# Section 1: 10-Q (10-Q)

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2020**

**OR**

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

**For the transition period from _________________ to __________________**

**Commission File Number: 001-38184**

# CAMBRIDGE BANCORP
**(Exact Name of Registrant as Specified in its Charter)**

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

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

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

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

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☒ |
| Non-accelerated filer | ☐ | Small reporting company | ☐ |
| | | Emerging growth Company | ☐ |

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

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

| | | |
|---|---|---|
| **Common Stock**<br>**(Title of each class)** | **CATC**<br>**(Trading symbol)** | **NASDAQ**<br>**(Name of each exchange on which registered)** |

As of April 30, 2020, the registrant had 5,416,875 shares of common stock, $1.00 par value per share, outstanding.

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## CAMBRIDGE BANCORP AND SUBSIDIARIES

## PART I—FINANCIAL INFORMATION

**Item 1. Financial Statements.**

## CAMBRIDGE BANCORP AND SUBSIDIARIES
## UNAUDITED CONSOLIDATED BALANCE SHEETS

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (dollars in thousands, except par value) | |
| **Assets** | | |
| Cash and cash equivalents | $ 42,989 | $ 61,335 |
| Investment securities | | |
| Available for sale, at fair value (amortized cost $115,485 and $141,109, respectively) | 117,947 | 140,330 |
| Held to maturity, at amortized cost (fair value $256,860 and $264,114, respectively) | 246,906 | 258,172 |
| Total investment securities | 364,853 | 398,502 |
| Loans held for sale, at lower of cost or fair value | 2,875 | 1,546 |
| Loans | | |
| Residential mortgage | 917,103 | 917,566 |
| Commercial mortgage | 1,089,796 | 1,060,574 |
| Home equity | 83,066 | 80,675 |
| Commercial & Industrial | 127,648 | 133,236 |
| Consumer | 38,189 | 34,677 |
| Total loans | 2,255,802 | 2,226,728 |
| Less: allowance for credit losses on loans | (20,163) | (18,180) |
| Net loans | 2,235,639 | 2,208,548 |
| Federal Home Loan Bank of Boston Stock, at cost | 6,268 | 7,854 |
| Bank owned life insurance | 37,479 | 37,319 |
| Banking premises and equipment, net | 14,593 | 14,756 |
| Right-of-use asset operating leases | 32,312 | 33,587 |
| Deferred income taxes, net | 3,721 | 8,229 |
| Accrued interest receivable | 6,872 | 7,052 |
| Goodwill | 31,206 | 31,206 |
| Merger related intangibles, net | 3,248 | 3,338 |
| Other assets | 70,574 | 42,291 |
| Total assets | $ 2,852,629 | $ 2,855,563 |
| **Liabilities** | | |
| Deposits | | |
| Demand | $ 608,240 | $ 630,593 |
| Interest bearing checking | 506,654 | 450,098 |
| Money market | 175,158 | 181,406 |
| Savings | 880,944 | 914,499 |
| Certificates of deposit | 219,363 | 182,282 |
| Total deposits | 2,390,359 | 2,358,878 |
| Short-term borrowings | 75,147 | 135,691 |
| Long-term borrowings | — | — |
| Operating lease liabilities | 33,813 | 35,054 |
| Other liabilities | 55,551 | 39,379 |
| Total liabilities | 2,554,870 | 2,569,002 |
| **Shareholders' Equity** | | |
| Common stock, par value $1.00; Authorized: 10,000,000 shares; Outstanding: 5,417,983 shares and 5,400,868 shares, respectively | 5,418 | 5,401 |
| Additional paid-in capital | 137,186 | 136,766 |
| Retained earnings | 150,891 | 146,875 |
| Accumulated other comprehensive income (loss) | 4,264 | (2,481) |
| Total shareholders' equity | 297,759 | 286,561 |
| Total liabilities and shareholders' equity | $ 2,852,629 | $ 2,855,563 |

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

**CAMBRIDGE BANCORP AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENTS OF INCOME**

| | Three Months Ended | |
|---|---|---|
| | March 31, 2020 | March 31, 2019 |
| | (dollars in thousands, except share data) | |
| Interest and dividend income | | |
| Interest on taxable loans | $ 23,338 | $ 16,284 |
| Interest on tax-exempt loans | 198 | 89 |
| Interest on taxable investment securities | 1,723 | 1,980 |
| Interest on tax-exempt investment securities | 595 | 571 |
| Dividends on FHLB of Boston stock | 101 | 76 |
| Interest on overnight investments | 140 | 118 |
| Total interest and dividend income | 26,095 | 19,118 |
| Interest expense | | |
| Interest on deposits | 3,129 | 2,501 |
| Interest on borrowed funds | 566 | 356 |
| Total interest expense | 3,695 | 2,857 |
| Net interest and dividend income | 22,400 | 16,261 |
| Provision (Release) for Credit Losses | 2,000 | (93) |
| Net interest and dividend income after provision (release) for credit losses | 20,400 | 16,354 |
| Noninterest income | | |
| Wealth management revenue | 6,627 | 6,124 |
| Deposit account fees | 791 | 738 |
| ATM/Debit card income | 307 | 276 |
| Bank owned life insurance income | 160 | 127 |
| Loss on disposition of investment securities | — | (87) |
| Gain on loans sold | 119 | 16 |
| Loan related derivative income | 510 | 436 |
| Other income | 304 | 327 |
| Total noninterest income | 8,818 | 7,957 |
| Noninterest expense | | |
| Salaries and employee benefits | 13,016 | 10,827 |
| Occupancy and equipment | 2,807 | 2,330 |
| Data processing | 1,685 | 1,346 |
| Professional services | 859 | 807 |
| Marketing | 256 | 404 |
| FDIC insurance | 179 | — |
| Nonoperating expenses | 253 | 91 |
| Other expenses | 870 | 568 |
| Total noninterest expense | 19,925 | 16,373 |
| Income before income taxes | 9,293 | 7,938 |
| Income tax expense | 2,061 | 1,740 |
| Net income | $ 7,232 | 6,198 |
| Share data: | | |
| Weighted average number of shares outstanding, basic | 5,397,040 | 4,072,805 |
| Weighted average number of shares outstanding, diluted | 5,432,099 | 4,106,658 |
| Basic earnings per share | $ 1.34 | $ 1.51 |
| Diluted earnings per share | $ 1.33 | $ 1.49 |

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

**CAMBRIDGE BANCORP AND SUBSIDIARIES**
**UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| Net income | $ 7,232 | $ 6,198 |
| Other comprehensive income, net of tax: | | |
| Unrealized gains on available for sale securities | | |
| Unrealized holding gains | 2,500 | 1,095 |
| Less: reclassification adjustment for losses included in net income | — | 66 |
| Total unrealized gains on securities | 2,500 | 1,161 |
| Derivatives | | |
| Change in interest rate contracts | 4,246 | (30) |
| Defined benefit retirement plans | | |
| Change in retirement liabilities | (1) | 26 |
| Other comprehensive income | 6,745 | 1,157 |
| Comprehensive income | $ 13,977 | $ 7,355 |

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

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

| | Three Months Ended March 31, | | | | |
|---|---|---|---|---|---|
| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) / Income | Total Shareholders' Equity |
| | (dollars in thousands, except per share data) | | | | |
| Balance at December 31, 2018 | $ 4,107 | $ 38,271 | $ 131,135 | $ (6,487) | $ 167,026 |
| Net income | — | — | 6,198 | — | 6,198 |
| Other comprehensive income | — | — | — | 1,157 | 1,157 |
| Share based compensation | 17 | (32) | — | — | (15) |
| Dividends declared ($0.51 per share) | — | — | (2,098) | — | (2,098) |
| Balance at March 31, 2019 | $ 4,124 | $ 38,239 | $ 135,235 | $ (5,330) | $ 172,268 |
| | | | | | |
| Balance at December 31, 2019 | $ 5,401 | $ 136,766 | $ 146,875 | $ (2,481) | $ 286,561 |
| Cumulative effect of accounting changes (Note 4) | — | — | (347) | — | (347) |
| Net income | — | — | 7,232 | — | 7,232 |
| Other comprehensive income | — | — | — | 6,745 | 6,745 |
| Share based compensation | 17 | 420 | — | — | 437 |
| Dividends declared ($0.53 per share) | — | — | (2,869) | — | (2,869) |
| Balance at March 31, 2020 | $ 5,418 | $ 137,186 | $ 150,891 | $ 4,264 | $ 297,759 |

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

## CAMBRIDGE BANCORP AND SUBSIDIARIES
## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | $ 7,232 | $ 6,198 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 2,000 | (93) |
| Amortization of deferred charges and fees, net | 51 | 199 |
| Depreciation and amortization | 78 | 393 |
| Bank owned life insurance income | (160) | (127) |
| Loss/(gain) on disposition of investment securities | — | 87 |
| Share based compensation | 437 | (15) |
| Change in accrued interest receivable | 180 | (250) |
| Deferred income tax expense/(benefit) | 2,265 | 1,202 |
| Change in other assets, net | (23,741) | (35,439) |
| Change in other liabilities, net | 19,613 | 30,638 |
| Change in loans held for sale | (1,329) | — |
| Net cash provided by operating activities | 6,626 | 2,793 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Origination of loans | (158,477) | (107,949) |
| Proceeds from principal payments of loans | 127,572 | 112,585 |
| Proceeds from calls/maturities of securities available for sale | 25,559 | 8,825 |
| Proceeds from sales of securities available for sale and held to maturity | — | 15,913 |
| Proceeds from calls/maturities of securities held to maturity | 11,139 | 14,882 |
| Purchase of securities held to maturity | — | (30,966) |
| Redemption of FHLB of Boston stock | 1,586 | 4,172 |
| Purchase of banking premises and equipment | (364) | (534) |
| Net cash (used in) provided by investing activities | 7,015 | 16,928 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Change in demand, interest bearing, money market and savings accounts | (5,600) | 43,128 |
| Change in certificates of deposit | 37,026 | 47,825 |
| Change in short-term borrowings | (60,544) | (90,000) |
| Repayment of long-term borrowings | — | (43) |
| Cash dividends paid on common stock | (2,869) | (2,098) |
| Net cash provided by (used in) financing activities | (31,987) | (1,188) |
| Net (decrease)/increase in cash and cash equivalents | (18,346) | 18,533 |
| Cash and cash equivalents at beginning of period | 61,335 | 18,473 |
| Cash and cash equivalents at end of period | $ 42,989 | $ 37,006 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | |
| Cash paid during the period for: | | |
| Interest | $ 3,696 | $ 2,763 |
| Income taxes | — | 970 |
| Significant non-cash transactions | | |
| Right-of-use assets for lessee operating leases | — | 31,975 |
| Right-of-use liabilities for lessee operating leases | — | 33,263 |
| Transfer of other real estate owned | 2,293 | — |

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

## 1. BASIS OF PRESENTATION

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

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

The unaudited consolidated financial statements reflect all adjustments (consisting of normal recurring adjustments) and disclosures necessary to present fairly the Company's financial position, as of March 31, 2020 and December 31, 2019, respectively, and the results of operations and cash flows for the interim periods presented in accordance with U.S. generally accepted accounting principles ("GAAP"). Interim results are not necessarily reflective of the results of the entire year.

For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 Form 10-K"), filed with the Securities and Exchange Commission on March 16, 2020.

## 2. USE OF ESTIMATES

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

## 3. SUBSEQUENT EVENTS

Management has reviewed events occurring through May 8, 2020, the date the unaudited consolidated financial statements were available to be issued and determined that no subsequent events occurred requiring adjustment to or disclosure in these financial statements.

## 4. RECENTLY ISSUED AND ADOPTED ACCOUNTING GUIDANCE

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

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

The amendments are effective for all entities from the beginning of an interim period that includes the issuance date of the ASU. An entity may elect to apply the amendments prospectively through December 31, 2022. We are currently assessing the impact the adoption of this guidance will have on our consolidated balance sheets, statements of income, and cash flows.

Accounting Standards Update 2018-15 - *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"). On August 29, 2018, the FASB issued amended guidance to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The Company adopted the amended guidance on January 1, 2020, using the prospective method, and it did not have a material impact on the consolidated financial statements.

Accounting Standards Update 2018-14 - *Changes to the Disclosure Requirements for Defined Benefit Plans* ("ASU 2018-14"). On August 28, 2018, the FASB issued guidance to remove, add, and clarify certain disclosures for defined benefit plans. The ASU is effective for fiscal years ending after December 15, 2020; early adoption is permitted and should be applied using the retrospective method to all periods presented. We are currently assessing the impact the adoption of this guidance will have on our consolidated balance sheets, statements of income, and cash flows.

Accounting Standards Update 2018-13 - *Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). On August 28, 2018, the FASB issued guidance to remove, add, and clarify certain disclosures for fair value measurement. The Company adopted the amended guidance on January 1, 2020 using the prospective method and it did not have an impact on our consolidated balance sheets, statements of income, or cash flows.

Accounting Standards Update 2016-13 - *Financial Instruments - Credit Losses* ("Topic 326"): *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13, which has been codified under Topic 326, replaced the previous GAAP method of calculating loan losses. Previously, GAAP required the use of the incurred loss methodology versus ASU 2016-13 which utilizes an expected loss methodology. The CECL methodology incorporates forecasting in addition to historical and current measures. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, held to maturity and available for sale debt securities. The Company adopted ASU 2016-13 and related amendments on January 1, 2020 using a modified-retrospective approach for all financial assets measured at amortized cost and off-balance- sheet (OBS) credit exposures and recorded a decrease in retained earnings of $347,000, net of taxes. Results for reporting periods beginning after January 1, 2020 are presented under Topic 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

The Company's CECL methodology consists of quantitative and qualitative components. The quantitative component of the allowance for credit losses ("ACL") is model based and utilizes a single forward-looking macroeconomic forecast, complemented by qualitative components in estimating expected credit losses. The qualitative components of the ACL consider (i) the uncertainty of forward-looking scenarios; (ii) certain portfolio characteristics, such as portfolio concentrations, real estate values, changes in the number and amount of nonaccrual and past due loans; and (iii) model limitations; among others.

ASU 2016-13 also applies to off-balance sheet credit exposure not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar investment) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases.

*January 1, 2020 CECL Transition (Day 1) Impact*

The CECL methodology reflects the Company's view of the state of the economy and forecasted macroeconomic conditions and their impact on the Company's loan and investment portfolios as of the adoption date.

The following table illustrates the impact of Topic 326:

| | January 1, 2020 | | |
|---|---|---|---|
| | As reported under ASC 326 | Pre-ASC 326 Adoption | Impact of ASC 326 Adoption |
| | (dollars in thousands) | | |
| **ASSETS** | | | |
| Loans | | | |
| Residential mortgage | $ 7,202 | $ 5,141 | $ 2,061 |
| Commercial mortgage | 9,545 | 10,992 | (1,447) |
| Home equity | 256 | 461 | (205) |
| Commercial & Industrial | 896 | 1,388 | (492) |
| Consumer | 486 | 198 | 288 |
| Allowance for credit losses on loans | $ 18,385 | $ 18,180 | $ 205 |
| **LIABILITIES** | | | |
| Allowance for credit losses on OBS credit exposure | $ 326 | $ 50 | $ 276 |

**Summary of significant accounting policies impacted by Topic 326**

***Debt Securities***

Investment securities are classified as either 'held to maturity' or 'available for sale' in accordance with the 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. Held to maturity securities are carried at cost and adjusted for the amortization of premiums and the accretion of discounts using the effective-yield or straight-line method.

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

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

*Allowance for credit losses-available for sale securities*
The Company measures expected credit losses on available for sale securities based upon the gain or loss position of the security. For available-for sale debt securities in an unrealized loss position, which the Company does not intend to sell, or it is not more likely than not that the Company will be required to sell the security before recovery of our amortized cost, the Company evaluates qualitative

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

***Loans***

Loans are reported at the amount of their outstanding principal, including deferred loan origination fees and costs, reduced by unearned discounts, and the allowance for credit losses. Loans are considered delinquent when a payment of principal and/or interest becomes past due 30 days following its scheduled payment due date. Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Loans are removed from non-accrual when they become less than 90 days past due and when concern no longer exists as to the collectability of principal or interest.

*Allowance for Credit Losses - Loans*

Losses on loan receivables are estimated and recognized upon origination of the loan, based on expected credit losses for the life of the loan balance as of the period end date. The Company uses a discounted cash flow method incorporating probability of default and loss given default forecasted based on statistically derived economic variable loss drivers combined with qualitative factors to estimate expected credit losses. This process includes estimates which involve modeling loss projections attributable to existing loan balances, considering historical experience, current conditions and future expectations for homogeneous pools of loans over the reasonable and supportable forecast period. As stated above, we also perform a qualitative assessment beyond model estimates, and apply qualitative adjustments as management deems necessary. The reasonable and supportable forecast period is determined based upon the accuracy level of historical loss forecast estimates, the specific loan level models and methodology utilized, and considers material changes in growth and credit strategy, and business changes which may not be applicable within the current environment. For periods beyond a reasonable and supportable forecast interval, the Company reverts to historical information over a period for which comparable data is available. The historical information either experienced by the Company, or by a selection of peer banks when appropriate, is derived from a combination of recessionary and non-recessionary performance periods for which data is available. Similar to the reasonable and supportable forecast period, we reassess the reversion period at the segment level, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time.

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

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

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

***Allowance for Unfunded commitments***

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

See Note 2 - Basis of Presentation and Summary of Significant Accounting Policies to our 2019 annual consolidated financial statements in our 2019 Form 10-K, for additional information on our other significant accounting policies.

See Note 7 - LOANS AND THE ALLOWANCE FOR CREDIT LOSSES for a detailed discussion of the Company's allowance for credit losses.

## 5. CASH AND CASH EQUIVALENTS

At March 31, 2020 and December 31, 2019, cash and cash equivalents totaled $43.0 million and $61.3 million, respectively. Of this amount, $0 and $12.7 million, respectively, were maintained to satisfy the reserve requirements of the Federal Reserve Bank of Boston ("FRB Boston"). Additionally, at March 31, 2020 and December 31, 2019, the Company pledged $500,000 to the New Hampshire Banking Department relating to Cambridge Trust Company of New Hampshire, Inc.'s operations in that state. The Company also pledged cash collateral to derivative counterparties totaling $24.2 million and $10.4 million at March 31, 2020 and December 31, 2019, respectively. See Note 17- Derivatives and Hedging Activities for a discussion of the Company's derivative and hedging activities.

## 6. INVESTMENT SECURITIES

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

| | March 31, 2020 | | | | December 31, 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | (dollars in thousands) | | | | | | | |
| Available for sale securities | | | | | | | | |
| U.S. GSE obligations | $ 18,000 | $ 590 | $ — | $ 18,590 | $ 38,000 | $ — | $ (152) | $ 37,848 |
| Mortgage-backed securities | 97,485 | 2,084 | (212) | 99,357 | 103,109 | 231 | (858) | 102,482 |
| Total available for sale securities | $ 115,485 | $ 2,674 | $ (212) | $117,947 | $ 141,109 | $ 231 | $ (1,010) | $140,330 |
| Held to maturity securities | | | | | | | | |
| U.S. GSE obligations | $ 5,000 | $ 7 | $ — | $ 5,007 | $ 5,000 | $ — | $ — | $ 5,000 |
| Mortgage-backed securities | 152,159 | 6,579 | (41) | 158,697 | 161,759 | 2,751 | (111) | 164,399 |
| Corporate debt securities | 6,982 | 135 | — | 7,117 | 6,980 | 116 | — | 7,096 |
| Municipal securities | 82,765 | 3,359 | (85) | 86,039 | 84,433 | 3,252 | (66) | 87,619 |
| Total held to maturity securities | $ 246,906 | $ 10,080 | $ (126) | $256,860 | $ 258,172 | $ 6,119 | $ (177) | $264,114 |
| Total | $ 362,391 | $ 12,754 | $ (338) | $374,807 | $ 399,281 | $ 6,350 | $ (1,187) | $404,444 |

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

The following tables show the Company's securities with gross unrealized losses for which an allowance for credit losses has not been recorded at March 31, 2020 and temporarily impaired at December 31, 2019, aggregated by investment category and length of time that individual securities have been in a continuous loss position:

| | March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (dollars in thousands) | | | | | |
| Available for sale securities | | | | | | |
| Mortgage-backed securities | $ 14,822 | $ (202) | $ 1,231 | $ (10) | $ 16,053 | $ (212) |
| Held to maturity securities | | | | | | |
| Mortgage-backed securities | $ 6,853 | $ (41) | $ 2 | $ — | $ 6,855 | $ (41) |
| Municipal securities | 3,146 | (85) | — | — | 3,146 | (85) |
| Total held to maturity securities | $ 9,999 | $ (126) | $ 2 | $ — | $ 10,001 | $ (126) |
| Total | $ 24,821 | $ (328) | $ 1,233 | $ (10) | $ 26,054 | $ (338) |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | 12 months or longer | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| | (dollars in thousands) | | | | | |
| **Temporarily Impaired Securities** | | | | | | |
| Available for sale securities | | | | | | |
| U.S. GSE obligations | $ 12,912 | $ (88) | $ 24,936 | $ (64) | $ 37,848 | $ (152) |
| Mortgage-backed securities | 33,381 | (265) | 50,766 | (593) | 84,147 | (858) |
| Corporate debt securities | — | — | — | — | — | — |
| Total available for sale securities | $ 46,293 | $ (353) | $ 75,702 | $ (657) | $ 121,995 | $ (1,010) |
| | | | | | | |
| Held to maturity securities | | | | | | |
| U.S. GSE obligations | $ — | $ — | $ 5,000 | $ — | $ 5,000 | $ — |
| Mortgage-backed securities | 14,838 | (27) | 12,928 | (84) | 27,766 | (111) |
| Corporate debt securities | — | — | — | — | — | — |
| Municipal securities | 4,934 | (66) | — | — | 4,934 | (66) |
| Total held to maturity securities | $ 19,772 | $ (93) | $ 17,928 | $ (84) | $ 37,700 | $ (177) |
| Total temporarily impaired securities | $ 66,065 | $ (446) | $ 93,630 | $ (741) | $ 159,695 | $ (1,187) |

The Company adopted ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)* on January 1, 2020 and did not record an allowance for credit losses on its investment securities during the quarter ended March 31, 2020. The Company regularly reviews debt securities for expected credit loss using both qualitative and quantitative criteria, as necessary based on the composition of the portfolio at period end.

As of March 31, 2020, 17 debt securities had gross unrealized losses, with an aggregate depreciation of 3.43% from the Company's amortized cost basis. The largest unrealized loss percentage and largest unrealized loss dollar amount of any single security was 3.82%, or $76,000, of its amortized cost.

As of December 31, 2019, 68 debt securities had gross unrealized losses, with an aggregate depreciation of 0.74% from the Company's amortized cost basis. The largest unrealized loss percentage of any single security was 3.15%, or $63,000 of its amortized cost. The largest unrealized dollar loss of any single security was $96,000, or 1.93%, of its amortized cost.

The Company 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 Company does not intend to sell these securities before recovery and (b) that it is more likely than not that the Company will not be required to sell these securities before recovery, and the Company does not expect to suffer a credit loss as of March 31, 2020 and December 31, 2019.

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

| | Within One Year | | After One, But Within Five Years | | After Five, But Within Ten Years | | After Ten Years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| **At March 31, 2020** | (dollars in thousands) | | | | | | | | | |
| Available for sale securities | | | | | | | | | | |
| U.S. GSE obligations | $ — | $ — | $ 5,000 | $ 5,063 | $ 5,000 | $ 5,140 | $ 8,000 | $ 8,387 | $ 18,000 | $ 18,590 |
| Mortgage-backed Securities | — | — | 29 | 30 | 34,726 | 35,792 | 62,730 | 63,535 | 97,485 | 99,357 |
| Total available for sale securities | $ — | $ — | $ 5,029 | $ 5,093 | $ 39,726 | $ 40,932 | $ 70,730 | $ 71,922 | $ 115,485 | $117,947 |
| Held to maturity securities | | | | | | | | | | |
| U.S. GSE obligations | $ 5,000 | $5,007 | $ — | $ — | $ — | $ — | $ — | $ — | $ 5,000 | $ 5,007 |
| Mortgage-backed Securities | — | — | 2 | 2 | 46,317 | 49,273 | 105,840 | 109,422 | 152,159 | 158,697 |
| Corporate debt securities | — | — | 6,982 | 7,117 | — | — | — | — | 6,982 | 7,117 |
| Municipal securities | 2,770 | 2,785 | 11,669 | 11,998 | 44,816 | 47,074 | 23,510 | 24,182 | 82,765 | 86,039 |
| Total held to maturity Securities | $ 7,770 | $7,792 | $ 18,653 | $19,117 | $ 91,133 | $ 96,347 | $ 129,350 | $133,604 | $ 246,906 | $256,860 |
| Total | $ 7,770 | $7,792 | $ 23,682 | $24,210 | $ 130,859 | $137,279 | $ 200,080 | $205,526 | $ 362,391 | $374,807 |

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| Amortized cost of securities sold | $ — | $ 16,000 |
| Gross gains realized on securities sold | — | — |
| Gross losses realized on securities sold | — | (87) |
| Net proceeds from securities sold | $ — | $ 15,913 |

The Company monitors the credit quality of certain debt securities through the use of credit rating among other factors. The Company monitors the credit rating of applicable debt securities quarterly. The following table summarizes the credit rating of the Company's debt securities portfolio at March 31, 2020.

| | March 31, 2020 | | | | |
|---|---|---|---|---|---|
| | Mortgage-backed Securities | Corporate Debt Securities | Municipal Securities | U.S. GSE obligations | Total |
| | (dollars in thousands) | | | | |
| Available for sale securities, at fair value | | | | | |
| AAA/AA/A (1) | $ 99,357 | $ — | $ — | $ 18,590 | $ 117,947 |
| Total available for sale securities | $ 99,357 | $ — | $ — | $ 18,590 | $ 117,947 |
| Held to maturity securities, at amortized cost | | | | | |
| AAA/AA/A | $ 152,159 | $ 6,982 | $ 82,490 | $ 5,000 | $ 246,631 |
| BBB/BB/B | — | | 275 | — | 275 |
| Total held to maturity securities | $ 152,159 | $ 6,982 | $ 82,765 | $ 5,000 | $ 246,906 |

(1) Include Agency MBS pass-through securities and CMOs issued by GSEs and U.S. government agencies, such as FNMA, FHLMC, and GNMA that are not rated by Moody's or S&P. Each security contains a guarantee by the issuing GSE or agency and therefore carry an implicit guarantee of the U.S. Government. These have been categorized as AAA/AA/A.

## 7. LOANS AND THE ALLOWANCE FOR CREDIT LOSSES

The Company's lending activities are conducted primarily in Eastern Massachusetts and Southern New Hampshire. The Company grants single- and multi-family residential loans, commercial & industrial ("C&I"), commercial real estate ("CRE"), construction loans, and a variety of consumer loans. Most of the loans granted by the Company are secured by real estate collateral. Repayment of the Company's residential loans are generally dependent on the health of the employment market in the borrowers' geographic areas and that of the general economy with liquidation of the underlying real estate collateral being typically viewed as the primary source of repayment in the event of borrower default. The repayment of C&I loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower. As borrower cash flow may be difficult to predict, liquidation of the underlying collateral securing these loans is typically viewed as the primary source of repayment in the event of borrower default. However, collateral typically consists of equipment, inventory, accounts receivable, or other business assets that may fluctuate in value, so the liquidation of collateral in the event of default is often an insufficient source of repayment. The Company's CRE loans are primarily made based on the cash flow from the collateral property and secondarily on the underlying collateral provided by the borrower, with liquidation of the underlying real estate collateral typically being viewed as the primary source of repayment in the event of borrower default. The Company's construction loans are primarily made based on the borrower's expected ability to execute and the future completed value of the collateral property, with sale of the underlying real estate collateral typically being viewed as the primary source of repayment.

Loans outstanding are detailed by category as follows:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (dollars in thousands) | |
| Residential mortgage | | |
| Mortgages - fixed rate | $ 430,067 | $ 430,877 |
| Mortgages - adjustable rate | 469,025 | 467,139 |
| Construction | 15,209 | 17,374 |
| Deferred costs net of unearned fees | 2,802 | 2,176 |
| Total residential mortgages | 917,103 | 917,566 |
| | | |
| Commercial mortgage | | |
| Mortgages - non-owner occupied | 897,612 | 870,047 |
| Mortgages - owner occupied | 112,807 | 114,095 |
| Construction | 79,214 | 76,288 |
| Deferred costs net of unearned fees | 163 | 144 |
| Total commercial mortgages | 1,089,796 | 1,060,574 |
| | | |
| Home equity | | |
| Home equity - lines of credit | 76,359 | 73,880 |
| Home equity - term loans | 6,469 | 6,555 |
| Deferred costs net of unearned fees | 238 | 240 |
| Total home equity | 83,066 | 80,675 |
| | | |
| Commercial & industrial | | |
| Commercial & industrial | 127,683 | 133,337 |
| Deferred costs (fees) net of unearned fees | (35) | (101) |
| Total commercial & industrial | 127,648 | 133,236 |
| | | |
| Consumer | | |
| Secured | 37,100 | 33,453 |
| Unsecured | 1,065 | 1,199 |
| Deferred costs net of unearned fees | 24 | 25 |
| Total consumer | 38,189 | 34,677 |
| Total loans | $ 2,255,802 | $ 2,226,728 |

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

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

| | March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| . | Residential Mortgages | Commercial Mortgages | Home Equity | Commercial & Industrial | Consumer | Total |
| | (dollars in thousands) | | | | | |
| Non-performing loans: | | | | | | |
| Non-accrual loans | $ 1,427 | $ 114 | $ 12 | $ 121 | $ — | $ 1,674 |
| Loans past due >90 days, but still accruing | 109 | 1,334 | — | — | — | 1,443 |
| Troubled debt restructurings | 137 | — | — | 125 | — | 262 |
| Total | $ 1,673 | $ 1,448 | $ 12 | $ 246 | $ — | $ 3,379 |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Residential Mortgages | Commercial Mortgages | Home Equity | Commercial & Industrial | Consumer | Total |
| | (dollars in thousands) | | | | | |
| Non-performing loans: | | | | | | |
| Non-accrual loans | $ 1,298 | $ 2,800 | $ 12 | $ 50 | $ — | $ 4,160 |
| Loans past due >90 days, but still accruing | 527 | 486 | — | 251 | — | 1,264 |
| Troubled debt restructurings | 99 | — | — | 128 | — | 227 |
| Total | $ 1,924 | $ 3,286 | $ 12 | $ 429 | $ — | $ 5,651 |

***Troubled Debt Restructurings ("TDRs")***

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

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

There were no new TDRs during the three months ended March 31, 2020. At March 31, 2020, three loans were determined to be TDRs with a total carrying value of $262,000. There were no TDR defaults during the three months ended March 31, 2020.

The allowance for credit losses includes a specific reserve for these TDRs of approximately $87,000 as of March 31, 2020.

During the year ended December 31, 2019, the Company modified one loan with a carrying value of $128,000. At December 31, 2019, three loans were determined to be TDRs with a total carrying value of $227,000 as of December 31, 2019. There were no TDR defaults during the year ended December 31, 2019.

The allowance for loan losses includes a specific reserve for these TDRs of approximately $87,000 as of December 31, 2019.

As of March 31, 2020 and December 31, 2019, there were no significant commitments to lend additional funds to borrowers whose loans were restructured.

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

| | Credit Quality Indicator - by Origination Year as of March 31, 2020 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 | Prior | Revolving loans amortized cost basis | Total |
| | (in thousands) | | | | | | | |
| **Residential:** | | | | | | | | |
| Current | $ 35,560 | $ 222,923 | $ 165,049 | $ 132,202 | $ 96,869 | $ 262,827 | $ — | $ 915,430 |
| Non-performing | — | — | 812 | 62 | — | 799 | — | 1,673 |
| Total | $ 35,560 | $ 222,923 | $ 165,861 | $ 132,264 | $ 96,869 | $ 263,626 | $ — | $ 917,103 |
| **Home equity:** | | | | | | | | |
| Current | $ 259 | $ 836 | $ 1,806 | $ 618 | $ 125 | $ 884 | $ 78,526 | $ 83,054 |
| Non-performing | — | — | — | — | — | — | 12 | 12 |
| Total | $ 259 | $ 836 | $ 1,806 | $ 618 | $ 125 | $ 884 | $ 78,538 | $ 83,066 |
| **Consumer:** | | | | | | | | |
| Current | $ 4,341 | $ 12,641 | $ 2,044 | $ 3,447 | $ 5,019 | $ 9,962 | $ 735 | $ 38,189 |
| Non-performing | — | — | — | — | — | — | — | — |
| Total | $ 4,341 | $ 12,641 | $ 2,044 | $ 3,447 | $ 5,019 | $ 9,962 | $ 735 | $ 38,189 |

| | Credit Quality Indicator - by Origination Year as of March 31, 2020 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2018 | 2017 | 2016 | Prior | Revolving loans amortized cost basis | Revolving loans converted to term | Total |
| | (in thousands) | | | | | | | | |
| **Commercial:** | | | | | | | | | |
| Credit risk profile by internally assigned grade: | | | | | | | | | |
| 1-6 (Pass) | $ 48,730 | $ 327,775 | $ 207,019 | $ 92,843 | $ 120,266 | $ 285,756 | $ — | $ — | $ 1,082,389 |
| 7 (Special Mention) | — | — | 292 | 1,776 | 89 | 4,580 | — | — | 6,737 |
| 8 (Substandard) | — | — | — | — | 221 | 449 | — | — | 670 |
| 9 (Doubtful) | — | — | — | — | — | — | — | — | — |
| 10 (Loss) | — | — | — | — | — | — | — | — | — |
| Total | $ 48,730 | $ 327,775 | $ 207,311 | $ 94,619 | $ 120,576 | $ 290,785 | $ — | $ — | $ 1,089,796 |
| **Commercial & Industrial:** | | | | | | | | | |
| Credit risk profile by internally assigned grade: | | | | | | | | | |
| 1-6 (Pass) | $ 3,756 | $ 42,404 | $ 48,301 | $ 12,123 | $ 3,456 | $ 9,649 | $ 635 | $ — | $ 120,324 |
| 7 (Special Mention) | 119 | 531 | 467 | 471 | 198 | 390 | 20 | — | 2,196 |
| 8 (Substandard) | — | 1,489 | 340 | — | 3,248 | 51 | — | — | 5,128 |
| 9 (Doubtful) | — | — | — | — | — | — | — | — | — |
| 10 (Loss) | — | — | — | — | — | — | — | — | — |
| Total | $ 3,875 | $ 44,424 | $ 49,108 | $ 12,594 | $ 6,902 | $ 10,090 | $ 655 | $ — | $ 127,648 |

| | December 31, 2019 | | |
|---|---|---|---|
| | Residential Mortgages | Home Equity | Consumer |
| | (dollars in thousands) | | |
| Credit risk profile based on payment activity: | | | |
| Performing | $ 915,642 | $ 80,663 | $ 34,677 |
| Non-performing | 1,924 | 12 | — |
| Total | $ 917,566 | $ 80,675 | $ 34,677 |

| | Commercial Mortgages | Commercial & Industrial |
|---|---|---|
| Credit risk profile by internally assigned grade: | | |
| 1-6 (Pass) | $ 1,050,037 | $ 123,900 |
| 7 (Special Mention) | 7,360 | 4,289 |
| 8 (Substandard) | 3,177 | 5,047 |
| 9 (Doubtful) | — | — |
| 10 (Loss) | — | — |
| Total | $ 1,060,574 | $ 133,236 |

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

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

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

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

***Delinquencies***

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

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

| | March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater | Total Past Due | Current Loans | Total |
| | (dollars in thousands) | | | | | |
| Residential Mortgages | $ 7,227 | $ 2,873 | $ 700 | $ 10,800 | $ 906,303 | $ 917,103 |
| Commercial Mortgages | 5,484 | 721 | 1,334 | 7,539 | 1,082,257 | 1,089,796 |
| Home Equity | 288 | — | — | 288 | 82,778 | 83,066 |
| Commercial & Industrial | 79 | 506 | 190 | 775 | 126,873 | 127,648 |
| Consumer loans | — | 2 | — | 2 | 38,187 | 38,189 |
| Total | $ 13,078 | $ 4,102 | $ 2,224 | $ 19,404 | $ 2,236,398 | $ 2,255,802 |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days or Greater | Total Past Due | Current Loans | Total |
| | (dollars in thousands) | | | | | |
| Residential Mortgages | $ 8,710 | $ 1,089 | $ 1,047 | $ 10,846 | $ 906,720 | $ 917,566 |
| Commercial Mortgages | 811 | — | 3,161 | 3,972 | 1,056,602 | 1,060,574 |
| Home Equity | 57 | 12 | — | 69 | 80,606 | 80,675 |
| Commercial & Industrial | 272 | 226 | 251 | 749 | 132,487 | 133,236 |
| Consumer loans | 4 | 5 | — | 9 | 34,668 | 34,677 |
| Total | $ 9,854 | $ 1,332 | $ 4,459 | $ 15,645 | $ 2,211,083 | $ 2,226,728 |

There were no significant commitments to lend additional funds to borrowers whose loans were on nonaccrual status at March 31, 2020 and December 31, 2019.

***Foreclosure Proceedings***

*Other Real Estate Owned ("OREO")*

As of March 31, 2020, the Company recorded other real estate owned assets of $2.5 million. OREO consists of real estate properties, which have primarily served as collateral to secure loans that are controlled or owned by the Bank. These properties are recorded at fair value less estimated costs to sell at the date control is established, resulting in a new cost basis. The amount by which the recorded investment in the loan exceeds the fair value (net of estimated costs to sell) of the foreclosed asset is charged to the allowance for credit losses. Subsequent declines in the fair value of the foreclosed asset below the new cost basis are recorded through the use of a valuation allowance. Subsequent increases in the fair value are recorded as reductions in the valuation allowance, but not below zero. All costs incurred thereafter in maintaining the property are generally charged to noninterest expense.

As of March 31, 2020 and December 31, 2019, one loan secured by one- to four-family residential property amounting to $344,000 was in process of foreclosure.

***Allowance for Credit Losses***

The following table presents changes in the allowance for credit losses disaggregated by loan category:

| | For the Three Months Ended March 31, 2020 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Residential Mortgages | Commercial Mortgages | Home Equity | Commercial & Industrial | Consumer | Unfunded Commitments | Total |
| | (dollars in thousands) | | | | | | |
| **Allowance for credit loss:** | | | | | | | |
| Allowance for credit losses - loan portfolio: | | | | | | | |
| Balance at December 31, 2019 | $ 5,141 | $ 10,905 | $ 461 | $ 1,475 | $ 198 | $ — | $ 18,180 |
| Adoption of ASC 326 | 2,061 | (1,447) | (205) | (492) | 288 | — | 205 |
| Charge-offs | — | (187) | — | (89) | (14) | — | (290) |
| Recoveries | — | — | — | 12 | 13 | — | 25 |
| Provision for (Release of)-loan portfolio | 275 | 1,610 | 54 | 40 | 64 | — | 2,043 |
| Allowance for credit losses - loan portfolio | 7,477 | 10,881 | 310 | 946 | 549 | — | 20,163 |
| Allowance for credit losses - unfunded commitments: | | | | | | | |
| Balance at December 31, 2019 | $ — | $ — | $ — | $ — | $ — | $ 50 | $ 50 |
| Adoption of ASC 326 | — | — | — | — | — | 276 | 276 |
| Provision for (Release of) - unfunded commitments | — | — | — | — | — | (43) | (43) |
| Allowance for credit losses-unfunded commitments | — | — | — | — | — | 283 | 283 |
| **Total allowance for credit loss** | **$ 7,477** | **$ 10,881** | **$ 310** | **$ 946** | **$ 549** | **$ 283** | **$ 20,446** |

The following table presents changes in the allowance for loan losses disaggregated by loan category:

| | For the Three Months Ended March 31, 2019 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Residential Mortgages | Commercial Mortgages | Home Equity | Commercial & Industrial | Consumer | Impaired | Total |
| | (dollars in thousands) | | | | | | |
| Allowance for credit losses: | | | | | | | |
| Balance at December 31, 2018 | $ 4,946 | $ 9,626 | $ 517 | $ 1,415 | $ 264 | $ — | $ 16,768 |
| Charge-offs | — | — | — | (30) | (9) | — | (39) |
| Recoveries | — | — | — | 12 | 4 | — | 16 |
| Provision for (Release of) | 310 | (257) | 17 | (152) | (11) | — | (93) |
| Balance at March 31, 2019 | $ 5,256 | $ 9,369 | $ 534 | $ 1,245 | $ 248 | $ — | $ 16,652 |

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

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Residential Mortgages | Commercial Mortgages | Home Equity | Commercial & Industrial | Consumer | Total |
| | (dollars in thousands) | | | | | |
| Allowance for loan losses | | | | | | |
| Individually evaluated for impairment | $ — | $ — | $ — | $ 87 | $ — | $ 87 |
| Collectively evaluated for impairment | 5,141 | 10,905 | 461 | 1,388 | 198 | 18,093 |
| Total | $ 5,141 | $ 10,905 | $ 461 | $ 1,475 | $ 198 | $ 18,180 |
| | | | | | | |
| Loans receivable | | | | | | |
| Individually evaluated for impairment | $ 764 | $ 3,161 | $ 92 | $ 128 | $ — | $ 4,145 |
| Collectively evaluated for impairment | 916,802 | 1,057,413 | 80,583 | 133,108 | 34,677 | 2,222,583 |
| Total | $ 917,566 | $ 1,060,574 | $ 80,675 | $ 133,236 | $ 34,677 | $ 2,226,728 |

## 8. GOODWILL AND OTHER INTANGIBLE ASSETS

***Goodwill.*** As of March 31, 2020 and December 31, 2019, the carrying value of goodwill totaled $31.2 million. Goodwill is tested for impairment, based on its fair value, at least annually. As of March 31, 2020 and December 31, 2019, no goodwill impairment has been recognized.

***Core deposit intangibles***. In connection with the Company's merger with Optima Bank & Trust Company completed in April 2019, the Company recorded an asset for the core deposit intangible ("CDI") of $3.6 million. Amortization of CDI totaled $90,000 for the three ended March 31, 2020. As of March 31, 2020 and December 31, 2019, the carrying value of CDI assets totaled $3.2 million and $3.3 million respectively. The weighted-average remaining amortization period for CDI was approximately nine years at March 31, 2020**.**

***Mortgage servicing rights.*** Periodically, the Company sells certain residential mortgage loans to the secondary market. Generally, these loans are sold without recourse or other credit enhancements. As of March 31, 2020 and December 31, 2019, loans held for sale totaled $2.9 million and zero, respectively**.**

The Company either releases or retains the servicing rights on sold loans. For loans sold with servicing rights retained, the Company provides the servicing for the loans on a per-loan fee basis. Mortgage loans sold and servicing rights retained during the three months ended March 31, 2020 and the year ended December 31, 2019 were $5.7 million and $1.8 million, respectively. Total gain on loans sold were $73,000 and $19,000 for the three months ended March 31, 2020 and March 31, 2019, respectively.

An analysis of mortgage servicing rights, which are included in other assets, follows:

| | Mortgage Servicing Rights | Valuation Allowance | Total |
|---|---|---|---|
| | (dollars in thousands) | | |
| Balance at December 31, 2018 | $ 666 | $ — | $ 666 |
| Mortgage servicing rights capitalized | 4 | — | 4 |
| Amortization charged against servicing income | (23) | — | (23) |
| Change in impairment reserve | — | — | — |
| Balance at March 31, 2019 | $ 647 | $ — | $ 647 |
| | | | |
| Balance at December 31, 2019 | $ 1,347 | $ (26) | $ 1,321 |
| Mortgage servicing rights capitalized | 32 | — | 32 |
| Amortization charged against servicing income | (100) | — | (100) |
| Change in impairment reserve | — | (12) | (12) |
| Balance at March 31, 2020 | $ 1,279 | $ (38) | $ 1,241 |

The fair value of our mortgage servicing rights ("MSR") portfolio was $1.3 million and $0.9 million as of March 31, 2020 and March 31, 2019, respectively. The fair value of mortgage servicing rights is estimated based on the present value of expected cash flows, incorporating assumptions for discount rate, prepayment speed, and servicing cost.

The weighted-average amortization period for the mortgage servicing rights portfolio was 4.2 years and 5.2 years at March 31, 2020 and December 31, 2019, respectively.

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

| | | Future Amortization Expense |
|---|---|---|
| | | (dollars in thousands) |
| Remainder of 2020 | $ | 216 |
| 2021 | | 237 |
| 2022 | | 187 |
| 2023 | | 147 |
| 2024 | | 115 |
| Thereafter | | 377 |
| Total | $ | 1,279 |

**9. INCOME TAXES**

The Company's effective tax rate was 22.2% for the quarter ended March 31, 2020, as compared to 21.9% for the quarter ended March 31, 2019.

Net deferred tax assets totaled $3.7 million at March 31, 2020 and $8.2 million at December 31, 2019. The Company did not record a valuation allowance for deferred tax assets at March 31, 2020 or December 31, 2019.

The components of income tax expense were as follows:

| | Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2020 | | 2019 | |
| | (dollars in thousands) | | | |
| Current income tax expense (benefit) | | | | |
| Federal | $ | (478) | $ | 371 |
| State | | 274 | | 167 |
| Total current income tax expense (benefit) | | (204) | | 538 |
| | | | | |
| Deferred income tax expense | | | | |
| Federal | | 1,600 | | 818 |
| State | | 665 | | 384 |
| Total deferred income tax expense | | 2,265 | | 1,202 |
| Total income tax expense | $ | 2,061 | $ | 1,740 |

One of the business tax provisions of the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") included allowing net operating losses ("NOLs") generated by the Company in tax years 2018 and 2019 to be carried back up to five years at the tax rates in effect during those periods, rather than carried forward at current federal tax rates of 21%. This allowed the Company to recognize lower tax expense associated with NOL and, combined with adjustments to state NOL rates, resulted in a benefit of $372,000 during the first quarter of 2020.

## 10. PENSION AND RETIREMENT PLANS

The components of net periodic benefit cost (credit) were as follows:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | Pension Plan | | Supplemental Retirement Plan | | Retirement Healthcare Plan | |
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| | (dollars in thousands) | | | | | |
| Net periodic benefit cost | | | | | | |
| Service cost | $ — | $ — | $ 71 | $ 68 | $ 6 | $ 5 |
| Interest cost | 420 | 426 | 87 | 90 | 6 | 6 |
| Expected return on assets | (680) | (709) | — | — | — | — |
| Amortization of prior service cost (credit) | (1) | (1) | — | — | — | — |
| Amortization of net actuarial (gain) loss | 39 | — | — | — | (1) | (1) |
| Net periodic benefit cost (credit) | $ (222) | $ (284) | $ 158 | $ 158 | $ 11 | $ 10 |

The Company did not make any contributions to the qualified defined benefit pension plan during the three months ended March 31, 2020, nor does it expect to make any contributions to the qualified defined benefit plan during the remainder of 2020.

### *Employee Profit Sharing and 401(k) Plan*

The Company maintains a Profit Sharing Plan (“PSP”) that provides for deferral of federal and state income taxes on employee contributions allowed under Section 401(k) of federal law. The Company matches employee contributions up to 100% of the first 4% of each participant’s salary, eligible bonus, and eligible incentive. Employees are eligible to participate in the PSP on the first day of their initial date of service. Each year, the Company may also make a discretionary contribution to the PSP. Effective in 2019, employees are eligible to participate in the discretionary contribution portion of the PSP on the first day of their initial date of service. Additionally, employees must be employed on the last day of the calendar year or retire at the normal retirement age of 65 during the calendar year to receive the discretionary contribution.

### *Employee Stock Ownership Plan*

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

Total expenses related to the PSP and ESOP for the three months ended March 31, 2020 and March 31, 2019 amounted to $966,000 and $586,000, respectively.

### *Defined Contribution Supplemental Executive Retirement Plan (“DC SERP”)*

For executives participating in the DC SERP, the Company made a discretionary contribution of 10% of each executive’s base salary and bonus to his or her account under the Company’s DC SERP, the Executive Deferred Compensation Plan. Total expenses related to the DC SERP for both the three months ended March 31, 2020 and March 31, 2019 amounted to $43,000.

## 11. STOCK BASED COMPENSATION

### *Time Vested Restricted Stock Awards (“RSAs”) and Time Vested Restricted Stock Units (“RSUs”)*

During the three months ended March 31, 2020, the Company issued the following RSAs and RSUs from the 2017 Equity and Cash Incentive Plan. The fair value of RSAs and RSUs is based upon the Company’s common stock closing share price on the date of the grant. The holders of RSAs participate fully in the rewards of stock ownership of the Company, including voting and dividend rights.

| Shares Granted | Weighted-Average Fair Value at Grant Date | Type of Award |
|---|---|---|
| 10,988 | $ 75.50 | RSAs |
| 8,775 | $ 75.50 | RSUs |

***Performance-Based Restricted Stock Units ("PRSUs")***

On January 21, 2020, the Company granted 27,512 PRSUs. These PRSUs were issued from the 2017 Equity and Cash Incentive Plan and had a grant date fair value per share of $75.50, as determined by the closing price on grant date. PRSUs are subject to a 3-year performance period and are earned based on operating return on assets and operating diluted earnings per share growth performance as compared to the Company's peer group.

The following table presents the pre-tax expense associated with all outstanding non-vested RSAs, RSUs, PRSUs, and the related tax benefits recognized:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| Stock based compensation expense | $ 980 | $ 618 |
| Related tax benefits | $ 273 | $ 174 |

**12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

To meet the financing needs of its customers, the Company is a party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments are primarily comprised of commitments to extend credit, commitments to sell residential mortgage loans, derivatives contracts, risk participation agreements, 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. See NOTE 17 – DERIVATIVES AND HEDGING ACTIVITIES for a discussion of the Company's derivatives and hedging activities.

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

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

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (dollars in thousands) | |
| Financial instruments whose contractual amount represents credit risk: | | |
| Commitments to extend credit: | | |
| Unused portion of existing lines of credit | $ 417,193 | $ 428,020 |
| Origination of new loans | 82,755 | 24,413 |
| Standby letters of credit | 9,516 | 9,150 |
| Financial instruments whose notional amount exceeds the amount of credit risk: | | |
| Commitments to sell residential mortgage loans | 12,984 | 3,909 |

**13. LEASES**

*Lease Commitments*. The Company is obligated under various lease agreements covering its main office, branch offices, and other locations. These agreements are accounted for as operating leases and their terms expire between 2020 and 2030 and, in some instances, contain options to renew for periods up to 30 years.

The following table summarizes information related to the Company's right-of-use asset and net lease liability:

| | March 31, 2020 | | |
|---|---|---|---|
| | Operating Leases | | Balance Sheet Location |
| | (dollars in thousands) | | |
| Right-of-use asset | $ | 32,312 | Right-of-use asset operating leases |
| Lease liability | $ | 33,813 | Operating lease liabilities |

| | December 31, 2019 | | |
|---|---|---|---|
| | Operating Leases | | Balance Sheet Location |
| | (dollars in thousands) | | |
| Right-of-use asset | $ | 33,587 | Right-of-use asset operating leases |
| Lease liability | $ | 35,054 | Operating lease liabilities |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| Operating lease cost | $ 1,389 | $ 1,469 |
| Variable lease cost (Cost excluded from lease payments) | — | 1 |
| Sublease income | (16) | (16) |
| Total Operating Lease Cost | $ 1,373 | $ 1,454 |
| **Other Information** | | |
| Cash paid for amounts included in the measurement of lease liabilities - operating cash flows from operating leases | $ 1,327 | $ 1,436 |
| Operating Lease - Operating cash flows (Liability reduction) | 1,026 | 1,150 |
| Weighted average lease term - operating leases | 8.36 Years | 7.98 Years |
| Weighted average discount rate - operating leases | 3.38% | 3.39% |

The total minimum lease payments due in future periods for lease agreements in effect at March 31, 2020 were as follows:

| Year Ended March 31, 2020 | Future Minimum Lease Payments | |
|---|---|---|
| | (dollars in thousands) | |
| Remainder of 2020 | $ | 5,478 |
| 2021 | | 5,523 |
| 2022 | | 5,371 |
| 2023 | | 5,021 |
| 2024 | | 4,355 |
| Thereafter | | 14,553 |
| Total minimum lease payments | | 40,301 |
| Less: interest | | (6,488) |
| Total lease liability | $ | 33,813 |

Several of the Company's lease agreements contain clauses calling for escalation of minimum lease payments contingent on increases in real estate taxes, gross income adjustments, percentage increases in the consumer price index, and certain ancillary maintenance costs. Total rental expense was $1.5 million and $1.3 million for the quarter ended March 31, 2020 and March 31, 2019, respectively.

Under the terms of a sublease agreement, the Company will receive minimum annual rental payments of approximately $32,000 through July 31, 2020. Total rental income was $16,000 for both the quarters ended March 31, 2020 and March 31, 2019.

## 14. SHAREHOLDERS' EQUITY

As of March 31, 2020 and December 31, 2019, the Company and the Bank met all applicable minimum capital requirements and were considered "well-capitalized" by both the FRB and the FDIC.

The Company adopted ASU 2016-13 on January 1, 2020. The joint federal bank regulatory agencies issued an interim final rule that allows banking organizations to mitigate the effects of the CECL accounting standard in their regulatory capital. Banking organizations that are required under U.S. accounting standards to adopt CECL this year can elect to mitigate the estimated cumulative regulatory capital effects of CECL for up to two years, after which, the effects will be phased-in over a three-year period from January 1, 2022 through December 31, 2024. Under the interim final rule, the amount of adjustments to regulatory capital deferred until the phase-in period includes both the initial impact of our adoption of CECL at January 1, 2020 and 25% of subsequent changes in our allowance for credit losses during each quarter of the two-year period ended December 31, 2021. The Company did not elect to delay the adoption of CECL, nor adopt the transition period for regulatory capital.

| | Actual | | Minimum Capital Required For Capital Adequacy Plus Capital Conservation Buffer | | Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (dollars in thousands) | | | |
| **At March 31, 2020** | | | | | | |
| Cambridge Bancorp: | | | | | | |
| Total capital (to risk-weighted assets) | $ 279,487 | 13.6% | $ 215,500 | 10.5% | N/A | N/A |
| Tier I capital (to risk-weighted assets) | 259,041 | 12.6% | 174,452 | 8.5% | N/A | N/A |
| Common equity tier I capital (to risk-weighted assets) | 259,041 | 12.6% | 143,666 | 7.0% | N/A | N/A |
| Tier I capital (to average assets) | 259,041 | 9.2% | 112,520 | 4.0% | N/A | N/A |
| Cambridge Trust Company: | | | | | | |
| Total capital (to risk-weighted assets) | $ 273,807 | 13.3% | $ 215,498 | 10.5% | $ 205,236 | 10.0% |
| Tier I capital (to risk-weighted assets) | 253,361 | 12.3% | 174,451 | 8.5% | 164,189 | 8.0% |
| Common equity tier I capital (to risk-weighted assets) | 253,361 | 12.3% | 143,665 | 7.0% | 133,403 | 6.5% |
| Tier I capital (to average assets) | 253,361 | 9.0% | 112,519 | 4.0% | 140,649 | 5.0% |

| | Actual | | Minimum Capital Required For Capital Adequacy Plus Capital Conservation Buffer | | Minimum To Be Well-Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| | | | (dollars in thousands) | | | |
| **At December 31, 2019** | | | | | | |
| Cambridge Bancorp: | | | | | | |
| Total capital (to risk-weighted assets) | $ 272,727 | 13.6% | $ 210,342 | 10.5% | N/A | N/A |
| Tier I capital (to risk-weighted assets) | 254,497 | 12.7% | 170,277 | 8.5% | N/A | N/A |
| Common equity tier I capital (to risk-weighted assets) | 254,497 | 12.7% | 140,228 | 7.0% | N/A | N/A |
| Tier I capital (to average assets) | 254,497 | 9.0% | 113,365 | 4.0% | N/A | N/A |
| Cambridge Trust Company: | | | | | | |
| Total capital (to risk-weighted assets) | $ 271,034 | 13.5% | $ 210,341 | 10.5% | $ 200,325 | 10.0% |
| Tier I capital (to risk-weighted assets) | 252,804 | 12.6% | 170,276 | 8.5% | 160,260 | 8.0% |
| Common equity tier I capital (to risk-weighted assets) | 252,804 | 12.6% | 140,227 | 7.0% | 130,211 | 6.5% |
| Tier I capital (to average assets) | 252,804 | 8.9% | 113,364 | 4.0% | 141,705 | 5.0% |

## 15. OTHER COMPREHENSIVE INCOME

The following table presents the changes in accumulated other comprehensive income (loss) ("AOCI") during the period, by component, net of tax:

| | Three Months Ended March 31, 2020 | | | Three Months Ended March 31, 2019 | | |
|---|---|---|---|---|---|---|
| | Before Tax Amount | Tax Expense | Net-of-tax Amount | Before Tax Amount | Tax (Expense) or Benefit | Net-of-tax Amount |
| | (dollars in thousands) | | | | | |
| Unrealized (losses)/gains on available for sale securities | | | | | | |
| Unrealized holding (losses)/gains | $ 3,241 | $ (741) | $ 2,500 | $ 1,425 | $ (330) | $ 1,095 |
| Reclassification adjustment for (gains)/losses recognized in net income | — | — | — | 87 | (21) | 66 |
| Derivatives | | | | | | |
| Change in interest rate contracts | 5,886 | (1,640) | 4,246 | (42) | 12 | (30) |
| Defined benefit retirement plans | | | | | | |
| Change in retirement liability | (1) | — | (1) | 36 | (10) | 26 |
| Total Other Comprehensive (Loss)/Income | $ 9,126 | $ (2,381) | $ 6,745 | $ 1,506 | $ (349) | $ 1,157 |

Reclassifications out of AOCI that have an impact on net income are presented below:

| Details about Accumulated Other Comprehensive Income Components | Three Months Ended March 31, 2020 | 2019 | Affected Line Item in the Statement where Net Income is Presented |
|---|---|---|---|
| | (dollars in thousands) | | |
| Unrealized gains and losses on available for sale securities | $ — | $ (87) | Loss on disposition of investment securities |
| Tax benefit | — | 21 | Income taxes expense |
| Net of tax | $ — | $ (66) | Net income |

## 16. EARNINGS PER SHARE

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands, except per share data) | |
| **Earnings per common share - basic:** | | |
| Numerator: | | |
| Net income | $ 7,232 | $ 6,198 |
| Less dividends and undistributed earnings allocated to participating securities | (16) | (61) |
| Net income applicable to common shareholders | $ 7,216 | $ 6,137 |
| Denominator: | | |
| Weighted average common shares outstanding | 5,397 | 4,073 |
| Earnings per common share – basic | $ 1.34 | $ 1.51 |
| **Earnings per common share - diluted:** | | |
| Numerator: | | |
| Net income | $ 7,232 | $ 6,198 |
| Less dividends and undistributed earnings allocated to participating securities | (16) | (61) |
| Net income applicable to common shareholders | $ 7,216 | $ 6,137 |
| Denominator: | | |
| Weighted average common shares outstanding | 5,397 | 4,073 |
| Dilutive effect of common stock equivalents | 35 | 34 |
| Weighted average diluted common shares outstanding | 5,432 | 4,107 |
| Earnings per common share – diluted | $ 1.33 | $ 1.49 |

## 17. DERIVATIVE AND HEDGING ACTIVITIES

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

### *Cash Flow Hedges of Interest Rate Risk*

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

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

### Non-designated Hedges

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

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

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

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

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

The following tables present the notional amount, the location, and fair values of derivative instruments in the Company's Consolidated Balance Sheets:

| | March 31, 2020 | | | | | |
|---|---|---|---|---|---|---|
| | Derivative Assets | | | Derivative Liabilities | | |
| | Notional Amount | Balance Sheet Location | Fair Value | Notional Amount | Balance Sheet Location | Fair Value |
| | (dollars in thousands) | | | (dollars in thousands) | | |
| **Derivatives designated as hedging instruments** | | | | | | |
| Interest rate contracts | 150,000 | Other Assets | $ 8,749 | $ — | Other Liabilities | $ — |
| Total derivatives designated as hedging instruments | | | $ 8,749 | | | $ — |
| | | | | | | |
| **Derivatives not designated as hedging instruments** | | | | | | |
| Loan related derivative contracts | | | | | | |
| Interest rate swaps with customers | 281,284 | Other Assets | $ 32,721 | — | Other Liabilities | $ — |
| Mirror swaps with counterparties | — | Other Assets | — | 281,284 | Other Liabilities | 32,721 |
| Risk participation agreements-out to counterparties | 19,000 | Other Assets | 34 | — | Other Liabilities | — |
| Risk participation agreements-in with counterparties | — | Other Assets | — | 101,075 | Other Liabilities | 537 |
| Total derivatives not designated as hedging instruments | | | $ 32,755 | | | $ 33,258 |

| | December 31, 2019 | | | | | |
|---|---|---|---|---|---|---|
| | Derivative Assets | | | Derivative Liabilities | | |
| | Notional Amount | Balance Sheet Location | Fair Value | Notional Amount | Balance Sheet Location | Fair Value |
| | (dollars in thousands) | | | (dollars in thousands) | | |
| **Derivatives designated as hedging instruments** | | | | | | |
| Interest rate contracts | 150,000 | Other Assets | $ 2,911 | $ — | Other Liabilities | $ — |
| Total derivatives designated as hedging instruments | | | $ 2,911 | | | $ — |
| | | | | | | |
| **Derivatives not designated as hedging instruments** | | | | | | |
| Loan related derivative contracts | | | | | | |
| Interest rate swaps with customers | 241,187 | Other Assets | $ 12,980 | $ — | Other Liabilities | $ — |
| Mirror swaps with counterparties | — | Other Assets | — | 241,187 | Other Liabilities | 12,980 |
| Risk participation agreements-out to counterparties | 19,000 | Other Assets | 21 | — | Other Liabilities | — |
| Risk participation agreements-in with counterparties | — | Other Assets | — | 88,489 | Other Liabilities | 250 |
| Total derivatives not designated as hedging instruments | | | $ 13,001 | | | $ 13,230 |

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

| | Amount of Gain or (Loss) Recognized in OCI | Amount of Gain or (Loss) Recognized in OCI Included Component | Amount of Gain or (Loss) Recognized in OCI Excluded Component | Location of Gain or (Loss) | Amount of Gain or (Loss) Reclassified from AOCI into Income | Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component | Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component |
|---|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31, 2020 | | | | For the Three Months Ended March 31, 2020 | | |
| | (dollars in thousands) | | | | (dollars in thousands) | | |
| Interest rate contracts | $ 5,998 | $ 6,634 | $ (636) | Interest Income | $ 112 | $ 161 | $ (49) |

| | Amount of Gain or (Loss) Recognized in OCI | Amount of Gain or (Loss) Recognized in OCI Included Component | Amount of Gain or (Loss) Recognized in OCI Excluded Component | Location of Gain or (Loss) | Amount of Gain or (Loss) Reclassified from AOCI into Income | Amount of Gain or (Loss) Reclassified from AOCI into Income Included Component | Amount of Gain or (Loss) Reclassified from AOCI into Income Excluded Component |
|---|---|---|---|---|---|---|---|
| | For the Three Months Ended March 31, 2019 | | | | For the Three Months Ended March 31, 2019 | | |
| | (dollars in thousands) | | | | (dollars in thousands) | | |
| Interest rate contracts | $ (89) | $ — | $ (89) | Interest Income | $ (48) | $ — | $ (48) |

The Company estimates that an additional $2.3 million will be reclassified out of AOCI into earnings, as a reduction to interest income over the next twelve months.

The following table presents the effect of the Company’s derivative financial instruments on the Consolidated Income Statement for the periods presented:

| | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
|---|---|---|
| | Interest Income | Interest Income |
| | (dollars in thousands) | (dollars in thousands) |
| Total amount of income presented in the income statement in which the effects of cash flow hedges are recorded | $ 112 | $ (48) |
| Gain or (loss) on cash flow hedging relationships in Subtopic 815-20 | | |
| Interest rate contracts: | | |
| Amount of gain or (loss) reclassed from AOCI into income | $ 112 | $ (48) |
| Amount of gain or (loss) reclassed from AOCI into income - Included Component | 161 | — |
| Amount of gain or (loss) reclassed from AOCI into income - Excluded Component | $ (49) | $ (48) |

The following table presents the effect of the Company's derivative financial instruments that are not designated as hedging instruments on the Consolidated Income Statement as of the periods presented:

| | | Amount of Gain or (Loss) Recognized in Income on Derivative | |
|---|---|---|---|
| | | Three Months Ended March 31, 2020 | Three Months Ended March 31, 2019 |
| | Location of Gain or (Loss) | (dollars in thousands) | |
| Other contracts | Other income | $ 178 | $ 74 |
| Total | | $ 178 | $ 74 |

***Credit-risk-related Contingent Features***

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

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

As of March 31, 2020 and December 31, 2019, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $23.9 million and $9.6 million, respectively. As of March 31, 2020, and December 31, 2019, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted cash collateral of $24.1 million and $10.4 million, respectively. If the Company had breached any of these provisions at March 31, 2020 or December 31, 2019, it could have been required to settle its obligations under the agreements at their termination value of $23.9 million and $9.6 million, respectively.

***Balance Sheet Offsetting***

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

The following tables present the information about financial instruments that are eligible for offset in the Consolidated Balance sheets as March 31, 2020 and December 31, 2019:

| | Gross Amounts of Recognized | | Gross Amounts Offset | | Net Amounts Recognized | | Gross Amounts Not Offset: Financial Instruments | | Gross Amounts Not Offset: Collateral Pledged (Received) | | Net Amount | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | March 31, 2020 (dollars in thousands) | | | | | | | | | | | |
| Offsetting of Derivative Assets | | | | | | | | | | | | |
| Derivative Assets | $ | 41,504 | $ | — | $ | 41,504 | $ | 8,841 | $ | — | $ | 32,663 |
| Offsetting of Derivative Liabilities | | | | | | | | | | | | |
| Derivative Liabilities | $ | 33,258 | $ | — | $ | 33,258 | $ | 8,841 | $ | 23,558 | $ | 859 |

| | Gross Amounts of Recognized | | Gross Amounts Offset | | Net Amounts Recognized | | Gross Amounts Not Offset: Financial Instruments | | Gross Amounts Not Offset: Collateral Pledged (Received) | | Net Amount | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | December 31, 2019 (dollars in thousands) | | | | | | | | | | | |
| Offsetting of Derivative Assets | | | | | | | | | | | | |
| Derivative Assets | $ | 15,912 | $ | — | $ | 15,912 | $ | 3,128 | $ | - | $ | 12,784 |
| Offsetting of Derivative Liabilities | | | | | | | | | | | | |
| Derivative Liabilities | $ | 13,230 | $ | — | $ | 13,230 | $ | 3,128 | $ | 9,645 | $ | 457 |

**18. FAIR VALUE MEASUREMENTS**

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

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| | (dollars in thousands) | | | |
| Financial assets | | | | |
| Cash and cash equivalents | $ 42,989 | $ 42,989 | $ 61,335 | $ 61,335 |
| Securities available for sale | 117,947 | 117,947 | 140,330 | 140,330 |
| Securities held to maturity | 246,906 | 256,860 | 258,172 | 264,114 |
| Loans, net | 2,235,639 | 2,201,952 | 2,208,548 | 2,160,087 |
| Loans held for sale | 2,875 | 2,920 | 1,546 | 2,051 |
| FHLB Boston stock | 6,268 | 6,268 | 7,854 | 7,854 |
| Accrued interest receivable | 6,872 | 6,872 | 7,052 | 7,052 |
| Mortgage servicing rights | 1,241 | 1,293 | 1,321 | 1,526 |
| Interest rate contracts | 8,749 | 8,749 | 2,911 | 2,911 |
| Loan level interest rate swaps | 32,721 | 32,721 | 12,980 | 12,980 |
| Risk participation agreements out to counterparties | 34 | 34 | 21 | 21 |
| | | | | |
| Financial liabilities | | | | |
| Deposits | 2,390,359 | 2,390,866 | 2,358,878 | 2,358,089 |
| Short-term borrowings | 75,147 | 75,328 | 135,691 | 75,328 |
| Long-term borrowings | — | — | — | — |
| Loan level interest rate swaps | 32,721 | 32,721 | 12,980 | 12,980 |
| Risk participation agreements in with counterparties | 537 | 537 | 250 | 250 |

The Company follows ASC 820, *"Fair Value Measurements and Disclosures,"* ("ASC 820") 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 valuation techniques based on whether the types of valuation information ("inputs") are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs have created the following fair value hierarchy:

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

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

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

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

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

In accordance with the requirements of ASU 2016-01, the Company uses an exit price notion for its fair value disclosures.

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

| | Fair Value as of March 31, 2020 | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | | **(dollars in thousands)** | | |
| Measured on a recurring basis | | | | |
| Securities available for sale | | | | |
| U.S. GSE obligations | $ — | $ 18,590 | $ — | $ 18,590 |
| Mortgage-backed securities | — | 99,357 | — | 99,357 |
| Other assets | | | | |
| Interest rate swaps with customers | — | 32,721 | — | 32,721 |
| Risk participation agreements out to counterparties | — | 34 | — | 34 |
| Interest rate contracts | — | 8,749 | — | 8,749 |
| Other liabilities | | | | |
| Mirror swaps with counterparties | — | 32,721 | — | 32,721 |
| Risk participation agreements in with counterparties | — | 537 | — | 537 |

| | Fair Value as of December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (dollars in thousands) | | | |
| Measured on a recurring basis | | | | |
| Securities available for sale | | | | |
| U.S. GSE obligations | $ — | $ 37,848 | $ — | $ 37,848 |
| Mortgage-backed securities | — | 102,482 | — | 102,482 |
| Other assets | | | | |
| Interest rate swaps with customers | — | 12,980 | — | 12,980 |
| Risk participation agreements out to counterparties | — | 21 | — | 21 |
| Interest rate contracts | — | 2,911 | — | 2,911 |
| Other liabilities | | | | |
| Mirror swaps with counterparties | — | 12,980 | — | 12,980 |
| Risk participation agreements in with counterparties | — | 250 | — | 250 |

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

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (dollars in thousands) | | | |
| Items recorded at fair value on a non-recurring basis | | | | |
| Assets | | | | |
| Loans held for sale | 2,875 | — | — | 2,875 |
| Other real estate owned | — | — | 2,457 | 2,457 |
| Total | $ 2,875 | $ — | $ 2,457 | $ 5,332 |

The following table presents the carrying value of assets held at December 31, 2019, which were measured at fair value on a non-recurring basis:

| | December 31, 2019 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | (dollars in thousands) | | | |
| Items recorded at fair value on a non-recurring basis | | | | |
| Assets | | | | |
| Collateral dependent impaired loans | $ — | $ — | $ 2,541 | $ 2,541 |
| Loans held for sale | 1,546 | — | — | 1,546 |
| Other real estate owned | — | — | 163 | 163 |
| Total | $ 1,546 | $ — | $ 2,704 | $ 4,250 |

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

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

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

There were no transfers between levels for the three months ended March 31, 2020 and the three months ended March 31, 2019.

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

### *Investment Securities*

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

### *Loans Held for Sale*

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

### *Loans*

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

### *FHLB of Boston Stock*

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

### *Deposits*

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

### *Long-Term Borrowings*

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

### *Other Financial Assets and Liabilities*

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

### *Derivative Instruments and Hedges*

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

### *Off-Balance-Sheet Financial Instruments*

In the course of originating loans and extending credit, the 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 Company 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 Company.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

The following analysis discusses the changes in financial condition and results of operation of Cambridge Bancorp (together with its bank subsidiary, unless the context otherwise requires, the "Company") and should be read in conjunction with Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the Securities and Exchange Commission.

**Forward-Looking Statements**

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

- national, regional and local economic conditions may be less favorable than expected, resulting in, among other things, increased charge offs of loans, higher provisions for credit losses and/or reduced demand for the Company's services;
- disruptions to the credit and financial markets, either nationally or globally;
- the duration and scope of the coronavirus disease 2019 ("COVID-19") pandemic and its impact on levels of consumer confidence;
- actions governments, businesses and individuals take in response to the COVID-19 pandemic;
- the impact of the COVID-19 pandemic and actions taken in response to the pandemic on global and regional economies and economic activity;
- the pace of recovery when the COVID-19 pandemic subsides;
- weakness in the real estate market, including the secondary residential mortgage market, which can affect, among other things, the value of collateral securing mortgage loans, mortgage loan originations and delinquencies, and profits on sales of mortgage loans;
- legislative, regulatory or accounting changes, including changes resulting from the adoption and implementation of the Dodd-Frank Act, which may adversely affect our business and/or competitive position, impose additional costs on the Company or cause us to change our business practices;
- the Dodd-Frank Act's consumer protection regulations which could adversely affect the Company's business, financial condition or results of operations;
- disruptions in the Company's ability to access capital markets which may adversely affect its capital resources and liquidity;
- the Company's heavy reliance on communications and information systems to conduct its business and reliance on third parties and affiliates to provide key components of its business infrastructure, any disruptions of which could interrupt the Company's operations or increase the costs of doing business;
- that the Company's financial reporting controls and procedures may not prevent or detect all errors or fraud;
- the Company's dependence on the accuracy and completeness of information about clients and counterparties;
- the fiscal and monetary policies of the federal government and its agencies;
- the failure to satisfy capital adequacy and liquidity guidelines applicable to the Company;
- downgrades in the Company's credit rating;
- changes in interest rates which could affect interest rate spreads and net interest income;
- costs and effects of litigation, regulatory investigations or similar matters;
- the inability to realize expected cost savings or implement integration plans and other adverse consequences associated with the merger with Optima Bank & Trust Company ("Optima");
- the failure to complete the proposed merger with Wellesley Bancorp, Inc. ("Wellesley"), the imposition of adverse regulatory conditions in connection with regulatory approval of the proposed Merger (as defined below) with Wellesley, disruption to the parties' businesses as a result of the announcement and pendency of the Merger, the inability to realize

expected cost savings or to implement integration plans and other adverse consequences associated with the merger with Wellesley;

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

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

**OVERVIEW**

Cambridge Bancorp (together with its bank subsidiary, unless the context otherwise requires, the "Company") is a Massachusetts state-chartered, federally registered bank holding company headquartered in Cambridge, Massachusetts. The Company is a Massachusetts corporation formed in 1983 and has one bank subsidiary: Cambridge Trust Company (the "Bank"), formed in 1890. As of March 31, 2020, the Company had total assets of approximately $2.9 billion. The Bank operates 16 full-service banking offices in six cities and towns in Eastern Massachusetts and Southeastern New Hampshire. As a Private Bank, we focus on four core services that center around client needs. Our core services include Wealth Management, Commercial Banking, Residential Lending, and Personal Banking. The Bank's customers consist primarily of consumers and small- and medium-sized businesses in these communities and surrounding areas throughout Massachusetts and New Hampshire. The Company's Wealth Management Group has five offices, two in Boston, Massachusetts and three in New Hampshire in Concord, Manchester, and Portsmouth. As of March 31, 2020, the Company had Assets under Management and Administration of approximately $3.1 billion. The Wealth Management Group offers comprehensive investment management, as well as trust administration, estate settlement, and financial planning services. Our wealth management clients value personal service and depend on the commitment and expertise of our experienced banking, investment, and fiduciary professionals.

The Wealth Management Group customizes its investment portfolios to help its clients meet their long-term financial goals while moderating short-term stock market volatility. Through careful monitoring of asset allocation and disciplined security selection, the Bank's in-house investment team provides clients with long-term capital growth while minimizing risk. Our internally developed, research-driven process is managed by our team of portfolio managers and analysts. We build discretionary portfolios consisting of our best investment ideas, focusing on individual global equities, fixed income securities, exchange-traded funds, and mutual funds. Our team-oriented approach fosters spirited discussion and rigorous evaluation of investments.

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

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

Through the Bank, the Company focuses on wealth management, the commercial banking business, and private banking for clients, including residential lending and personal banking. Within the commercial loan portfolio, the Company has traditionally been a commercial real estate lender and in recent years has diversified commercial operations within the areas of commercial and industrial lending to include Innovation Banking, which specializes in working with New England-based entrepreneurs, and asset based lending that helps companies throughout New England and New York grow by borrowing against existing assets. The Innovation Banking group has a narrow client focus for lending and provides a local banking option for technology and entrepreneurial companies within our market area that are primarily serviced by out-of-market institutions. Personal banking focuses on providing exceptional service to clients and in deepening relationships.

**Merger with Wellesley Bancorp, Inc.**

In the fourth quarter of 2019, the Company, the Bank, Wellesley, and Wellesley Bank, Wellesley's subsidiary bank, entered into a definitive agreement pursuant to which Wellesley will merge with and into the Company and Wellesley Bank will merge with and into the Bank in an all-stock transaction (the "Merger"). The Company's and Wellesley's shareholders both approved the merger at a special meeting held on March 12, 2020, and March 16, 2020, respectively. The closing of the merger is expected to occur in the second quarter of 2020, subject to customary closing conditions. Under the terms of the merger agreement, Wellesley shareholders will receive 0.580 shares of the Company's common stock for each share of Wellesley common stock they own on the effective date of the Merger. This transaction is expected to enhance and expand the Company's Greater Boston presence with the addition of Wellesley's six full-service banking offices in the Norfolk, Middlesex, and Suffolk Counties of Massachusetts.

**CRITICAL ACCOUNTING POLICIES**

Accounting policies involving significant judgments and assumptions by management, which have, or could have, a material impact on the carrying value of certain assets and impact income, are considered critical accounting policies. The Company considers allowance for credit losses and income taxes to be its critical accounting policies.

***Allowance for Credit Losses.*** The Company adopted ASU-2016-13 "Financial Instruments - Credit Losses ("Topic 326"): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13") during the first quarter of 2020. ASU 2016-13, which has been codified under Topic 326, replaced the previous GAAP method of calculating loan losses. Previously, GAAP required the use of the incurred loss methodology versus ASU 2016-13 which utilizes expected loss methodology. The use of an expected loss methodology, referred to as the current expected credit loss ("CECL") methodology, requires institutions to account for potential losses that previously would not have been part of the calculation. The CECL methodology incorporates forecasting in addition to historical and current measures utilized in the prior incurred loss methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables, held to maturity and available for sale debt securities.

Under the CECL methodology, the allowance for credit losses ("ACL") consists of quantitative and qualitative components. The quantitative component of the ACL is model based and utilizes a single forward-looking macroeconomic forecast, complemented by a qualitative component in estimating expected credit losses. The qualitative component of the ACL considers (i) the uncertainty of forward-looking scenarios; (ii) certain portfolio characteristics, such as portfolio concentrations, real estate values, changes in the number and amount of nonaccrual and past due loans; and (iii) model limitations; among others.

ASU 2016-13 also applies to off-balance sheet credit exposure not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar investment) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases.

Losses on loan receivables are estimated and recognized upon origination of the loan, based on expected credit losses for the life of the loan balance as of the period end date. The Company uses a discounted cash flow method incorporating probability of default and loss given default forecasted based on statistically derived economic variable loss drivers combined with qualitative factors to estimate expected credit losses. This process includes estimates which involve modeling loss projections attributable to existing loan balances, considering historical experience, current conditions and future expectations for homogeneous pools of loans over the reasonable and supportable forecast period.

We also perform a qualitative assessment beyond model estimates, and apply qualitative adjustments as management deems necessary. The reasonable and supportable forecast period is determined based upon the accuracy level of historical loss forecast estimates, the specific loan level models and methodology utilized, and considers material changes in growth and credit strategy, and business changes which may not be applicable within the current environment. For periods beyond a reasonable and supportable forecast interval, we revert to historical information over a period for which comparable data is available. The historical information either experienced by the Company or by a selection of peer banks when appropriate, is derived from a combination of recessionary and non-recessionary performance periods for which data is available. Similar to the reasonable and supportable forecast period, we reassess the reversion period at the segment level, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time.

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

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

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

See "*Management's Discussion and Analysis—Critical Accounting Policies*" in our 2019 Form 10-K, for a detailed discussion of the Company's other critical accounting estimates and policies.

There have been no other significant changes to the Company's critical accounting policies and estimates from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

**Recent Accounting Developments**

See Note 4 to the Unaudited Consolidated Financial Statements for details of recently issued and adopted accounting pronouncements and their expected impact on the Company's financial statements.

**COVID-19**

In December 2019, a novel strain of coronavirus ("COVID-19") was reported in Wuhan, China. The World Health Organization has declared the outbreak to constitute a "Public Health Emergency of International Concern." The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our customers, employees and vendors all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

During the first quarter of 2020, the Company announced a range of initiatives to help clients, communities, and employees navigate the many financial challenges caused by the COVID-19 pandemic. As a result of the COVID-19 crisis, the Company has taken the following steps to provide support to any client experiencing a hardship during this uncertain time.

**For Banking Clients:**
- Access to banking offices by appointment
- Increased telephone banking support through the Client Resource Center
- Waived penalties for early certificate of deposit withdrawals
- Increased ATM withdrawal limits and debit card spending
- Convenient and secure digital platforms for remote banking

**For Consumer Loan Clients:**
- 90-day postponement of residential loan foreclosures
- Payment deferrals on mortgages and home equity loans, based on need
- Forgiving late charges for consumer loan payments

**For Business and Commercial Banking Clients:**
- Participating in the Small Business Administration ("SBA") Paycheck Protection Program ("PPP") lending program, the Company has processed and obtained SBA approval for 735 loan applications totaling $166.7 million as of April 30, 2020.
- Increased remote deposit limits
- Implemented payment relief options for commercial loans, based on need
- Providing assistance with access to government support and lending programs
- Treasury management services to support business continuity
- Secure online and mobile banking platforms

**For Wealth Management Clients:**
The Company's wealth management team is closely monitoring the economy and financial markets and continues to actively manage clients' portfolios through the current volatility. We have urged clients to reach out to their Relationship Manager directly with any questions or concerns.

**For Communities:**
In addition to the 250 plus organizations the Company supports through its annual charitable giving, the Company is donating an additional $250,000 to organizations supporting those most impacted by COVID-19.

**For Employees:**
The Company is taking precautions to protect the health and safety of its staff, while continuing to provide uninterrupted service to clients. Efforts include:
- Temporary closure of all banking office lobbies, with services remaining available by appointment
- Increased cleaning of all office locations
- 95% of staff working remotely with the exception of essential banking office employees
- Teleconferencing for meetings

*Forbearance/Modifications*. The Company has instituted payment deferral programs to aid existing borrowers with payment forbearance. For commercial and consumer borrowers, we have endeavored to provide payment relief for 90 days for borrowers who have been impacted by the COVID-19 virus and have requested payment assistance. We expect to continue to accrue interest on these loans during the payment deferral period. As of April 30, 2020, the Company has approved 120 commercial loan payment relief requests totaling $53.6 million and 99 consumer loan payment relief requests totaling $34.8 million.

On April 20, 2020, the governor of Massachusetts signed into law Chapter 65 of the Act of 2020, *An Act Providing for a Moratorium on Evictions and Foreclosures During the COVID-19 Emergency* ("Chapter 65"). Chapter 65, which will remain in effect until the earlier of August 18, 2020 or forty-five (45) days after the Massachusetts' governor's COVID-19 emergency declaration has been lifted, provides for, among other things, the right of residential mortgage borrowers that have experienced a financial impact from COVID-19 to obtain a forbearance on their mortgage payments for up to 180 days if requested by the borrower. Subsequent guidance provided by the Massachusetts Division of Banks on May 1, 2020 provided information regarding the length of the forbearance period. The Company is currently evaluating the impact of Chapter 65 but expects to grant 180 day forbearances to eligible borrowers who request a forbearance and to extend the forbearance period to 180 total days for any eligible borrowers previously granted forbearances who request it.

For a further discussion of the risks and uncertainties relating to COVID-19 for our results of operations and business condition, see *Item 1A. Risk Factors*.

## RESULTS OF OPERATIONS

### *Results of Operations for the three months ended March 31, 2020 and March 31, 2019*

***General***. Net income increased $1.0 million, or 16.7%, to $7.2 million for the quarter ended March 31, 2020, as compared to net income of $6.2 million for the quarter ended March 31, 2019, primarily due to a $4.0 million increase in net interest and dividend income after the provision for credit losses, and a $861,000 increase in noninterest income, which were partially offset by a $3.6 million increase in noninterest expenses, and higher income tax expense of $321,000. Diluted earnings per share were $1.33 for the first quarter of 2020, representing a 10.7% decrease over diluted earnings per share of $1.49 for the same quarter last year. The Company completed its merger with Optima in the second quarter of 2019.

Excluding nonoperating expenses, operating net income was $7.4 million for the quarter ended March 31, 2020, an increase of $1.1 million, or 17.5%, compared to operating net income of $6.3 million for the quarter ended March 31, 2019. Operating diluted earnings per share were $1.37 for the first quarter of 2020, representing a 10.5% decrease over operating diluted earnings per share of $1.53 for the same quarter last year.

***Net Interest and Dividend Income.*** Net interest and dividend income before the provision for credit losses increased by $6.1 million, or 37.8%, to $22.4 million, as compared to $16.3 million for the quarter ended March 31, 2019, primarily due to loan growth.

- Interest on loans increased by $7.2 million, or 43.7%, which was primarily a result of net loan growth, both organic and due to the merger with Optima in 2019.
- Interest on deposits increased by $628,000, or 25.1%, as a result of the merger with Optima and due to strong core deposit growth during 2019.

Total average interest earning assets increased by $640.2 million, or 31.5%, to $2.7 billion as of March 31, 2020, from $2.0 billion as of March 31, 2019, primarily due to the merger with Optima and strong loan growth. The Company's net interest margin, on a fully taxable equivalent basis, increased 13 basis points to 3.39% for the quarter ended March 31, 2020, as compared to 3.26% for the quarter ended March 31, 2019. Net interest margin, on a fully taxable equivalent basis, increased 20 basis points to 3.39% for the quarter ended March 31, 2020, as compared to 3.19% for the quarter ended December 31, 2019.

***Interest and Dividend Income.*** Total interest and dividend income increased $7.0 million, or 36.5%, to $26.1 million for the quarter ended March 31, 2020, as compared to $19.1 million for the quarter ended March 31, 2019, primarily due to a $7.2 million increase in interest income from loans, partially offset by a $233,000 decrease in interest on investment securities.

***Interest Expense.*** Interest expense increased $838,000, or 29.3%, to $3.7 million for the quarter ended March 31, 2020, as compared to $2.9 million for the quarter ended March 31, 2019, primarily as result of the merger with Optima and strong core deposit growth during 2019.

Average interest-bearing liabilities increased $435.5 million to $1.9 billion at March 31, 2020, primarily driven by an increase in average savings balances of $200.0 million, a $65.3 million increase in average checking accounts balances, an increase in average money market accounts of $62.8 million, an increase in average certificates of deposit balances of $34.1 million, and in increase in average other borrowed funds of $73.3 million. The aforementioned increases were primarily due to the merger with Optima and core deposit growth.

We experienced a two basis points decrease in the average cost of interest-bearing liabilities for the quarter ended March 31, 2020, as compared to the quarter ended March 31, 2019, as the Company took steps to reduce the cost of deposits and mitigate the impact of falling interest rates on the net interest margin during the first quarter of 2020.

***Provision for Credit Losses.*** The Company recorded $2.0 million in provision for credit losses for the quarter ended March 31, 2020, as compared to a release of the provision for credit losses of $93,000 for the quarter ended March 31, 2019. The increase is primarily due to the expected impact of the COVID-19 pandemic within the current expected credit losses ("CECL") methodology. The Company adopted ASU 2016-13 - *Measurement of Credit Losses on Financial Instruments*, in the first quarter of 2020 and recorded a one-time transition amount of $347,000, net of taxes, as a decrease to retained earnings. This amount represents additional reserves for loans and unfunded commitments that existed upon adopting the new guidance.

We recorded net charge-offs of $265,000 for the quarter ended March 31, 2020, as compared to a net charge-off of $23,000 in 2019. The allowance for credit losses was $20.2 million, or 0.89% of total loans at March 31, 2020, as compared to $18.2 million, or 0.82% of total loans at March 31, 2019.

***Noninterest Income.***

Total noninterest income increased by $861,000, or 10.8%, to $8.8 million for the quarter ended March 31, 2020, as compared to $8.0 million for the quarter ended March 31, 2019, primarily as a result of increases in Wealth Management revenue, loan related derivative income and higher gains on loans sold. Noninterest income was 28.2% of total revenue for the quarter ended March 31, 2020.

- Wealth Management revenue increased by $503,000, or 8.2%, to $6.6 million for the first quarter of 2020, as compared to $6.1 million for the first quarter of 2019. Wealth Management Assets under Management and Administration were $3.1

billion as of March 31, 2020, a decrease of $381.6 million, or 11.1%, from December 31, 2019, primarily as a result of reductions within the equity markets during the first quarter of 2020.

- Loan related derivative income increased by $74,000, or 17.0%, to $510,000 for the first quarter of 2020, as compared to $436,000 for the first quarter of 2019, due to increased loan volume and the associated derivative transactions executed throughout the quarter.
- Gain on loans sold increased by $103,000, as compared to the first quarter of 2019, due to increased sales of residential mortgages.

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| Wealth Management revenues: | | |
| Trust and investment advisory fees | $ 6,430 | $ 6,005 |
| Asset-based revenues | 6,430 | 6,005 |
| Financial planning fees and other service fees | 197 | 119 |
| Total wealth management revenues | $ 6,627 | $ 6,124 |

The following table presents the changes in Wealth Management assets under management:

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| Wealth Management Assets under Management | | |
| Balance at the beginning of the period | $ 3,287,371 | $ 2,759,547 |
| Gross client asset inflows | 99,247 | 60,313 |
| Gross client asset outflows | (73,054) | (72,818) |
| Net market impact | (381,171) | 243,333 |
| Balance at the end of the period | $ 2,932,393 | $ 2,990,375 |
| Weighted average management fee | 0.81% | 0.84% |

There were no significant changes to the average fee rates and fee structure for the three months ended March 31, 2020 and 2019.

***Noninterest Expense.*** Total noninterest expense increased by $3.6 million, or 21.7%, to $19.9 million for the quarter ended March 31, 2020, as compared to $16.4 million for the quarter ended March 31, 2019, primarily driven by increases in salaries and benefits expense, occupancy and equipment expense, and data processing expense.

- Salaries and employee benefits expense increased $2.2 million driven by merit increases, increased staffing related to the Optima merger, additions to support business initiatives, and higher employee benefit costs.
- Occupancy and equipment expense increased $477,000 due to the operation of additional branches and office space as a result of the Optima merger that was not reflected within the first quarter of 2019.
- Data processing expense increased $339,000 due to the merger with Optima and investments made in technology.

***Income Tax Expense.*** The Company recorded a provision for income taxes of $2.1 million for the quarter ended March 31, 2020, as compared to $1.7 million for the same quarter in 2019. The Company's effective tax rate was 22.2% for the quarter ended March 31, 2020, as compared to 21.9% for the quarter ended March 31, 2019.

The Coronavirus Aid, Relief, and Economic Security (the "CARES Act") was signed into law on March 27, 2020, to help stimulate the United States economy. One of the business tax provisions of the CARES Act included allowing net operating losses ("NOL") generated by the Company in tax years 2018 and 2019 to be carried back up to five years at the tax rates in effect during those periods, rather than carried forward at current federal tax rates of 21%. This allowed the Company to recognize lower tax expense associated with NOL carryforwards from 2018 and 2019 (as a result of the Optima merger) and, combined with adjustments to state NOL rates, resulted in a benefit of $372,000 in the first quarter of 2020. Additionally, the Company recognized $21,000 of tax benefit resulting from the accounting for share-based payments during the first quarter of 2020.

**CHANGES IN FINANCIAL CONDITION**

***Total Assets.*** Total assets remained stable from December 31, 2019 and were $2.9 billion as of March 31, 2020.

***Cash and Cash Equivalents.*** Cash and cash equivalents decreased by $18.3 million to $43.0 million at March 31, 2020 from $61.3 million at December 31, 2019.

***Investment Securities.*** The Company's total investment securities portfolio decreased by $33.6 million, or 8.4%, from $398.5 million at December 31, 2019 to $364.9 million at March 31, 2020 as the Company used investment cash flow to pay down wholesale funding.

***Loans.*** Total loans increased by $29.1 million, or 1.3%, from December 31, 2019 and stood at $2.3 billion as of March 31, 2020.

- Residential real estate loans decreased by $463,000 from $917.6 million at December 31, 2019 to $917.1 million at March 31, 2020.
- Commercial real estate loans increased by $29.2 million, from $1.06 billion at December 31, 2019 to $1.09 billion at March 31, 2020.
- Commercial & industrial loans decreased by $5.6 million from $133.2 million at December 31, 2019 to $127.6 million at March 31, 2020.

***Bank-Owned Life Insurance.*** The Company invests in bank-owned life insurance to help offset the costs of our employee benefit plan obligations. Bank-owned life insurance also generally provides noninterest income that is nontaxable. At March 31, 2020, our investment in bank-owned life insurance was $37.5 million, representing an increase of $160,000 from $37.3 million at December 31, 2019, primarily due to increases in the cash surrender value of the policies during the first quarter of 2020.

***Other assets.*** Other assets increased $28.3 million to $70.6 million at March 31, 2020, from $42.3 million at December 31, 2019, primarily due to an increase in the fair value of derivatives.

***Deposits.*** Total deposits grew by $31.5 million, or 1.3%, to $2.4 billion at March 31, 2020.

- Core deposits, which the Company defines as all deposits other than certificates of deposit, decreased by $5.6 million, or 0.3%, to $2.2 billion at March 31, 2020.
- The cost of total deposits for the quarter ended March 31, 2020 was 0.54%, as compared to 0.68% for the quarter ended December 31, 2019, a reduction of 14 basis points driven by reduced interest rates during 2020. At March 31, 2020, the spot cost of deposits was 0.27%.

Certificates of deposit totaled $219.4 million at March 31, 2020, an increase of $37.1 million from $182.3 million at December 31, 2019, primarily due to an increase in short-term brokered certificates of deposit. Total brokered certificates of deposit, which are included within certificates of deposit, were $58.8 million and $7.1 million at March 31, 2020 and December 31, 2019, respectively.

***Borrowings.*** At March 31, 2020, borrowings consisted of advances from the FHLB of Boston and the FRB Boston. Total borrowings decreased to $75.1 million at March 31, 2020, from $135.7 million at December 31, 2019. During the first quarter, the Company utilized cash flow and maturities from the investment portfolio to reduce wholesale funding.

***Shareholders' Equity.*** Total shareholders' equity increased $11.2 million, or 3.9%, to $297.8 million at March 31, 2020, from $286.6 million at December 31, 2019, primarily due to net income of $7.2 million, increases in the value of the Company's interest rate derivative positions of $4.2 million and increases in the value of the available for sale investment portfolio of $2.5 million, partially offset by regular dividend payments of $2.9 million.

The Company's total shareholders' equity to total assets ratio increased by 40 basis points to 10.44% as of March 31, 2020, as compared to 10.04% as of December 31, 2019. Book value per share grew by $1.90, or 3.58%, to $54.96 as of March 31, 2020, as compared to $53.06 as of December 31, 2019.

The Company's ratio of tangible common equity to tangible assets increased 4.6%, to 9.34%, at March 31, 2020, from 8.93% at December 31, 2019, primarily due to the Company's earnings combined with increased valuations of interest rate derivative positions and available for sale investment securities. Tangible book value per share grew by $1.94, or 4.2%, to $48.60 as of March 31, 2020, as compared to $46.66 as of December 31, 2019.

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

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

| | Three Months Ended | | |
|---|---|---|---|
| **Operating Net Income / Operating Diluted Earnings Per Share** | **March 31, 2020** | **December 31, 2019** | **March 31, 2019** |
| | (in thousands, except share data) | | |
| Net Income (a GAAP measure) | $ 7,232 | $ 7,109 | $ 6,198 |
| Add: Merger and Capital Raise Expenses (Pretax) | 253 | 841 | 91 |
| Add: Loss on disposition of investment securities | — | — | 87 |
| Tax effect of Merger and Capital Raise Expenses, and loss on disposition of investment securities(1) | (51) | (28) | (50) |
| **Operating Net Income (a non-GAAP measure)** | **$ 7,434** | **$ 7,922** | **$ 6,326** |
| Less: Dividends and Undistributed Earnings Allocated to Participating Securities (GAAP) | (16) | (57) | (61) |
| Operating Income Applicable to Common Shareholders (a non-GAAP measure) | $ 7,418 | $ 7,865 | $ 6,265 |
| Weighted Average Diluted Shares | 5,432,099 | 4,980,439 | 4,106,658 |
| **Operating Diluted Earnings Per Share (a non-GAAP measure)** | **$ 1.37** | **$ 1.58** | **$ 1.53** |

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

| | **March 31, 2020** | **December 31, 2019** | **March 31, 2019** |
|---|---|---|---|
| | (in thousands, except share data) | | |
| **Tangible Common Equity:** | | | |
| Shareholders' equity (GAAP) | $ 297,759 | $ 286,561 | $ 172,268 |
| Less: Goodwill and acquisition related intangibles (GAAP) | (34,454) | (34,544) | (412) |
| Tangible Common Equity (a non-GAAP measure) | 263,305 | 252,017 | 171,856 |
| Total assets (GAAP) | 2,852,629 | 2,855,563 | 2,138,548 |
| Less: Goodwill and acquisition related intangibles (GAAP) | (34,454) | (34,544) | (412) |
| Tangible assets (a non-GAAP measure) | $ 2,818,175 | $ 2,821,019 | $ 2,138,136 |
| **Tangible Common Equity Ratio (a non-GAAP measure)** | **9.34 %** | **8.93 %** | **8.04 %** |
| | | | |
| **Tangible Book Value Per Share:** | | | |
| Tangible Common Equity (a non-GAAP measure) | $ 263,305 | $ 252,017 | $ 171,856 |
| Common shares outstanding | 5,417,983 | 5,400,868 | 4,123,618 |
| **Tangible Book Value Per Share (a non-GAAP measure)** | **$ 48.60** | **$ 46.66** | **$ 41.68** |

**INVESTMENT SECURITIES**

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

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

The fair value of securities available for sale totaled $117.9 million and included gross unrealized gains of $2.7 million and gross unrealized losses of $212,000 at March 31, 2020. At December 31, 2019, the fair value of securities available for sale totaled $140.3 million and included gross unrealized gains of $231,000 and gross unrealized losses of $1.0 million.

Securities classified as held to maturity consist of certain U.S. GSE and U.S. GSE mortgage-backed securities, corporate debt securities, and state, county, and municipal securities. Securities held to maturity as of March 31, 2020 are carried at their amortized cost of $246.9 million. At December 31, 2019, securities held to maturity totaled $258.2 million.

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

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| | (dollars in thousands) | | | |
| Available for sale securities | | | | |
| U.S. GSE obligations | $ 18,590 | 16% | $ 37,848 | 27% |
| Mortgage-backed securities | 99,357 | 84% | 102,482 | 73% |
| Total securities available for sale | $ 117,947 | 100% | $ 140,330 | 100% |
| Held to maturity securities | | | | |
| U.S. GSE obligations | $ 5,000 | 2% | $ 5,000 | 2% |
| Mortgage-backed securities | 152,159 | 62% | 161,759 | 63% |
| Corporate debt securities | 6,982 | 3% | 6,980 | 3% |
| Municipal securities | 82,765 | 33% | 84,433 | 32% |
| Total securities held to maturity | $ 246,906 | 100% | $ 258,172 | 100% |
| Total | $ 364,853 | 100% | $ 398,502 | 100% |

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

| | Within One Year | | After One, But Within Five Years | | After Five, But Within Ten Years | | After Ten Years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| At March 31, 2020 | Amortized Cost | Weighted Average Yield (1) | Amortized Cost | Weighted Average Yield (1) | Amortized Cost | Weighted Average Yield (1) | Amortized Cost | Weighted Average Yield (1) | Amortized Cost | Weighted Average Yield (1) |
| | | | | | (dollars in thousands) | | | | | |
| Available for sale securities | | | | | | | | | | |
| U.S. GSE obligations | $ — | — | $ 5,000 | 1.4% | $ 5,000 | 2.3% | $ 8,000 | 2.6% | $ 18,000 | 2.2% |
| Mortgage-backed securities | — | — | 29 | 5.4% | 34,726 | 1.9% | 62,730 | 2.0% | 97,485 | 1.9% |
| Total available for sale securities | $ — | — | $ 5,029 | 1.4% | $ 39,726 | 1.9% | $ 70,730 | 2.0% | $ 115,485 | 2.0% |
| | | | | | | | | | | |
| Held to maturity securities | | | | | | | | | | |
| U.S. GSE obligations | $ 5,000 | 1.6% | $ — | — | $ — | — | $ — | — | $ 5,000 | 1.6% |
| Mortgage-backed securities | — | — | 2 | 5.6% | 46,317 | 2.7% | 105,840 | 2.5% | 152,159 | 2.6% |
| Corporate debt securities | — | — | 6,982 | 2.6% | — | — | — | — | 6,982 | 2.6% |
| Municipal securities | 2,770 | 4.5% | 11,669 | 4.1% | 44,816 | 3.7% | 23,510 | 3.3% | 82,765 | 3.7% |
| Total held to maturity securities | $ 7,770 | 2.6% | $ 18,653 | 3.5% | $ 91,133 | 3.2% | $ 129,350 | 2.6% | $ 246,906 | 2.9% |
| Total | $ 7,770 | 2.6% | $ 23,682 | 3.1% | $ 130,859 | 2.8% | $ 200,080 | 2.4% | $ 362,391 | 2.6% |

| At December 31, 2019 | Within One Year Amortized Cost | Within One Year Weighted Average Yield (1) | After One, But Within Five Years Amortized Cost | After One, But Within Five Years Weighted Average Yield (1) | After Five, But Within Ten Years Amortized Cost | After Five, But Within Ten Years Weighted Average Yield (1) | After Ten Years Amortized Cost | After Ten Years Weighted Average Yield (1) | Total Amortized Cost | Total Weighted Average Yield (1) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | (dollars in thousands) | | | | | |
| Available for sale securities | | | | | | | | | | |
| U.S. GSE obligations | $ 5,000 | 1.4% | $ 20,000 | 1.5% | $ 5,000 | 2.3% | $ 8,000 | 2.6% | $ 38,000 | 1.8% |
| Mortgage-backed Securities | — | — | 37 | 5.4% | 36,393 | 1.9% | 66,679 | 2.1% | 103,109 | 2.0% |
| Total available for sale securities | $ 5,000 | 1.4% | $ 20,037 | 1.5% | $ 41,393 | 1.9% | $ 74,679 | 2.1% | $ 141,109 | 2.0% |
| | | | | | | | | | | |
| Held to maturity securities | | | | | | | | | | |
| U.S. GSE obligations | $ 5,000 | 1.6% | $ — | — | $ — | — | $ — | — | $ 5,000 | 1.6% |
| Mortgage-backed Securities | — | — | 2 | 5.6% | 48,088 | 2.7% | 113,669 | 2.6% | 161,759 | 2.6% |
| Corporate debt securities | — | — | 6,980 | 2.6% | — | — | — | — | 6,980 | 2.6% |
| Municipal securities | 3,270 | 4.6% | 10,606 | 4.2% | 45,201 | 3.7% | 25,356 | 3.4% | 84,433 | 3.7% |
| Total held to maturity securities | $ 8,270 | 2.8% | $ 17,588 | 3.6% | $ 93,289 | 3.2% | $ 139,025 | 2.8% | $ 258,172 | 3.0% |
| Total | $ 13,270 | 2.3% | $ 37,625 | 2.4% | $ 134,682 | 2.8% | $ 213,704 | 2.5% | $ 399,281 | 2.6% |

(1) Weighted Average Yield is shown on a fully taxable equivalent basis using a federal tax rate of 21% at March 31, 2020 and December 31, 2019.

Management evaluates securities for credit loss on at least a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Consideration is given to: (1) whether the fair value is less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

## LOANS

The Company's lending activities are conducted principally in Eastern Massachusetts and Southern New Hampshire. The Company grants single- and multi-family residential loans, commercial & industrial ("C&I"), commercial real estate ("CRE"), construction loans, and a variety of consumer loans. Most of the loans granted by the Company are secured by real estate collateral. Repayment of the Company's residential loans are generally dependent on the health of the employment market in the borrowers' geographic areas and that of the general economy with liquidation of the underlying real estate collateral being typically viewed as the primary source of repayment in the event of borrower default. The repayment of C&I loans depends primarily on the cash flow and credit worthiness of the borrower and secondarily on the underlying collateral provided by the borrower. As borrower cash flow may be difficult to predict, liquidation of the underlying collateral securing these loans is typically viewed as the primary source of repayment in the event of borrower default. However, collateral typically consists of equipment, inventory, accounts receivable, or other business assets that may fluctuate in value, so the liquidation of collateral in the event of default is often an insufficient source of repayment. The Company's CRE loans are primarily made based on the cash flow from the collateral property and secondarily on the underlying collateral provided by the borrower, with liquidation of the underlying real estate collateral typically being viewed as the primary source of repayment in the event of borrower default. The Company's construction loans are primarily made based on the borrower's expected ability to execute and the future completed value of the collateral property, with sale of the underlying real estate collateral typically being viewed as the primary source of repayment.

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

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Amount | % of Total | Amount | % of Total |
| | (dollars in thousands) | | | |
| **Residential mortgage** | | | | |
| Mortgages - fixed rate | $ 430,067 | 19% | $ 430,877 | 19% |
| Mortgages - adjustable rate | 469,025 | 21% | 467,139 | 21% |
| Construction | 15,209 | 1% | 17,374 | 1% |
| Deferred costs net of unearned fees | 2,802 | 0% | 2,176 | 0% |
| Total residential mortgages | 917,103 | 41% | 917,566 | 41% |
| **Commercial mortgage** | | | | |
| Mortgages - non-owner occupied | 897,612 | 39% | 870,047 | 40% |
| Mortgages - owner occupied | 112,807 | 5% | 114,095 | 5% |
| Construction | 79,214 | 4% | 76,288 | 3% |
| Deferred costs net of unearned fees | 163 | 0% | 144 | 0% |
| Total commercial mortgages | 1,089,796 | 48% | 1,060,574 | 48% |
| **Home equity** | | | | |
| Home equity - lines of credit | 76,359 | 3% | 73,880 | 3% |
| Home equity - term loans | 6,469 | 1% | 6,555 | 1% |
| Deferred costs net of unearned fees | 238 | 0% | 240 | 0% |
| Total home equity | 83,066 | 4% | 80,675 | 4% |
| **Commercial & industrial** | | | | |
| Commercial & industrial | 127,683 | 6% | 133,337 | 6% |
| Deferred costs net of unearned fees | (35) | 0% | (101) | 0% |
| Total commercial & industrial | 127,648 | 6% | 133,236 | 6% |
| **Consumer** | | | | |
| Secured | 37,100 | 1% | 33,453 | 1% |
| Unsecured | 1,065 | 0% | 1,199 | 0% |
| Deferred costs net of unearned fees | 24 | 0% | 25 | 0% |
| Total consumer | 38,189 | 1% | 34,677 | 1% |
| **Total loans** | $ 2,255,802 | 100% | $ 2,226,728 | 100% |

***Residential Mortgage.*** Residential real estate loans held in portfolio amounted to $917.1 million at March 31, 2020, a decrease of $463,000, or 0.1%, from $917.6 million at December 31, 2019, and consisted of one-to-four family residential mortgage loans. The residential mortgage portfolio represented 41% of total loans at March 31, 2020 and December 31, 2019.

The average loan balance outstanding in the residential portfolio was $393,000 and the largest individual residential mortgage loan outstanding was $9.0 million as of March 31, 2020. At March 31, 2020, this loan was performing in accordance with its original terms.

The Bank offers fixed and adjustable rate residential mortgage loans with maturities up to 30 years. One-to-four family residential mortgage loans are generally underwritten according to Fannie Mae and Freddie Mac guidelines, and we refer to loans that conform to such guidelines as “conforming loans.” The Bank generally originates and purchases both fixed and adjustable rate mortgage loans in amounts up to the maximum conforming loan limits as established by the Federal Housing Finance Agency, which increased to $510,400 in 2020 from $484,350, for one-unit properties. In addition, the Bank also offers loans above conforming lending limits typically referred to as “jumbo” loans. These loans are typically underwritten to jumbo conforming guidelines, however, the Bank may choose to hold a jumbo loan within its portfolio with underwriting criteria that does not exactly match conforming guidelines. The Bank may also, from time to time, purchase residential loans that are either jumbo, conforming, or meet our Community Reinvestment Act (“CRA”) requirements. Purchases have historically been made to satisfy CRA requirements for lending to low and moderate income borrowers within the Bank’s CRA Assessment Area.

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

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

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

The Company is servicing mortgage loans sold to others without recourse of approximately $157.5 million at March 31, 2020 and $159.6 million at December 31, 2019.

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| Originations for retention in portfolio | $ 76,944 | $ 22,867 |
| Originations for sale to the secondary market | 9,095 | 2,201 |
| Total | $ 86,039 | $ 25,068 |

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

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2020 | 2019 |
| | (dollars in thousands) | |
| Loans sold with servicing rights retained | $ 5,736 | $ 426 |
| Loans sold with servicing rights released | 6,597 | 1,772 |
| Total | $ 12,333 | $ 2,198 |

Loans sold with the retention of servicing typically result in the capitalization of servicing rights. Loan servicing rights are included in other assets and are subsequently amortized as an offset to other income over the estimated period of servicing. The net balance of capitalized servicing rights amounted to $1.2 million and $1.3 million as of March 31, 2020 and December 31, 2019, respectively.

***Commercial Mortgage.*** Commercial real estate loans were $1.09 billion as of March 31, 2020, an increase of $29.2 million, or 2.8%, from $1.06 billion at December 31, 2019. The commercial real estate loans portfolio represented 48% of total loans at March 31, 2020 and December 31, 2019. The average loan balance outstanding in this portfolio was $1.4 million, and the largest individual commercial real estate loan outstanding was $25.3 million as of March 31, 2020. At March 31, 2020, this commercial mortgage was performing in accordance with its original terms.

Commercial real estate loans are secured by a variety of property types, with approximately 89.5% of the total at March 31, 2020 composed of multi-family dwellings, retail facilities, office buildings, commercial mixed use, lodging, and industrial and warehouse properties.

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

Generally, our commercial construction loans are speculative in nature, with loan proceeds used to acquire and develop real estate property for sale or rental. Loans are provided for terms up to 36 months during the construction phase, with loan-to-values that generally do not exceed 75% on both an 'as is' and 'as complete and stabilized' basis. Construction projects are primarily for the development of residential property types, inclusive of 1-4 family and multifamily properties.

***Home Equity.*** The home equity portfolio totaled $83.1 million and $80.7 million at March 31, 2020 and December 31, 2019, respectively. The home equity portfolio represented 4% of total loans at March 31, 2020 and December 31, 2019. At March 31, 2020, the largest home equity line of credit was $2.1 million and had an outstanding balance of $1.5 million. At March 31, 2020, this line of credit was performing in accordance with its original terms.

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

Our home equity lines of credit are revolving lines of credit, which generally have a term between 15 and 20 years, with draws available for the first 10 years. Our 15-year lines of credit are interest only during the first 10 years and amortize on a five-year basis thereafter. Our 20-year lines of credit are interest only during the first 10 years and amortize on a 10-year basis thereafter. We generally originate home equity lines of credit with loan-to-value ratios of up to 80% when combined with the principal balance of the existing first mortgage loan, although loan-to-value ratios may occasionally exceed 80% on a case-by-case basis. Maximum combined loan-to-values are determined based on an applicant's loan/line amount and the estimated property value. Lines of credit above $1.0 million generally will not exceed combined loan-to-value of 75%. Rates are adjusted monthly based on changes in a designated market index. We also offer home equity term loans, which are extended as second mortgages on owner-occupied residential properties in our market area. Our home equity term loans are fixed-rate second mortgage loans, which generally have a term between 5 and 20 years.

***Commercial & Industrial (C&I).*** The commercial and industrial portfolio totaled $127.6 million and $133.2 million at March 31, 2020 and December 31, 2019, respectively. The C&I portfolio represented 6% of total loans at March 31, 2020 and December 31, 2019. The average loan balance outstanding in this portfolio was $252,000 and the largest individual commercial and industrial loan outstanding was $10.9 million as of March 31, 2020. At March 31, 2020, this loan was performing in accordance with its original terms.

The Company's Innovation Banking and asset-based loans are reported within the C&I portfolio.

- At March 31, 2020, Innovation Banking loans totaled $32.9 million and the average loan balance outstanding in this portfolio was $1.4 million. The largest individual loan outstanding was $10.0 million and this loan was performing in accordance with its original terms.
- At March 31, 2020, asset-based loans totaled $23.1 million and the average loan balance outstanding in this portfolio was $2.3 million. The largest individual loan outstanding was $10.9 million and this loan was performing in accordance with its original terms.

The Company's C&I loan customers represent various small- and middle-market established businesses involved in professional services, accommodation and food services, health care, wholesale trade, manufacturing, distribution, retailing, and non-profits. Most clients are privately owned with markets that range from local to national in scope. Many of the loans to this segment are secured by liens on corporate assets and the personal guarantees of the principals. The Company also makes loans to entrepreneurial and technology businesses. The regional economic strength or weakness impacts the relative risks in this loan category. There is little concentration in any one business sector, and loan risks are generally diversified among many borrowers.

***Consumer Loans.*** The consumer loan portfolio totaled $38.2 million at March 31, 2020 from $34.7 million at December 31, 2019. Consumer loans represented 1% of the total loan portfolio at March 31, 2020 and December 31, 2019. Consumer loans include secured and unsecured loans, lines of credit, and personal installment loans. Unsecured consumer loans generally have greater risk compared to longer-term loans secured by improved, owner-occupied real estate, particularly consumer loans that are secured by rapidly depreciable assets. The secured consumer loans and lines portfolio are generally fully secured by pledged assets such as bank accounts or investments.

***Loan Portfolio Maturities.*** The following table summarizes the dollar amount of loans maturing in the portfolio based on their loan type and contractual terms to maturity at March 31, 2020. The table does not include any estimate of prepayments, which can significantly shorten the average life of all loans and may cause our actual repayment experience to differ from that shown below. Demand loans, loans having no stated repayment schedule or maturity, and overdraft loans are reported as being due in one year or less.

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | One Year or Less | One to Five Years | Over Five Years | Total |
| | (dollars in thousands) | | | |
| Residential mortgage | $ 1,337 | $ 11,815 | $ 903,951 | $ 917,103 |
| Commercial mortgage | 68,049 | 296,131 | 725,616 | 1,089,796 |
| Home equity | 259 | 908 | 81,899 | 83,066 |
| Commercial & Industrial | 43,782 | 66,077 | 17,789 | 127,648 |
| Consumer | 37,995 | 105 | 89 | 38,189 |
| Total | $ 151,422 | $ 375,036 | $ 1,729,344 | $ 2,255,802 |

***Loan Portfolio by Interest Rate Type.*** The following table summarizes the dollar amount of loans in our portfolio based on whether the loan has a fixed, adjustable, or floating rate of interest at March 31, 2020. Floating rate loans are tied to a market index while adjustable rate loans are adjusted based on the contractual terms of the loan.

| | March 31, 2020 | | | |
|---|---|---|---|---|
| | Fixed | Adjustable | Floating | Total |
| | (dollars in thousands) | | | |
| Residential mortgage | $ 444,242 | $ 470,915 | $ 1,946.00 | $ 917,103 |
| Commercial mortgage | 409,878 | 283,342 | 396,576 | 1,089,796 |
| Home equity | 6,686 | — | 76,380 | 83,066 |
| Commercial & Industrial | 40,531 | 5,852 | 81,265 | 127,648 |
| Consumer | 676 | 551 | 36,962 | 38,189 |
| Total | $ 902,013 | $ 760,660 | $ 593,129 | $ 2,255,802 |

**NONPERFORMING LOANS AND TROUBLED DEBT RESTRUCTURINGS (TDRs)**

The composition of nonperforming assets is as follows:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (dollars in thousands) | |
| Nonaccruals | $ 1,674 | $ 4,160 |
| Loans past due > 90 days, but still accruing | 1,443 | 1,264 |
| Troubled debt restructurings | 262 | 227 |
| Total nonperforming loans | $ 3,379 | $ 5,651 |
| Accruing troubled debt restructured loans | $ — | $ — |
| Nonperforming loans as a percentage of total loans | 0.15% | 0.25% |
| Nonperforming loans as a percentage of total assets | 0.12% | 0.20% |

***Nonaccrual Loans.*** Loans are typically placed on nonaccrual status when any payment of principal and/or interest is 90 days or more past due, unless the collateral is sufficient to cover both principal and interest and the loan is in the process of collection. The Company monitors closely the performance of its loan portfolio. In addition to the monitoring and review of loan performance internally, the Company has contracted with an independent organization to review the Company's commercial and commercial real estate loan portfolios. This independent review was performed in each of the past five years. The status of delinquent loans, as well as situations identified as potential problems, is reviewed on a regular basis by senior management.

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

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

Troubled debt restructurings are individually evaluated for credit losses.

Total nonperforming loans decreased $2.3 million during the three months ended March 31, 2020 as compared to December 31, 2019, primarily due to lower commercial loans on non-accrual.

The Company continues to closely monitor the portfolio of nonperforming loans for which management has concerns regarding the ability of the borrowers to perform. The majority of the loans are secured by real estate and are considered to have adequate collateral value to cover the loan balances at March 31, 2020 and December 31, 2019, although such values may fluctuate with changes in the economy and the real estate market.

**ALLOWANCE FOR CREDIT LOSSES**

We evaluate the loan portfolio on a quarterly basis and the allowance is adjusted accordingly. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the information used in making the evaluations. In addition, various regulatory agencies, as an integral part of their examination process, will periodically review the allowance for credit losses. Such agencies may require us to recognize additions to the allowance based on their analysis of information available to them at the time of their examination.

Actual loan losses may be significantly more than the allowance for credit losses we have established, which could have a material negative effect on our financial results.

Losses on loan receivables are estimated and recognized upon origination of the loan, based on expected credit losses for the life of the loan balance as of the period end date. The Company uses a discounted cash flow method incorporating probability of default and loss given default forecasted based on statistically derived economic variable loss drivers combined with qualitative factors to estimate expected credit losses. This process includes estimates which involve modeling loss projections attributable to existing loan balances, considering historical experience, current conditions and future expectations for homogeneous pools of loans over the reasonable and supportable forecast period.

We also perform a qualitative assessment beyond model estimates, and apply qualitative adjustments as management deems necessary. The reasonable and supportable forecast period is determined based upon the accuracy level of historical loss forecast estimates, the specific loan level models and methodology utilized, and considers material changes in growth and credit strategy, and business changes which may not be applicable within the current environment. For periods beyond a reasonable and supportable forecast interval, we revert to historical information over a period for which comparable data is available. The historical information either experienced by the Company or by a selection of peer banks when appropriate, is derived from a combination of recessionary and non-recessionary performance periods for which data is available. Similar to the reasonable and supportable forecast period, we reassess the reversion period at the segment level, considering any required adjustments for differences in underwriting standards, portfolio mix, and other relevant data shifts over time.

See additional discussion regarding the allowance for loan losses, in Item 7 under the caption "Critical Accounting Policies" of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 and in Note 7 to the Unaudited Consolidated Financial Statements.

The following table summarizes the changes in the Company's allowance for credit losses on loans for the periods indicated:

| | March 31, 2020 | December 31, 2019 |
|---|---|---|
| | (dollars in thousands) | |
| Period-end loans outstanding (net of unearned discount and deferred loan fees) | $ 2,255,802 | $ 2,226,728 |
| Average loans outstanding (net of unearned discount and deferred loan fees) | $ 2,228,467 | $ 1,969,696 |
| Balance of allowance for credit losses at the beginning of year - loans | $ 18,180 | $ 16,768 |
| Loans charged-off: | | |
| Commercial and industrial | (89) | (338) |
| Commercial mortgage | (187) | (1,270) |
| Residential mortgage | — | — |
| Home Equity | — | — |
| Consumer | (14) | (48) |
| Total loans charged-off | $ (290) | $ (1,656) |
| Recovery of loans previously charged-off: | | |
| Commercial and industrial | 12 | 53 |
| Commercial mortgage | — | — |
| Residential mortgage | — | — |
| Home Equity | — | — |
| Consumer | 13 | 11 |
| Total recoveries of loans previously charged-off: | 25 | 64 |
| Net loan (charge-offs) recoveries | $ (265) | $ (1,592) |
| Adoption of accounting standard - loans | $ 205 | $ — |
| Provision | 2,043 | 3,004 |
| Balance at end of period | $ 20,163 | $ 18,180 |
| Ratio of net (charge-offs) recoveries to average loans outstanding | (0.01)% | (0.08)% |
| Ratio of allowance for credit losses to loans outstanding | 0.89% | 0.82% |

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

## SOURCES OF FUNDS

***General.*** Deposits traditionally have been our primary source of funds for our investment and lending activities. The Company also borrows from the FHLB of Boston to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes, and to manage our cost of funds. Our additional sources of funds are scheduled payments and prepayments of principal and interest on loans and investment securities and fee income and proceeds from the sales of loans and securities.

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

The following table set forth the average balances of the Bank's deposits for the periods indicated:

| | March 31, 2020 | | December 31, 2019 | |
|---|---|---|---|---|
| | Amount | Percent | Amount | Percent |
| | (dollars in thousands) | | | |
| Demand deposits (non-interest bearing) | $ 608,240 | 25.4% | $ 630,593 | 26.7% |
| Interest bearing checking | 506,654 | 21.2% | 450,098 | 19.1% |
| Money Market | 175,158 | 7.3% | 181,406 | 7.7% |
| Savings | 880,944 | 36.9% | 914,499 | 38.8% |
| Retail certificates of deposit under $100,000 | 52,175 | 2.2% | 56,401 | 2.4% |
| Retail certificates of deposit of $100,000 or greater | 108,397 | 4.5% | 118,596 | 5.0% |
| Wholesale certificates of deposit | 58,791 | 2.5% | 7,285 | 0.3% |
| Total | $ 2,390,359 | 100% | $ 2,358,878 | 100% |

At March 31, 2020, we had a total of $160.6 million in certificates of deposit, excluding brokered deposits, of which $128.4 million had remaining maturities of one year or less. Based on historical experience and our current pricing strategy, we believe we will retain a large portion of these accounts upon maturity. As of March 31, 2020, we had a total of $78.8 million of brokered deposits and $7.1 million of brokered deposits at December 31, 2019.

***Borrowings.*** The Bank's borrowings consisted of FHLB of Boston and FRB Boston advances. FHLB of Boston advances are collateralized by a blanket pledge agreement on the Bank's FHLB of Boston stock and residential mortgages held in the Bank's portfolios. FRB Boston advances are collateralized by pledged commercial loans and pledged investment securities. The Bank's borrowings with the FHLB of Boston totaled $64.6 million at March 31, 2020, a decrease of $71.0 million, as compared to $135.7 million at December 31, 2019. The Bank's remaining borrowing capacity at the FHLB of Boston at March 31, 2020 was approximately $423.1 million. In addition, the Bank has a $10.0 million line of credit with the FHLB of Boston. The Bank's borrowings with FRB Boston totaled $10.5 million and $0 at March 31, 2020 and December 31, 2019, respectively. The Bank's remaining borrowing capacity at the FRB Boston at March 31, 2020 was approximately $476.9 million.

**NET INTEREST MARGIN**

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

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

| | Three Months Ended | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | March 31, 2020 | | | December 31, 2019 | | | March 31, 2019 | | |
| | Average Balance | Interest Income/ Expenses (1) | Rate Earned/ Paid (1) | Average Balance | Interest Income/ Expenses (1) | Rate Earned/ Paid (1) | Average Balance | Interest Income/ Expenses (1) | Rate Earned/ Paid (1) |
| | (dollars in thousands) | | | | | | | | |
| ASSETS | | | | | | | | | |
| Interest-earning assets | | | | | | | | | |
| Loans (2) | | | | | | | | | |
| Taxable | $2,204,862 | $ 23,338 | 4.26% | $2,201,984 | $ 23,463 | 4.23% | $1,543,585 | $ 16,284 | 4.28% |
| Tax-exempt | 23,605 | 250 | 4.26 | 25,344 | 253 | 3.96 | 9,743 | 112 | 4.66 |
| Securities available for sale (3) | | | | | | | | | |
| Taxable | 133,402 | 660 | 1.99 | 147,852 | 722 | 1.94 | 164,607 | 712 | 1.75 |
| Securities held to maturity | | | | | | | | | |
| Taxable | 169,433 | 1,063 | 2.52 | 187,584 | 1,167 | 2.47 | 209,347 | 1,268 | 2.46 |
| Tax-exempt | 83,193 | 754 | 3.65 | 78,172 | 734 | 3.73 | 73,851 | 723 | 3.97 |
| Cash and cash equivalents | 59,845 | 140 | 0.94 | 57,036 | 175 | 1.22 | 33,025 | 118 | 1.45 |
| Total interest-earning assets (4) | 2,674,340 | 26,205 | 3.94% | 2,697,972 | 26,514 | 3.90% | 2,034,158 | 19,217 | 3.83% |
| Non interest-earning assets | 192,184 | | | 188,557 | | | 114,505 | | |
| Allowance for credit losses | (18,423) | | | (18,373) | | | (16,688) | | |
| Total assets | $2,848,101 | | | $2,868,156 | | | $2,131,975 | | |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | | | | | | |
| Interest-bearing deposits | | | | | | | | | |
| Checking accounts | $ 457,189 | $ 159 | 0.14% | $ 427,475 | $ 121 | 0.11% | $ 391,863 | $ 82 | 0.08% |
| Savings accounts | 888,973 | 1,772 | 0.80 | 916,575 | 2,420 | 1.05 | 688,951 | 1,486 | 0.87 |
| Money market accounts | 193,048 | 449 | 0.94 | 216,858 | 678 | 1.24 | 130,226 | 380 | 1.18 |
| Certificates of deposit | 187,318 | 749 | 1.61 | 204,654 | 933 | 1.81 | 153,257 | 553 | 1.46 |
| Total interest-bearing deposits | 1,726,528 | 3,129 | 0.73 | 1,765,562 | 4,152 | 0.93 | 1,364,297 | 2,501 | 0.74 |
| Other borrowed funds | 127,389 | 566 | 1.79 | 125,368 | 655 | 2.07 | 54,124 | 356 | 2.67 |
| Total interest-bearing liabilities | 1,853,917 | 3,695 | 0.80% | 1,890,930 | 4,807 | 1.01% | 1,418,421 | 2,857 | 0.82% |
| Non-interest-bearing liabilities | | | | | | | | | |
| Demand deposits | 622,892 | | | 645,807 | | | 484,068 | | |
| Other liabilities | 80,089 | | | 76,876 | | | 60,810 | | |
| Total liabilities | 2,556,898 | | | 2,613,613 | | | 1,963,299 | | |
| Shareholders' equity | 291,203 | | | 254,543 | | | 168,676 | | |
| Total liabilities & shareholders' equity | $2,848,101 | | | $2,868,156 | | | $2,131,975 | | |
| Net interest income on a fully taxable equivalent basis | | 22,510 | | | 21,707 | | | 16,360 | |
| Less taxable equivalent adjustment | | (211) | | | (208) | | | (175) | |
| Net interest income | | $ 22,299 | | | $ 21,499 | | | $ 16,185 | |
| Net interest spread (5) | | | 3.14% | | | 2.89% | | | 3.01% |
| Net interest margin (6) | | | 3.39% | | | 3.19% | | | 3.26% |

(1) Annualized on a fully taxable equivalent basis calculated using a federal tax rate of 21%.

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

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

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

(5) Interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average cost of interest-bearing liabilities.

(6) Net interest margin represents net interest income on a fully tax equivalent basis as a percentage of average interest-earning assets.

***Rate/Volume Analysis***

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

| | Three Months Ended March 31, 2020 Compared with Three Months Ended March 31, 2019 Increase/(Decrease) Due to Change in | | |
|---|---|---|---|
| | Volume | Rate | Total |
| | | (dollars in thousands) | |
| Interest income | | | |
| Loans | | | |
| Taxable | $ 7,134 | $ (80) | $ 7,054 |
| Tax-exempt | 148 | (10) | 138 |
| Securities available for sale | | | |
| Taxable | (143) | 91 | (52) |
| Securities held to maturity | | | |
| Taxable | (240) | 35 | (205) |
| Tax-exempt | 91 | (60) | 31 |
| Cash and cash equivalents | 74 | (52) | 22 |
| Total interest income | $ 7,064 | $ (76) | $ 6,988 |
| Interest expense | | | |
| Deposits | | | |
| Checking accounts | 16 | 61 | 77 |
| Savings accounts | 416 | (130) | 286 |
| Money market accounts | 160 | (91) | 69 |
| Certificates of deposit | 136 | 60 | 196 |
| Total interest-bearing deposits | 728 | (100) | 628 |
| Other borrowed funds | 359 | (149) | 210 |
| Total interest expense | $ 1,087 | $ (249) | $ 838 |
| Change in net interest income | $ 5,977 | $ 173 | $ 6,150 |

**MARKET RISK AND ASSET LIABILITY MANAGEMENT**

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

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

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

***Interest Rate Sensitivity.*** The Company actively manages its interest rate sensitivity position. The objectives of interest rate risk management are to control exposure of net interest income to risks associated with interest rate movements and to achieve sustainable growth in net interest income. The Company's Asset Liability Committee ("ALCO"), using policies and procedures approved by the Company's board of directors, is responsible for the management of the Company's interest rate sensitivity position. The Company manages interest rate sensitivity by changing the mix, pricing, and re-pricing characteristics of its assets and liabilities, through the management of its investment portfolio, its offerings of loan and selected deposit terms, and through wholesale funding. Wholesale funding consists of, but is not limited to, multiple sources including borrowings with the FHLB of Boston, the Federal Reserve Bank of Boston's discount window, and certificates of deposit from institutional brokers.

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

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

As of March 31, 2020:

| | Year 1 | Year 2 |
|---|---|---|
| **Change in Interest Rates (in Basis Points)** | **Percentage Change in Net Interest Income** | **Percentage Change in Net Interest Income** |
| Parallel rate shocks | | |
| +400 | (4.5) | 6.0 |
| +300 | (3.7) | 3.9 |
| +200 | (3.1) | 1.4 |
| +100 | (2.2) | (1.0) |
| –100 | (2.0) | (8.5) |

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

As of March 31, 2020:

| | Year 1 | Year 2 |
|---|---|---|
| **Change in Interest Rates (in Basis Points)** | **Percentage Change in Net Interest Income** | **Percentage Change in Net Interest Income** |
| Gradual rate shifts | | |
| +200 | (2.8) | (1.7) |
| –100 | 0.2 | (6.8) |

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

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

The Bank's economic value of equity analysis as of March 31, 2020 estimated that, in the event of an instantaneous 200 basis point increase in interest rates, the Bank would experience a 3.7% increase in the economic value of equity for the next 12 months, and a 11.5% increase in the economic value of equity for the next 24 months.

At the same date, our analysis estimated that, in the event of an instantaneous 100 basis point decrease in interest rates, the Bank would experience a 7.7% increase in the economic value of equity over the next 12 months, and a 11.3% increase in the economic value of equity for the next 24 months. The estimates within the economic value of equity calculation are significantly impacted by management's assumption that the value of non-maturity deposits do not fall below their stated balance as of March 31, 2020. This assumption has the impact of increasing the Bank's economic value of equity in the falling rate scenario as lower market rates increase the value of the loan and investment portfolios while the value of the non-maturity deposit base remains static. The Company believes retaining customer relationships is the most desirable strategy over the long term.

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

**LIQUIDITY AND CAPITAL RESOURCES**

***Impact of Inflation and Changing Prices.*** Our Consolidated Financial Statements and related notes have been prepared in accordance with GAAP. GAAP generally requires the measurement of financial position and operating results in terms of historical dollars without consideration of changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, our assets and liabilities are primarily monetary in nature. As a result, changes in market interest rates have a greater impact on performance than the effects of inflation.

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

The Company's liquidity position is managed on a daily basis as part of the daily settlement function and continuously as part of the formal asset liability management process. The Bank's liquidity is maintained by managing its core deposits as the primary source, selling investment securities, selling loans in the secondary market, borrowing from the FHLB of Boston and FRB Boston, and purchasing wholesale certificates of deposit as its secondary sources. At March 31, 2020, the Company had access to funds totaling $1.3 billion.

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

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

***Capital Adequacy.*** Total shareholders' equity was $297.8 million at March 31, 2020, as compared to $286.6 million at December 31, 2019, primarily due to an increase in earnings and increases in the value of the Company's interest rate derivative positions and the available for sale investment portfolio. The ratio of total equity to total assets amounted to 10.44% at March 31, 2020 and 10.04% at December 31, 2019. Book value per share at March 31, 2020 and December 31, 2019 amounted to $54.96 and $53.06, respectively.

The Company and the Bank are subject to various regulatory capital requirements. As of March 31, 2020, the Company and the Bank exceeded the regulatory minimum levels to be considered "well-capitalized." See Item 1 - Notes to Unaudited Consolidated Financial Statements – NOTE 13 – SHAREHOLDERS' EQUITY to the Consolidated Financial Statements for additional discussion of regulatory capital requirements.

**FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

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

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

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

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

Off-balance-sheet arrangements are more fully discussed within Note 11 – Financial Instruments with Off-Balance-Sheet Risk.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

The information required by this item is included in Item 2 of this report under “Market Risk and Liability Management.”

**Item 4. Controls and Procedures.**

*Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.* As of March 31, 2020, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including its Chief Executive Officer and its Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934). Based on this evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective as of March 31, 2020 for recording, processing, summarizing, and reporting the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in SEC rules and forms.

The effectiveness of a system of disclosure controls and procedures is subject to various inherent limitations, including cost limitations, judgments used in decision making, assumptions about the likelihood of future events, the soundness of our systems, the possibility of human error, and the risk of fraud. Moreover, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions and the risk that the degree of compliance with policies or procedures may deteriorate over time. Due to such inherent limitations, there can be no assurance that any system of disclosure controls and procedures will be successful in preventing all errors or fraud or in making all material information known in a timely manner to the appropriate levels of management.

*Changes in Internal Controls over Financial Reporting.* The Company adopted ASU 2016-13 and related amendments during the quarter ended March 31, 2020 and implemented additional controls for calculating the allowance for credit losses. There were no other changes in the Company’s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings.

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

### Item 1A. Risk Factors.

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

The outbreak of COVID-19 has caused significant economic dislocation in the United States as many state and local governments have ordered non-essential businesses to close and residents to shelter in place at home. This has resulted in an unprecedented slow-down in economic activity and a related increase in unemployment. Since the COVID-19 outbreak, more than 22 million people have filed claims for unemployment, and stock markets have declined in value and in particular bank stocks have significantly declined in value. In response to the COVID-19 pandemic, the Federal Reserve has reduced the benchmark fed funds rate to a target range of 0% to 0.25%, and the yields on 10-year and 30-year treasury notes have declined to historic lows. Various state governments and federal agencies are requiring lenders to provide forbearance and other relief to borrowers (e.g., waiving late payment and other fees). In addition, the federal banking agencies have encouraged financial institutions to prudently work with affected borrowers and recently passed legislation has provided relief from reporting loan classifications due to modifications related to the COVID-19 outbreak. Certain industries have been particularly hard-hit, including the travel and hospitality industry, the restaurant industry and the retail industry. Finally, the spread of COVID-19 has caused us to modify our business practices, including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences. We have many employees working remotely and may take further actions as may be required by government authorities or that we determine is in the best interests of our employees, customers and business partners.

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

- demand for products and services may decline, making it difficult to grow assets and income;
- if the economy is unable to substantially reopen, and high levels of unemployment continue for an extended period of time, loan delinquencies, problem assets, and foreclosures may increase, resulting in increased charges and reduced income;
- collateral for loans, especially real estate, may decline in value, which could cause loan losses to increase;
- our allowance for credit losses may have to be increased if unemployment forecasts increase or borrowers experience financial difficulties beyond forbearance periods, which will adversely affect our net income;
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us;
- as the result of the decline in the Federal Reserve Board's target federal funds rate to near 0%, the yield on our assets may decline to a greater extent than the decline in our cost of interest-bearing liabilities, reducing our net interest margin and spread and reducing net income;
- a material decrease in net income or a net loss over several quarters could result in a decrease in the rate of our quarterly cash dividend;
- our wealth management revenues may decline with continuing market turmoil;
- our cyber security risks are increased as the result of an increase in the number of employees working remotely; and
- we rely on third party vendors for certain services and the unavailability of a critical service due to the COVID-19 outbreak could have an adverse effect on us.

These factors, among others, together or in combination with other events or occurrences not yet known or anticipated, could adversely affect our operations.

Please read Item 1A. “Risk Factors” in the Company’s 2019 Form 10-K. There have been no other material changes since the 2019 10-K was filed. These risks are not the only ones facing the Company. Additional risks and uncertainties not currently known to the Company or that the Company currently deems to be immaterial also may materially adversely affect the Company’s business, financial condition, and operating results.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The following table sets forth the information regarding the Company’s repurchases of its common stock during the three months ended March 31, 2020:

| Period | Total Number of Shares Repurchased (1) | Weighted Average Price Paid Per Share |
|---|---|---|
| January 1 to January 31, 2020 | 4,397 | $ 75.53 |
| February 1 to February 29, 2020 | 196 | $ 72.25 |
| March 1 to March 31, 2020 | 2,563 | $ 56.68 |
| Total | 7,156 | |

(1) Shares repurchased by the Company relate to shares tendered by employees to pay their income tax liability on current period RSA, RSU, or PRSU vestings.

The Company does not currently have a stock repurchase program or plan in place.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures.

Not applicable.

### Item 5. Other Information.

None.

**Item 6. Exhibits.**

Furnish the exhibits required by Item 601 of Regulation S-K (§ 229.601 of this chapter).

| Exhibit Number | Description |
|---|---|
| 31.1* | Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2* | Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2* | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | The cover page for the Company’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2020, has been formatted in Inline XBRL. |

* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**CAMBRIDGE BANCORP**

May 8, 2020

By: /s/ Denis K. Sheahan
Denis K. Sheahan
Chairman, Chief Executive Officer
(Principal Executive Officer)

May 8, 2020

By: /s/ Michael F. Carotenuto
Michael F. Carotenuto
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)



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# Section 2: EX-31.1 (EX-31.1)

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Denis K. Sheahan, Chief Executive Officer of Cambridge Bancorp, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q, for the period ended March 31, 2020, of Cambridge Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 8, 2020

By: /s/ Denis K. Sheahan
Denis K. Sheahan

Chairman, Chief Executive Officer
(Principal Executive Officer)

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# Section 3: EX-31.2 (EX-31.2)

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO**
**RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,**
**AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Michael F. Carotenuto, Chief Financial Officer of Cambridge Bancorp, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q, for the period ended March 31, 2020, of Cambridge Bancorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 8, 2020

By: /s/ Michael F. Carotenuto
Michael F. Carotenuto
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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# Section 4: EX-32.1 (EX-32.1)

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Cambridge Bancorp (the "Company") for the period ending March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-Q Report fully complies with the requirements of section 13(a) or 15(d) as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 8, 2020

By: /s/ Denis K. Sheahan
Denis K. Sheahan
Chairman, Chief Executive Officer
(Principal Executive Officer)

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# Section 5: EX-32.2 (EX-32.2)

**Exhibit 32.2**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Cambridge Bancorp (the "Company") for the period ending March 31, 2020 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Form 10-Q Report fully complies with the requirements of section 13(a) or 15(d) as applicable, of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Form 10-Q Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

May 8, 2020

By: /s/ Michael F. Carotenuto
Michael F. Carotenuto
Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

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