

ENTERPRISE BANCORP INC /MA/
Form 10-K
March 15, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

For the fiscal year ended December 31, 2015

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 001-33912

Enterprise Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Massachusetts

04-3308902

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

222 Merrimack Street, Lowell, Massachusetts

01852

(Address of principal executive offices)

(Zip code)

Registrant's telephone number, including area code
(978) 459-9000

Securities registered pursuant to Section 12(b) of the Exchange Act:

Common Stock, \$0.01 par value per share

NASDAQ Global Market

(Title of each class)

(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Exchange Act:

NONE

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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 and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted 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 and post such files) ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐ o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting

Edgar Filing: ENTERPRISE BANCORP INC /MA/ - Form 10-K

company” in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

☐ Yes ☒ No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid price and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter:

\$179,336,416 (\$23.44 per share) as of June 30, 2015

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date: March 4, 2016, Common Stock, par value \$0.01, 10,409,989 shares outstanding

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive proxy statement for its annual meeting of stockholders to be held on May 3, 2016 are incorporated by reference in Part III of this Form 10-K.

ENTERPRISE BANCORP, INC.

TABLE OF CONTENTS

	Page Number
<u>PART I</u>	
<u>Item 1</u> <u>Business</u>	<u>3</u>
<u>Item 1A</u> <u>Risk Factors</u>	<u>24</u>
<u>Item 1B</u> <u>Unresolved Staff Comments</u>	<u>33</u>
<u>Item 2</u> <u>Properties</u>	<u>33</u>
<u>Item 3</u> <u>Legal Proceedings</u>	<u>33</u>
<u>Item 4</u> <u>Mine Safety Disclosures</u>	<u>33</u>
<u>PART II</u>	
<u>Item 5</u> <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>33</u>
<u>Item 6</u> <u>Selected Financial Data</u>	<u>37</u>
<u>Item 7</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
<u>Item 7A</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>71</u>
<u>Item 8</u> <u>Financial Statements and Supplementary Data</u>	<u>73</u>
<u>Item 9</u> <u>Changes In and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>132</u>
<u>Item 9A</u> <u>Controls and Procedures</u>	<u>132</u>
<u>Item 9B</u> <u>Other Information</u>	<u>132</u>
<u>Part III</u>	
<u>Item 10</u> <u>Directors, Executive Officers and Corporate Governance</u>	<u>132</u>
<u>Item 11</u> <u>Executive Compensation</u>	<u>132</u>
<u>Item 12</u> <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>132</u>
<u>Item 13</u> <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>132</u>
<u>Item 14</u> <u>Principal Accounting Fees and Services</u>	<u>132</u>
<u>Part IV</u>	
<u>Item 15</u> <u>Exhibits, Financial Statement Schedules</u>	<u>133</u>
<u>Signature page</u>	<u>136</u>

PART I

Item 1. Business

Organization

Enterprise Bancorp, Inc. (the “Company” or “Enterprise”) is a Massachusetts corporation organized in 1996, which operates as the parent holding company of Enterprise Bank and Trust Company, commonly referred to as Enterprise Bank (the “Bank”). Substantially all of the Company’s operations are conducted through the Bank. The Bank, a Massachusetts trust company and state chartered commercial bank that commenced banking operations in 1989, has five wholly owned subsidiaries that are included in the Company’s consolidated financial statements:

- Enterprise Insurance Services, LLC, organized in 2000 in the State of Delaware for the purpose of engaging in insurance sales activities;
- Enterprise Investment Services, LLC, organized in 2000 in the State of Delaware for the purpose of offering non-deposit investment products and services, under the name of "Enterprise Investment Services," and
- Three Massachusetts security corporations, Enterprise Security Corporation (2005), Enterprise Security Corporation II (2007) and Enterprise Security Corporation III (2007), which hold various types of qualifying securities. The security corporations are limited to conducting securities investment activities that the Bank itself would be allowed to conduct under applicable laws.

Enterprise’s headquarters are located at 222 Merrimack Street in Lowell, Massachusetts.

The services offered through the Bank and its subsidiaries are managed as one strategic unit and represent the Company’s only reportable operating segment.

All material intercompany balances and transactions have been eliminated in consolidation.

Market Area

The Company’s primary market area is the greater Merrimack Valley and North Central regions of Massachusetts and Southern New Hampshire. Enterprise has 22 full-service branch banking offices located in the Massachusetts cities and towns of Acton, Andover, Billerica, Chelmsford, Dracut, Fitchburg, Lawrence, Leominster, Lowell, Methuen, Tewksbury, Tyngsboro and Westford; and in the New Hampshire towns of Derry, Hudson, Nashua, Pelham and Salem, which serve those cities and towns as well as the surrounding communities. Additionally, the Company has obtained regulatory approval and plans to open its second Nashua branch in the second quarter of 2016.

Management actively seeks to strengthen its market position by capitalizing on market opportunities to grow all business lines and the continued pursuit of organic growth and strategic expansion within existing and into neighboring geographic markets.

Products and Services

The Company principally is engaged in the business of gathering deposits from the general public and investing primarily in loans and investment securities and utilizing the resulting cash flows to conduct operations, expand the branch network, and pay dividends to stockholders. Through the Bank and its subsidiaries, the Company offers a range of commercial and consumer loan products, deposit products and cash management services; the Company also offers investment advisory and wealth management, trust and insurance services. Management continually examines new products and technologies in order to maintain a highly competitive mix of offerings and state-of-the-art delivery channels in order to tailor product lines to customers' needs. These products and services are outlined below.

Lending Products

General

The Company specializes in lending to business entities, non-profit organizations, professionals and individuals. The Company's primary lending focus is on the development of high quality commercial relationships achieved through active business development efforts, strong community involvement, focused marketing strategies, and long-term relationships with

established commercial developers, growing businesses and non-profits. Loans made to businesses include commercial mortgage loans, construction and land development loans, secured and unsecured commercial loans and lines of credit, and standby letters of credit. The Company also originates equipment lease financing for businesses. Loans made to individuals include conventional residential mortgage loans, home equity loans and lines, residential construction loans on primary and secondary residences, and secured and unsecured personal loans and lines of credit. The Company seeks to manage its loan portfolio to avoid concentration by industry or loan size to lessen its credit risk exposure.

Interest rates charged on loans may be fixed or variable; variable rate loans may have fixed initial periods before periodic rate adjustments begin. Individual rates offered are dependent on the associated degree of credit risk, term, underwriting and servicing costs, loan amount, and the extent of other banking relationships maintained with the borrower, and may be subject to interest rate floors. Rates are also subject to competitive pressures, the current interest rate environment, availability of funds, and government regulations. In 2015, the Company introduced a "Back-to-Back Swap" program that is available to qualified commercial banking customers. The customer interest-rate swap contract allows commercial banking customers to convert a floating-rate loan payment to fixed-rate loan payment while the Company simultaneously enters into an equal and opposite interest rate swap with an independent counterparty. The transaction structure effectively minimizes the Company's net interest rate risk exposure resulting from such transactions.

Enterprise employs a seasoned commercial lending staff, with commercial lenders supporting each branch location. An internal loan review function assesses the compliance of commercial loan originations with the Company's internal policies and underwriting guidelines and monitors the ongoing quality of the loan portfolio. The Company also contracts with an external loan review company to review loans in the commercial loan portfolio on a pre-determined schedule, based on the type, size, rating, and overall risk of the loan.

The Company's internal residential origination and underwriting staff originate residential loans and are responsible for compliance with residential lending regulations, consumer protection and internal policy guidelines. The Company contracts with an external loan review company to complete a regular quality control review in accordance with secondary market underwriting requirements for residential mortgage loans sold. The sample reviewed is based on loan volume originated. Additionally, the Company's internal compliance department monitors the residential loan origination activity for regulatory compliance.

A management loan review committee, consisting of senior lending officers, credit, loan workout and accounting personnel, is responsible for setting loan policy and procedures, as well as reviewing loans on the internal "watched asset list" and classified loan report. An internal credit review committee, consisting of senior lending officers and loan review personnel, meets to review loan requests related to borrowing relationships of certain dollar levels, as well as other borrower relationships recommended for discussion by committee members.

The Executive Committee of the Company's Board of Directors (the "Board") approves loan relationships exceeding certain prescribed dollar limits. The Loan Committee of the Board reviews current portfolio statistics, problem credits, construction loan reviews, watched assets, loan delinquencies, and the allowance for loan losses, as well as current market conditions and issues relating to the construction and real estate development industry and the reports from the external loan review company. The Board's Loan Committee is also responsible for approval of credit-related charge-offs recommended by management. Approved charge-offs are forwarded to the full Board for ratification. In March 2016, these two board committees were merged, with all former duties and responsibilities carried forward to the surviving Loan Committee or the full Board.

At December 31, 2015, the Bank's statutory lending limit, based on 20% of capital (capital stock plus surplus and undivided profits, but excluding other comprehensive income), to any individual borrower and related entities was approximately \$37.9 million, subject to certain exceptions provided under applicable law.

See also "Risk Factors" contained in Item 1A and "Credit Risk" contained in Item 7, for further discussion on a variety of risks and uncertainties that may affect the Company's loan portfolio.

Commercial Real Estate, Commercial and Industrial, and Commercial Construction Loans

Commercial real estate loans include loans secured by both owner-use and non-owner use real estate. These loans are typically secured by a variety of commercial and industrial property types, including one-to-four family and multi-family apartment buildings, office, industrial, or mixed-use facilities, strip shopping centers, or other commercial properties, and are generally guaranteed by the principals of the borrower. Commercial real estate loans generally have repayment periods of approximately

fifteen to twenty-five years. Variable interest rate loans in this portfolio have a variety of adjustment terms and indices, and are generally fixed for an initial period before periodic rate adjustments begin.

Commercial and industrial loans include seasonal revolving lines of credit, working capital loans, equipment financing (including equipment leases), and term loans. Also included in commercial and industrial loans are loans partially guaranteed by the U.S. Small Business Administration (SBA), and loans under various programs and agencies. Commercial and industrial credits may be unsecured loans and lines to financially strong borrowers, secured in whole or in part by real estate unrelated to the principal purpose of the loan, or secured by inventories, equipment, or receivables, and are generally guaranteed by the principals of the borrower. Variable rate loans and lines in this portfolio have interest rates that are periodically adjusted, with loans generally having fixed initial periods. Commercial and industrial loans have average repayment periods of one to seven years.

Commercial construction loans include the development of residential housing and condominium projects, the development of commercial and industrial use property, and loans for the purchase and improvement of raw land. These loans are secured in whole or in part by the underlying real estate collateral and are generally guaranteed by the principals of the borrowers. Construction lenders work to cultivate long-term relationships with established developers. The Company limits the amount of financing provided to any single developer for the construction of properties built on a speculative basis. Funds for construction projects are disbursed as pre-specified stages of construction are completed. Regular site inspections are performed prior to advancing additional funds, at each construction phase, either by experienced construction lenders on staff or by independent outside inspection companies. Commercial construction loans generally are variable rate loans and lines with interest rates that are periodically adjusted and generally have terms of one to three years.

From time to time, Enterprise participates with other banks in the financing of certain commercial projects. Participating loans with other institutions provide banks the opportunity to retain customer relationships, while providing them with larger credit vehicles than the individual bank might be willing or able to offer independently, while reducing credit risk exposure among each participating bank. In some cases, the Company may act as the lead lender, originating and servicing the loans, but participating out a portion of the funding to other banks. In other cases, the Company may participate in loans originated by other institutions. In each case, the participating bank funds a percentage of the loan commitment and takes on the related pro-rata risk. In each case in which the Company participates in a loan, the rights and obligations of each participating bank are divided proportionately among the participating banks in an amount equal to their share of ownership and with equal priority among all banks. The balances participated out to other institutions are not carried as assets on the Company's financial statements. Loans originated by other banks in which the Company is the participating institution are carried in the loan portfolio at the Company's pro rata share of ownership. The Company performs an independent credit analysis of each commitment and a review of the participating institution prior to participation in the loan and an annual review thereafter of each participating institution.

Letters of credit are conditional commitments issued by the Company to guarantee the financial obligation or performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. If the letter of credit is drawn upon, a loan is created for the customer, generally a commercial loan, with the same criteria associated with similar commercial loans.

Residential Loans

Enterprise originates conventional mortgage loans on one-to-four family residential properties. These properties may serve as the borrower's primary residence, vacation homes or investment properties. Loan-to-value limits vary, generally from 75% for multi-family owner-occupied properties, up to 97% for single family owner occupied properties, with mortgage insurance coverage required for loan-to-value ratios greater than 80% based on program parameters. In addition, financing is provided for the construction of owner occupied primary and secondary

residences. Residential mortgage loans may have terms of up to 30 years at either fixed or adjustable rates of interest. Fixed and adjustable rate residential mortgage loans are generally originated using secondary market underwriting and documentation standards.

Depending on the current interest rate environment, management projections of future interest rates and the overall asset-liability management program of the Company, management may elect to sell those fixed and adjustable rate residential mortgage loans which are eligible for sale in the secondary market, or hold some or all of this residential loan production for the Company's portfolio. Mortgage loans are generally not pooled for sale, but instead, sold on an individual basis. Enterprise may retain or sell the servicing when selling the loans. Loans sold are subject to standard secondary market underwriting and eligibility representations and warranties over the life of the loan, and are subject to an early payment default period covering

the first four payments for certain loan sales. Loans classified as held for sale are carried as a separate line item on the balance sheet.

Home Equity Loans and Lines of Credit

Home equity term loans are originated for one-to-four family residential properties with maximum combined loan-to-value ratios generally up to 80% of the assessed or appraised value of the property securing the loan. Home equity loan payments consist of monthly principal and interest based on amortization ranging from three to fifteen years. The rates may also be fixed for three to fifteen years.

The Company originates home equity revolving lines of credit for one-to-four family residential properties with maximum combined loan to value ratios generally up to 80% of the assessed or appraised value of the property securing the loan. Home equity lines generally have interest rates that adjust monthly based on changes in the Wall Street Journal Prime Rate, although minimum rates may be applicable. Some home equity line rates may be fixed for a period of time and then adjusted monthly thereafter. The payment schedule for home equity lines allows interest only payments for the first ten years of the lines. Generally, at the end of ten years, the line may be frozen to future advances, and principal plus interest payments are collected over a fifteen-year amortization schedule, or, for eligible borrowers meeting certain requirements, the line availability may be extended for an additional interest only period.

Consumer Loans

Consumer loans primarily consist of secured or unsecured personal loans, energy efficiency financing programs in conjunction with Massachusetts public utilities, and overdraft protection lines on checking accounts extended to individual customers. The aggregate amounts of overdrawn deposit accounts are reclassified as loan balances.

Credit Risk and Allowance for Loan Losses

Information regarding the Company's credit risk and allowance for loan losses is contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," contained in the section "Financial Condition," under the headings "Credit Risk," "Asset Quality" and "Allowance for Loan Losses," and in the "Critical Accounting Estimates" section of Item 7 under the heading "Allowance for Loan Losses."

Deposit Products

Deposits have traditionally been the principal source of the Company's funds. Enterprise offers commercial checking, business and municipal savings accounts, term certificates of deposit ("CDs"), money market and business sweep accounts, Interest on Lawyers Trust Accounts ("IOLTA's"), and escrow management accounts, as well as checking and Simplified Employee Pension ("SEP") accounts to employees of our business customers. A broad selection of competitive retail deposit products are also offered, including personal checking accounts earning interest and/or reward points, savings accounts, money market accounts, individual retirement accounts ("IRA") and CDs. Terms on CDs are offered ranging from one month to seventy-two months. As a member of the Federal Deposit Insurance Corporation (the "FDIC"), the Bank's depositors are provided deposit protection up to the maximum FDIC insurance coverage limits.

In addition to the deposit products noted above, the Company also provides customers the ability to allocate money market and checking deposits and CDs to networks of reciprocating FDIC insured banks. Deposits are placed into nationwide networks in increments that are covered by FDIC insurance. This allows the Company to offer enhanced FDIC insurance coverage on larger deposit balances by placing the "excess" funds in FDIC insured accounts or term certificates issued by other banks participating in the networks. In exchange, the other institutions place dollar-for-dollar matching reciprocal and insurable deposits with the Company via the networks. Essentially, the

equivalent of the original deposit comes back to the Company and is available to fund local loan growth. The original funds placed into the networks are not carried as deposits on the Company's balance sheet, however the network's reciprocal dollar deposits are carried as non-brokered deposits within the appropriate category under total deposits on the balance sheet.

Management determines the interest rates offered on deposit accounts based on current and expected economic conditions, competition, liquidity needs, the volatility of existing deposits, the asset-liability position of the Company and the overall objectives of the Company regarding the growth and retention of relationships.

Enterprise also utilizes brokered deposits, both term and overnight, from a number of available sources, as part of the Company's asset-liability management strategy and as an alternative to borrowed funds to support asset growth in excess of internally generated deposits. Brokered deposits along with borrowed funds may be referred to as wholesale funding.

Cash Management Services

In addition to the deposit products discussed above, commercial banking and municipal customers may take advantage of cash management services including remote deposit capture, Automated Clearing House ("ACH") credit and debit origination, credit card processing, wholesale and retail lockbox deposit, escrow management, Non-Sufficient Funds check recovery, coin and currency processing, check reconciliation, check payment fraud prevention, international and domestic wire transfers, corporate credit cards, and automated investment sweep of excess funds into enhanced FDIC insured money market and commercial checking accounts.

Third-party money market mutual funds are also offered for commercial sweep accounts. Management believes that commercial customers benefit from this product flexibility, while retaining a conservative investment option of high quality and safety. The balances swept on a daily basis into mutual funds do not represent obligations of the Company and are not insured by the FDIC.

Product Delivery Channels

In addition to traditional product access channels, on-line banking customers may connect to their bank accounts securely via personal computer or any internet-enabled phone or mobile device. Various electronic banking capabilities include the following: account inquiries; viewing of recent transactions; account transfers; loan payments; bill payments; person to person payments; check deposits; placement of stop payments; access to images of checks paid; and access to prior period account statements; commercial customers can additionally launch cash management services such as remote deposit capture, check payment fraud prevention, conduct ACH transactions and initiate wire transfers.

On-line and mobile banking tools utilize multiple layers of customer authentication including device and geographic recognition, personal access ID's and passwords, as well as digital signatures for certain transactions.

Personal and business debit card customers may also enlist in Apple Pay® for their Apple® compatible devices to conduct convenient contactless debit payments in a unique secure environment at hundreds of thousands of retail locations.

Investment Services

The Company provides a range of investment advisory and management services delivered via two channels, Enterprise Investment Advisors and Enterprise Investment Services.

Investment advisory and management services include customized investment management and trust services provided under the label "Enterprise Investment Advisors" to individuals, family groups, commercial businesses, trusts, foundations, non-profit organizations, and endowments.

Enterprise Investment Advisors primarily utilizes an open-architecture approach to client investment management. The philosophy is to identify and hire high performing mutual funds and independent investment management firms on behalf of our clients. The Company partners with an investment research and due diligence firm to strengthen strategic development, improve manager access and selection and provide performance monitoring capabilities. This firm performs detailed research and due diligence reviews and provides an objective analysis of each independent

management firm based on historic returns, management quality, longevity, investment style, risk profile, and other criteria, and maintains ongoing oversight and monitoring of their performance. This due diligence is intended to enable the Company to customize investment portfolios to meet each customer's financial objectives and deliver superior long-term performance.

Enterprise Investment Advisors also offers the flexibility of an individually managed portfolio, for clients who prefer customized asset management with a variety of investment options, which includes our Large Cap Core Equity Strategy, a proprietary blend of value and growth stocks. Various secondary research sources are utilized with our individually managed portfolios.

Enterprise Investment Services provides brokerage and management services through a third-party arrangement with Commonwealth Financial Network, a licensed securities brokerage firm, with products designed primarily for the individual investor. Retirement plan services are offered through third-party arrangements with leading 401(k) plan providers.

Insurance Services

Enterprise Insurance Services, LLC, engages in insurance sales activities through a third-party arrangement with HUB International New England, LLC ("HUB"), which is a full-service insurance agency, with offices in Massachusetts and New Hampshire, and is part of HUB International Limited, which operates throughout the United States and Canada. Enterprise Insurance Services provides, through HUB, a full array of insurance products including property and casualty, employee benefits and risk-management solutions tailored to serve the specific insurance needs of businesses in a range of industries operating in the Company's market area.

Investment Activities

The Company's investment portfolio activities are an integral part of the overall asset-liability management program of the Company. The investment function provides readily available funds to support loan growth, as well as to meet withdrawals and maturities of deposits, and attempts to provide maximum return consistent with liquidity constraints and general prudence, including diversification and safety of investments.

The securities in which the Company may invest are limited by regulation. In addition, an internal investment policy restricts fixed income investments to high-quality securities within prescribed categories approved by the Asset-Liability Committee of the Board ("ALCO"). Management utilizes an outside registered investment adviser to manage the corporate and municipal bond portfolios within prescribed guidelines set by management. The Company's internal investment policy also sets sector limits as a percentage of the total portfolio. The effect of changes in interest rates, market values, timing of principal payments and credit risk are considered when purchasing securities.

Cash equivalents are defined as highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and present insignificant risk of changes in value due to changes in interest rates. The Company's cash and cash equivalents may be comprised of cash and due from banks, interest-earning deposits (deposit accounts, excess cash balances, money market, money market mutual fund accounts and short-term U.S. Agency Discount Notes) and overnight and term federal funds sold ("fed funds") to money center banks.

As of the balance sheet dates reflected in this annual report, all of the investment securities within the Company's investment portfolio were classified as available-for-sale and carried at fair value. Management regularly reviews the portfolio for securities with unrealized losses that are other than temporarily impaired ("OTTI"). If a decline in the market value of an equity security or fund is considered other than temporary, the cost basis of the individual security or fund is written down to market value with a charge to earnings. In the case of fixed income securities, the noncredit portion of the impairment may be recognized in accumulated other comprehensive income with only the credit loss portion of the impairment charged to earnings.

Investment transaction summaries, portfolio allocations and projected cash flows are prepared quarterly and presented to ALCO on a periodic basis. ALCO regularly reviews the composition and key risk characteristics of the Company's investment portfolio, including effective duration, cash flow, and market value at risk and asset class concentration. Credit risk inherent in the portfolio is closely monitored by management and presented at least annually to ALCO. ALCO also designates acceptable and unacceptable investment practices, approves the selection of securities dealers, and the Company's ongoing investment strategy. In March 2016, the ALCO Committee was merged into the full Board. The duties and responsibilities related to ALCO matters will be covered by the Board on a quarterly basis.

The Company is required to purchase Federal Home Loan Bank of Boston ("FHLB") stock in association with the Bank's outstanding advances from the FHLB; this stock is classified as a restricted investment and carried at cost, which management believes approximates its fair value.

See also "Risk Factors" contained in Item 1A, and "Impairment Review of Investment Securities" contained under the heading "Critical Accounting Estimates" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further discussion on a variety of risks and uncertainties that may affect the Company's investment portfolio.

Other Sources of Funds

As discussed above, deposit gathering has been the Company's principal source of funds. Asset growth in excess of deposits may be primarily funded through cash flows from our loan and investment portfolios, or the following sources:

Borrowed Funds

Total borrowing capacity includes borrowing arrangements at the FHLB and the Federal Reserve Bank of Boston ("FRB") Discount Window, and borrowing arrangements with correspondent banks.

Membership in the FHLB provides borrowing capacity based on qualifying collateral balances pre-pledged to the FHLB, including certain residential loans, home equity lines, commercial loans and U.S. Government and Agency securities.

Borrowings from the FHLB typically are utilized to fund short-term liquidity needs or specific lending projects under the FHLB's community development programs. This facility is an integral component of the Company's asset-liability management program.

The FRB Discount Window borrowing capacity is based on the pledge of qualifying collateral balances to the FRB. Collateral pledged for this FRB facility consists primarily of certain municipal and corporate securities held in the Company's investment portfolio. Additional types of collateral are available to increase borrowing capacity with the FRB if necessary.

Pre-established non-collateralized overnight borrowing arrangements with large national and regional correspondent banks provide additional overnight and short-term borrowing capacity for the Company.

See also "Risk Factors" contained in Item 1A, for further discussion on a variety of risks and uncertainties that may affect the Company's ability to obtain funding and sustain liquidity.

Subordinated Debt

The Company had outstanding subordinated debt of \$14.8 million and \$10.8 million at December 31, 2015 and December 31, 2014, respectively.

The subordinated debt carried at December 31, 2015 consisted of \$15.0 million in aggregate principal amount of Fixed-to-Floating Rate Subordinated Notes (the "Notes") issued in January 2015, in a private placement to an accredited investor. The Notes, which are intended to qualify as Tier 2 capital for regulatory purposes, mature on January 30, 2030 (the "Maturity Date") and are callable by the Company, subject to regulatory approval, at a premium beginning January 30, 2020 and at par beginning January 30, 2025. The Notes pay interest at a fixed rate of 6.00% per annum through January 30, 2025 and beginning on January 31, 2025 through the Maturity Date, or any early redemption date, the interest rate on the Notes will adjust monthly at an interest rate of 3.90% plus 30-day LIBOR. Original debt issuance costs were \$190 thousand and have been netted against the subordinated debt on the balance sheet in accordance with recent accounting guidance that the Company adopted in the first quarter of 2015. These costs are being amortized over the life of the Notes.

The subordinated debt balance carried at December 31, 2014 consisted of \$10.8 million in Junior Subordinated Debt Securities (the "Debt"), at a rate of 10.875%. In March 2015, the Company paid off the Debt using proceeds from the \$15.0 million in Notes issued in January 2015.

See also Note 7, "Borrowed Funds and Subordinated Debt" to the consolidated financial statements in Item 8 below, for further information regarding the Company's subordinated debt.

Capital Resources

Capital planning by the Company and the Bank considers current needs and anticipated future growth. The primary sources of capital have been common stock issuances and proceeds from the issuance of subordinated debt. Ongoing sources of capital include the retention of earnings less dividends paid since the Bank commenced operations, proceeds from the exercise of employee stock options and proceeds from purchases of shares pursuant to the Company's stockholder dividend reinvestment plan and direct stock purchase plan ("DRSPP").

As of December 31, 2015 and 2014, both the Company and the Bank qualified as “well capitalized” under applicable regulations of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and the FDIC effective as of December 31, 2015. Although the Company believes its current capital is adequate to support ongoing operations and that the Company and the Bank meet all capital adequacy requirements to which they are subject, on July 18, 2013, the Company filed a shelf registration of common stock, rights or preferred stock with the Securities and Exchange Commission for the flexibility to raise, over a three year period, up to \$40 million in capital to position the Company to take advantage of future growth and market share opportunities. As of December 31, 2015, the Company has not utilized this shelf registration.

See “Capital Requirements” below under the heading “Supervision and Regulation” for information regarding the Company’s and the Bank’s regulatory capital requirements.

Patents, Trademarks, etc.

The Company holds a number of registered service marks and trademarks related to product names and corporate branding. The Company holds no other patents, registered trademarks, licenses (other than licenses required to be obtained from appropriate banking regulatory agencies), franchises or concessions that are material to its business.

Employees

At December 31, 2015, the Company employed 426 full-time equivalent employees. None of the employees are presently represented by a union or covered by a collective bargaining agreement. Management believes its employee relations are excellent.

Company Website

The Company currently uses outside vendors to design, support and host its two primary internet websites; www.enterprisebanking.com, for the Bank's products and services and Company information, as noted below; and www.enterpriseinvestmentadvisors.com, for Investment services. The underlying structure of the sites allows for the ongoing maintenance to be performed by third parties, and updates of the information to be performed by authorized Company personnel.

The Bank's site provides information on the Company and its products and services. Users have the ability to open various deposit accounts as well as the ability to submit mortgage loan applications online and, via a link, to access their bank accounts and perform various financial transactions with those accounts using Online Banking. The site also provides the access point to a variety of specified banking services and information, various financial management tools, and investor and corporate information, which includes a corporate governance page. The Company’s corporate governance page includes the corporate governance guidelines, code of business conduct and ethics, and whistleblower and non-retaliation protection policy, as well as the charters of the Board of Directors’ Audit, Compensation, and Corporate Governance/Nominating committees.

In the Investor Relations section of the Bank's site, under the SEC Filings tab, the Company makes available copies of the Company’s annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Additionally, the site includes all registration statements that the Company has been required to file in connection with the issuance of its shares. The Company similarly makes available all insider stock ownership and transaction reports filed with the SEC by executive officers, directors and any 10% or greater stockholders under Section 16 of the Securities Exchange Act of 1934 (Forms 3, 4 and 5). Access to all of these reports is made available free of charge and is essentially simultaneous with the SEC’s posting of these reports on its EDGAR system through the SEC website (www.SEC.gov).

Competition

Enterprise faces robust competition to retain and attract customers within existing and neighboring geographic markets. This competition stems from national and larger regional banks, numerous local savings banks, commercial banks, cooperative banks and credit unions which have a presence in the region. Competition for loans, deposits and cash management services, investment advisory assets, and insurance business also comes from other businesses that provide financial services, including consumer finance companies, mortgage brokers and lenders, private lenders, insurance companies, securities brokerage firms, institutional mutual funds, registered investment advisors, non-bank electronic payment and funding channels, internet based banks and other financial intermediaries.

See also “Supervision and Regulation” below, Item 1A, “Risk Factors,” and “Opportunities and Risks” included in the section entitled “Overview,” which is contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for further discussion on how new laws and regulations and other factors may affect the Company’s competitive position, growth and/or profitability.

Supervision and Regulation

General

Set forth below is a summary description of the significant elements of the laws and regulations applicable to the Company and the Bank. The description is qualified in its entirety by reference to the full text of the statutes, regulations and policies that are described. Moreover, these statutes, regulations and policies are continually under review by the U.S. Congress and state legislatures and federal and state regulatory agencies. A change in statutes, regulations or regulatory policies applicable to the Company or its principal subsidiary, the Bank, could have a material effect on our business.

Regulatory Agencies

As a registered bank holding company, the Company is subject to the supervision and regulation of the Federal Reserve Board and, acting under delegated authority, the FRB pursuant to the Bank Holding Company Act, as amended (the “Bank Holding Company Act”).

As a Massachusetts state-chartered bank, the Bank is subject to the supervision and regulation of the Massachusetts Division of Banks and, with respect to the Bank's New Hampshire branching operations, the New Hampshire Banking Department. As a state-chartered bank that is not a member of the Federal Reserve System, the Bank is also subject to the supervision and regulation of the FDIC.

Bank Holding Company Regulation

As a registered bank holding company, the Company is required to furnish to the FRB annual and quarterly reports of its operations and may also be required to furnish such additional information and reports as the Federal Reserve Board or the FRB may require.

Acquisitions by Bank Holding Companies

Under the Bank Holding Company Act, the Company must obtain the prior approval of the Federal Reserve Board or, acting under delegated authority, the FRB before (1) acquiring direct or indirect ownership or control of any class of voting securities of any bank or bank holding company if, after the acquisition, the Company would directly or indirectly own or control 5% or more of the class; (2) acquiring all or substantially all of the assets of another bank or bank holding company; or (3) merging or consolidating with another bank holding company. The Company's acquisition of or merger with another bank holding company or acquisition of another bank would also require the prior approval of the Massachusetts Division of Banks.

Under the Bank Holding Company Act, any company must obtain approval of the Federal Reserve Board or, acting under delegated authority, the FRB, prior to acquiring control of the Company or the Bank. For purposes of the Bank Holding Company Act, “control” is defined as ownership of 25% or more of any class of voting securities of the Company or the Bank, the ability to control the election of a majority of the directors, or the exercise of a controlling influence over management or policies of the Company or the Bank.

Control Acquisitions

The Change in Bank Control Act, as amended (the “Change in Bank Control Act”), and the related regulations of the Federal Reserve Board require any person or groups of persons acting in concert (except for companies required to make application under the Bank Holding Company Act), to file a written notice with the Federal Reserve Board or,

acting under delegated authority, the appropriate Federal Reserve Bank, before the person or group acquires control of the Company. The Change in Bank Control Act defines “control” as the direct or indirect power to vote 25% or more of any class of voting securities or to direct the management or policies of a bank holding company or an insured bank. A rebuttable presumption of control arises under the Change in Bank Control Act where a person or group controls 10% or more, but less than 25%, of a class of the voting stock of a company or insured bank which is a reporting company under the Securities Exchange Act of 1934, as

amended, such as the Company, or such ownership interest is greater than the ownership interest held by any other person or group.

In addition, the Change in Bank Control Act prohibits any entity from acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of a bank holding company's or bank's voting securities, or otherwise obtaining control or a controlling influence over a bank holding company or bank without the approval of the Federal Reserve Board. On September 22, 2008, the Federal Reserve Board issued a policy statement on equity investments in bank holding companies and banks, which allows the Federal Reserve Board to generally be able to conclude that an entity's investment is not "controlling" if the investment in the form of voting and nonvoting shares represents in the aggregate (i) less than one-third of the total equity of the banking organization (and less than one-third of any class of voting securities, assuming conversion of all convertible nonvoting securities held by the entity) and (ii) less than 15% of any class of voting securities of the banking organization.

Under the Change in Bank Control Act and applicable Massachusetts law, any person or group of persons acting in concert would also be required to file a written notice with the FDIC and the Massachusetts Division of Banks before acquiring any such direct or indirect control of the Bank.

Permissible Activities

The Bank Holding Company Act also limits the investments and activities of bank holding companies. In general, a bank holding company is prohibited from acquiring direct or indirect ownership or control of more than 5% of the voting shares of a company that is not a bank or a bank holding company or from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, providing services for its subsidiaries, and various non-bank activities that are deemed to be closely related to banking. The activities of the Company are subject to these legal and regulatory limitations under the Bank Holding Company Act and the implementing regulations of the Federal Reserve Board.

In connection with the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), the final Volcker Rule approved by regulators in December 2013 amended the Bank Holding Company Act to generally prohibit banking entities from engaging in the short-term proprietary trading of securities and derivatives for their own account and bar them from having certain relationships with hedge funds or private equity funds. Included within the range of funds covered by the regulations are certain trust-preferred securities that back collateralized debt obligations. As the Company does not currently hold any of the prohibited investments, this aspect of the Volcker Rule does not have any impact on the Company's financial statements at this time.

A bank holding company may also elect to become a "financial holding company," by which a qualified parent holding company of a banking institution may engage, directly or through its non-bank subsidiaries, in any activity that is financial in nature or incidental to such financial activity or in any other activity that is complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. A bank holding company will be able to successfully elect to be regulated as a financial holding company if all of its depository institution subsidiaries meet certain prescribed standards pertaining to management, capital adequacy and compliance with the Community Reinvestment Act, as amended (the "Community Reinvestment Act"), such as being "well-capitalized" and "well-managed," and must have a Community Reinvestment Act rating of at least "satisfactory." Financial holding companies remain subject to regulation and oversight by the Federal Reserve Board. The Company believes that the Bank, which is the Company's sole depository institution subsidiary, presently satisfies all of the requirements that must be met to enable the Company to successfully elect to become a financial holding company. However, the Company has no current intention of seeking to become a financial holding company. Such a course of action may become necessary or appropriate at some time in the future depending upon the Company's strategic plan.

Source of Strength

Under the Federal Reserve Board's "source-of-strength" doctrine, a bank holding company is required to act as a source of financial and managerial strength to any of its subsidiary banks. The holding company is expected to commit resources to support a subsidiary bank, including at times when the holding company may not be in a financial position to provide such support. A bank holding company's failure to meet its source-of-strength obligations may constitute an unsafe and unsound practice or a violation of the Federal Reserve Board's regulations, or both. The source-of-strength doctrine most directly affects bank holding companies in situations where the bank holding company's subsidiary bank fails to maintain adequate capital levels. This doctrine was codified by the Dodd-Frank Act, but the Federal Reserve Board has not yet adopted regulations to implement this requirement.

Imposition of Liability for Undercapitalized Subsidiaries

Bank regulators are required to take “prompt corrective action” to resolve problems associated with insured depository institutions whose capital declines below certain levels. In the event an institution becomes “undercapitalized,” it must submit a capital restoration plan. The capital restoration plan will not be accepted by the regulators unless each company having control of the undercapitalized institution guarantees the subsidiary’s compliance with the capital restoration plan up to a certain specified amount. Any such guarantee from a depository institution’s holding company is entitled to a priority of payment in bankruptcy.

The aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution’s assets at the time it became undercapitalized or the amount necessary to cause the institution to be “adequately capitalized.” The bank regulators have greater power in situations where an institution becomes “significantly” or “critically” undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior Federal Reserve Board approval of proposed dividends, or it may be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Safety and Soundness

The Federal Reserve Board also has the power to order a bank holding company to terminate any activity or investment, or to terminate its ownership or control of any subsidiary, when it has reasonable cause to believe that the continuation of such activity or investment or such ownership or control constitutes a serious risk to the financial safety, soundness, or stability of any subsidiary bank of the bank holding company.

Bank holding companies are not permitted to engage in unsound banking practices. For example, the Federal Reserve Board’s Regulation Y requires a holding company to give the Federal Reserve Board prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases in the preceding year, is equal to 10% or more of the bank holding company’s consolidated net worth. There is an exception for bank holding companies that are well-managed, well-capitalized, and not subject to any unresolved supervisory issues. The Federal Reserve Board may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. As another example, a holding company could not impair its subsidiary bank’s soundness by causing it to make funds available to non-banking subsidiaries or their customers if the Federal Reserve Board believed it not prudent to do so.

The Federal Reserve Board has the authority to prohibit activities of bank holding companies and their non-banking subsidiaries which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. The Federal Reserve Board can assess civil money penalties for activities conducted on a knowing and reckless basis, if those activities caused a substantial loss to a depository institution. The penalties can be as high as \$1 million for each day the activity continues.

Capital Requirements

The federal banking agencies have adopted risk-based capital guidelines for bank holding companies and banks that are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization’s operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. The risk based guidelines apply on a consolidated basis to bank holding companies with consolidated assets of \$1 billion or more.

Pursuant to federal regulations, banks and bank holding companies must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. The federal banking

agencies may change existing capital guidelines or adopt new capital guidelines in the future and have required many banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case the affected institution may no longer be deemed well capitalized and may be subject to restrictions on various activities, including a bank's ability to accept or renew brokered deposits.

Under these capital guidelines, a banking organization is required to maintain certain minimum capital ratios, which are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. In general, the dollar

amounts of assets and certain off-balance sheet items are “risk-adjusted” and assigned to various risk categories. In addition to such risk adjusted capital requirements, banking organizations are also required to maintain an additional minimum “leverage” capital ratio, which is calculated on the basis of average total assets without any adjustment for risk being made to the value of the assets.

Qualifying capital is classified depending on the type of capital as follows:

“Tier 1 capital” consists of common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets. In determining bank holding company compliance with holding company level capital requirements, qualifying Tier 1 capital may count trust preferred securities, subject to certain criteria and quantitative limits for inclusion of restricted core capital elements in Tier 1 capital, provided that the bank holding company has total assets of less than \$15 billion and such trust preferred securities were issued before May 19, 2010;

“Tier 2 capital” includes, among other things, hybrid capital instruments, perpetual debt, mandatory convertible debt securities, qualifying term subordinated debt, preferred stock that does not qualify as Tier 1 capital, and a limited amount of allowance for loan and lease losses.

Under the federal capital guidelines as of December 31, 2014, there were three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed “well capitalized” under the prompt corrective action framework, a bank holding company must have had a total risk-based capital ratio and a Tier 1 risk-based capital ratio of at least 10% and 6%, respectively, and a bank must have had a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10%, 6% and 5%, respectively. At December 31, 2014, the respective capital ratios of both the Company and the Bank exceeded the minimum percentage requirements to be deemed “well capitalized” under then applicable Federal Reserve Board and FDIC capital rules.

Under the Basel III Rules, effective January 1, 2015, a bank holding company must satisfy increased capital levels in order to comply with the prompt corrective action framework and to avoid limitations on capital distributions and discretionary bonus payments once the rule is fully phased in. See “Capital Requirements under Basel III” below.

Capital Requirements under Basel III

On July 2, 2013, the Federal Reserve Board, and on July 9, 2013, the FDIC and OCC, adopted a final rule that implements the Basel III changes to the international regulatory capital framework, referred to as the “Basel III Rules.” The Basel III Rules apply to both depository institutions and (subject to certain exceptions not applicable to the Company) their holding companies. Although parts of the Basel III Rules apply only to large, complex financial institutions, substantial portions of the Basel III Rules apply to the Company and the Bank. The Basel III Rules include requirements contemplated by the Dodd-Frank Act, as well as certain standards initially adopted by the Basel Committee on Banking Supervision in December 2010.

The Basel III Rules include higher risk-based and leverage capital ratio requirements and redefine what constitutes “capital” for purposes of calculating those ratios. Among the most important changes are stricter eligibility criteria for regulatory capital instruments that would disallow the inclusion of instruments, such as trust preferred securities (other than grandfathered trust preferred securities), in Tier 1 capital going forward and new constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions.

The Basel III Rules also introduced a common equity Tier 1 (“CET1”) risk-based capital ratio. CET1 capital consists of retained earnings and common stock instruments, subject to certain adjustments. In addition, the rule requires that most regulatory capital deductions be made from CET1 capital.

The Basel III Rules also establish a “capital conservation buffer” of 2.5% above the regulatory minimum risk-based capital requirements. The capital conservation buffer requirement is to be phased in beginning in January 2016 at 0.625% of risk-weighted assets and will increase by that amount each year until fully implemented in January 2019. An institution would be subject to limitations on certain activities including payment of dividends, share repurchases and discretionary bonuses to executive officers if its capital level is below the buffered ratio.

The Basel III Rules generally became effective January 1, 2015. The conservation buffer will be phased in beginning in 2016 and will take full effect on January 1, 2019. The Basel III minimum capital ratio requirements as applicable to the Company and the Bank in 2019 after the full phase-in period are summarized in the table below.

	Basel III Minimum for Capital Adequacy Purposes	Basel III Additional Capital Conservation Buffer	Basel III Ratio with Capital Conservation Buffer
Total Risk Based Capital (total capital to risk weighted assets)	8.0%	2.5%	10.5%
Tier 1 Risk Based Capital (tier 1 to risk weighted assets)	6.0%	2.5%	8.5%
Tier 1 Leverage Ratio (tier 1 to average assets)	4.0%	—%	4.0%
Common Equity Tier 1 Risk Based (CET1 to risk weighted assets)	4.5%	2.5%	7.0%

The Basel III Rules also revise the prompt corrective action framework, which is designed to place restrictions on insured depository institutions, including our subsidiary bank, if their capital levels do not meet certain thresholds. These revisions became effective January 1, 2015. The prompt correction action rules now include a CET1 capital component and increase certain other capital requirements for the various thresholds. As of January 1, 2015, insured depository institutions are required to meet the following capital levels in order to qualify as “well capitalized:” (i) a Total risk-based capital ratio of 10% (unchanged from current rules); (ii) a Tier 1 risk-based capital ratio of 8% (increased from 6%); (iii) a Tier 1 leverage ratio of 5% (unchanged from current rules); and (iv) a CET1 risk-based capital ratio of 6.5%. Accordingly, a financial institution may be considered “well capitalized” under the prompt corrective action framework, but not satisfy the fully phased-in Basel III capital ratios. The Company’s regulatory capital ratios and those of the Bank were in excess of the levels established for “well capitalized” institutions under the Basel III Rules as of December 31, 2015.

The Federal Reserve Board may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. The bank regulatory agencies could impose higher capital requirements to meet “well capitalized” standards and any future regulatory change could impose higher capital standards as a routine matter.

The Basel III Rules set forth certain changes in the methods of calculating certain risk-weighted assets, which in turn will affect the calculation of risk-based ratios. Under the Basel III Rules, higher or more sensitive risk weights are assigned to various categories of assets, including, certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on non-accrual, foreign exposures and certain corporate exposures. In addition, these rules include greater recognition of collateral and guarantees, and revised capital treatment for derivatives and repo-style transactions.

In addition, the Basel III Rules include certain exemptions to address concerns about the regulatory burden on community banks. For example, banking organizations with less than \$15 billion in consolidated assets as of December 31, 2009 are permitted to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 capital prior to May 19, 2010 on a permanent basis, without any phase out. Community banks may also elect on a one time basis in their March 31, 2015 quarterly filings to permanently opt-out of the requirement to include most accumulated other comprehensive income (“AOCI”) components in the calculation of CET1 capital and, in effect, retain the AOCI treatment under the current capital rules. Under the Basel III Rules, in 2015 the Company made such election to permanently exclude AOCI from capital.

Overall, the Basel III Rules provide some important concessions for smaller, less complex financial institutions, such as the Company.

Regulatory Restrictions on Dividends

The Company is regarded as a legal entity separate and distinct from the Bank. The principal source of the Company's revenues is dividends received from the Bank. Both Massachusetts and federal law limit the payment of dividends by the Company. Under Massachusetts law, the Company is generally prohibited from paying a dividend or making any other distribution if, after making such distribution, it would be unable to pay its debts as they become due in the usual course of

business, or if its total assets would be less than the sum of its total liabilities plus the amount that would be needed if it were dissolved at the time of the distribution, to satisfy any preferential rights on dissolution of holders of preferred stock ranking senior in right of payment to the capital stock on which the applicable distribution is made. The Federal Reserve Board also has further authority to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement and supervisory guidance on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that, (1) the company's net income for the past year is sufficient to cover the cash dividends, (2) the rate of earnings retention is consistent with the company's capital needs, asset quality, and overall financial condition, and (3) the minimum regulatory capital adequacy ratios are met. It is also the Federal Reserve Board's policy that bank holding companies should not maintain dividend levels that undermine their ability to serve as a source of strength to their banking subsidiaries.

Bank Regulation

The Bank is subject to the supervision and regulation of the Massachusetts Division of Banks and the FDIC, and, with respect to its New Hampshire branching operations, of the New Hampshire Banking Department. Federal and Massachusetts laws and regulations that specifically apply to the Bank's business and operations cover, among other matters, the scope of its business, the nature of its investments, its reserves against deposits, the timing of the availability of deposited funds, its activities relating to dividends, investments, loans, the nature and amount of and collateral for certain loans, borrowings, capital requirements, certain check-clearing activities, branching, and mergers and acquisitions. The Bank is also subject to federal and state laws and regulations that restrict or limit loans or extensions of credit to, or other transactions with, "insiders," including officers, directors and principal stockholders, and loans or extension of credit by banks to affiliates or purchases of assets from, or other transactions with, affiliates, including parent holding companies.

The FDIC and the Massachusetts Division of Banks may exercise extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. If as a result of an examination, the Massachusetts Division of Banks or the FDIC should determine that the financial condition, capital resources, asset quality, earnings prospects, management, liquidity, or other aspects of the Bank's operations are unsatisfactory or that the Bank or its management is violating or has violated any law or regulation, the Massachusetts Division of Banks and the FDIC have authority to undertake a variety of enforcement measures of varying degrees of severity, including the following:

- Requiring the Bank to take affirmative action to correct any conditions resulting from any violation or practice;

- Directing the Bank to increase capital and maintain higher specific minimum capital ratios, which may preclude the Bank from being deemed to be well capitalized and restrict its ability to engage in various activities;

- Restricting the Bank's growth geographically, by products and services, or by mergers and acquisitions;

- Requiring the Bank to enter into an informal or formal enforcement action to take corrective measures and cease unsafe and unsound practices, including requesting the board of directors to adopt a binding resolution, sign a memorandum of understanding or enter into consent order;

- Requiring prior approval for any changes in senior management or the board of directors;

- Removing officers and directors and assessing civil monetary penalties; and

- Taking possession of, closing and liquidating the Bank or appointing the FDIC as receiver under certain circumstances.

Permissible Activities

Under the Federal Deposit Insurance Act, as amended (the “FDIA”), and applicable Massachusetts law, the Bank may generally engage in any activity that is permissible under Massachusetts law and either is permissible for national banks or the FDIC has determined does not pose a significant risk to the FDIC's Deposit Insurance Fund (“DIF”). In addition, the Bank may also form, subject to the approvals of the Massachusetts Division of Banks and the FDIC, “financial subsidiaries” to engage in any activity that is financial in nature or incidental to a financial activity. In order to qualify for the authority to form a financial subsidiary, the Bank is required to satisfy certain conditions, some of which are substantially similar to those that the Company would be required to satisfy in order to elect to become a financial holding company. The Company believes that the Bank would be able to satisfy all of the conditions that would be required to form a financial subsidiary, although the Bank has no current intention of doing so. Such a course of action may become necessary or appropriate at some time in the future depending upon the Bank's strategic plan.

Capital Adequacy Requirements

The FDIC monitors the capital adequacy of the Bank by using a combination of risk-based guidelines and leverage ratios. The FDIC considers the Bank's capital levels when taking action on various types of applications and when conducting supervisory activities related to the safety and soundness of the Bank and the banking system. Under the capital rules which became effective on January 1, 2015, banks are required to maintain four minimum capital standards: (1) a Tier 1 capital to adjusted total assets ratio, or “leverage capital ratio,” of at least 4.0%, (2) a Tier 1 capital to risk-weighted assets ratio, or “Tier 1 risk-based capital ratio,” of at least 6.0%, (3) a total risk-based capital (Tier 1 plus Tier 2) to risk-weighted assets ratio, or “total risk-based capital ratio,” of at least 8.0%, and (4) a CET1 capital ratio of 4.5%. In addition, the FDIC's prompt corrective action standards discussed below, in effect, increase the minimum regulatory capital ratios for banking organizations. These capital requirements are minimum requirements. Higher capital levels may be required if warranted by the particular circumstances or risk profiles of individual institutions, or if required by the banking regulators due to the economic conditions impacting our market. For example, FDIC regulations provide that higher capital may be required to take adequate account of, among other things, interest rate risk and the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

Prompt Corrective Action

The federal banking agencies have issued regulations pursuant to the FDIA defining five categories in which an insured depository institution will be placed, based on the level of its capital ratios: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. A bank that may otherwise meet the minimum requirements to be classified as well capitalized, adequately capitalized, or undercapitalized may be treated instead as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. Under the prompt corrective action regulations, a bank that is deemed to be undercapitalized or in a lesser capital category will be required to submit to its primary federal banking regulator a capital restoration plan and to comply with the plan.

Any bank holding company that controls a subsidiary bank that has been required to submit a capital restoration plan will be required to provide assurances of compliance by the bank with the capital restoration plan, subject to limitations on the bank holding company's aggregate liability in connection with providing such required assurances. Failure to restore capital under a capital restoration plan can result in the bank being placed into receivership if it becomes critically undercapitalized. A bank subject to prompt corrective action also may affect its parent holding company in other ways. These include possible restrictions or prohibitions on dividends or subordinated debt payments to the parent holding company by the bank, as well as limitations on other transactions between the bank and the parent holding company. In addition, the Federal Reserve Board may impose restrictions on the ability of the bank holding company itself to pay dividends, or require divestiture of holding company affiliates that pose a significant risk to the subsidiary bank, or require divestiture of the undercapitalized subsidiary bank. At each successive lower capital category, an insured bank may be subject to increased operating restrictions by its primary federal banking regulator.

Branching

Massachusetts law provides that a Massachusetts banking company can establish a branch anywhere in Massachusetts provided that the branch is approved in advance by the Massachusetts Division of Banks and the FDIC, who consider a number of factors, including financial history, capital adequacy, earnings prospects, character of management, needs of the community and consistency with corporate powers. The Bank also may establish branches in any other state if that state would permit the establishment of a branch by a state bank chartered in that state, which also requires the approval of the Massachusetts Division of Banks, the FDIC and potentially the banking authority of the state into which the Bank intends to branch.

Deposit Insurance

The FDIC insures the deposits of federally insured banks, such as the Bank, and thrifts, up to prescribed statutory limits for each depositor, through the DIF and safeguards the safety and soundness of the banking and thrift industries. The Dodd-Frank Act set the standard maximum deposit insurance amount to \$250,000. The amount of FDIC assessments paid by each insured depository institution is based on its relative risk of default as measured by regulatory capital ratios and other supervisory factors.

The Bank is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. In connection with the Dodd Frank Act's requirement that insurance assessments be based on assets, the FDIC redefined its deposit insurance premium assessment base to be an institution's average consolidated total assets minus average tangible equity, and revised its deposit insurance assessment rate schedule in light of this change to the assessment base.

At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rulemaking, if required. If there are additional bank or financial institution failures or if the FDIC otherwise determines to increase assessment rates, the Bank may be required to pay higher FDIC insurance premiums. Any future increases in FDIC insurance premiums may have a material and adverse effect on the Company's earnings.

In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation ("FICO"), an agency of the federal government established to recapitalize the predecessor to the DIF. These assessments, which are included in Deposit Insurance Premiums on the Consolidated Statements of Income, will continue until the FICO bonds mature between 2017 and 2019.

Restrictions on Dividends and Other Capital Distributions

The Company's ability to pay dividends on its shares depends primarily on dividends it receives from the Bank. Both Massachusetts and federal law limit the payment of dividends by the Bank. Under FDIC regulations and applicable Massachusetts law, the dollar amount of dividends and any other capital distributions that the Bank may make depends upon its capital position and recent net income. Generally, so long as the Bank remains adequately capitalized, it may make capital distributions during any calendar year equal to up to 100% of net income for the year to date plus retained net income for the two preceding years. However, if the Bank's capital becomes impaired or the FDIC or Massachusetts Division of Banks otherwise determines that the Bank is in need of more than normal supervision, the Bank may be prohibited or otherwise limited from paying any dividends or making any other capital distributions.

Community Reinvestment Act

The Community Reinvestment Act of 1977 and the regulations issued thereunder (the "CRA") are intended to encourage banks to help meet the credit needs of their entire assessment area, including low and moderate income neighborhoods, consistent with the safe and sound operations of such banks. The CRA requires the FDIC and the Massachusetts Division of Banks evaluate the record of each financial institution in meeting such credit needs. The CRA evaluation is also considered by the bank regulatory agencies in evaluating approvals for mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet the criteria within CRA guidelines could impose additional requirements and limitations on the Bank. Additionally, the Bank must publicly disclose the ability to request the Bank's CRA Performance Evaluation and other various related documents. The Bank received a rating of "High Satisfactory" by the Massachusetts Division of Banks and "Satisfactory" by the FDIC on its most recent Community Reinvestment Act examination.

Restrictions on Transactions with Affiliates and Loans to Insiders

Transactions between the Bank and its affiliates are subject to the provisions of Section 23A and 23B of the Federal Reserve Act (the “Affiliates Act”), as such provisions are made applicable to state non-member banks by Section 18(i) of the Federal Deposit Insurance Act. Affiliates of a bank include, among other entities, the bank's holding company and companies that are under common control with the bank.

These provisions place limits on the amount of:

- loans or extensions of credit to affiliates;
- investment in affiliates;
- assets that may be purchased from affiliates, except for real and personal property exempted by the Federal Reserve Board;
- the amount of loans or extensions of credit to third parties collateralized by the securities or obligations of affiliates; and
- the guarantee, acceptance or letter of credit issued on behalf of an affiliate.

The total amount of the above transactions is limited in amount, as to any one affiliate, to 10% of the Bank's capital and surplus and, as to all affiliates combined, to 20% of its capital and surplus. In addition to the limitation on the amount of these transactions, each of the above transactions must also meet specified collateral requirements and the types of permissible collateral may be limited. The Bank must also comply with other provisions designed to avoid the purchase or acquisition of low-quality assets from affiliates. The Dodd-Frank Act expanded the scope of Section 23A, which now includes investment funds managed by an institution as an affiliate, as well as other procedural and substantive hurdles.

The Bank is also subject to Section 23B of the Federal Reserve Act which, among other things, prohibits the Bank from engaging in any transaction with an affiliate unless the transaction is on terms substantially the same, or at least as favorable to the Bank or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies. The Federal Reserve Board has also issued Regulation W which codifies prior regulations under the Affiliates Act and interpretive guidance with respect to affiliate transactions.

Under both Massachusetts and federal law, the Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal stockholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (2) must not involve more than the normal risk of repayment or present other unfavorable features. The Dodd-Frank Act expanded coverage of transactions with insiders by including credit exposure arising from derivative transactions (which are also covered by the expansion of Section 23A). The Dodd-Frank Act prohibits an insured depository institution from purchasing or selling an asset to an executive officer, director, or principal stockholder (or any related interest of such a person) unless the transaction is on market terms, and, if the transaction exceeds 10% of the institution's capital, it is approved in advance by a majority of the disinterested directors.

Concentrated Commercial Real Estate Lending Regulations

The federal banking agencies, including the FDIC, have promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm nonresidential properties (excluding loans secured by owner-occupied properties) and loans for construction, land development, and other land represent 300% or more of total capital and the bank's commercial real estate loan portfolio has increased 50% or more during the prior 36 months. If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending. On December 18, 2015, the federal banking agencies jointly issued a “Statement on Prudent Risk Management for Commercial Real Estate Lending” reminding banks of the need to engage in risk management practices for commercial real estate lending. As of December 31, 2015, the Bank's construction and land

development concentration level exceed the 100% threshold levels noted above.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act has implemented significant changes to the regulation of the financial services industry and includes the following provisions that have affected or are likely to affect the Company:

- Repeal of the federal prohibitions on the payment of interest on demand deposits effective July 21, 2011, thereby permitting, but not requiring, depository institutions to pay interest on business transaction and other accounts.
- Imposition of comprehensive regulation of the over-the-counter derivatives market, including provisions that effectively prohibit insured depository institutions from conducting certain derivatives activities from within the institution.

- Implementation of corporate governance revisions, including proxy access requirements for all publicly traded companies.

- Increase in the Federal Reserve Board's examination authority with respect to bank holding companies' non-banking subsidiaries.

Limitations on the amount of any interchange fee charged by a debit card issuer to be reasonable and proportional to the cost incurred by the issuer effective July 21, 2011. On June 29, 2011, the Federal Reserve Board set the interchange rate cap at \$0.24 per transaction. While these restrictions do not apply to banks like Enterprise with less than \$10 billion in assets, the rule could affect the competitiveness of debit cards issued by smaller banks. We believe that market forces may erode the effectiveness of this exemption now that merchants can select more than one network for transaction routing.

Significant increases in the regulation of mortgage lending and servicing by banks and nonbanks. In particular, requirements that mortgage originators act in the best interests of a consumer and seek to ensure that a consumer will have the capacity to repay a loan that the consumer enters into; requirements that mortgage originators be properly qualified, registered, and licensed and comply with any regulations designed by the Federal Reserve Board to monitor their operations; mandates of comprehensive additional and enhanced residential mortgage loan related disclosures, both prior to loan origination and after; mandates of additional appraisal practices for loans secured by residential dwellings, including potential additional appraisals at the banks cost; mandates of additional collection and reporting requirements on transactions that are reportable under the Home Mortgage Disclosure Act; additional restrictions on the compensation of loan originators; and requirements that mortgage loan securitizers retain a certain amount of risk (as established by the regulatory agencies). However, mortgages that conform to the new regulatory standards as "qualified residential mortgages" will not be subject to risk retention requirements.

Although the majority of the Dodd-Frank Act's rulemaking requirements have been met with finalized rules, approximately one-third of the rulemaking requirements are either still in the proposal stage or have not yet been proposed. Accordingly, it is difficult to anticipate the continued impact this expansive legislation will have on the Company, its customers and the financial industry generally.

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau ("CFPB") was created under the Dodd-Frank Act to centralize responsibility for consumer financial protection with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts, including the Equal Credit Opportunity Act, Truth-in Lending Act ("TILA"), Real Estate Settlement Procedures Act ("RESPA"), Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. Banking institutions with total assets of \$10 billion or less, such as the Bank, remain subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws and such additional regulations as may be adopted by the CFPB.

On January 10, 2013, the CFPB released its final "Ability-to-Repay/Qualified Mortgage" rules, which amended TILA's implementing regulation, Regulation Z. Regulation Z currently prohibits a creditor from making a higher-priced mortgage loan without regard to the consumer's ability to repay the loan. The final rule implements sections 1411 and 1412 of the Dodd-Frank Act, which generally require creditors to make a reasonable, good faith determination of a consumer's ability to repay any consumer credit transaction secured by a dwelling (excluding an open-end credit plan, timeshare plan, reverse mortgage, or temporary loan) and establishes certain protections from liability under this requirement for "qualified mortgages." The final rule also implements section 1414 of the Dodd-Frank Act, which limits

prepayment penalties. Finally, the final rule requires creditors to retain evidence of compliance with the rule for three years after a covered loan is consummated. This rule became effective January 10, 2014. The CFPB allowed for a small creditor exemption for banks with assets under \$2 billion and that

originate less than 500 mortgage loans in 2015. Beginning January 1, 2016, the small creditor exemption will be allowed for banks with assets under \$2 billion and that originate less than 2,000 mortgage loans.

On November 20, 2013, pursuant to section 1032(f) of the Dodd-Frank Act, the CFPB issued the Know Before You Owe TILA/RESPA Integrated Disclosure Rule ("TRID"), which combined the disclosures required under TILA and sections 4 and 5 of RESPA, into a single, integrated disclosure for mortgage loan transactions covered by those laws. TRID, which requires the use of a Loan Estimate that must be delivered or placed in the mail no later than the third business day after receiving the consumer's application and a Closing Disclosure that must be provided to the consumer at least three business days prior to consummation, became effective for applications received on or after October 3, 2015 for applicable closed-end consumer credit transactions secured by real property. Creditors must only use the Loan Estimate and Closing Disclosure forms for mortgage loan transactions subject to TRID. All other mortgage loan transactions continue to use the Good Faith Estimate and the Initial Truth-in-Lending Disclosure at application and the HUD-1 Settlement Statement and the Final Truth-in-Lending Disclosure at closing. TRID also has changed the scope of transactions applicable, and adjusted the tolerance requirements and record retention requirements. Of note, the creditor must retain evidence of compliance with the Loan Estimate requirements, including providing the Loan Estimate, and the Closing Disclosure requirements for three years after the later of the date of consummation, the date disclosures are required to be made or the date the action is required to be taken. Additionally, the creditor must retain copies of the Closing Disclosure, including all documents related to the Closing Disclosure, for five years after consummation.

UDAP and UDAAP

Recently, banking regulatory agencies have increasingly used a general consumer protection statute to address "unethical" or otherwise "bad" business practices that may not necessarily fall directly under the purview of a specific banking or consumer finance law. The law of choice for enforcement against such business practices has been Section 5 of the Federal Trade Commission Act, referred to as the FTC Act, which is the primary federal law that prohibits unfair or deceptive acts or practices, referred to as UDAP, and unfair methods of competition in or affecting commerce. "Unjustified consumer injury" is the principal focus of the FTC Act. Prior to the Dodd-Frank Act, there was little formal guidance to provide insight to the parameters for compliance with UDAP laws and regulations. However, UDAP laws and regulations have been expanded under the Dodd-Frank Act to apply to "unfair, deceptive or abusive acts or practices," referred to as UDAAP, which have been delegated to the CFPB for rule-making. The federal banking agencies have the authority to enforce such rules and regulations.

Incentive Compensation

In June 2010, the Federal Reserve Board, the Office of the Comptroller of the Currency ("OCC") and FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve Board will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Company, that are not "large, complex banking organizations." The findings of the supervisory initiatives will be included in reports of examination. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

In addition, the Dodd-Frank Act requires publicly traded companies to give stockholders a non-binding vote on executive compensation at least every three years and on so-called "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by stockholders. The Dodd-Frank Act also directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of \$1 billion, regardless of whether the

company is publicly traded or not. Finally, the Dodd-Frank Act gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Technology Risk Management and Consumer Privacy

State and federal banking regulators have issued various policy statements emphasizing the importance of technology risk management and supervision in evaluating the safety and soundness of depository institutions with respect to banks that contract with third-party vendors to provide data processing and core banking functions. The use of technology-related products, services, delivery channels and processes exposes a bank to various risks, particularly operational, privacy, security, strategic, reputation and compliance risk. Banks are generally expected to prudently manage technology-related risks as part of their comprehensive risk management policies by identifying, measuring, monitoring and controlling risks associated with the use of technology.

Under Section 501 of the Gramm-Leach-Bliley Act, the federal banking agencies have established appropriate standards for financial institutions regarding the implementation of safeguards to protect the security and confidentiality of customer records and information, protection against any anticipated threats or hazards to the security or integrity of such records and protection against unauthorized access to or use of such records or information in a way that could result in substantial harm or inconvenience to a customer. Among other matters, the rules require each bank to implement a comprehensive written information security program that includes administrative, technical and physical safeguards relating to customer information.

Under the Gramm-Leach-Bliley Act, a financial institution must also provide its customers with a notice of privacy policies and practices. Section 502 prohibits a financial institution from disclosing nonpublic personal information about a customer to nonaffiliated third parties unless the institution satisfies various notice and opt-out requirements and the customer has not elected to opt out of the disclosure. Under Section 504, the agencies are authorized to issue regulations as necessary to implement notice requirements and restrictions on a financial institution's ability to disclose nonpublic personal information about customers to nonaffiliated third parties. Under the final rule the regulators adopted, all banks must develop initial and annual privacy notices which describe in general terms the bank's information sharing practices. Banks that share nonpublic personal information about customers with nonaffiliated third parties must also provide customers with an opt-out notice and a reasonable period of time for the customer to opt out of any such disclosure (with certain exceptions). Limitations are placed on the extent to which a bank can disclose an account number or access code for credit card, deposit or transaction accounts to any nonaffiliated third-party for use in marketing.

Bank Secrecy Act, Anti-Money Laundering and Know-Your-Customer

Our Company and the Bank are also subject to the Bank Secrecy Act, as amended by the USA PATRIOT Act, which gives the federal government powers to address money laundering and terrorist threats through enhanced domestic security measures, expanded surveillance powers, and mandatory transaction reporting obligations. The Bank Secrecy Act imposes an affirmative obligation on the Bank to report currency transactions that exceed certain thresholds and to report other transactions determined to be suspicious. The Bank Secrecy Act requires that all banking institutions develop and provide for the continued administration of a program reasonably designed to assure and monitor compliance with certain recordkeeping and reporting requirements regarding both domestic and international currency transactions. These programs must, at a minimum, provide for a system of internal controls to assure ongoing compliance, provide for independent testing of such systems and compliance, designate individuals responsible for such compliance and provide appropriate personnel training.

USA Patriot Act

Under the USA Patriot Act, financial institutions are subject to prohibitions against specified financial transactions and account relationships, as well as enhanced due diligence and "know your customer" standards intended to detect, and prevent, the use of the United States financial system for money laundering and terrorist financing activities. The USA Patriot Act requires financial institutions, including banks, to establish anti-money laundering programs, including employee training and independent audit requirements, meet minimum standards specified by the act, follow minimum standards for customer identification and maintenance of customer identification records, and regularly compare customer lists against lists of suspected terrorists, terrorist organizations and money launderers. The Financial Crimes Enforcement Network has proposed new regulations that would require financial institutions to obtain beneficial ownership information for certain accounts, however, it has yet to establish final regulations on this topic.

Other Operations and Consumer Compliance Laws

The Bank must comply with numerous federal anti-money laundering and consumer protection statutes and implement regulations, including but not limited to the Truth in Savings Act, Electronic Funds Transfer Act, Expedited Funds Availability

Act, the Community Reinvestment Act, the Equal Credit Opportunity Act, the Federal Housing Act, the National Flood Insurance Act and various other federal and state privacy protection laws. Failure to comply in any material respect with any of these laws could subject the Bank to lawsuits and could also result in administrative penalties, including fines and reimbursements. The Company and the Bank are also subject to federal and state laws prohibiting unfair or fraudulent business practices, untrue or misleading advertising and unfair competition. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply in any material respect with any of these laws and regulations could subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights.

See also Item 1A, “Risk Factors,” and “Opportunities and Risks” included in the section entitled “Overview,” which is contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for further discussion on how new laws and regulations may affect the Company’s business, financial condition and results of operations.

Item 1A. Risk Factors

An investment in the Company's common stock is subject to a variety of risks and uncertainties including, without limitation, those set forth below, any of which could cause the Company's actual results to vary materially from recent results, or from the other forward looking statements that the Company may make from time to time in news releases, annual reports and other written or oral communications. The material risks and uncertainties that management believes may affect the Company are described below. These risks and uncertainties are not listed in any particular order of priority and are not necessarily the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business and results of operations.

This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company's common stock could decline significantly, and stockholders could lose some or all of their investment.

The Company's Profitability Depends Significantly on Economic Conditions in the Company's Primary Market Areas
The Company's success depends principally on the general economic conditions of the primary market areas in which the Company operates. The local economic conditions in these regions have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans and the stability of the Company's deposit funding sources.

Any weakening in general economic conditions in the New England region, or any long-term deterioration of national and global economies, as well as any possible subsequent effects of negative trends, could weaken the regional economy and have long-term adverse consequences on local industries, employment levels, foreclosure rates and commercial real estate values, which could negatively impact the Company's business, financial condition, capital position, liquidity, and performance in a variety of ways. Potential adverse effects on the Company could include the following: continued downward pressure on its net interest margin; deterioration in its asset quality; a decline in the underlying values of commercial and residential real estate collateral; an increased level of loan delinquencies; an increase in the level of its allowance for loan losses; a decline in the value of its investment portfolio; unanticipated charges against capital; and restrictions on funding sources, which could adversely impact the Company's ability to meet cash needs; and a decline in the market price of the Company's common stock.

In addition to the consequences of a weakening economic environment, any significant and sustained decline in general economic conditions caused by national or global political situations, acts of terrorism, an outbreak of hostilities or other international or domestic occurrences, market interest rate changes, or other factors, could also impact local economic conditions and, in turn, have a material adverse effect on the Company's business, financial condition and results of operations.

The Company is Subject to Extensive Government Regulation and Supervision

Federal and state banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not the interests of stockholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things.

Federal and state statutes and related regulations, including tax policy and corporate governance rules, can significantly affect the way in which bank holding companies, and public companies in general, conduct business. From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company in substantial

and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company. A change in statutes, regulations or regulatory policies applicable to the Company or our subsidiaries could have a material effect on the Company's business, financial condition and results of operations.

Banking institutions with total assets of \$10 billion or less, such as the Bank, remain subject to the supervision and enforcement of their primary federal banking regulator with respect to the federal consumer financial protection laws and such additional regulations as may be adopted by the CFPB. The Company and the Bank are also subject to a variety of federal and state laws and regulations which mandate nondiscriminatory lending requirements, certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services, and laws to prevent and detect money laundering and other illegal conduct and terrorist activities. In addition to subjecting the Bank to damage to its reputation, the failure to comply in any material respect with any of these laws

and regulations could subject the Bank to various penalties, including but not limited to enforcement actions, injunctions, fines or criminal penalties, punitive damages to consumers, and the loss of certain contractual rights. Ongoing compliance with these laws and regulations may result in additional operating expenses which could have a material adverse effect on the Company's financial condition and results of operations.

See the section entitled "Supervision and Regulation" contained in Item 1, "Business," for additional information regarding the supervisory and regulatory issues facing the Company and the Bank.

The Company is Subject to Lending Risk

There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in the economic conditions in the market areas in which the Company operates and changes in interest rates. In addition, the Company may be impacted by the following risks associated with its lending activities:

Commercial Lending Generally Involves a Higher Degree of Risk than Retail Residential Mortgage Lending

The Company's loan portfolio consists primarily of commercial real estate, commercial and industrial, and commercial construction loans. These types of loans are generally viewed as having more risk of default than owner-occupied residential real estate loans or consumer loans, and also typically have larger balances. The underlying commercial real estate values, the actual costs necessary to complete a construction project, or customer cash flow and payment expectations on such loans can be more easily influenced by adverse conditions in the related industries, the real estate market or in the economy in general. Any significant deterioration in the credit quality of the commercial loan portfolio or underlying collateral values could have a material adverse effect on the Company's financial condition and results of operations.

The Company May Need to Increase the Allowance for Loan Losses

The Company maintains an allowance for loan losses, which is established through a provision for loan losses charged to earnings, that represents management's estimate of probable losses inherent within the existing portfolio of loans. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and trends, all of which may undergo material changes. In addition, bank regulatory agencies periodically review the Company's allowance for loan losses and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments that differ from those of the Company's management. While the Company strives to carefully monitor credit quality and to identify loans that may become non-performing, it may not be able to identify deteriorating loans before they become non-performing assets, or be able to limit losses on those loans that have been identified to be non-performing. The Financial Accounting Standards Board is in the process of deliberations regarding a proposed change to accounting standards that will impact the way banking organizations estimate their allowance for loan losses. Any changes to accounting rules governing credit impairment estimates and recognition could impact the level of the allowance for loan losses. Any increases in the allowance for loan losses will result in a decrease in net income and, depending upon the magnitude of the changes, could have a material adverse effect on the Company's financial condition and results of operations.

See the discussions contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Allowance for Loan Losses," which is contained in the "Critical Accounting Estimates" section and under the headings "Credit Risk," "Asset Quality," and "Allowance for Loan Losses," included in the section entitled "Financial Condition," for further information regarding the process by which the Company determines the appropriate level of its allowance for loan losses.

Increases in the Company's Nonperforming Assets Could Adversely Affect the Company's Results of Operations and Financial Condition in the Future

Non-performing assets adversely affect net income in various ways. While the Company pays interest expense to fund non-performing assets, no interest income is recorded on non-accrual loans or other real estate owned, thereby adversely affecting income and returns on assets and equity. In addition, loan administration and workout costs

increase, resulting in additional reductions of earnings. When taking collateral in foreclosures and similar proceedings, the Company is required to carry the property or loan at its then-estimated fair market value less estimated cost to sell, which, when compared to the carrying value of the loan, may result in a loss. These non-performing loans and other real estate owned also increase the Company's risk profile and the capital that regulators believe is appropriate in light of such risks, and have an impact on the Company's FDIC risk based deposit insurance premium rate. The resolution of non-performing assets requires significant time commitments from management and staff. The Company may experience further increases in non-performing loans in the future, and non-performing assets may result in further costs and losses in the future, either of which could have a material adverse effect on the Company's financial condition and results of operations.

The Company's Use of Appraisals in Deciding Whether to Make a Loan Does Not Ensure the Value of the Collateral In considering whether to make a loan secured by real property or other business assets, the Company generally requires an internal evaluation or independent appraisal of the asset. However, these assessment methods are only an estimate of the value of the collateral at the time the assessment is made, and an error in fact or judgment could adversely affect the reliability of the valuation. In addition, events occurring after the initial assessment may cause the value of the assets to decrease. As a result of any of these factors, the value of collateral backing a loan may be less than estimated at the time of assessment, and if a default occurs the Company may not recover the outstanding balance of the loan.

The Company is Subject to Environmental Risks Associated with Real Estate Held as Collateral or Occupied When a borrower defaults on a loan secured by real property, the Company may purchase the property in foreclosure or accept a deed to the property surrendered by the borrower. The Company may also take over the management of commercial properties whose owners have defaulted on loans. The Company also occupies owned and leased premises where branches and other bank facilities are located. While the Company's lending, foreclosure and facilities policies and guidelines are intended to exclude properties with an unreasonable risk of contamination, hazardous substances could exist on some of the properties that the Company may own, acquire, manage or occupy. Environmental laws could force the Company to clean up the properties at the Company's expense. The cost of cleaning up or paying damages and penalties associated with environmental problems could increase the Company's operating expenses. It may cost much more to clean a property than the property is worth and it may be difficult or impossible to sell contaminated properties. The Company could also be liable for pollution generated by a borrower's operations if the Company takes a role in managing those operations after a default.

See the discussions contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the headings "Loans," "Credit Risk," and "Asset Quality" included in the section entitled "Financial Condition," for further information regarding the Company's commercial loan portfolio and credit risk.

The Company's Investment Portfolio Could Incur Losses

There are inherent risks associated with the Company's investment activities. These risks include the impact of changes in interest rates, weakness in the real estate or other industries, adverse changes in regional or national economic conditions, and general turbulence in domestic and foreign financial markets, among other things. These conditions could adversely impact the fair market value and/or the ultimate collectability of the Company's investments. In addition to fair market value impairment, carrying values may be adversely impacted due to a fundamental deterioration of the individual municipality, government agency, or corporation whose debt obligations the Company owns or of the individual company or fund in which the Company has invested.

If an investment's value is deemed other than temporarily impaired, then the Company is required to write down the carrying value of the investment which may involve a charge to earnings. The determination of the level of OTTI involves a high degree of judgment and requires the Company to make significant estimates of current market risks and future trends, all of which may undergo material changes. Any OTTI charges, depending upon the magnitude of the charges, could have a material adverse effect on the Company's financial condition and results of operations.

As a member of the FHLB, the Company is required to purchase certain levels of FHLB capital stock in association with the Company's borrowing relationship from the FHLB. This stock is classified as a restricted investment and carried at cost, which management believes approximates fair value. FHLB stock represents the only restricted investment held by the Company. If negative events or deterioration in the FHLB financial condition or capital levels occurs, the Company's investment in FHLB capital stock may become other than temporarily impaired to some degree.

See the discussions contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Impairment Review of Investment Securities," which is contained in the "Critical Accounting Estimates" section, Note 1, "Summary of Significant Account Policies" under Item (d) "Investments," and

(e) "Restricted Investments," and Note 2, "Investments" to the consolidated financial statements in Item 8 below for further information regarding the process by which the Company determines the level of other-than-temporary impairment.

The Carrying Value of the Company's Goodwill Could Become Impaired

In accordance with generally accepted accounting principles, the Company does not amortize goodwill and instead, at least annually, evaluates whether the carrying value of goodwill has become impaired. Impairment of goodwill may occur when the estimated fair value of the Company is less than its recorded book value (i.e., the net book value of its recorded assets and liabilities). This may occur, for example, when the estimated fair value of the Company declines due to changes in the assumptions and inputs used in management's estimate of fair value. A determination that goodwill has become impaired results in an immediate write-down of goodwill to its determined value with a resulting charge to operations. Any write down

of goodwill will result in a decrease in net income and, depending upon the magnitude of the charge, could have a material adverse effect on the Company's financial condition and results of operations.

See the discussions contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Impairment Review of Goodwill," contained in the "Critical Accounting Estimates" section, for further information regarding the process by which the Company determines whether an impairment of goodwill has occurred.

The Company is Subject to Interest Rate Risk

The Company's earnings and cash flows are largely dependent upon its net interest income, meaning the difference between interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities. The re-pricing frequency and magnitude of the Company's assets and liabilities are not identical, and therefore subject the Company to the risk of adverse changes in interest rates. Interest rates are highly sensitive to many factors that are beyond the Company's control, including monetary policy of the federal government, inflation and deflation, volatility of domestic and global financial markets, volatility of credit markets, and competition. If the interest rates paid on interest-bearing liabilities increase at a faster rate or magnitude than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly or steeply than falling interest rates paid on interest-bearing liabilities.

See Item 7A, "Quantitative and Qualitative Disclosures about Market Risk," for further discussions related to the Company's management of interest rate risk.

Deposit Outflows May Increase Reliance on Borrowings and Brokered Deposits as Sources of Funds

The Company has traditionally funded asset growth principally through deposits and borrowings. As a general matter, deposits are typically a lower cost source of funds than external wholesale funding (brokered deposits and borrowed funds), because interest rates paid for deposits are typically less than interest rates charged for wholesale funding (notwithstanding current low wholesale rates). If, as a result of competitive pressures, market interest rates, alternative investment opportunities that present more attractive returns to customers, general economic conditions or other events, the balance of the Company's deposits decreases relative to the Company's overall banking operations, the Company may have to rely more heavily on wholesale or other sources of external funding in the future. Any such increased reliance on wholesale funding could have a negative impact on the Company's net interest income and, consequently, on its results of operations and financial condition.

See the discussions contained in the section entitled "Other Sources of Funds" contained in Item 1, "Business," and in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Liquidity," which is included in the section entitled "Financial Condition" for further information regarding the Company's sources of contingent liquidity.

Sources of External Funding Could Become Restricted and Impact the Company's Liquidity

The Company's external wholesale funding sources include borrowing capacity at the FHLB and FRB, capacity in the brokered deposit markets, other borrowing arrangements with correspondent banks, as well as accessing the public markets through offerings of the Company's stock or issuance of debt. If, as a result of general economic conditions or other events, these sources of external funding become restricted or are eliminated, the Company may not be able to raise adequate funds or may incur substantially higher funding costs or operating restrictions in order to raise the necessary funds to support the Company's operations and growth. Any such increase in funding costs or restrictions could have a negative impact on the Company's net interest income and, consequently, on its results of operations and financial condition.

See the discussions contained in the section entitled “Other Sources of Funds” contained in Item 1, “Business,” and in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Liquidity,” included in the section entitled “Financial Condition” for further information regarding the Company’s sources of contingent liquidity.

The Company’s Capital Levels Could Fall Below Regulatory Minimums

The Company and the Bank are both subject to the capital adequacy guidelines of the Federal Reserve Board and FDIC, respectively. Failure to meet applicable minimum capital ratio requirements (including the new capital conservation "buffer" imposed by Basel III) may subject the Company and/or the Bank to various enforcement actions and restrictions. If the Company’s capital levels decline, or if regulatory requirements increase, and the Company is unable to raise additional capital to offset that decline or meet the increased requirements, then its capital ratios may fall below regulatory capital adequacy levels. The Company’s capital ratios could decline due to it experiencing rapid asset growth, or due to other factors, such as, by

way of example only, possible future net operating losses, impairment charges against tangible or intangible assets, or adjustments to retained earnings due to changes in accounting rules.

The Company's failure to remain "well capitalized" for bank regulatory purposes could affect customer confidence, restrict the Company's ability to grow (both assets and branching), increase the Company's costs of funds and FDIC insurance costs, prohibit the Company's ability to pay dividends on common shares, and its ability to make acquisitions, and impact the Company's business, results of operation and financial conditions, generally. Under FDIC rules, if the Bank ceases to be a "well capitalized" institution for bank regulatory purposes, its ability to accept brokered deposits and the interest rates that it pays may be restricted.

See the sections entitled "Supervision and Regulation" and "Capital Resources" contained in Item 1, "Business," for additional information regarding regulatory capital requirements for the Company and the Bank and new capital requirements under Basel III regulatory capital and liquidity standards.

The Investment Management Fees the Company Receives May Decrease as a Result of a Decline in Aggregate Assets Under Management, Which Could Decrease Revenues and Net Earnings

The Company's Enterprise Investment Advisors and Enterprise Investment Services channels derive their revenues primarily from investment management fees based on assets under management. Investment advisory and wealth management clients can terminate their relationships with us, reduce their aggregate assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons. The Company's ability to maintain or increase investment assets under management is subject to a number of factors, including changes in investment preferences of clients, changes in our reputation in the marketplace, change in management or control of clients, poor investment decisions, loss of key investment management personnel, our ability to maintain customer service levels, competition from investment management companies and alternative investment options, investors' perception of our past investment performance, in either relative or absolute terms, fluctuations in financial markets and various economic conditions.

Investment performance is one of the most important factors in retaining existing clients and competing for new wealth management clients. Poor investment performance, or to the extent our future investment performance is perceived to be poor, in either relative or absolute terms, could impair our ability to attract and retain funds from existing and new clients. Financial markets are affected by many factors, all of which are beyond our control, including general economic conditions, securities market conditions, the level and volatility of interest rates and equity prices, and general turbulence in domestic and foreign financial markets, among many other factors which could adversely impact the fair market value of customer portfolios. Even when market conditions are generally favorable, our investment performance may be adversely affected by the investment style of our wealth management and investment advisors and the particular investments that they make.

The Company Operates in a Competitive Industry and Market Area

The Company faces substantial competition in all areas of its operations from a variety of different competitors, several of which are larger and have more financial resources than the Company. Competitors within the Company's market area include not only national, regional, other community banks and internet based banks, but also various types of other non-bank financial institutions, including credit unions, consumer finance companies, mortgage brokers and lenders, as well as private lenders, insurance companies, securities brokerage firms, institutional mutual funds, registered investment advisors, and other financial intermediaries and non-bank electronic payment and funding channels. Additionally, some of these competitors are not subject to the same degree of government regulation as the Company and thus may have a competitive advantage over the Company. If, due to the inability to compete successfully within the Company's target banking markets, the Company encounters difficulties attracting and retaining customers, it would have a material adverse effect on the Company's growth and profitability.

See the section entitled “Competition” contained in Item 1, “Business,” for additional information regarding the competitive issues facing the Company.

Controls and Procedures Could Fail, or Be Circumvented by Theft, Fraud or Robbery

Management regularly reviews and updates the Company’s internal controls over financial reporting, corporate governance policies, compensation policies, Code of Business Conduct and Ethics and security controls to prevent and detect theft, fraud or robbery from both internal and external sources. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company’s internal controls and procedures, or failure to comply with regulations related to controls and procedures, or a physical theft or robbery, whether by employees, management, directors, or external elements could result in loss of assets, regulatory actions against the Company, financial loss, damage the Company’s reputation, cause a

loss of customer business, and expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's business, results of operations and financial condition.

See the discussion under the heading "Opportunities and Risks" contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further information regarding the Company's operational risk management.

The Company is Subject to Technology Related Risk

The use of technology related products, services, delivery channels, access points and processes exposes the Company to various risks, particularly operational, privacy, cyber-security, strategic, reputation and compliance risk. Banks are generally expected to prudently manage technology-related risks as part of their comprehensive risk management policies by identifying, measuring, monitoring and controlling risks associated with the use of technology.

Failure to Keep Pace With Technological Change Could Affect the Company's Profitability

The banking industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products, services and delivery channels. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. Several of the Company's competitors have substantially greater resources to invest in technological improvements. Failure to successfully plan or keep pace with technological changes affecting the banking industry, or failure to adequately train and educate staff on the use and risks of new technologies, or failure to comply adequately with regulatory guidance regarding protection of information security systems could have a material adverse effect on the Company's business and, in turn, the Company's financial condition and results of operations. In addition, there may be significant expenses associated with upgrading and implementing new technology, technology compliance and security processes the cost of which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Infrastructure Necessary to Run Technology May Experience an Interruption or Failure

The Company's and key service provider's information systems, in general, rely heavily on infrastructures such as electrical grids, voice and data communication, and internet server networks, which could be subject to failures or disruptions as a result of natural disasters, power or telecommunications disruptions, acts of terrorism or war, physical or electronic security breaches, industry wide or localized cyber-attacks, or similar events or disruptions. A material disruption to infrastructure could result in an interruption in customer services and ability to conduct transactions, loss of customer business and damage the reputation of the Company, any of which may have a material adverse effect on the Company's business, financial condition and results of operations.

Information Systems Could Experience an Interruption or Failure

The Company relies heavily on internal information systems to conduct its business. These systems must be continually reviewed, managed and upgraded on a recurring basis. The occurrence of any failures or interruptions of the Company's information systems, access points (or those of third-party service providers) or in commonly used operating systems could disrupt the Company's ability to conduct business and process transactions for an indeterminable length of time. Any breakdown in these information systems or the Company's inability to identify, respond and correct such breakdown, could result in an interruption in the ability to conduct transactions, a loss of customer business, damage the Company's reputation, subject the Company to additional regulatory scrutiny, and expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

See the discussion under the heading "Opportunities and Risks" contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further information regarding the Company's information security and technology practices and the Company's Disaster Recovery and Business Continuity Plan.

Technology Systems Could Experience a Breach in Security or Cyber-Attack

The use of networked operating systems exposes the Company to the increased sophistication and activity of cyber-criminals engaged in theft of Personally Identifiable Financial Information, strategic business information and disruption of service attacks and social engineering schemes. The Company's independent third-party service providers may also have access to customers' personal information and therefore also expose the Company to cyber-security risk. Additionally, vendors and customers' home, business or mobile information systems are at risk of fraudulent corporate account takeovers which the Company may not be able to detect. There is no guarantee the Company's counter-actions will be successful or that the Company will have the resources or technical expertise to anticipate, detect or prevent rapidly evolving types of cyber-attacks.

Any breach in the security of these networked information systems or the Company's inability to detect, respond and correct such infiltration, could expose customers' personal information to unauthorized parties, increase the risk of fraud or customer identity theft, subject the Company to increased operational costs to detect and rectify the situation, damage the Company's reputation, subject the Company to additional regulatory scrutiny, and expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

See the discussion under the heading "Opportunities and Risks" contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further information regarding the Company's information security and technology practices and the Company's Disaster Recovery and Business Continuity Plan.

The Company May Experience a Prolonged Interruption in its Ability to Conduct Business

The Company relies heavily on its personnel and facilities to conduct its business. A material loss of people or core operating facilities, for any number of reasons, such as natural disasters, infectious disease outbreak, power or telecommunications disruptions, acts of terrorism or war, or similar events or disruptions could result in an interruption in customer services and ability to conduct transactions, loss of customer business and damage the Company's reputation, any of which may have a material adverse effect on the Company's financial condition and results of operations.

See the discussion under the heading "Opportunities and Risks" contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further information regarding the Company's Disaster Recovery and Business Continuity Plan.

The Company Relies on Third-Party Service Providers

The Company relies on independent firms to provide critical services necessary to conducting its business. These services include, but are not limited to: electronic funds delivery networks; check clearing houses; electronic banking services; investment advisory, management and custodial services; correspondent banking services; information security assessments and technology support services; and loan underwriting and review services. The occurrence of any failures or interruptions of the independent firms' systems or in their delivery of services, or failure to perform in accordance with contracted service level agreements, for any number of reasons could also impact the Company's ability to conduct business and process transactions and result in loss of customer business and damage to the Company's reputation, any of which may have a material adverse effect on the Company's business, financial condition and results of operation.

The Company Relies on Financial Counterparty Relationships

The Company routinely executes transactions with counterparties in the financial industry, including brokers and dealers, other community banks, investment banks, and mutual and hedge funds, in order to maintain correspondent bank relationships, manage certain loan participations and mortgage sales activities, engage in securities transactions, and engage in other financial activities with counterparties that are customary to our industry. Many of these transactions expose the Company to counterparty credit, liquidity and/or reputation risk in the event of default by the counterparty, or negative publicity or public complaints, whether real or perceived, about one or more financial counterparty, or the financial services industry in general. Although the Company seeks to manage these risks through internal controls and procedures, the Company may experience loss or interruption of business, damage to its reputation, or incur additional costs or liabilities as a result of unforeseen events with these counterparties. Any financial cost, liability or reputational damage could have a material adverse effect on the Company's business, which in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Company May Not be Able to Attract, Retain or Develop Key Personnel

The Company's success depends, in large part, on its ability to attract, retain and develop key personnel. Competition for the best people in most activities engaged in by the Company can be intense, and the Company may not be able to

hire or retain the key personnel that it depends upon for success. The unexpected loss of key personnel or the inability to identify and develop individuals for planned succession to key senior positions within management, or on the board of directors, could have a material adverse impact on the Company's business because of the loss of their skills, knowledge of the Company's market, years of industry or business experience and the difficulty of promptly finding qualified replacements.

Slower than Expected Growth in New Branches and Products Could Adversely Affect the Company's Profitability
The Company has placed a strategic emphasis on expanding the Bank's branch network and market share. Executing this strategy carries risks of slower than anticipated growth in new branches or new geographic market areas. New branches and new products and services require a significant investment of both financial and personnel resources. Lower than expected loan and deposit growth in new branches and/or lower than expected fee or other income generated from new branches could decrease anticipated revenues, increase costs and reduce net income generated by such investments. In addition, branch

openings, relocations and closings require the approval of various state and federal regulatory agencies, which may or may not approve the Company's application for a branch. Opening new branches in existing markets or new market areas could also divert resources from current core operations and thereby further adversely affect the Company's growth and profitability.

Growth Strategies Involving Acquisitions Could Adversely Affect the Company's Profitability

The Company's primary growth strategy is organic growth and strategic expansion within existing and into neighboring geographic markets. However, in the future the Company could explore growth opportunities through acquisition of other banks, financial services companies or lines of business. These activities would involve a number of risks, including, but not limited to: the potential inaccuracy of the estimates and judgments used to evaluate credit, operations, management, and market risks with respect to a targeted institution; the time and costs of evaluating potential acquisition targets, new markets, hiring or retaining experienced local management, and opening new offices and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion; the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse effects on the Company's results of operations; and the risk of loss of key employees and customers.

Any future acquisition could adversely affect the Company's profitability based on management's ability to successfully complete the acquisition and integration of the acquired business.

Damage to the Company's Reputation Could Affect the Company's Profitability and Stockholders Value

The Company is dependent on its reputation within its market area, as a trusted and responsible financial company, for all aspects of its business with customers, employees, vendors, third-party service providers, and others, with whom the Company conducts business or potential future business. Any negative publicity or public complaints, whether real or perceived, disseminated by word of mouth, by the general media, by electronic or social networking means, or by other methods, regarding, among other things, the Company's current or potential business practices or activities, cyber-security issues, regulatory compliance, an inability to meet obligations, employees, management or directors' ethical standards or actions, or about the banking industry in general, could harm the Company's reputation. Any damage to the Company's reputation could affect its ability to retain and develop the business relationships necessary to conduct business which in turn could negatively impact the Company's business, financial condition, results of operations and the market price of the Company's common stock.

The Company is Exposed to Legal Claims and Litigation

The Company is subject to legal challenges under a variety of circumstances in the course of its normal business practices in regards to laws and regulations, duties, customer expectations of service levels, use of technology and patents, operational practices and those of contracted third-party service providers and vendors, and stockholder matters, among others. Regardless of the scope or the merits of any claims by potential or actual litigants, the Company may have to engage in litigation that could be expensive, time-consuming, disruptive to the Company's operations, and distracting to management. Whether claims or legal action are founded or unfounded, if such claims and legal actions are not resolved in a manner favorable to the Company, they may result in significant financial liability, damage the Company's reputation, subject the Company to additional regulatory scrutiny and restrictions, and/or adversely affect the market perception of our products and services, as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Company's business, which in turn, could have a material adverse effect on the Company's financial condition and results of operations.

The Trading Volume in the Company's Common Stock is Less Than That of Larger Companies

Although the Company's common stock is listed for trading on the NASDAQ Global Market, the trading volume in the Company's common stock is substantially less than that of larger companies. Given the lower trading volume of the Company's common stock, significant purchases or sales of the Company's common stock, or the expectation of such purchases or sales, could cause significant swings up or down in the Company's stock price.

The Market Price of the Company's Common Stock Could be Affected by General Industry Issues

The banking industry may be more affected than other industries by certain economic, credit, regulatory or information security issues. Although the Company itself may or may not be directly impacted by such issues, the Company's stock price may swing up or down due to the influence, both real and perceived, of these issues, among others, on the banking industry in general. Investment in the Company's stock is not insured against loss by the FDIC, or any other public or private entity. As a result, and for the other reasons described in this "Risk Factors" section and elsewhere in this report, if you acquire our common stock, you may lose some or all of your investment.

Stockholder Dilution Could Occur if Additional Stock is Issued in the Future

If the Company's Board of Directors should determine in the future that there is a need to obtain additional capital through the issuance of additional shares of the Company's common stock or securities convertible into shares of common stock, such issuances could result in dilution to existing stockholders' ownership interest. Similarly, if the Board of Directors decides to grant additional stock awards or options for the purchase of shares of common stock, the issuance of such additional stock awards and/or the issuance of additional shares upon the exercise of such options would expose stockholders to dilution.

Changes in Accounting Standards Could Materially Impact the Company's Financial Condition and Results of Operations

From time to time, the Financial Accounting Standards Board changes the accounting and reporting standards that govern the recording of financial transactions and preparation of financial statements. Future changes may be difficult to implement and may materially impact how the Company records and reports its financial transactions, financial condition, and results of operations and could impact the Company's business activities and strategy.

The Company's Financial Condition and Results of Operation Rely in Part on Management Estimates and Assumptions

In preparing the financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"), management is required to exercise judgment in determining many of the methodologies, estimates and assumptions to be utilized. These estimates and assumptions affect the reported values of assets and liabilities at the balance sheet date and income and expenses for the years then ended. Changes in those estimates resulting from continuing change in the economic environment and other factors will be reflected in the financial statements and results of operations in future periods. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates and be adversely affected should the assumptions and estimates used be incorrect, or change over time due to changes in circumstances.

The Company's Articles Of Organization, By-Laws and Shareholders Rights Plan as Well as Certain Banking and Corporate Laws Could Have an Anti-Takeover Effect

Although management believes that certain anti-takeover strategies are in the Company's best interest, provisions of the Company's articles of organization and by-laws, its shareholders rights plan and certain federal and state banking laws and state corporate laws, including regulatory approval requirements for any acquisition of control of the Company, could make it more difficult for a third-party to acquire the Company, even if doing so would be perceived to be beneficial to the Company's stockholders. The combination of these provisions effectively inhibits a non-negotiated merger or other business combination involving an acquisition of the Company, which, in turn, could adversely affect the market price of the Company's common stock.

Directors and Executive Officers Own a Significant Portion of Common Stock

The Company's directors and executive officers, as a group, beneficially own approximately 26% of the Company's outstanding common stock as of December 31, 2015. Management views this ownership commitment by insiders as an integral component of maintaining the Company's locally managed connection to the communities we serve.

However, as a result of this combined ownership interest, the directors and executive officers have the ability, if they vote their shares in a like manner, to significantly influence the outcome of all matters submitted to stockholders for approval, including the election of directors.

The Company Relies on Dividends from the Bank for Substantially All of its Revenue

The Company is a separate and distinct legal entity from the Bank. It receives substantially all of its revenue from dividends paid by the Bank. These dividends are the principal source of funds used to pay dividends on the Company's common stock and interest and principal on the Company's subordinated debt. Various federal and state laws and regulations limit the amount of dividends that the Bank may pay to the Company. If the Bank, due to its capital position, inadequate net income levels, or otherwise, is unable to pay dividends to the Company, then the

Company will be unable to service debt, pay obligations or pay dividends on the Company's common stock. The Bank's inability to pay dividends could have a material adverse effect on the Company's business, financial condition, results of operations and the market price of the Company's common stock.

See the discussion under the heading "Dividends" which is contained in Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" below.

Additional Factors Described Elsewhere in This Report

In addition to the factors listed above in this section, additional important factors that could adversely affect the results of the Company's future operations are described below under the heading "Special Note Regarding Forward-Looking Statements" contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's main office and operational support and lending offices are located in Lowell, Massachusetts. The main Lowell campus consists of four buildings, two of which are owned and two of which are leased, with ample onsite customer parking. The Company also owns and maintains a back-up operations/data facility in the Merrimack Valley region of Massachusetts. As of December 31, 2015, the Company had 22 full-service branch banking offices serving the greater Merrimack Valley and North Central regions of Massachusetts and Southern New Hampshire. Of these branches, 14 are leased and 8 are owned. The Company believes that all its facilities are well maintained and suitable for the purpose for which they are used. However, the Company regularly looks for opportunities to improve its facilities and locations. In late December 2015, we broke ground in Nashua, NH on what will be our 23rd branch. This leased property will be our second branch in Nashua and sixth in Southern New Hampshire.

The Company's leased facilities are contracted under various non-cancelable operating leases, most of which provide options to extend lease periods and periodic rent adjustments. Several leases provide the Company the right of first refusal should the property be offered for sale or purchase options at specified periods mutually agreeable to the parties.

See note 5, "Premises and Equipment" to the consolidated financial statements in Item 8 below, for further information regarding the Company's lease obligations listed above.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries are a party or to which any of its property is subject, other than ordinary routine litigation incidental to the business of the Company. Management does not believe resolution of any present litigation will have a material adverse effect on the Company's consolidated financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities
Market for Common Stock

The Company's common stock trades on the NASDAQ Global Market under the trading symbol "EBTC".

The following table sets forth sales volume and price information for the common stock of the Company for the periods indicated.

Fiscal Year	Trading Volume	Share Price High	Share Price Low
2015			
4th Quarter	365,985	\$24.90	\$20.80
3rd Quarter	320,394	23.95	19.87
2nd Quarter	410,526	24.33	20.20
1st Quarter	518,919	25.55	20.12
2014			
4th Quarter	821,424	\$26.12	\$18.14
3rd Quarter	610,680	21.80	18.42
2nd Quarter	765,368	21.20	18.00
1st Quarter	801,265	22.40	18.25

As of March 4, 2016, there were 1,042 registered stockholders of the Company's common stock and 10,409,989 shares of the Company's common stock outstanding.

Dividends

In 2015, quarterly dividends of \$0.125 per share were paid to the Company's stockholders in March, June, September and December. Total 2015 dividends of \$0.50 per share represented an increase of 4.2% compared to total dividends of \$0.48 paid to the Company's stockholders on a quarterly basis in 2014.

The Company previously maintained a dividend reinvestment plan (the "DRP"). In July 2014, the DRP was terminated and the Company adopted a new dividend reinvestment plan and direct stock purchase plan (the "DRSPP"). The DRSPP enables stockholders, at their discretion, to continue to elect to reinvest cash dividends paid on their shares of the Company's common stock by purchasing additional shares of common stock from the Company at a purchase price equal to fair market value. Under the DRSPP, stockholders and new investors also have the opportunity to purchase shares of the Company's common stock without brokerage fees, subject to monthly minimums and maximums.

For the year ended December 31, 2015, the Company paid \$5.2 million in cash dividends. Stockholders utilized the dividend reinvestment portion of the DRSPP to purchase an aggregate of 58,529 shares of the Company's common stock totaling \$1.3 million. The direct purchase component of the DRSPP was used to purchase 6,700 shares of the Company's common stock totaling \$150 thousand during the year ended December 31, 2015.

In 2014, the Company paid \$4.9 million in cash dividends. Stockholders utilized the dividend reinvestment portion of the DRSPP to purchase 60,586 shares of the Company's common stock totaling \$1.2 million. The direct purchase component of the DRSPP was used to purchase 2,917 shares of the Company's common stock totaling \$64 thousand during the year ended December 31, 2014.

On January 19, 2016, the Company announced a quarterly dividend of \$0.13 per share, paid on March 1, 2016 to stockholders of record as of February 9, 2016. On an annualized basis, this quarterly dividend represents a 4.0% increase over the 2015 quarterly dividend rate.

The Company is regarded as a legal entity separate and distinct from the Bank. The principal source of the Company's revenues is dividends received from the Bank. Both Massachusetts and federal law limit the payment of dividends by

the Company. Under Massachusetts law, the Company is generally prohibited from paying a dividend or making any other distribution if, after making such distribution, it would be unable to pay its debts as they become due in the usual course of business, or if its total assets would be less than the sum of its total liabilities plus the amount that would be needed if it were dissolved at the time of the distribution, to satisfy any preferential rights on dissolution of holders of preferred stock ranking

senior in right of payment to the capital stock on which the applicable distribution is made. The Federal Reserve Board also has further authority to prohibit dividends by bank holding companies if their actions constitute unsafe or unsound practices. The Federal Reserve Board has issued a policy statement and supervisory guidance on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve Board's view that a bank holding company should pay cash dividends only to the extent that, (1) the company's net income for the past year is sufficient to cover the cash dividends, (2) the rate of earnings retention is consistent with the company's capital needs, asset quality, and overall financial condition, and (3) the minimum regulatory capital adequacy ratios are met. It is also the Federal Reserve Board's policy that bank holding companies should not maintain dividend levels that undermine their ability to serve as a source of strength to their banking subsidiaries.

Under Massachusetts law, trust companies such as the Bank may pay dividends only out of “net profits” and only to the extent that such payments will not impair the Bank’s capital stock. Any dividend payment that would exceed the total of the Bank’s net profits for the current year plus its retained net profits of the preceding two years would require the Massachusetts Division of Banks’ approval. Applicable provisions of the FDIA also prohibits a bank from paying any dividends on its capital stock if the bank is in default on the payment of any assessment to the FDIC or if the payment of dividends would otherwise cause the bank to become undercapitalized. Any restrictions, regulatory or otherwise, on the ability of the Bank to pay dividends to the Company may restrict the ability of the Company to pay dividends to the holders of its common stock.

The statutory term “net profits” essentially equates with the accounting term “net income” and is defined under the Massachusetts banking statutes to mean the remainder of all earnings from current operations plus actual recoveries on loans and investments and other assets after deducting from such total all current operating expenses, actual losses, accrued dividends on any preferred stock and all federal and state taxes.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2015 with respect to the Company’s 2003 Stock Incentive Plan, as amended, and 2009 Stock Incentive Plan, as amended, which together constitute all of the Company’s existing equity compensation plans that have been previously approved by the Company’s stockholders. No further grants may be made under the 2003 Plan, although several awards previously granted under this plan remain outstanding and may be exercised in the future.

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in second column from left)
Equity compensation plans approved by security holders	300,969	\$15.82	210,683
Equity compensation plans not approved by security holders	—	—	—
TOTAL	300,969	\$15.82	210,683

Performance Graph

The following graph compares the cumulative total shareholder return (which assumes the reinvestment of all dividends) on the Company's common stock with the cumulative total return reflected by a broad-based equity market index and an appropriate published industry index. This graph shows the changes over the five-year period ended on December 31, 2015 in the value of \$100 invested in (i) the Company's common stock, (ii) the Standard & Poor's 500 Index, and (iii) the SNL Bank \$1B to \$5B index.

Index	Period Ending					
	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
Enterprise Bancorp, Inc.	\$100.00	\$108.06	\$128.20	\$168.61	\$206.03	\$190.69
S&P 500 Index	100.00	102.11	118.45	156.82	178.28	180.75
SNL Bank \$1B - \$5B Index	100.00	91.20	112.45	163.52	170.98	191.39

Sales of Unregistered Securities and Repurchases of Shares

The Company did not sell any equity securities that were not registered under the Securities Act of 1933, as amended, during the year ended December 31, 2015. Neither the Company nor any "affiliated purchaser" (as defined in the SEC's Rule 10b-18(a) (3)) repurchased any of the Company's outstanding shares, nor caused any such shares to be repurchased on its behalf, during the fiscal year ended December 31, 2015.

Item 6. Selected Financial Data

	Year Ended December 31,									
(Dollars in thousands, except per share data)	2015		2014		2013		2012		2011	
EARNINGS DATA										
Net interest income	\$78,294		\$71,230		\$65,791		\$61,910		\$58,326	
Provision for loan losses	3,267		1,395		3,279		2,750		5,197	
Net interest income after provision for loan losses	75,027		69,835		62,512		59,160		53,129	
Non-interest income	13,139		12,813		12,553		11,939		11,151	
Net gains on sales of investment securities	1,828		1,619		1,239		236		791	
Non-interest expense	65,732		62,031		55,824		52,612		48,966	
Income before income taxes	24,262		22,236		20,480		18,723		16,105	
Provision for income taxes	8,114		7,585		6,951		6,348		5,161	
Net income	\$16,148		\$14,651		\$13,529		\$12,375		\$10,944	
COMMON SHARE DATA										
Basic earnings per share	\$1.56		\$1.45		\$1.37		\$1.29		\$1.16	
Diluted earnings per share	1.55		1.44		1.36		1.28		1.16	
Book value per share at year end	17.38		16.35		15.14		14.42		13.45	
Dividends paid per share	\$0.50		\$0.48		\$0.46		\$0.44		\$0.42	
Basic weighted average shares outstanding	10,323,016		10,118,762		9,862,678		9,586,783		9,401,714	
Diluted weighted average shares outstanding	10,389,934		10,209,243		9,950,609		9,660,676		9,445,725	
YEAR END BALANCE SHEET AND OTHER DATA										
Total assets	\$2,285,531		\$2,022,228		\$1,849,925		\$1,665,726		\$1,489,163	
Loans serviced for others	71,272		64,122		72,711		75,854		67,367	
Investment assets under management	678,377		674,604		667,330		592,355		505,163	
Total assets under management	\$3,035,180		\$2,760,954		\$2,589,966		\$2,333,935		\$2,061,693	
Total loans	\$1,859,962		\$1,672,604		\$1,524,056		\$1,359,655		\$1,245,428	
Allowance for loan losses	29,008		27,121		26,967		24,254		23,160	
Investment securities	300,358		245,065		215,369		184,464		140,405	
Interest-earning deposits and fed funds	19,177		10,102		12,371		14,728		8,900	
Deposits	2,018,148		1,768,546		1,635,992		1,475,027		1,333,158	
Borrowed funds	53,671		58,900		36,534		26,540		4,494	
Subordinated debt	14,822		10,825		10,825		10,825		10,825	
Total stockholders' equity	180,327		166,950		151,334		139,549		127,448	
RATIOS										
Return on average total assets	0.76	%	0.76	%	0.78	%	0.78	%	0.75	%
Return on average stockholders' equity	9.29	%	9.20	%	9.32	%	9.27	%	8.98	%
Allowance for loan losses to total loans	1.56	%	1.62	%	1.77	%	1.78	%	1.86	%
Stockholders' equity to total assets	7.89	%	8.26	%	8.18	%	8.38	%	8.56	%
Dividend payout ratio	32.05	%	33.10	%	33.58	%	34.11	%	36.21	%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis should be read in conjunction with the Company's consolidated financial statements and notes thereto, contained in Item 8, "Financial Statements and Supplementary Data" and the other financial and statistical information contained in this report.

Special Note Regarding Forward-Looking Statements

This report on Form 10-K contains certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning plans, objectives, future events or performance and assumptions and other statements that are other than statements of historical fact. Forward-looking statements may be identified by reference to a future period or periods or by use of forward-looking terminology such as "anticipates," "believes," "expects," "intends," "may," "plans," "pursue," "views" and similar terms or expressions. Various statements contained in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A - "Quantitative and Qualitative Disclosures About Market Risk," including, but not limited to, statements related to management's views on the banking environment and the economy, competition and market expansion opportunities, the interest rate environment, credit risk and the level of future non-performing assets and charge-offs, potential asset and deposit growth, future non-interest expenditures and non-interest income growth, and borrowing capacity are forward-looking statements. The Company wishes to caution readers that such forward-looking statements reflect numerous assumptions and involve a number of risks and uncertainties that may adversely affect the Company's future results. The following important factors, among others, could cause the Company's results for subsequent periods to differ materially from those expressed in any forward-looking statement made herein: (i) changes in interest rates could negatively impact net interest income; (ii) changes in the business cycle and downturns in the local, regional or national economies, including deterioration in the local real estate market, could negatively impact credit and/or asset quality and result in credit losses and increases in the Company's allowance for loan losses; (iii) changes in consumer spending could negatively impact the Company's credit quality and financial results; (iv) increasing competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services could adversely affect the Company's competitive position within its market area and reduce demand for the Company's products and services; (v) deterioration of securities markets could adversely affect the value or credit quality of the Company's assets and the availability of funding sources necessary to meet the Company's liquidity needs; (vi) changes in technology, including increased cyber-security risk and identity theft, could adversely impact the Company's operations and increase technology-related expenditures; (vii) increases in employee compensation and benefit expenses could adversely affect the Company's financial results; (viii) changes in laws and regulations that apply to the Company's business and operations, including without limitation the Dodd-Frank Act, the Jumpstart Our Business Startups Act (the "JOBS Act"), the Basel III rules adopted by the federal banking regulators and the additional regulations that will be forthcoming as a result thereof, could cause the Company to incur additional costs and adversely affect the Company's business environment, operations and financial results; (ix) changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies, the Financial Accounting Standards Board (the "FASB") or the Public Company Accounting Oversight Board could negatively impact the Company's financial results; (x) our ability to enter new markets successfully and capitalize on growth opportunities, including the receipt of required regulatory approvals; (xi) future regulatory compliance costs, including any increase caused by new regulations imposed by the Consumer Finance Protection Bureau; and (xii) some or all of the risks and uncertainties described above in Item 1A could be realized, which could have a material adverse effect on the Company's business, financial condition and results of operations. Therefore, the Company cautions readers not to place undue reliance on any such forward-looking information and statements. Any forward-looking statements contained in this Form 10-K are made as of the date hereof, and we undertake no duty, and specifically disclaim any duty, to update or revise any such statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Overview

Executive Summary

Strategically, our focus, as it always has been, is on organic growth, steady and consistent local branch expansion, and continually planning for and investing in our future. In late December, we broke ground on Route 101A in Nashua, NH on what will be our 23rd branch. This will be our second branch in Nashua and sixth in Southern New Hampshire.

2015 was a very strong year of growth for the Company. At December 31, 2015, total assets increased by \$263.3 million, or 13%, loans increased by \$187.4 million, or 11%, and deposits (excluding brokered deposits) increased by \$228.0 million, or 14%, over 2014. Of our \$228.0 million in deposit growth, \$177.8 million was in low cost checking and savings accounts and \$49.5 million was in money market and certificates of deposit accounts. Total assets under management now exceed \$3 billion.

Net income for the year ended December 31, 2015 was \$16.1 million, an increase of \$1.5 million, or 10%, compared to the year ended December 31, 2014. Diluted earnings per share were \$1.55 for the year ended December 31, 2015, an increase of 8% compared to the year ended December 31, 2014.

The Company's 2015 growth contributed to increases in net interest income, non-interest expense and the allowance for loan losses as compared to 2014. This growth and other items impacting the Company's net income are discussed further below.

Composition of Earnings

The Company's earnings are largely dependent on its net interest income, which is the difference between interest earned on loans and investments and the cost of funding (primarily deposits and borrowings). Net interest income expressed as a percentage of average interest earning assets is referred to as net interest margin. The Company reports net interest margin on a tax equivalent basis ("margin").

Net interest income for the year ended December 31, 2015 amounted to \$78.3 million, an increase of \$7.1 million, or 10%, compared to the year ended December 31, 2014. The increase in net interest income was due primarily to loan growth, partially offset by a decrease in tax equivalent margin. Average loan balances (including loans held for sale) increased \$154.8 million for the year ended December 31, 2015 compared to the same 2014 period averages. Margin was 3.97% for the year ended December 31, 2015, compared to 4.02% for the year ended December 31, 2014.

The re-pricing frequency of the Company's assets and liabilities are not identical, and therefore subject the Company to the risk of adverse changes in interest rates. This is often referred to as "interest rate risk" and is reviewed in more detail in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of this Form 10-K.

For the years ended December 31, 2015 and December 31, 2014, the provision for loan losses amounted to \$3.3 million and \$1.4 million, respectively. The increase in the provision for the year ended December 31, 2015 was due primarily to additional specific reserves allocated to charge-offs and impaired commercial loans, in addition to commercial loan growth. The majority of the 2014 charge-offs were previously allocated specific reserves on commercial relationships, which contributed to the lower provision for loan losses in 2014.

In determining the provision to the allowance for loan losses, management takes into consideration the level of loan growth and an estimate of credit risk, which includes such items as adversely classified and non-performing loans, the estimated specific reserves needed for impaired loans, the level of net charge-offs, and the estimated impact of current economic conditions on credit quality. Loan growth for the year ended December 31, 2015 was \$187.4 million

compared to \$148.5 million during the year ended December 31, 2014. Total non-performing loans as a percentage of total loans declined to 0.74% at December 31, 2015, compared to 1.02% at December 31, 2014. The balance of the allowance for loan losses allocated to impaired loans amounted to \$1.8 million at December 31, 2015, compared to \$2.2 million at December 31, 2014. The Company recorded net charge-offs of \$1.4 million for the year ended December 31, 2015, compared to \$1.2 million for the year ended December 31, 2014.

The allowance for loan losses to total loans ratio was 1.56% at December 31, 2015 and 1.62% at December 31, 2014. The decline in the allowance ratio reflects the generally improving credit quality of the loan portfolio in the current period due, in part, to improved economic conditions.

For further information regarding loan quality statistics and the allowance for loan losses, see the sections below under the heading "Financial Condition" titled "Credit Risk," "Asset Quality," and "Allowance for Loan Losses." Non-interest income for the year ended December 31, 2015 amounted to \$15.0 million, an increase of \$535 thousand, or 4%, compared to the year ended December 31, 2014 due primarily to an increase in net gains on the sales of investment securities. The year ended December 31, 2015 included gains on life insurance and gains on the sales of other real estate owned, partially offset by the net loss on the Company's Capital Trust subsidiary due to the write-off of debt issuance costs related to the redemption of Trust Preferred Securities (Subordinated Debt), all of which are included in other income.

For the year ended December 31, 2015, non-interest expense amounted to \$65.7 million, an increase of \$3.7 million, or 6%, over the year ended December 31, 2014. Increases in expenses over the prior year primarily related to the Company's strategic growth initiatives, including increases in salaries and benefits, occupancy costs, and technology and telecommunications expenses. Annual non-interest expense for 2015 was also impacted by an increase in other expenses due primarily to the prepayment fees associated with the redemption of the Trust Preferred Securities mentioned above. Additionally, 2014 included costs in salaries and benefits expenses, from the effect of discount rate changes on certain accrued benefit plans.

Sources and Uses of Funds

The Company's primary sources of funds are customer and brokered deposits, FHLB borrowings, current earnings and proceeds from the sales, maturities and pay-downs on loans and investment securities. The Company may also, from time to time, utilize overnight borrowings from correspondent banks to provide additional funding sources and to aid in the Company's asset liability management and interest rate risk positioning. Additionally, funding for the Company may be generated through the issuance of debt securities or equity transactions, including the dividend reinvestment and direct stock purchase plan, exercise of stock options, and occasionally the sale of new shares of the Company's common stock. These funds are used to originate loans, purchase investment securities, conduct operations, expand the branch network, and pay dividends to stockholders.

The investment portfolio is primarily used to provide liquidity, manage the Company's asset-liability position and to invest excess funds, providing additional sources of revenue. Total investments, one of the key components of earning assets, amounted to \$300.4 million at December 31, 2015, and comprised 13% of total assets at December 31, 2015 compared to 12% of total assets at December 31, 2014. Since December 31, 2014, investments increased \$55.3 million, or 23%.

Enterprise's main asset strategy is to grow loans, the largest component of earning assets, with a focus on high-quality commercial loans, which comprised 86% of gross loans at December 31, 2015, and was consistent with the composition at December 31, 2014. Total loans increased \$187.4 million, or 11%, since December 31, 2014 and amounted to \$1.86 billion, or 81% of total assets at December 31, 2015 compared to 83% of total assets at December 31, 2014.

Management's preferred strategy for funding asset growth is to grow low-cost deposits (comprised of demand deposit accounts, interest and business checking accounts and traditional savings accounts). Asset growth in excess of low cost deposits is typically funded through "higher cost" deposits (comprised of money market accounts, commercial tiered rate or "investment savings" accounts and term certificates of deposit) and wholesale funding (brokered deposits and borrowed funds).

At December 31, 2015, total deposits (excluding brokered deposits) amounted to \$1.91 billion, representing, an increase of \$228.0 million, or 14%, over December 31, 2014 balances. Of our \$228.0 million in deposit growth, \$177.8 million was in low cost checking and savings accounts and \$49.5 million was in money market and certificates of deposit accounts.

Wholesale funding amounted to \$160.4 million at December 31, 2015, compared to \$144.1 million at December 31, 2014. Wholesale funding included FHLB advances of \$40.7 million and \$58.9 million at December 31, 2015 and December 31, 2014, respectively, other borrowings of \$13.0 million at December 31, 2015, and brokered deposits of \$106.8 million and \$85.2 million at December 31, 2015 and December 31, 2014, respectively. The Company had no other borrowings outstanding at December 31, 2014.

Opportunities and Risks

The Company's ability to achieve its long-term strategic growth and market share objectives will depend in part upon the Company's continued success in differentiating itself in the market place and its ability to strengthen its competitive position. Enterprise faces robust competition to attract and retain customers within existing and neighboring geographic markets. National and larger regional banks have a local presence in the Company's market area. These larger banks have certain competitive advantages, including greater financial resources and the ability to make larger loans to a single borrower. Numerous local savings banks, commercial banks, cooperative banks and credit unions also compete in the Company's market area. The expanded commercial lending capabilities of credit unions and the shift to commercial lending by traditional savings banks means that both of these types of traditionally consumer-orientated institutions now compete for the Company's targeted commercial customers. In addition, the non-taxable status of credit unions allows them certain advantages as compared to taxable institutions such as Enterprise. Competition for loans, deposits and cash management services, investment advisory assets, and insurance business also comes from other businesses that provide financial services, including consumer finance companies, mortgage brokers and lenders, private lenders, insurance companies, securities brokerage firms, institutional mutual funds, registered investment advisors, internet based banks, non-bank payment and funding channels, and other financial intermediaries. Consolidation within the industry, customer disenfranchisement with larger national/international banks, banks exiting certain business lines and/or markets, the cost of compliance with new government regulations, and the continued low interest rate environment have and are expected to continue to have an impact on the regional competitive market. The Company also faces increasing competition within its marketplace on the pricing of loans. This is expected to be an ongoing competitive challenge; however, the Company is committed to maintaining asset quality and focuses its sales efforts on building long-term relationships, rather than competing for individual transactions or easing loan terms. In addition, the increased use and advances in technology such as internet and mobile banking, non-bank payment channels, electronic transaction processing and cyber-security, are expected to have a significant impact on the future competitive landscape confronting financial service businesses.

The Company's business model is to provide a full range of diversified financial products and services through a highly-trained staff of knowledgeable banking professionals, with in-depth understanding of our markets, commitment to open and honest communication with clients and dedication to active community service. Management believes the Company has differentiated itself from the competition by building a solid reputation within the local market as a dependable commercial-focused community bank, delivering consistent and exceptional customer service, offering competitive products and by taking an active role in support of the communities we serve. The Company's banking professionals are committed to upholding the Company's core values, including significant and active involvement in many charitable and civic organizations, and community development programs throughout our service area. This long-held commitment to community not only contributes to the welfare of the communities we serve, it also helps to fuel the local economy and has led to a strong referral network with local business, non-profit organizations and community leaders. Management believes the Company's community service reputation and culture positions the Company to be a leading provider of banking, investment advisory and wealth management, trust and insurance services in its growing market area.

The Company actively seeks to increase deposit share and strengthen its competitive position through continuous reviews of deposit product offerings, cash management and ancillary services and state-of-the-art delivery channels, targeted to businesses, non-profits, professional practice groups, municipalities and consumers' needs. These products and services are delivered by experienced local banking professionals who possess strong technical skills, and function as trusted advisors to clients. In addition, Enterprise carefully plans deposit expansion through new branch development, identifying offices strategically located to complement existing locations while expanding the Company's geographic market footprint. In 2015, the Company announced plans to open its second Nashua, NH

branch, for which regulatory approvals have been received, and anticipates that the office will open in the second quarter of 2016. Branch expansion is aimed at achieving not only deposit market share growth, but also is intended to contribute to loan originations and generate referrals for investment advisory and wealth management, trust and insurance services, residential mortgages and cash management products.

Management believes that Enterprise is also well equipped to capitalize on market potential to grow both the commercial and residential loan portfolios through strong business development efforts, while utilizing a disciplined and consistent lending approach and credit review practices, which have served to provide quality asset growth over varying economic cycles during the Company's history. The Company has a skilled lending sales force with a broad breadth of business knowledge and depth of lending experience to draw upon, supported by a highly qualified and experienced commercial credit review function.

The Company's investment services, including advisory, customized investment management, trust and brokerage services, provide for additional income diversification. The Company's investment advisory and management services channel derives revenues primarily from investment management fees based on assets under management. The Company's brokerage services channel revenue is split between fees based on assets under management and commissions. Management believes that the Company's investment services are distinguished from the competition by a client-centric open architecture approach in which clients work with a dedicated portfolio manager to hand-select funds with styles that match the client's investment goals. The Company's goal is to design and maintain portfolios that provide the income, growth potential, and risk tolerances that match the clients' comfort levels and exceeds their financial expectations. The Company's investment advisory team consists of a variety of certified financial and licensed brokerage professionals adept in a number of financial and investment disciplines dedicated to providing personalized investment service to each client.

Management continues to undertake significant strategic initiatives, including investments in employee training and development, marketing and public relations, technology and electronic delivery methods, ongoing improvements and renovations of existing facilities and the continued development of recently added branches. Industry consolidation also provides management the opportunity to recruit experienced banking professionals with market knowledge who complement the Enterprise sales and service culture. While management recognizes that such investments increase expenses in the short-term, Enterprise believes that such initiatives are a necessary investment in the long-term growth and earnings potential of the Company and help the Company to capitalize on opportunities in the current marketplace for community banks such as Enterprise. However, lower than expected returns on these investments, such as slower than anticipated loan and deposit growth in new branches and/or lower than expected fee or other income generated from new technology or initiatives, could decrease anticipated revenues and net income on such investments in the future.

Any prolonged deterioration of the general economic environment in the national or local New England economy could have adverse repercussions on local industries, leading to increased unemployment and mortgage foreclosures, deterioration of local commercial real estate values, and other unforeseen consequences, which could have a severe negative impact on the Company's financial condition, capital position, liquidity, and performance. In addition, the loan portfolio consists primarily of commercial real estate, commercial and industrial, and commercial construction loans. These types of loans are typically larger and are generally viewed as having more risk of default than owner occupied residential real estate loans or consumer loans. Any significant deterioration in the credit quality of the commercial loan portfolio or underlying collateral values due to a downturn in the economic environment could have a material adverse effect on the Company's financial condition and results of operations. The risk of loss due to customers' non-payment of loans or lines of credit is called "credit risk." Credit risk management is reviewed below in this Item 7 under the headings "Credit Risk," "Asset Quality" and "Allowance for Loan Losses."

The value of the investment portfolio as a whole, or individual securities held, including restricted FHLB capital stock, could be negatively impacted by any sustained volatility in the financial markets or in credit markets, or fundamental deterioration in credit quality of the individual security, fund or issuer, which could possibly result in the recognition of additional other-than-temporary-impairment ("OTTI") charges in the future.

A decline in the aggregate balance of the assets under management could decrease investment advisory fee income. The Company's ability to maintain or increase investment assets under management is subject to a number of factors, including competition from investment management companies and alternative investment options, fluctuations in financial markets and various economic conditions, among others.

In addition, a sustained low interest rate environment could negatively impact the Company's net interest income and results of operations. Interest rate risk is reviewed in more detail under the heading Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," below.

Liquidity management is the coordination of activities so that cash needs are anticipated and met, readily and efficiently. Liquidity management is reviewed further below in this Item 7 under the heading "Liquidity."

Federal banking agencies require the Company and the Bank to meet minimum capital requirements. Effective January 1, 2015, the Company and the Bank implemented the Basel III regulatory capital framework. For information regarding the current capital requirements applicable to the Company and the Bank and their respective capital levels at December 31, 2015, and the recently adopted changes to the regulatory capital framework, see the sections within Item 1, "Business," entitled "Capital Resources" and "Capital Requirements" and "New Capital Requirements under Basel III" within "Supervision and

Regulation" and Note 9, "Stockholders' Equity" to the consolidated financial statements contained in Item 8 "Financial Statements and Supplementary Data." At December 31, 2015, both the Company and the Bank were categorized as "well capitalized;" however, future unanticipated charges against capital, or changes in regulatory requirements such as the phase-in requirements under Basel III, could impact those regulatory capital designations.

In addition, any further changes in government regulation or oversight, including, but not limited to, the implementation by the federal regulatory agencies of the various requirements contained in the Dodd-Frank Act and new consumer financial protection laws enacted by the Consumer Financial Protection Bureau, could affect the Company in substantial and unpredictable ways, including, but not limited to, subjecting the Company to additional operating, governance and compliance costs, potentially influencing the Company's business decisions, or causing potential loss of revenue due to the impact of an enhanced regulatory structure on the banking industry as a whole.

Compliance risk includes the threat of fines, civil money penalties, lawsuits and restricted growth opportunities resulting from violations and/or non-conformance with laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. The Company maintains a Compliance Management Program (the "CMP") designed to meet regulatory and legislative requirements. The CMP provides a framework for tracking and implementing regulatory changes, monitoring the effectiveness of policies and procedures, conducting compliance risk assessments, and educating employees in matters relating to regulatory compliance. The Audit Committee of the Board of Directors oversees the effectiveness of the CMP.

Operational risk includes the threat of loss from inadequate or failed internal processes, people, systems or external events, due to, among other things: fraud or error; the inability to deliver products or services; failure to maintain a competitive position; lack of information security, cyber security or physical security; inadequate procedures or controls followed by third-party service providers; or violations of ethical standards. In addition to intensive and ongoing employee training and awareness campaigns, controls to manage operational risk include, but are not limited to, technology administration, information security, third-party management, and disaster recovery and business continuity planning. The Banking Technology Steering Committee of the Board of Directors oversees the information security program, monitors the results of third-party testing and risk assessments, and responses to breaches of customer data, among other technology, security and business continuity related functions.

The Company's technology administration includes policies and guidelines for the design, procurement, installation, management and acceptable use of hardware, software and network devices. The Company's technology project standards are designed to provide risk based oversight, coordinate and communicate ideas, and to prioritize and manage project implementation in a manner consistent with corporate objectives.

The Company has implemented layered security approaches for all delivery channels to mitigate rising cyber-security risks. Management utilizes a combination of third-party information security assessments, key technologies and ongoing internal evaluations to provide a level of protection of non-public personal information and to continually monitor and attempt to safeguard information on its operating systems and those of third-party service providers. The Company also utilizes firewall technology and a combination of software and third-party monitoring to detect intrusion, guard against unauthorized cyber access, and continuously identify and prevent computer viruses on the Company's information systems.

The Company has a third-party risk management program designed to provide a mechanism to enable management to determine what risk, if any, a particular vendor or customer exposes the Company to, and to rate and mitigate that risk by properly performing initial and ongoing due diligence when selecting or maintaining relationships with critical third-party providers and customers who in turn provide financial services or products to their own customers.

The Company's Disaster Recovery and Business Continuity Program consists of the information and procedures required to enable a rapid recovery from an occurrence that would disable the Company's operations for an extended

period, due to circumstances such as: loss of personnel; loss of data and/or loss of facilities, under various scenarios, including unintentional, malicious or criminal intentions; or loss of access to, or the physical destruction or damage of, facilities, infrastructure or systems. The plan, which is reviewed annually, establishes responsibility for assessing a disruption of business, contains alternative strategies for the continuance of critical business functions during an emergency situation, assigns responsibility for restoring services, and sets priorities by which critical services will be restored. A bank-owned and maintained secondary data center location provides the Company back-up network processing capabilities and flexibility to relocate key operational personnel if needed.

The Company has developed Incident Response Policy and Procedures in order to guide its actions in responding to real and suspected information security incidents. This includes unlawful, unauthorized, or unacceptable actions that involve a computer system or a computer network such as Denial of Service attacks, Corporate Account Takeover schemes, or an event that has potentially compromised customers' non-public personal information. Additionally, an event that disrupts one of the Bank's service channels, whether as a result of a security incident or not, is also considered an incident requiring a response under this program. The reaction to an incident aims to reduce potential damage and loss and to protect and restore confidence through timely communication and the restoration of normal operating conditions for computers, services and information.

Any system of controls or contingency plan, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the controls and procedures will be met. Any breakdown in the integrity of these information systems, infrastructure, or cyber-security measures, or the Company's inability to identify, respond and correct such breakdown, could result in a loss of customer business, expose customers' personal information to unauthorized parties, damage the Company's reputation, subject the Company to increase costs and additional regulatory scrutiny, and expose the Company to civil litigation and possible financial liability, any of which could have a material adverse effect on the Company's business, financial condition and results of operations.

In addition to the risks discussed above, numerous other factors that could adversely affect the Company's reputation, its future results of operations and financial condition are addressed in Item 1A, "Risk Factors." This Opportunities and Risk discussion should be read in conjunction with Item 1A.

Critical Accounting Estimates

The Company's significant accounting policies are described in note 1, "Summary of Significant Accounting Policies," to the consolidated financial statements contained in Item 8, "Financial Statements and Supplementary Data". In applying these accounting policies, management is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. Certain of the critical accounting estimates are more dependent on such judgment and in some cases may contribute to volatility in the Company's reported financial performance should the assumptions and estimates used change over time due to changes in circumstances. The three most significant areas in which management applies critical assumptions and estimates include the areas described further below.

Allowance for Loan Losses

The allowance for loan losses is an estimate of credit risk inherent in the loan portfolio as of the specified balance sheet dates. The allowance for loan losses is established through a provision for loan losses, which is a direct charge to earnings. Loan losses are charged against the allowance when management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance. The Company maintains the allowance at a level that it deems adequate to absorb all reasonably anticipated probable losses from specifically known and other credit risks associated with the portfolio. Arriving at an appropriate level of allowance for loan losses involves a high degree of management judgment.

The Company uses a systematic methodology to measure the amount of estimated loan loss exposure inherent in the portfolio for purposes of establishing a sufficient allowance for loan losses. The methodology makes use of specific reserves for loans individually evaluated and deemed impaired and general reserves for larger groups of homogeneous loans that rely on a combination of qualitative and quantitative factors that could have an impact on the credit quality of the portfolio.

Management believes that the allowance for loan losses is adequate to absorb probable losses from specifically known and other credit risks associated with the loan portfolio as of the balance sheet dates reflected in this annual report. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on judgments different from those of management.

Management's assessment of the adequacy of the allowance for loan losses is contained under the headings "Credit Risk," "Asset Quality," and "Allowance for Loan Losses," contained in the "Financial Condition" section of this Item 7.

Impairment Review of Investment Securities

There are inherent risks associated with the Company's investment activities that could adversely impact the fair market value and the ultimate collectability of the Company's investments. Management regularly reviews the portfolio for securities with unrealized losses that are other than temporarily impaired. The determination of OTTI involves a high degree of judgment and requires management to make significant estimates of current market risks and future trends. Management's assessment, depending on the type of security, includes: reviewing market pricing; evaluating the level and duration of the loss on individual securities; ongoing credit quality evaluations; determining if any individual security or mutual or other fund exhibits fundamental deterioration; and estimating whether it is unlikely that the individual security or fund will completely recover its unrealized loss within a reasonable period of time, or in the case of fixed income securities prior to maturity. While management uses available information to measure OTTI at the balance sheet date, future write-downs may be necessary based on extended duration of current unrealized losses, changing market conditions, or circumstances surrounding individual issuers and funds.

Should an investment be deemed to have OTTI, the Company is required to write-down the carrying value of the investment. Such write-down(s) may have a material adverse effect on the Company's financial condition and results of operations. OTTI on equity securities is recognized through a charge to earnings. OTTI on fixed income securities is assessed in order to determine the impairment attributed to the underlying credit quality of the issuer and the portion of noncredit impairment. When there are credit losses on a fixed income security that management does not intend to sell and it is more likely than not that the Company will not be required to sell prior to a marketplace recovery or maturity, the portion of the total impairment that is attributable to the credit loss would be recognized in earnings, and the remaining difference between the security's amortized cost basis and its fair value would be included in other comprehensive income. Once written-down, a security may not be written-up in excess of its new cost basis to reflect future increases in fair value.

Based on this impairment review, management determined that there were no securities carried in the Company's investment securities portfolio at December 31, 2015 that were deemed other than temporarily impaired.

Management's assessment of impairment of the unrealized losses in the investment portfolio is contained in Note 2, "Investments," to the consolidated financial statements in Item 8 below.

Impairment Review of Goodwill

In accordance with generally accepted accounting principles, the Company does not amortize goodwill and instead, at least annually, evaluates whether the carrying value of goodwill has become impaired. Impairment of the goodwill may occur when the estimated fair value of the Company is less than its recorded book value. A determination that goodwill has become impaired results in an immediate write-down of goodwill to its determined value with a resulting charge to operations.

The annual impairment test begins with a qualitative assessment of whether it is "more likely than not" that the reporting unit's fair value is less than its carrying amount. The assessment is performed at the operating unit level. If an entity concludes it is not "more likely than not" that the fair value of a reporting unit is less than its carrying amount, it need not perform a two-step impairment test. In the case of the Company, the services offered through the Bank and subsidiaries are managed as one strategic unit and represent the Company's only reportable operating segment.

Management's qualitative assessment takes into consideration macroeconomic conditions, industry and market considerations, cost or margin factors, financial performance and share price. Based on this assessment, the Company determined that it is not "more likely than not" that the Company's fair value is less than its carrying amount and therefore goodwill was not considered to be impaired at December 31, 2015.

If the Company's qualitative assessment concluded that it is "more likely than not" that the fair value of a reporting unit is less than its carrying amount, it must perform the two-step impairment test to identify potential goodwill impairment and measure the amount of goodwill impairment loss to be recognized, if any. The first step of the goodwill impairment test compares the estimated fair value of the reporting unit with its carrying amount, or the book value of the reporting unit, including goodwill. If the estimated fair value of the reporting unit equals or exceeds its book value, goodwill is considered not impaired, and the second step of the impairment test is unnecessary.

The second step, if necessary, measures the amount of goodwill impairment loss to be recognized. The reporting unit must determine fair values for all assets and liabilities, excluding goodwill. The net of the assigned fair value of assets and liabilities

is then compared to the book value of the reporting unit, and any excess book value becomes the implied fair value of goodwill. If the carrying amount of the goodwill exceeds the newly calculated implied fair value of that goodwill, an impairment loss is recognized in the amount required to write down the goodwill to the implied fair value.

Financial Condition

Total assets increased \$263.3 million, or 13%, over the prior year, amounting to \$2.29 billion at December 31, 2015. The balance sheet composition and changes compared to the prior year are discussed below.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash on hand and cash items due from banks, interest-earning deposits (deposit accounts, excess cash balances, money market, and money market mutual fund accounts) and fed funds sold. At December 31, 2015, cash and cash equivalents amounted to 2% of total assets, which is relatively consistent with December 31, 2014. Balances in cash and cash equivalents will fluctuate due primarily to the timing of net deposit flows, borrowing and loan inflows and outflows, investment purchases and maturities, calls and sales proceeds, and the immediate liquidity needs of the Company.

Investments

As of December 31, 2015, the fair value of the investment portfolio increased \$55.3 million, or 23%, compared to December 31, 2014, and was primarily within the municipal securities, commercial federal agency mortgage back securities (MBS) and federal agency obligations portfolios. The increase primarily reflects increased liquidity from deposit growth. At December 31, 2015 and 2014, all investments were classified as available-for-sale and were carried at fair market value.

The investment portfolio represented 13% of total assets at December 31, 2015 and 12% of total assets at December 31, 2014. Fixed income investments comprised the majority of the fair value of the portfolio and represented 96% of total investments at both December 31, 2015 and 94% of total investments at December 31, 2014, respectively.

The following table summarizes investments at the dates indicated:

	December 31, 2015		2014		2013			
(Dollars in thousands)	Amount	Percent	Amount	Percent	Amount	Percent		
Federal agency obligations ⁽¹⁾	\$78,825	26.3 %	\$59,812	24.4 %	\$55,543	25.8 %		
Residential federal agency MBS ⁽¹⁾	74,863	24.9 %	88,802	36.2 %	79,650	37.0 %		
Commercial federal agency MBS ⁽¹⁾	23,545	7.8 %	—	—	—	—		
Municipal securities	98,511	32.8 %	74,204	30.3 %	61,954	28.8 %		
Corporate bonds	10,206	3.4 %	7,972	3.3 %	5,054	2.3 %		
Certificates of deposit ⁽²⁾	2,751	0.9 %	—	—	—	—		
Total fixed income securities	288,701	96.1 %	230,790	94.2 %	202,201	93.9 %		
Equity investments	11,657	3.9 %	14,275	5.8 %	13,168	6.1 %		
Total available-for-sale investments at fair value	\$300,358	100.0 %	\$245,065	100.0 %	\$215,369	100.0 %		

These categories may include investments issued or guaranteed by government sponsored enterprises such as (1) Fannie Mae (FNMA), Freddie Mac (FHLMC), Federal Farm Credit Bank, or one of several Federal Home Loan Banks, as well as, investments guaranteed by Ginnie Mae (GNMA), a wholly-owned government entity.

(2) Certificates of deposit ("CDs") represent term deposits issued by banks that are subject to FDIC insurance and purchased on the open market.

Included in the residential federal agency MBS categories were collateralized mortgage obligations ("CMOs") totaling \$20.8 million, \$13.3 million and \$17.4 million, at December 31, 2015, 2014 and 2013, respectively. All of the commercial MBS investments held by the Company were CMOs.

In 2015, the Company purchased \$108.9 million in securities. Also in 2015, total principal paydowns, calls and maturities on fixed income securities totaled \$26.7 million, a decrease of \$13.8 million over the same period in the prior year, primarily as a result of more investments being called in 2014. In addition, management sold investment securities, primarily MBS securities, municipal securities and equity investments, with an amortized cost of approximately \$23.3 million realizing net gains on sales of \$1.8 million during the year ended December 31, 2015.

As of December 31, 2015, the net unrealized gains in the investment portfolio were \$3.5 million compared to \$5.8 million at December 31, 2014. The Company primarily attributes the decrease to security gains realized during 2015 and to a lesser degree slight declines in stock market values and a slight increase in bond yields. Unrealized gains or losses will only be recognized in the statements of income if the investments are sold. However, should an investment be deemed "other than temporarily impaired," the Company is required to write-down the fair value of the investment.

See "Impairment Review of Securities" under the heading "Critical Accounting Estimates" above in this Item 7 for additional information regarding the accounting for OTTI.

See also Note 2, "Investments" and Note 14, "Fair Value Measurements" to the consolidated financial statements in Item 8 below, for further information regarding the Company's investment portfolio, including unrealized gains and losses, other than temporary impairment review and investments pledged as collateral, as well as the Company's fair value measures for available-for sale investments.

The contractual maturity distribution as of December 31, 2015, of the fixed income securities above, with the weighted average tax equivalent yield for each category is set forth below:

(Dollars in thousands)	Under 1 Year		>1 – 5 Years		>5 – 10 Years		Over 10 Years	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
At amortized cost:								
Federal agency obligations	\$7,048	0.91 %	\$62,024	1.59 %	\$9,554	2.22 %	\$—	— %
Residential MBS	—	— %	3,576	3.15 %	1,299	1.90 %	70,230	2.11 %
Commercial MBS	—	— %	—	— %	23,908	2.26 %	—	— %
Municipal securities	5,052	2.74 %	23,948	3.38 %	34,749	3.69 %	32,440	3.91 %
Corporate bonds	530	1.33 %	4,759	2.09 %	4,968	2.89 %	—	— %
CDs	1,803	0.32 %	950	2.13 %	—	— %	—	— %
Total fixed income securities	\$14,433	1.49 %	\$95,257	2.13 %	\$74,478	2.96 %	\$102,670	2.68 %
At fair value:								
Total fixed income securities	\$14,477		\$96,053		\$75,015		\$103,156	

Scheduled contractual maturities may not reflect the actual maturities of the investments. The actual MBS/CMO cash flows likely will be faster than presented above due to prepayments and amortization. Similarly, included in the carrying value of fixed income investments above are callable securities, comprised of municipal securities and corporate bonds with fair values of \$50.3 million which can be redeemed by the issuers prior to the maturity presented above. Management considers these factors when evaluating the margin in the Company's asset-liability management program.

Federal Home Loan Bank Stock

The Company is required to purchase stock of the FHLB in association with advances from the FHLB; this stock is classified as a restricted investment and carried at cost, which management believes approximates fair value. At December 31, 2015, the Company's investment in FHLB capital stock amounted to \$3.1 million.

See Note 1, "Summary of Significant Accounting Policies," Item (e) "Restricted Investments" to the Company's Consolidated Financial Statements, contained in Item 8 for further information regarding the Company's investment in FHLB stock.

Loans

Total loans increased \$187.4 million, or 11%, and amounted to 81% of total assets at December 31, 2015 compared to 83% at December 31, 2014. The Company primarily attributes the increase to new loans generated by its seasoned lending team, its sales and service culture and geographic market expansion. The mix of loans within the portfolio remained relatively unchanged with commercial loans amounting to approximately 86% of gross loans at December 31, 2015, reflecting a continued focus on commercial loan growth.

The following table sets forth the loan balances by certain loan categories at the dates indicated and the percentage of each category to gross loans.

	December 31, 2015		2014		2013		2012		2011	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Commercial real estate	\$936,921	50.3 %	\$862,747	51.6 %	\$820,299	53.8 %	\$710,265	52.2 %	\$650,697	
Commercial & industrial	458,553	24.7 %	402,994	24.1 %	357,056	23.4 %	328,579	24.1 %	310,706	
Commercial construction	202,993	10.9 %	168,044	10.0 %	132,507	8.6 %	121,367	8.9 %	117,398	
Total Commercial	1,598,467	85.9 %	1,433,785	85.7 %	1,309,862	85.8 %	1,160,211	85.2 %	1,078,801	
Residential mortgages	169,188	9.1 %	149,959	8.9 %	132,721	8.7 %	120,278	8.8 %	86,311	
Home equity loans and lines of credit	83,373	4.4 %	80,018	4.8 %	74,354	4.9 %	75,648	5.6 %	77,135	
Consumer	10,747	0.6 %	10,708	0.6 %	8,643	0.6 %	4,911	0.4 %	4,570	
Total retail loans	263,308	14.1 %	240,685	14.3 %	215,718	14.2 %	200,837	14.8 %	168,016	
Gross loans	1,861,775	100.0 %	1,674,470	100.0 %	1,525,580	100.0 %	1,361,048	100.0 %	1,246,817	
Deferred fees, net	(1,813)		(1,866)		(1,524)		(1,393)		(1,389)	
Total loans	1,859,962		1,672,604		1,524,056		1,359,655		1,245,428	
Allowance for loan losses	(29,008)		(27,121)		(26,967)		(24,254)		(23,160)	
Net loans	\$1,830,954		\$1,645,483		\$1,497,089		\$1,335,401		\$1,222,268	

During 2015, commercial real estate loans increased \$74.2 million, or 9%. Commercial real estate loans are typically secured by one-to-four and multi-family apartment buildings, office, industrial or mixed-use facilities, strip shopping centers or other commercial properties and are generally guaranteed by the principals of the borrower.

Commercial and industrial loans increased by \$55.6 million, or 14%, since December 31, 2014. These loans include seasonal revolving lines of credit, working capital loans, equipment financing (including equipment leases), and term loans. Also included in commercial and industrial loans are loans partially guaranteed by the U. S. Small Business Administration (SBA), and loans under various programs and agencies.

Commercial construction loans increased by \$34.9 million, or 21%, compared to December 31, 2014. Commercial construction loans include the development of residential housing and condominium projects, the development of commercial and industrial use property and loans for the purchase and improvement of raw land.

Retail loans increased by \$22.6 million, or 9%, since December 31, 2014, due primarily to increases in residential mortgage loan production held in portfolio. In 2012, the Company purchased \$26.4 million of residential mortgage loans with a current balance amounting to \$7.4 million. These purchased loans conform to the Company's own underwriting standards and are generally consistent with the originated residential mortgage loan production in terms of individual loan size, credit quality and geographic region.

At December 31, 2015, commercial loan balances participated out to various banks amounted to \$52.7 million, compared to \$44.8 million at December 31, 2014. These balances participated out to other institutions are not carried as assets on the Company's consolidated financial statements. Commercial loans originated by other banks in which the Company is the participating institution are carried at the pro-rata share of ownership and amounted to \$62.3 million and \$65.3 million at December 31, 2015 and 2014, respectively. In each case, the participating bank funds a percentage of the loan commitment and assumes the related pro-rata risk. The rights and obligations of each

participating bank are divided proportionately among the participating banks in an amount equal to their share of ownership and with equal priority among all banks. Participating loans with other institutions provide banks the opportunity to retain customer relationships and reduce credit risk exposure among each participating bank, while providing them with larger credit vehicles than the individual bank might be willing or able to offer independently.

Refer to Note 3 "Loans," to the Consolidated Financial Statements, contained in Item 8, for information on related party loans, loans serviced for others, and loans pledged as collateral.

The following table sets forth the scheduled maturities of commercial real estate, commercial & industrial and commercial construction loans in the Company's portfolio at December 31, 2015. The table also sets forth the dollar amount of loans which are scheduled to mature after one year which have fixed or adjustable rates.

(Dollars in thousands)	Commercial real estate	Commercial & industrial	Commercial construction
Amounts due ⁽¹⁾ :			
One year or less	\$47,547	\$229,603	\$98,077
After one year through five years	173,665	123,299	43,263
Beyond five years	715,709	105,651	61,653
	\$936,921	\$458,553	\$202,993
Interest rate terms on amounts due after one year:			
Fixed	\$34,577	\$104,474	\$2,551
Adjustable	\$854,797	\$124,476	\$102,365

⁽¹⁾ Scheduled contractual maturities may not reflect the actual maturities of loans. The average maturity of loans may be shorter than their contractual terms principally due to prepayments and demand features.

Credit Risk

The Company seeks to manage its loan portfolio to avoid concentration by industry and loan size to lessen its credit risk exposure. However, inherent in the lending process is the risk of loss due to customer non-payment, or "credit risk." The Company's commercial lending focus may entail significant additional risks compared to long-term financing on existing, owner-occupied residential real estate. While the Company endeavors to minimize this risk through sound underwriting practices and the risk management function, management recognizes that loan losses will occur and that the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio and economic conditions.

The credit risk management function focuses on a wide variety of factors, including, among others, current and expected economic conditions, the real estate market, the financial condition of borrowers, the ability of borrowers to adapt to changing conditions or circumstances affecting their business and the continuity of borrowers' management teams. Early detection of credit issues is critical to minimize credit losses. Accordingly, management regularly monitors these factors, among others, through ongoing credit reviews by the Credit Department, an external loan review service, reviews by members of senior management and the Loan Committee of the Board of Directors. This review includes the assessment of internal credit quality indicators such as the risk classification of loans, individual review of problem assets, past due and non-accrual loans, impaired and restructured loans, and the level of foreclosure activity, as well as trends in the general levels of these indicators.

The Company's loan risk rating system classifies loans depending on risk of loss characteristics. The classifications range from "substantially risk free" for the highest quality loans and loans that are secured by cash collateral, to the more severe adverse classifications of "substandard," "doubtful" and "loss" based on criteria established under banking regulations. Loans classified as substandard include those characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Loans classified as "doubtful" have all the weaknesses inherent in a substandard rated loan with the added characteristic that the weaknesses make collection or full payment from liquidation, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans classified as "loss" are generally considered uncollectible at present, although long term recovery of part or all of loan proceeds may be possible. These "loss" loans would require a specific loss reserve or charge-off. Adversely classified loans may be accruing or in non-accrual status and may be additionally designated as restructured and/or impaired, or some combination thereof. Loans which are evaluated to be of weaker credit quality are reviewed on a more frequent basis by management.

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans and are credit downgraded to one of the adversely classified categories noted above. Accrual of interest on loans is generally discontinued when a loan becomes contractually past due, with respect to interest or principal, by 90 days, or when reasonable doubt exists as to the full and timely collection of interest or principal. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest accruals are resumed on such loans only when payments are brought current and have remained current for a period of 180 days or when, in the judgment of management, the collectability of both principal and interest is reasonably assured. Interest payments received on loans in a non-accrual status are generally applied to principal on the books of the Company.

Impaired loans are individually significant loans for which management considers it probable that not all amounts due (principal and interest) in accordance with original contractual terms will be collected. The majority of impaired loans are included within the non-accrual balances; however, not every loan in non-accrual status has been designated as impaired. Impaired loans include loans that have been modified in a troubled debt restructuring (or "TDR", see below). Impaired loans exclude large groups of smaller-balance homogeneous loans, such as residential mortgage loans and consumer loans, which are collectively evaluated for impairment, and loans that are measured at fair value, unless the loan is amended in a TDR.

Management does not set any minimum delay of payments as a factor in reviewing for impaired classification. Management considers the individual payment status, net worth and earnings potential of the borrower, and the value and cash flow of the collateral as factors to determine if a loan will be paid in accordance with its contractual terms.

Impaired loans are individually evaluated for credit loss and a specific reserve is assigned for the amount of the estimated credit loss. When a loan is deemed to be impaired, management estimates the credit loss by comparing the loan's carrying value against either 1) the present value of the expected future cash flows discounted at the loan's effective interest rate; 2) the loan's observable market price; or 3) the expected realizable fair value of the collateral, in the case of collateral dependent loans. A specific allowance is assigned to the impaired loan for the amount of estimated credit loss. Impaired loans are charged off, in whole or in part, when management believes that the recorded investment in the loan is uncollectible.

Loans are designated as a TDR when, as part of an agreement to modify the original contractual terms of the loan as a result of financial difficulties of the borrower, the Bank grants the borrower a concession on the terms that would otherwise not be considered. Typically, such concessions may consist of a reduction in interest rate to a below market rate, taking into account the credit quality of the note, or a deferment or reduction of payments (principal or interest), which materially alters the Bank's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination. All loans that are modified are reviewed by the Company to identify if a TDR has occurred. TDR loans are included in the impaired loan category and as such, these loans are individually reviewed and evaluated, and a specific reserve is assigned for the amount of the estimated credit loss.

A TDR or impaired loan classification will be considered for upgrade based on the borrower's sustained performance over time and their improving financial condition. Consistent with the criteria for returning non-accrual loans to accrual status, the borrower must demonstrate the ability to continue to service the loan in accordance with the original or modified terms and, in the judgment of management, the collectability of the remaining balances, both principal and interest, are reasonably assured. In the case of TDR loans having had a modified interest rate, that rate must be at, or greater than, a market rate for a similar credit at the time of modification for an upgrade to be considered.

Real estate acquired by the Company through foreclosure proceedings or the acceptance of a deed in lieu of foreclosure is classified as Other Real Estate Owned ("OREO"). When property is acquired, it is generally recorded at the lesser of the loan's remaining principal balance, net of any unamortized deferred fees, or the estimated fair value of the property acquired, less estimated costs to sell. The estimated fair value is based on market appraisals and the Company's internal analysis. Any loan balance in excess of the estimated realizable fair value on the date of transfer is charged to the allowance for loan losses on that date. All costs incurred thereafter in maintaining the property, as well as subsequent declines in fair value are charged to non-interest expense.

Non-performing assets are comprised of non-accrual loans, deposit account overdrafts that are more than 90 days past due and OREO. The designation of a loan or other asset as non-performing does not necessarily indicate that loan principal and interest will ultimately be uncollectible. However, management recognizes the greater risk

characteristics of these assets and therefore considers the potential risk of loss on assets included in this category in evaluating the adequacy of the allowance for loan losses. Despite prudent loan underwriting, adverse changes within the Company's market area, or deterioration in local, regional or national economic conditions, could negatively impact the Company's level of non-performing assets in the future.

Asset Quality

At December 31, 2015, the Company had adversely classified loans (loans carrying “substandard,” “doubtful” or “loss” classifications) amounting to \$24.8 million, compared to \$28.4 million at December 31, 2014. Total adversely classified loans amounted to 1.33% of total loans at December 31, 2015, as compared to 1.70% at December 2014. The decrease in the adversely classified loans to total loan ratio was due primarily to declines in adversely classified balances and growth in the general loan portfolio. The decrease in adversely classified balances was due primarily to several larger commercial relationships that paid off, in addition to charge-offs, upgrades and principal payments, partially offset by additional credit downgrades during the period. These same factors also contributed to the declines in non-accrual and impaired balances discussed below.

Adversely classified loans that were performing but possessed potential weaknesses and, as a result, could ultimately become non-performing loans amounted to \$11.3 million at December 31, 2015 and \$11.5 million December 31, 2014. The remaining balances of adversely classified loans were non-accrual loans, amounting to \$13.4 million and \$16.9 million at December 31, 2015 and December 31, 2014, respectively. Non-accrual loans that were not adversely classified amounted to \$402 thousand and \$211 thousand at December 31, 2015 and December 31, 2014, respectively, and primarily represented the guaranteed portions of non-performing Small Business Administration loans.

The following table sets forth information regarding non-performing assets, TDR loans and delinquent loans 60-89 days past due as to interest or principal, held by the Company at the dates indicated:

	December 31,					
(Dollars in thousands)	2015	2014	2013	2012	2011	
Commercial real estate	\$8,506	\$9,714	\$10,561	\$12,608	\$14,060	
Commercial and industrial	4,323	5,950	5,743	6,993	9,696	
Commercial construction	335	447	1,118	743	727	
Residential	366	763	633	862	850	
Home equity	288	245	281	390	536	
Consumer	19	16	7	—	6	
Total Non-accrual loans	13,837	17,135	18,343	21,596	25,875	
Overdrafts > 90 days past due	8	1	3	5	1	
Total non-performing loans	13,845	17,136	18,346	21,601	25,876	
Other real estate owned	—	861	114	500	1,445	
Total non-performing assets	\$13,845	\$17,997	\$18,460	\$22,101	\$27,321	
Total Loans	\$1,859,962	\$1,672,604	\$1,524,056	\$1,359,655	\$1,245,428	
Accruing TDR loans not included above	\$10,053	\$11,943	\$11,438	\$16,039	\$12,442	
Delinquent loans 60-89 days past due	\$2,021	\$1,707	\$2,638	\$1,184	\$3,026	
Non-performing loans to total loans	0.74	% 1.02	% 1.20	% 1.59	% 2.08	%
Non-performing assets to total assets	0.61	% 0.89	% 1.00	% 1.33	% 1.83	%
Loans 60-89 days past due to total loans	0.11	% 0.10	% 0.17	% 0.09	% 0.24	%
Adversely classified loans to total loans	1.33	% 1.70	% 1.83	% 2.53	% 3.03	%

The \$3.3 million net decrease in total non-performing loans, and the resulting decrease in the ratio of non-performing loans as a percentage of total loans outstanding, was due primarily to net decreases due to payoffs, paydowns and upgrades within the commercial real estate (\$1.2 million) and the commercial and industrial (\$1.6 million) portfolios and growth in the loan portfolio. The majority of non-accrual loans were also carried as impaired loans during the periods and the changes since December 31, 2014 are discussed further below.

Total impaired loans amounted to \$23.7 million and \$29.3 million at December 31, 2015 and December 31, 2014, respectively. Total accruing impaired loans amounted to \$10.1 million and \$12.5 million at December 31, 2015 and December 31, 2014,

respectively, while non-accrual impaired loans amounted to \$13.6 million and \$16.7 million as of December 31, 2015 and December 31, 2014, respectively.

In management's opinion, the majority of impaired loan balances at December 31, 2015 were supported by expected future cash flows or, for those collateral dependent loans, the net realizable value of the underlying collateral. Based on management's assessment at December 31, 2015, impaired loans totaling \$19.1 million required no specific reserves and impaired loans totaling \$4.6 million required specific reserve allocations of \$1.8 million. At December 31, 2014, impaired loans totaling \$21.9 million required no specific reserves and impaired loans totaling \$7.4 million required specific reserve allocations of \$2.2 million. Management closely monitors these relationships for collateral or credit deterioration.

Total TDR loans, included in the impaired loan figures above as of December 31, 2015 and December 31, 2014, were \$17.1 million and \$19.5 million, respectively. TDR loans included in non-performing loans amounted to \$7.1 million and \$7.5 million at December 31, 2015 and December 31, 2014, respectively. TDR loans on accrual status amounted to \$10.1 million and \$11.9 million at December 31, 2015 and December 31, 2014, respectively. The Company continues to work with commercial relationships and enters into loan modifications to the extent deemed to be necessary or appropriate to seek the best mutual outcome given the current economic environment.

The Company carried no OREO at December 31, 2015, compared to \$861 thousand comprised of 3 property at December 31, 2014. During 2015, no properties were added to OREO; there were 3 sales with gains of \$154 thousand, and no subsequent write-downs on OREO during 2015. There were no in gains on OREO sales and no subsequent write downs in 2014.

Management believes that the loan portfolio continued to experience a level of modest credit stabilization during the 2015 period. However, management believes that the general credit profile of the portfolio and individual commercial relationships will continue to be affected by lagging effects that the economic environment has had on the regional and local commercial markets.

Allowance for Loan Losses

On a quarterly basis, management prepares an estimate of the allowance necessary to cover estimated credit losses. The allowance for loan losses is an estimate of probable credit risk inherent in the loan portfolio as of the specified balance sheet dates. The Company maintains the allowance at a level that it deems adequate to absorb all reasonably anticipated probable losses from specifically known and other credit risks associated with the portfolio.

In making its assessment on the adequacy of the allowance, management considers several quantitative and qualitative factors that could have an effect on the credit quality of the portfolio, including individual assessment of larger and high risk credits, delinquency trends and the level of non-performing loans, impaired and restructured loans, net charge-offs, the growth and composition of the loan portfolio, expansion in geographic market area, the experience level of lenders and changes in underwriting criteria, and the strength of the local and national economy, among other factors. Except for loans specifically identified as impaired, as discussed above, the estimate is a two-tiered approach that allocates loan loss reserves to "regulatory problem asset" loans by classified credit rating and to non-classified loans by credit type. The general loss allocations take into account the quantitative historic loss experience, qualitative factors such as those identified above, as well as regulatory guidance and industry data. The allowance for loan losses is established through a provision for loan losses, which is a direct charge to earnings. Loan losses are charged against the allowance when management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged off are credited to the allowance.

Purchased residential loans were initially booked at fair market value and, in accordance with accounting guidance, do not carry an initial allowance for loan losses. Management will continue to closely monitor this portfolio of

non-classified loans for estimated credit loss under general loss allocations taking into account the loss experience as well as the quantitative and qualitative factors identified above.

Management closely monitors the credit quality of individual delinquent and non-performing relationships, industry concentrations, the local and regional real estate market and current economic conditions. The level of delinquent and non-performing assets is largely a function of economic conditions and the overall banking environment. Despite prudent loan underwriting, adverse changes within the Company's market area, or deterioration in the local, regional or national economic conditions could negatively impact the Company's level of non-performing assets in the future.

The allowance for loan losses to total loans ratio was 1.56% at December 31, 2015 compared to 1.62% at December 31, 2014. The decline in the overall allowance to total loan ratio at December 31, 2015 primarily resulted from the increase in the outstanding loan balances and a reduction in specific reserves and reflects the generally improving credit quality of the loan

portfolio in the current period due, in part, to improved economic conditions. Based on the foregoing, as well as management's judgment as to the existing credit risks inherent in the loan portfolio, the Company believes that its allowance for loan losses is adequate to absorb probable losses from specifically known and other credit risks associated with the portfolio as of December 31, 2015.

The following table summarizes the activity in the allowance for loan losses for the periods indicated:

(Dollars in thousands)	Years Ended December 31,				
	2015	2014	2013	2012	2011
Balance at beginning of year	\$27,121	\$26,967	\$24,254	\$23,160	\$19,415
Provision charged to operations	3,267	1,395	3,279	2,750	5,197
Recoveries on charged-off loans:					
Commercial real estate	74	21	96	29	124
Commercial and industrial	279	616	80	461	148
Commercial construction	25	66	78	2	4
Residential mortgage	—	—	128	10	6
Home equity	15	1	21	2	—
Consumer	16	31	12	15	12
Total recoveries	\$409	\$735	\$415	\$519	\$294
Charged-off loans:					
Commercial real estate	133	345	206	276	603
Commercial and industrial	1,571	1,363	670	1,388	1,075
Commercial construction	—	134	—	156	—
Residential mortgage	—	46	36	185	3
Home equity	—	27	44	140	—
Consumer	85	61	25	30	65
Total charged-off	\$1,789	\$1,976	\$981	\$2,175	\$1,746
Net loans charged-off	\$1,380	\$1,241	\$566	\$1,656	\$1,452
Balance at December 31	\$29,008	\$27,121	\$26,967	\$24,254	\$23,160
Average loans outstanding	\$1,740,962	\$1,586,062	\$1,438,556	\$1,281,994	\$1,186,674
Net loans charged-off to average loans	0.08	% 0.08	% 0.04	% 0.13	% 0.12
Total loans	\$1,859,962	\$1,672,604	\$1,524,056	\$1,359,655	\$1,245,428
Allowance to total loans	1.56	% 1.62	% 1.77	% 1.78	% 1.86
Recoveries to charge-offs	22.86	% 37.20	% 42.30	% 23.86	% 16.84
Net loans charged-off to allowance	4.76	% 4.58	% 2.10	% 6.83	% 6.27

The following table sets forth the allocation of the Company's allowance for loan losses among the categories of loans and the percentage of loans in each category to gross loans for the periods ending on the respective dates indicated:

	December 31, 2015		2014		2013		2012		2011	
(Dollars in thousands)	Allowance allocation	Loan category as % of gross loans	Allowance allocation	Loan category as % of gross loans	Allowance allocation	Loan category as % of gross loans	Allowance allocation	Loan category as % of gross loans	Allowance allocation	Loan category as % of gross loans
Comm'l real estate	\$13,514	50.3 %	\$12,664	51.6 %	\$13,174	53.8 %	\$11,793	52.2 %	\$10,855	52.2 %
Comm'l industrial	9,758	24.7 %	9,245	24.1 %	8,365	23.4 %	7,297	24.1 %	7,568	24.9 %
Comm'l constr.	3,905	10.9 %	3,384	10.0 %	3,493	8.6 %	3,456	8.9 %	3,013	9.4 %
Resid: mortg, cnstr and HELOC's	1,601	13.5 %	1,597	13.7 %	1,710	13.6 %	1,582	14.4 %	1,610	13.1 %
Consumer	230	0.6 %	231	0.6 %	225	0.6 %	126	0.4 %	114	0.4 %
Total	\$29,008	100.0 %	\$27,121	100.0 %	\$26,967	100.0 %	\$24,254	100.0 %	\$23,160	100.0 %

The allocation of the allowance for loan losses above reflects management's judgment of the relative risks of the various categories of the Company's loan portfolio. This allocation should not be considered an indication of the future amounts or types of possible loan charge-offs.

See Note 4 "Allowance for Loan Losses" to the Company's Consolidated Financial Statements, contained in Item 8, for further information regarding credit quality and the allowance for loan losses.

Bank Owned Life Insurance ("BOLI")

The Company has purchased BOLI as an investment vehicle, utilizing the earnings on BOLI to offset the cost of the Company's benefit plans. The cash surrender value of BOLI was \$28.0 million and \$16.3 million at December 31, 2015 and 2014, respectively. The increase in 2015 is primarily attributable to additional BOLI purchased equaling \$11.4 million.

Further information regarding the Company's BOLI can be found in Item (k) in Note 1, "Summary of Significant Accounting Policies," and information on the Company's retirement benefit plans is contained in Note 10, "Employee Benefit Plans," under the heading "Supplemental Life Insurance" both of which are located in the notes to the Company's consolidated financial statements in Item 8 below.

Deposits

Total deposits increased \$249.6 million, or 14%, as of December 31, 2015 compared to December 31, 2014. As of December 31, 2015, deposits (excluding brokered deposits) increased \$228.0 million, or 14%, since December 31, 2014. Total deposits as a percentage of total assets were 88% at December 31, 2015 and 87% at December 31, 2014. Non-brokered deposit growth was noted primarily within the checking category.

The following table sets forth deposit balances by certain categories at the dates indicated and the percentage of each deposit category to total deposits.

(Dollars in thousands)	December 31, 2015			December 31, 2014			December 31, 2013	
	Amount	% of Total		Amount	% of Total		Amount	% of Total
Non-interest bearing demand deposits	\$570,589	28.3	%	\$470,025	26.6	%	\$435,465	26.6
Interest bearing checking	313,674	15.5	%	253,126	14.3	%	222,837	13.6
Total checking	884,263	43.8	%	723,151	40.9	%	658,302	40.2
Savings	167,304	8.3	%	149,940	8.5	%	150,215	9.2
Money Markets	692,114	34.3	%	631,676	35.7	%	575,825	35.2
Total savings/money markets	859,418	42.6	%	781,616	44.2	%	726,040	44.4
Certificates of deposit (CDs)	167,697	8.3	%	178,594	10.1	%	200,083	12.2
Total non-brokered deposits (1)	1,911,378	94.7	%	1,683,361	95.2	%	1,584,425	96.8
Brokered deposits	106,770	5.3	%	85,185	4.8	%	51,567	3.2
Total deposits	\$2,018,148	100.0	%	\$1,768,546	100.0	%	\$1,635,992	100.0

(1) Includes reciprocal money market deposits and CDs received from participating banks in nationwide networks as a result of our customers electing to participate in programs to obtain full FDIC insurance. Essentially, the equivalent of the original deposit comes back to the Company as non-brokered deposits within the appropriate category under total deposits on the balance sheet.

Checking deposits, a strong source of low-cost funding for the Company, increased \$161.1 million, or 22%, through December 31, 2015 compared to December 31, 2014. During the same period, savings and money market accounts increased by \$77.8 million, or 10% at December 31, 2015 compared to December 31, 2014, primarily in money market accounts. The increases in non-brokered deposits were attributed to sales and marketing efforts, market expansion and general inflows of funds into the deposit marketplace.

Year-end balances of CDs decreased by \$10.9 million, or 6%, as the rates on term products continued to be low relative to other, more liquid deposit product alternatives.

The following table shows the scheduled maturities of certificates of deposits greater than \$250,000.

(Dollars in thousands)	December 31, 2015	December 31, 2014
Due in three months or less	\$12,315	13,264
Due in greater than three months through six months	5,672	9,568
Due in greater than six months through twelve months	10,919	6,216
Due in greater than twelve months	8,798	8,167
Total certificates of deposit	\$37,704	37,215

Wholesale funding, which includes brokered deposits and borrowed funds, amounted to \$160.4 million at December 31, 2015, compared to \$144.1 million at December 31, 2014, an increase of \$16.4 million, or 11%, primarily due to the Company's strong loan growth in the fourth quarter of 2015.

From time to time, management utilizes brokered deposits as cost effective wholesale funding sources to support continued loan growth and as part of the Company's asset-liability management strategy to protect against rising rates. Brokered deposits may be comprised of overnight money market deposits and selected term CDs gathered from nationwide bank networks or from large money center banks; however, at December 31, 2015, December 31, 2014 and December 31, 2013, brokered

deposits were comprised solely of CDs. For the year ended December 31, 2015, brokered CDs increased \$21.6 million, or 25%, over the prior year. Brokered CDs outstanding at December 31, 2015 had a weighted average remaining life of approximately 1.4 years.

The table below sets forth a comparison of the Company's average deposits and average rates paid for the periods indicated, as well as the percentage of each deposit category to total average deposits. The annualized average rate on total deposits reflects both interest bearing and non-interest bearing deposits.

(Dollars in thousands)	Year ended December 31, 2015			2014			2013		
	Average Balance	Avg Rate	% of Total	Average Balance	Avg Rate	% of Total	Average Balance	Avg Rate	% of Total
Non-interest demand	\$535,583	—	% 28.0	% \$456,865	—	% 26.5	% \$410,016	—	% 26.4