY

Capital guidelines issued by the Federal Reserve Board (“FRB”) and by the FDIC require that the Corporation and the Bank maintain minimum capital levels for capital adequacy purposes. These regulations also require banks and their holding companies to maintain higher capital levels to be considered “well-capitalized”. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, there are specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The risk-based capital rules are designed to make regulatory capital more sensitive to differences in risk profiles among bank and bank holding companies, to account for off-balance-sheet exposure and to minimize disincentives for holding liquid assets. Management believes that as of December 31, 2014 and 2013, 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, 2014:						
Cambridge Bancorp:						
Total capital (to risk-weighted assets).....	$ 135,696	13.2%	$ 82,374	8.0%	$ 102,967	10.0%
Tier I capital (to risk-weighted assets).....	122,808	11.9%	41,187	4.0%	61,780	6.0%
Tier I capital (to average assets)	122,808	7.8%	63,358	4.0%	79,198	5.0%
Cambridge Trust Company:						
Total capital (to risk-weighted assets).....	$ 131,704	12.8%	$ 82,374	8.0%	$ 102,967	10.0%
Tier I capital (to risk-weighted assets).....	118,816	11.5%	41,187	4.0%	61,780	6.0%
Tier I capital (to average assets)	118,816	7.6%	62,686	4.0%	78,358	5.0%
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%

18. OTHER INCOME

The components of other income were as follows:

	Year Ended December 31,	
	2014	2013
	(In thousands)	
Safe deposit box income	$ 337	$ 345
Loan fee income..	312	282
Miscellaneous income..	290	248
Total other income	$ 939	$ 875

19. OTHER OPERATING EXPENSES

The components of other operating expenses were as follows:

	Year Ended December 31,	
	2014	2013
	(In thousands)	
Contributions / Public relations	$ 547	$ 489
Director fees	529	473
Travel and entertainment	294	325
Dues and memberships	294	276
Printing and supplies	286	373
Postage	282	283
Security	266	254
Other losses	455	129
Miscellaneous expense	260	230
Total other operating expenses	$ 3,213	$ 2,832

20. 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, 2014		
	Before Tax Amount	Tax (Expense) or Benefit	Net-of-tax Amount
		(In thousands)	
Defined benefit retirement plans:			
Change in unfunded retirement liability	$ (10,517)	$ 4,296	$ (6,221)
Unrealized gains/(losses) on AFS securities:			
Unrealized holding gains/(losses) arising during the period	6,124	(2,152)	3,972
Reclassification adjustment for gains recognized in net income	(1,073)	385	(688)
	$ (5,466)	$ 2,529	$ (2,937)

	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 (losses)/gains on AFS securities:			
Unrealized holding (losses)/gains 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)

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

Year Ended December 31, 2014		
Details about AOCI Components	Amount Reclassified from AOCI	Affected Line Item on the Statement of Income
	(In thousands)	
Unrealized gains/(losses) on AFS securities:		
	$ 1,073	Gain on disposition of investment securities
	(385)	Income tax expense
	$ 688	Net income

21. EARNINGS PER SHARE

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

	Year Ended December 31, 2014	
	Basic EPS	Diluted EPS
Numerator:		
Net income	$ 14,793,000	$ 14,944,000
Denominator:		
Weighted average common shares outstanding	3,886,692	3,886,692
Dilutive effect of stock options	—	70,724
Total shares	3,886,692	3,957,416
Earnings per share	$ 3.81	$ 3.78

	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

22. 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, 2014		December 31, 2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 17,440	$ 17,440	$ 88,107	$ 88,107
Securities - available for sale	339,791	339,791	388,793	388,793
Securities - held to maturity	79,646	83,431	59,181	61,455
Loans held for sale	284	284	403	405
Loans, net	1,066,497	1,073,244	929,743	935,837
FHLB Boston stock	7,955	7,955	6,231	6,231
Accrued interest receivable	3,925	3,925	3,626	3,626
Mortgage servicing rights	332	453	384	438
Financial liabilities:				
Deposits	1,370,536	1,369,307	1,409,047	1,407,948
Short-term borrowings	69,000	69,000	—	—

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, 2014			
	Level 1	Level 2	Level 3	Total
	(In thousands)			
Measured on a recurring basis:				
Securities available for sale:				
U.S. GSE obligations	$ —	$ 90,471	$ —	$ 90,471
Mortgage-backed securities	—	245,680	—	245,680
Corporate debt securities	—	3,016	—	3,016
Mutual funds	624	—	—	624

	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

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.

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

Off-Balance-Sheet Financial Instruments

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

Values Not Determined

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

CAMBRIDGE TRUST COMPANY – OFFICERS

Name	Title
Joseph V. Roller II	Chairman, President & Chief Executive Officer
Lynne M. Burrow	Executive Vice President & Chief Information Officer
Michael A. Duca	Executive Vice President & Head of Wealth Management
Thomas A. Johnson	Executive Vice President, Consumer Banking Director & Secretary
Martin B. Millane, Jr.	Executive Vice President & Chief Lending Officer
Albert R. Rietheimer	Executive Vice President, Chief Financial Officer & Treasurer
Noreen A. Briand	Senior Vice President & Human Resources Director
Robert N. Siegrist	Senior Vice President & Marketing Director
James F. Spencer	Senior Vice President & Chief Investment Officer
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
Carol J. Bartalussi	Vice President
Jo-Ann E. Bussiere	Vice President
Stephen A. Caputo	Vice President
Joseph D. Cardarelli	Vice President & Information Technology Manager
Kathleen E. Carlson	Vice President & Business Development Officer
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
Vidalia M. DiVito	Vice President, Senior Residential Real Estate Officer
Martin A. Fenton	Vice President, Commercial Real Estate
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)

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
Ana M. Mojica . . . . . Vice President
Maria Montgomery . . . . . Vice President
Patricia J. Mullin . . . . . Vice President
Frank Pasciuto . . . . . Vice President
Robert C. Pasciuto, Esq. . . . . . Vice President & Trust Officer
Steven G. Pisan . . . . . Vice President
John J. Quintal . . . . . Vice President, Commercial Real Estate
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
James J. Zurn . . . . . Vice President & Retail Administrator
Julia M. Cawley . . . . . Assistant Vice President & Operations Officer
John H. Chambers . . . . . Assistant Vice President
Christopher E. Durning . . . . . Assistant Vice President
Alice J. Flanagan . . . . . Assistant Vice President & Trust Officer
Laura C. Ganat . . . . . Assistant Vice President & Loan Servicing Officer
Stephen W. Hall . . . . . Assistant Vice President & GLBA Compliance 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
Walter J. McIrney . . . . . Assistant Vice President & Security Officer
Richard A. Moquin . . . . . Assistant Vice President & Tax Officer
Mary Colt Navins . . . . . Assistant Vice President

CAMBRIDGE TRUST COMPANY – OFFICERS (continued)

Susan A. O'Keefe . . . . Assistant Vice President & Business Banking Operations Manager
Barbara E. Piacentino . . . . Assistant Vice President & Operations Officer
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 . . . . Commercial Officer, Portfolio Manager
Christian W. Horne . . . . Senior Credit Analyst 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
Jason R. Stone . . . . Information Security Officer
Peter C. Stoneman . . . . Consumer Loan Officer
Linda G. Sullivan . . . . Human Resources Officer
James R. Weishaupt . . . . Operations 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
Judith K. Noel . . . . Senior Vice President & Trust Officer
Michael P. Panebianco . . . . Vice President & Trust Officer

CAMBRIDGE TRUST COMPANY – EMPLOYEES

Bailey, Adrienne
Basnyat, Nivedita
Bickford, Lindsey
Bober, Jeffrey
Burke, Sandra
Carnazzo, Gail
Carter, Dalisa
Caruso, Judy
Catanzano, Joseph
Cedrone, Jeffrey
Chowdhury, Farzana
Cole, Jeffrey
Cope, Andrea
Costello, Laura
Cronburg, Wendy
Curtin, Stephen
Dalomba, Christian
Dean-Arnold, Shellie
DeAngelis, Maryellen
DeDominicis, Catherine
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
Hamilton, Elizabeth
Howard, Margaret
Hutchinson, Beverly
Islam, Khondaker
Jacobs, Catherine
Jorge, Adelaide
Kantor, Jasmine
Kaufman, Theresa
Keenan, Robert
Khavandgar, Nicholas
Kingsford, Alessandra
Kirwin, Marie
Kourmanopoulos, Michael
Kumari, Anita
Kuzmich, Katherine
Kvitman, Marina
LaMorticelli, René
Lapos, Christina
Lazzari, Linda
Leonard, Ketline
Leonard, Sean
Lettieri, Robyn
Levine, Patricia
Lim, Raymond
Liu, Rose
Lombardo, Joseph
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Lucas, Nicole
Manessis, Demetrios
Marcantonio, Paul
McCarty, William
McWilliams, Katherine
Medeiros, Linda
Membrino, Patricia
Mesina, Rosita
Miranda, Ana Paula
Mui, Donna
Mulcahy, Deborah
Murphy, Barbara
Nardella, Justine
Nichols, Pamela
O’Leary, Brendan
O’Rourke, Alan
Olivier, Hermyne
Palacios, Maria Del Mar
Park, David
Perry Durkee, Christina
Phuyal, Puja
Prager, Robert
Quigley, Maria
Reed, Michael
Ricker, Kelly
Rudden, Thomas
Rzeszutek, Melanie
Sands, Janet
Serio, Linda
Shahi, Bala
Shay, Debbie
Small, Jasmine
Smith, Zachary
Sottile, Charlotte
Soul, Jr., Harwood
Sprague, Cynthia
Squitieri, Angela
Stephano, Susan
Tamasi, Joanne
Thain, Lina
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

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Travers, Janelle
Schwechheimer, Brenda
Talbot, Michele

Cambridge Trust Company

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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

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