



Cambridge Financial Group

Annual Report 2013



## PRESIDENT'S LETTER

As we enter our 180th year in operation, I am pleased to report that 2013 was another successful year for Cambridge Savings Bank. We finished the year with strong earnings of \$14.7 million and a record asset level of \$2.58 billion.

Our commercial operations, including real estate and c&i lending, reached \$1.266 billion in loans compared to \$1.040 billion in 2012, a 21.7% increase. This exceptional rate of growth is due to our commitment to building relationships with experienced real estate investors and developers, as well as our ability to identify opportunities in the market such as in the alternative energy sector, and through our commitment to small business lending, as reflected in the growth in our Small Business Administration (SBA) loan programs. We look to continue building on this momentum and growing this part of our business.

While our commercial lending portfolio has grown, the quality of the portfolio continues to remain very strong with low levels of delinquencies and charge-offs.

During the past year, we saw tremendous growth with our customers' use of our mobile banking services: deposits increased nearly 60% from 2012 and active users increased by 45%. While mobile banking still represents a small percentage of our total business, it is important and valuable—especially to our future. Trends with the consumer—and with their banking needs and requirements—continue to change at a rapid pace. Just a few years ago, banking from a desktop computer was considered groundbreaking; it is now becoming secondary to mobile and tablet device use.



WAYNE F. PATENAUDE  
President and Chief Executive Officer

These changes require us to develop new ways to provide the services and communication platforms needed by our customers. Our internal efforts involve the continual evaluation of the market to understand what mobile and online banking tools and platforms are available and which of them are resonating with our customers. While assessing these new offerings, we continue to watch for those that improve efficiency while maintaining system and information security.

2013 was also a year in which we evaluated the changing trends in customers' use of our branch offices, and we are in the process of making modifications to our service approach in our branches in response to these trends. By the end of the year, the finishing touches were being attended to on our newest branch. Located at 3rd Ave Burlington, a new outdoor shopping and restaurant destination, this high profile site is surrounded by many of Burlington's business parks and retail malls. We have designed the branch to service retail banking consumers, residential lending clients, small businesses, and commercial real estate and commercial lending clients. The branch also includes a business center for use by our clients during and after hours. It is a genuine full-service branch, well beyond the traditional meaning of this term.

The past year was not without its challenges. The low interest rate environment continues to put pressure on net interest margin contributions to our P&L. While interest rates have remained low for an extended period of time, particularly short-term rates, we have been diligent in building a balance sheet that is designed to perform well when rates begin to rise. To that end, we have been very active in the interest rate swap market. This service allows our commercial customers to lock-in long-term fixed rate financing at historically low rates, while our bank maintains a floating rate loan. In addition, we continue to maintain a greater percentage of

adjustable rate loans in the total loan portfolio and our investment portfolio provides consistent cash flow that will allow us the opportunity to reinvest when rates rise. While we acknowledge that this balance sheet structure has resulted in a lower net income, we believe the long-term risk to earnings and our overall financial strength from the eventual rise in interest rates outweighs the impact on current income that comes from maintaining a flexible balance sheet.

Meanwhile, the surge in mortgage rates in the summer of 2013 resulted in a sharp decline in refinancing activity and an overall slowdown in mortgage applications. This weakness continued through the remainder of the year, impacting residential mortgage balances and mortgage banking fees.

Since our inception we have believed in the importance of contributing to the vitality of our communities, as our core values are rooted in a fundamental sense of community and mutuality. Working with those in our community who are in need or somehow less fortunate is an integral part of our daily operations, from our volunteer efforts to our community activities and our charitable donations. As a company, we are committed to these endeavors. These values continue to drive our culture and provide a sense of perspective that allows us to operate thoughtfully and to thrive in a highly competitive environment.

This commitment to the strengthening of our communities also makes us better bankers, especially with respect to our small business offerings. We are pleased to announce that the Massachusetts District Office of National Small Business Administration recognized Cambridge Savings Bank as the 5th largest lender in Massachusetts for their fiscal year ended September 30, 2013, according to the number of loans granted during the period. This is especially gratifying as we have only been active in SBA lending for less than three years.

I also want to note that, effective in April 2014, after 33 years of exemplary service, Alan McClennen, Jr. will retire as Chairman of the Board. Alan started as a Corporator of our bank in 1981 and was elected as a Trustee in 1987. He became Chairman in 2009, during a very challenging period in the economic history of the country, and has provided invaluable leadership and guidance during his time as Chairman and particularly to me in my first year as President and Chief Executive Officer. While we all fully support his next adventure—perfecting the art of sailing and in his new role as councilman for the City of Orleans, MA—we will certainly miss Alan’s enthusiasm and engaging spirit.

Finally, as I close my first year as President and Chief Executive Officer, I want to acknowledge the employees of Cambridge Savings Bank. They have provided me with great support and our company with great devotion and commitment to our cause. It is their collective effort that has created the strong culture of our bank, produced the financial results for the year, and received heartfelt positive response from our customers and communities. I would also like to express my gratitude to our Board, our Trustees, and our Corporators, who have provided important insight and advice to the direction of our company. I look forward to the continued growth of our bank, and to a successful 2014.

Sincerely,

A handwritten signature in black ink, reading "Wayne F. Patenaude". The signature is written in a cursive style with a large, prominent initial "W".

Wayne F. Patenaude  
President and CEO,  
Cambridge Savings Bank

# Condensed Consolidated Balance Sheets

December 31, 2013 and 2012 | (in thousands)

<b>ASSETS</b>	<b>2013</b>	<b>2012</b>
Cash and due from banks	\$ 29,170	\$ 23,264
Short-term investments	29,984	105,124
Total cash and cash equivalents	59,154	128,388
Investment securities available for sale, at fair value	465,216	555,245
Investment securities held to maturity, at amortized cost	61,701	54,029
Loans held for sale, net	2,034	5,076
Loans:		
Residential mortgage loans	522,132	525,974
Commercial real estate loans	1,153,396	940,694
Commercial and industrial loans	112,617	99,866
Other loans	59,455	61,596
Total Loans	1,847,600	1,628,130
Less allowance for loan losses	(17,468)	(14,405)
Net loans	1,830,132	1,613,725
Premises and equipment, net	42,540	34,493
Accrued interest receivable	5,873	6,161
Deferred income tax asset, net	19,055	12,426
Cash surrender value of life insurance	49,629	48,279
Other assets	41,718	48,286
Total assets	\$ 2,577,052	\$ 2,506,108
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<b>LIABILITIES AND EQUITY CAPITAL</b>	<b>2013</b>	<b>2012</b>
Liabilities:		
Deposits	\$ 2,039,504	\$ 2,064,139
Advances from Federal Home Loan Bank of Boston	220,000	115,000
Repurchase agreements	14,591	36,447
Capital lease obligations	9,458	-
Accrued interest payable	299	542
Accrued expenses and other liabilities	31,062	33,477
Total liabilities	2,314,914	2,249,605
Equity capital:		
Cambridge Financial Group, Inc. equity capital:		
Undistributed earnings	265,070	250,335
Accumulated other comprehensive (loss) income	(2,938)	6,162
Total Cambridge Financial Group, Inc. equity capital	262,132	256,497
Noncontrolling interest in subsidiary	6	6
Total equity capital	262,138	256,503
Total liabilities and equity capital	\$ 2,577,052	\$ 2,506,108

# Condensed Consolidated Statements of Income

Years ended December 31, 2013 and 2012 | (In thousands)

	2013	2012
Interest income:		
Residential mortgage loans	\$ 18,892	\$ 22,656
Commercial real estate loans	42,352	41,367
Commercial and industrial loans	4,306	4,242
Other loans	2,303	2,804
Investment securities	11,793	12,861
Short-term and other investments	277	298
Total interest and dividend income	79,923	84,228
Interest expense:		
Deposits	8,445	11,262
Advances from Federal Home Loan Bank of Boston	3,988	4,362
Repurchase agreements	51	812
Capital lease obligations and other borrowings	241	31
Total interest expense	12,725	16,467
Net interest and dividend income	67,198	67,761
Provision for loan losses	2,950	2,070
Net interest and dividend income after provision for loan losses	64,248	65,691
Noninterest income:		
Deposit account fees	4,945	4,693
Rental income	3,278	3,324
Trust fee income	3,051	2,606
Gain (loss) on writedowns and sales of securities, net	311	(102)
Mortgage banking gains	1,554	3,369
Other	4,024	3,522
Total noninterest income	17,163	17,412
Noninterest expense:		
Salaries and employee benefits	33,874	33,286
Office occupancy and equipment	10,751	10,256
FDIC deposit insurance	1,404	1,398
Other operating expenses	17,312	15,975
Total noninterest expense	63,341	60,915
Income before income taxes	18,070	22,188
Income tax expense	3,335	6,105
Net income	\$ 14,735	\$ 16,083





## Cambridge Savings Bank Executive Team

TOP ROW  
(Left to Right)

**Mark T. Tracy**  
Senior Vice President and  
Chief Technology Officer

**Michael T. Lindgren**  
Senior Vice President  
Commercial Real Estate Lending

**Marie S. Lodi**  
Senior Vice President and  
Chief Human Resource Officer

**Michael O. Gilles**  
Executive Vice President,  
Chief Financial Officer and Treasurer

**Wayne F. Patenaude**  
President and Chief Executive Officer

**Douglas J. Faithfull**  
Executive Vice President and  
Chief Lending Officer

**James M. O'Neil, Jr.**  
Chief Executive Officer and Trust  
Officer, Cambridge Appleton Trust

BOTTOM ROW  
(Left to Right)

**Susan Lapierre**  
Senior Vice President  
Community Relations  
and CRA Officer

**Daniel Mercurio**  
Senior Vice President Retail Banking

**Barbara Chambers**  
Senior Vice President and  
Chief Marketing Officer

**Stephen J. Coukos**  
Executive Vice President and  
General Counsel

## Directors, Trustees, Corporators, and Executive Staff

### Cambridge Financial Group Trustees & Corporators, Cambridge Savings Bank Directors

**Michael J. Costello**  
Retired, Former Partner  
PricewaterhouseCoopers LLP

**Anne Adams Cushman**  
Principal / Owner  
Advice and Consult

**Thomas W. Falwell, Esq.**  
Partner / Attorney  
Comins & Newbury LLP

**Kevin J. Fitzgerald**  
Retired, Former Chairman  
& CEO Cambridge Financial  
Group and Cambridge  
Savings Bank

**Howard B. Hodgson, Jr.**  
Partner  
Cabot Properties, Inc.

**Alan McClennen, Jr.**  
Chairman Cambridge  
Financial Group and  
Cambridge Savings Bank

**Robert W. Murray**  
President and  
Chief Executive Officer  
Murray Hills, Inc.

**C. Brendan Noonan, III, Esq.**  
President  
C. Brendan Noonan  
& Company, Inc.

**Wayne F. Patenaude**  
President and  
Chief Executive Officer  
Cambridge Financial Group  
and Cambridge Savings Bank

**Robert J. Ramsey**  
Vice President and Owner  
W. T. Phelan & Co.

**Robert P. Reardon**  
Director of Assessment  
City of Cambridge

**Harborne W. Stuart, Jr.**  
Adjunct Professor  
School of Engineering  
and Applied Sciences,  
Columbia University

**Robert M. Wilson**  
Retired, Former President  
and Chief Executive Officer  
Cambridge Financial Group  
and Cambridge Savings Bank

### Cambridge Financial Group Trustees & Corporators

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Executive Vice President  
Cambridge Savings Bank

**John P. DiGiovanni**  
President  
Trinity Property  
Management

**Mary Ann Pesce Choate**  
Retired, Former President,  
Global Personal Care,  
Gillette / Proctor & Gamble

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Davies & Bibbins, Inc.

**Mary Rose Bolton**  
Retired, Former Senior  
Advisor to the Director,  
Harvard University  
Art Museum

**Timothy Bowe**  
CEO and Co-Founder  
Foliage, Inc.

**J. Daniel Bowen**  
Senior Vice President  
Nordblom Company

**Douglas C. Chamberlain**  
President and  
Chief Executive Officer  
Appleton Partners, Inc.

**Allison R. Coleman**  
Chief Executive Officer  
Capital Link, Inc.

**Peter Daly**  
Executive Director  
Homeowner's Rehab, Inc.

**Paul C. Dick**  
President / Attorney  
Law Offices  
of Paul C. Dick, P.C.

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Founder and Partner  
Clark, Hunt, Ahern  
& Embry

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Chief Financial Officer  
and Chief Operating Officer  
Sawyer Realty Holdings LLC

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Senior Sales Associate  
Coldwell Banker

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Principal Attorney  
Nicholson, Sreter  
& Gilgun, P.C.

**Allison Goodwin**  
Retired, Risk  
Management Officer  
Bank of America

**John T. Gosselin, Esq.**  
Managing Attorney  
Gosselin, Moschella  
& Kyrinkidis, P.C.

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Development Partner  
The Hanover Company

**Michael T. Hannon**  
CFO, Treasurer and Secretary  
Magne Motion, Inc.

**Michelle D. Holmes**  
Physician / Epidemiologist  
Channing Laboratory

**Charles D. Keefe, Jr.**  
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**Ara Krafian**  
Principal, Chairman, and CEO  
Symmes Maini & McKee  
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**Charles Lyons**  
Superintendent, Director  
Shawsheen Valley Technical  
Regional School

**Edward L. Marsteiner, III**  
Partner & Director  
of Acquisitions  
National Development

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Retired, Deputy Director  
City of Cambridge

**Robert Metafora**  
Chairman and CEO  
CFE International

**Amey D. Moot**  
Consultant

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Operations Director  
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**Richard D. Walsh, Esq.**  
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Walsh & Fadden

**Ada H. Wong**  
President  
Lexington Enterprises, Inc.

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Cambridge Financial Group

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