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

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

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

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

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (Do not check if smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) o Yes ý 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
	PART I	
Item 1	Business	3
Item 1A	Risk Factors	24
Item 1B	Unresolved Staff Comments	33
Item 2	Properties	33
Item 3	Legal Proceedings	33
Item 4	Mine Safety Disclosures	33
	PART II	
Item 5	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
Item 6	Selected Financial Data	37
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	71
Item 8	Financial Statements and Supplementary Data	73
Item 9	Changes In and Disagreements with Accountants on Accounting and Financial Disclosure	132
Item 9A	Controls and Procedures	132
Item 9B	Other Information	132
	Part III	
Item 10	Directors, Executive Officers and Corporate Governance	132
Item 11	Executive Compensation	132
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	132
Item 13	Certain Relationships and Related Transactions, and Director Independence	132
Item 14	Principal Accounting Fees and Services	132
	Part IV	
Item 15	Exhibits, Financial Statement Schedules	133
	Signature page	136

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.

17

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.

18

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 localize 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.

	Period Ending					
Index	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

(Dollars in thousands, except per share data)	Year Ended December 31, 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 %

37

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 conta
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.

38

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	%

(1) These categories may include investments issued or guaranteed by government sponsored enterprises such as 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:

	Under 1 Year		>1 – 5 Years		>5 – 10 Years		Over 10 Years	
(Dollars in thousands)	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
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:

	Years Ended December 31,				
(Dollars in thousands)	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 Amount	% of Total	December 31, 2014 Amount	% of Total	December 31, 2013 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.

	Year ended December 31,								
	2015			2014			2013		
(Dollars in thousands)	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 %
Interest checking	283,579	0.07 %	14.9 %	222,120	0.05 %	12.9 %	193,362	0.06 %	12.5 %
Savings	166,358	0.12 %	8.7 %	153,633	0.13 %	8.9 %	168,922	0.16 %	10.9 %
Money market	639,800	0.27 %	33.5 %	616,004	0.30 %	35.8 %	529,637	0.35 %	34.1 %
Total interest bearing non-term deposits	1,089,737	0.20 %	57.1 %	991,757	0.22 %	57.6 %	891,921	0.25 %	57.5 %
Certificates of deposit	171,213	0.59 %	9.0 %	192,567	0.58 %	11.2 %	215,363	0.69 %	13.9 %
Total non-brokered deposits	1,796,533	0.18 %	94.1 %	1,641,189	0.20 %	95.3 %	1,517,300	0.24 %	97.8 %
Brokered deposits	112,930	0.81 %	5.9 %	80,818	0.93 %	4.7 %	34,331	1.05 %	2.2 %
Total	$1,909,463	0.21 %	100.0 %	$1,722,007	0.23 %	100.0 %	$1,551,631	0.26 %	100.0 %

Borrowed Funds and Subordinated Debt

Total borrowed funds, consisting of FHLB and other borrowings, decreased $5.2 million, or 9%, since the prior year.

The following table sets forth borrowed funds by categories at the dates indicated and the percentage of each category to total borrowed funds.

	December 31, 2015		December 31, 2014		December 31, 2013	
(Dollars in thousands)	Amount	%	Amount	%	Amount	%
FHLB borrowings	$40,671	75.8 %	$58,900	100 %	$36,534	100 %
Other borrowings	13,000	24.2 %	—	—	—	—
Total borrowed funds	$53,671	100 %	$58,900	100 %	$36,534	100 %

The Company's primary borrowing source is the FHLB, but the Company may choose to borrow from other established business partners. Outstanding borrowings from the FHLB may be comprised of overnight or short-term borrowings and term advances linked to outstanding commercial loans under various community reinvestment programs of the FHLB.

"Other borrowings" represents overnight advances from the FRB or borrowings from correspondent banks. At December 31, 2015, other borrowings was comprised of an overnight borrowing with a correspondent bank.

57

The contractual maturity distribution as of December 31, 2015, of borrowed funds with the weighted average cost for each category is set forth below:

	Overnight			>3 - 12 months		
(Dollars in thousands)	Balance	Rate		Balance	Rate	
FHLB Borrowings	$40,000	0.51	%	$671	0.70	%
Other Borrowings	13,000	0.60	%	—	—	
Total borrowed funds	$53,000	0.53	%	$671	0.70	%

Maximum FHLB and other borrowings outstanding at any month end during 2015, 2014, and 2013 were $53.7 million, $58.9 million and $57.4 million, respectively.

The table below shows the comparison of the Company’s average borrowed funds and average rates paid for the periods indicated.

	Year ended December 31,								
	2015			2014			2013		
(Dollars in thousands)	Average Balance	Average Cost		Average Balance	Average Cost		Average Balance	Average Cost	
FHLB advances	$10,731	0.36	%	$12,085	0.31	%	$24,385	0.39	%
Other borrowed funds	36	0.61	%	28	0.56	%	14	0.46	%
Total borrowed funds	$10,767	0.36	%	$12,113	0.31	%	$24,399	0.39	%

At December 31, 2015, the Bank had the ability to borrow additional funds from the FHLB of up to approximately $370 million and capacity with the FRB of approximately $100 million.

The Company also had $14.8 million of outstanding subordinated debt at December 31, 2015. At both December 31, 2014 and December 31, 2013 the Company had $10.8 million in subordinated debt.

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 Notes on the balance sheet in accordance with recent accounting guidance which 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 and December 31, 2013 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.

Liquidity

Liquidity is the ability to meet cash needs arising from, among other things, fluctuations in loans, investments, deposits and borrowings. Liquidity management is the coordination of activities so that cash needs are anticipated and met readily and efficiently. The Company's liquidity policies are set and monitored by ALCO. 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's asset-liability objectives are to engage in sound balance sheet management strategies, maintain liquidity, provide and enhance access to a diverse and stable source of funds, provide competitively priced and attractive products to customers and conduct funding at a low cost relative to current market conditions. Funds gathered are used to support current commitments, to fund earning asset growth, and to take advantage of selected leverage opportunities.

The Company's liquidity is maintained by projecting cash needs, balancing maturing assets with maturing liabilities, monitoring various liquidity ratios, monitoring deposit flows, maintaining cash flow within the investment portfolio, and maintaining wholesale funding resources.

At December 31, 2015, the Company's wholesale funding sources primarily included borrowing capacity at the FHLB and brokered deposits. In addition, the Company maintains fed fund purchase arrangements with correspondent banks and has access to the FRB Discount Window.

Management believes that the Company has adequate liquidity to meet its obligations. However, 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.

The Company has in the past also increased capital and liquidity by offering shares of the Company's common stock for sale to its existing stockholders and new investors and through the issuance of subordinated debt.

For additional information on the Company's capital planning, see the section entitled “Capital Resources” contained in Item 1 “Business.”

Capital Adequacy

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. The Company's capital policies and capital levels are monitored by ALCO and capital planning is reviewed at least annually by the Executive Committee of the Board of Directors. 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.

Failure to meet minimum capital requirements can result in certain mandatory and possible additional discretionary, supervisory actions by regulators, which, if undertaken, could have a material adverse effect on the Company’s consolidated financial condition. At December 31, 2015, the capital levels of both the Company and the Bank complied with all applicable minimum capital requirements of the Federal Reserve Board and the FDIC, respectively, and both qualified as “well capitalized” under applicable regulation of the Federal Reserve Board and FDIC.

For additional information regarding the capital requirements applicable to the Company and the Bank and their respective capital levels at December 31, 2015, see the section entitled “Capital Resources” and "Capital Requirements" under the heading "Supervision and Regulation" contained in Item 1, “Business” and Note 9, “Stockholders’ Equity,” to the Company's consolidated financial statements contained in Item 8.

Contractual Obligations and Commitments

The Company is required to make future cash payments under various contractual obligations. These obligations typically include the repayment of short and long-term borrowings and long-term subordinated debt, payment of fixed-cash supplemental retirement benefits, payments under non-cancelable operating leases for various premises, and payments due under agreements to purchase goods and future services from a variety of vendors.

The following table summarizes the contractual cash obligations at December 31, 2015.

	Payments Due By Period				
(Dollars in thousands)	Total	With-in 1 Year	>1 – 3 Years	>3 – 5 Years	After 5 Years
Contractual Cash Obligations:					
FHLB borrowings	$40,671	$40,671	$—	$—	$—
Other borrowings	13,000	13,000	—	—	—
Subordinated debt	15,000	—	—	—	15,000
Supplemental retirement plans	3,594	276	552	552	2,214
Operating lease obligations	10,464	1,476	2,587	1,301	5,100
Vendor contracts	4,345	2,324	1,347	622	52
Total contractual obligations	$87,074	$57,747	$4,486	$2,475	$22,366

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

The following table summarizes the contractual commitments at December 31, 2015.

	Commitment Expiration — By Period				
(Dollars in thousands)	Total	With-in 1 Year	>1 – 3 Years	>3 – 5 Years	After 5 Years
Other Commitments:					
Unadvanced loans and lines	$565,656	$397,075	$79,000	$19,587	$69,994
Commitments to originate loans	48,641	48,641	—	—	—
Letters of credit	22,712	15,551	1,267	74	5,820
Commitments to originate loans for sale	1,516	1,516	—	—	—
Commitments to sell loans	3,225	3,225	—	—	—
Total commitments	$641,750	$466,008	$80,267	$19,661	$75,814

Investment Assets Under Management

The Company provides a wide range of investment advisory and wealth management services, including brokerage, trust, and investment management (together, “investment advisory services”). The market values of the related assets managed are affected by fluctuations in the financial markets. Also included in the investment assets under management total are commercial sweep accounts that are invested in third-party money market mutual funds. Investment assets under management and loans serviced for others are not carried as assets on the Company's balance sheet.

The following table sets forth the fair market value of investment assets under management by certain categories at the dates indicated.

	December 31,		
(Dollars in thousands)	2015	2014	2013
Investment advisory and management services	$519,041	$528,718	$537,545
Brokerage and management services	157,171	144,396	127,472
Total investment advisory assets	676,212	673,114	665,017

Commercial sweep accounts	2,165	1,490	2,313
Investment assets under management	$678,377	$674,604	$667,330

Results of Operations

COMPARISON OF YEARS ENDED DECEMBER 31, 2015 AND 2014

Unless otherwise indicated, the reported results are for the year ended December 31, 2015 with the “comparable year” or “prior year” being the year ended December 31, 2014. Average yields are presented on a tax equivalent basis.

Net Income

The Company earned net income in 2015 of $16.1 million compared to $14.7 million for 2014, an increase of 10%. Diluted earnings per share for 2015 was $1.55 compared to $1.44 for the prior year, which represented an increase of 8%.

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.

Net Interest Income

The Company’s net interest income for the year ended December 31, 2015 was $78.3 million compared to $71.2 million for the year ended December 31, 2014, an increase of $7.1 million, or 10%. The increase in net interest income over the comparable year was due primarily to loan growth, partially offset by a decrease in margin.

Net Interest Margin

The Company's margin was 3.97% for the year ended December 31, 2015 compared to 4.02% for the prior year. Margin was 3.97% for the quarter ended December 31, 2015, which is relatively consistent with the quarterly margin at September 30, 2015 of 3.98%.

Rate/Volume Analysis

The following table sets forth the extent to which changes in interest rates and changes in the average balances of interest-earning assets and interest-bearing liabilities have affected interest income and expense during the years ended December 31, 2015 and 2014. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) volume (change in average portfolio balance multiplied by prior year average yield); (2) interest rate (change in average yield multiplied by prior year average balance); and (3) rate and volume (the remaining difference).

	December 31, 2015 vs 2014				2014 vs 2013			
		Increase (Decrease) due to				Increase (Decrease) due to		
(Dollars in thousands)	Net Change	Volume	Rate	Rate/ Volume	Net Change	Volume	Rate	Rate/ Volume
Interest Income								
Loans and loans held for sale	$6,092	$7,054	$(862)	$(100)	$4,181	$7,012	$(2,383)	$(448)
Investment securities	842	1,156	(173)	(141)	1,123	760	628	(265)
Other interest earning assets (1)	64	34	24	6	47	(16)	85	(22)
Total interest earning assets	6,998	8,244	(1,011)	(235)	5,351	7,756	(1,670)	(735)
Interest Expense								
Interest checking, savings, and money market	(31)	216	(198)	(49)	(56)	250	(268)	(38)
Certificates of deposit	(94)	(124)	19	11	(368)	(157)	(237)	26
Brokered CDs	165	299	(97)	(37)	394	487	(41)	(52)
Borrowed funds	—	(4)	6	(2)	(58)	(48)	(19)	9
Subordinated debt	(106)	523	(436)	(193)	—	—	—	—
Total interest-bearing funding	(66)	910	(706)	(270)	(88)	532	(565)	(55)
Change in net interest income	$7,064	$7,334	$(305)	$35	$5,439	$7,224	$(1,105)	$(680)

(1) Other interest-earning assets includes interest-earning deposits, fed funds sold, and dividends on FHLB Stock.

The table on the following page presents the Company’s average balances, net interest income and average rates for the years ended December 31, 2015, 2014 and 2013.

	Average Balances, Interest and Average Yields								
	Year ended December 31, 2015			Year ended December 31, 2014			Year ended December 31, 2013		
(Dollars in thousands)	Average Balance	Interest	Average Yield(1)	Average Balance	Interest	Average Yield (1)	Average Balance	Interest	Average Yield(1)
Assets:									
Loans and loans held for sale (2)	$1,742,017	$77,946	4.52 %	$1,587,199	$71,854	4.58 %	$1,441,522	$67,673	4.74 %
Investments (3)	258,441	5,346	2.66 %	216,241	4,504	2.74 %	184,590	3,381	2.40 %
Other Interest Earning Assets (4)	30,966	179	0.58 %	23,958	115	0.48 %	31,631	68	0.21 %
Total interest earnings assets	2,031,424	83,471	4.23 %	1,827,398	76,473	4.31 %	1,657,743	71,122	4.40 %
Other assets	93,184			89,345			86,149		
Total assets	$2,124,608			$1,916,743			$1,743,892		
Liabilities and stockholders' equity:									
Interest checking, savings and money market	$1,089,737	2,130	0.20 %	$991,757	2,161	0.22 %	$891,921	2,217	0.25 %
Certificates of deposit	171,213	1,018	0.59 %	192,567	1,112	0.58 %	215,363	1,480	0.69 %
Brokered CDs	112,930	920	0.81 %	80,818	755	0.93 %	34,331	361	1.05 %
Borrowed funds	10,767	38	0.36 %	12,113	38	0.31 %	24,399	96	0.39 %
Subordinated debt(5)	15,631	1,071	6.85 %	10,825	1,177	10.88 %	10,825	1,177	10.88 %
Total interest-bearing funding	1,400,278	5,177	0.37 %	1,288,080	5,243	0.41 %	1,176,839	5,331	0.45 %
Net interest rate spread			3.86 %			3.90 %			3.95 %
Demand deposits	535,583	—	—	456,865	—	—	410,016	—	—
Total deposits, borrowed funds and subordinated debt	1,935,861	5,177	0.27 %	1,744,945	5,243	0.30 %	1,586,855	5,331	0.34 %
Other liabilities	14,998			12,600			11,922		
Total liabilities	1,950,859			1,757,545			1,598,777		
Stockholders' equity	173,749			159,198			145,115		
Total liabilities and stockholders' equity	$2,124,608			$1,916,743			$1,743,892		
Net interest income		$78,294			$71,230			$65,791	
Net interest margin (tax equivalent)			3.97 %			4.02 %			4.07 %

(1) Average yields are presented on a tax equivalent basis. The tax equivalent effect associated with loans and investments, which was not included in the interest amount above, was $2.4 million, $2.3 million, and $2.0 million for the years ended December 31, 2015, 2014 and 2013, respectively.

(2) Average loans and loans held for sale include non-accrual loans, and are net of average deferred loan fees.
(3) Average investments are presented at average amortized cost.
(4) Other interest earning assets includes interest-earning deposits, fed funds sold, and FHLB stock.
(5) The subordinated debt issued in January 2015 is net of average deferred debt issuance costs.

Interest and Dividend Income

Total interest and dividend income for the year ended December 31, 2015 was $83.5 million, an increase of $7.0 million, or 9%, from the prior year. The increase resulted primarily from growth of $204.0 million, or 11%, in the average balance of interest earning assets for the year ended December 31, 2015, partially offset by an 8 basis point decline in the average tax equivalent yield on interest earning assets.

Interest income on loans and loans held for sale, which accounted for the majority of interest income, increased $6.1 million, or 8%, compared to the prior period, due primarily to loan growth partially offset by a decline in loan yields. Average loan and loans held for sale balances increased $154.8 million, or 10%, compared to the prior year, and amounted to $1.74 billion for the year ended December 31, 2015, while the average yield on loans declined 6 basis points compared to the prior period and amounted to 4.52% for the year ended December 31, 2015.

Income on investment securities amounted to $5.3 million, an increase of $842 thousand, or 19%, compared to the same period in 2014. This increase resulted from an increase in the average balance of investment securities by $42.2 million, or 20%, partially offset a decline in investment yield of 8 basis points.

Income on other interest-earning assets amounted to $179 thousand, an increase of $64 thousand, or 56%, compared to the same period in 2014. This increase resulted from a $7.0 million, or 29%, increase in the average balance and to a lesser extent a 10 basis point increase in the average yield.

Interest Expense

Total interest expense amounted to $5.2 million, a decrease of $66 thousand, or 1%, compared to the prior year. The decrease resulted primarily from the issuance of $15.0 million in Notes in January 2015 at a lower rate than the Company's $10.8 million Debt that was redeemed in full in March 2015. Deposits costs were up slightly due mainly to deposit growth, which was mostly offset by lower market rates.

Interest expense on interest checking, savings and money market accounts decreased $31 thousand, or 1%, over the comparable year, resulting primarily from a decrease in the average cost of these accounts, primarily offset by an increase in average balances. The average cost of these accounts decreased 2 basis points to 0.20%, while the average balance increased $98.0 million or 10%, over the prior year.

Interest expense on CDs amounted to $1.0 million, a decrease of $94 thousand, or 8%, over the comparable period. The decrease was due primarily to decreases in the average balances by $21.4 million, or 11%, compared to the prior year.

Interest expense on brokered CDs amounted to $920 thousand, an increase of $165 thousand, or 22%, over the comparable period, due primarily to increased average balances, partially offset by a decrease of 12 basis points in the average cost. The average balances increased by $32.1 million, or 40%, compared to the same 2014 period.

Interest expense on subordinated debt amounted to $1.1 million, a decrease of $106 thousand, or 9%, over the same period in 2014. The average rate declined to 6.85% as a result of the lower rate on the Notes issued in January 2015. Average balances increased $4.8 million, or 44%, due to the higher dollar value of the Notes issued in January 2015, compared to the amount of the Company's Debt that was redeemed in full in March 2015.

The average balance of non-interest bearing demand deposits increased $78.7 million, or 17%, to $535.6 million at December 31, 2015. The average balance of these accounts represented 28% and 27% of total average deposits for the years ended December 31, 2015 and 2014, respectively. Non-interest bearing demand deposits are an important

component of the Bank’s core funding strategy.

Provision for Loan Losses

The provision for loan losses was $3.3 million and $1.4 million for the years ended December 31, 2015 and 2014, 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. 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. The provision reflects management's estimate of the loan loss allowance necessary to support the level of credit risk inherent in the portfolio during the period.

See "Credit Risk," "Asset Quality," and "Allowance for Loan Losses" under the heading, "Financial Condition," in this Item 7 above, for further information regarding the provision for loan losses.

Non-Interest Income

Non-interest income for the year ended December 31, 2015 increased $535 thousand, or 4%, compared to 2014. The significant changes are discussed below.

The following table sets forth the components of non-interest income and the related changes for the periods indicated.

	Year Ended December 31,				
(Dollars in thousands)	2015	2014	Change	% Change	
Investment advisory fees	$4,750	$4,618	$132	3	%
Deposit and interchange fees	4,879	5,036	(157)	(3)	%
Income on bank-owned life insurance, net	553	413	140	34	%
Net gains on sales of investment securities	1,828	1,619	209	13	%
Gains on sales of loans	492	406	86	21	%
Other income	2,465	2,340	125	5	%
Total non-interest income	$14,967	$14,432	$535	4	%

Investment advisory fee income increased due primarily to new business.

Deposit and interchange fees decreased due primarily to a decline in overdraft fee income, partially offset by increased interchange fee income. Deposit and interchange fees include servicing fees received on customer deposit accounts and ATM interchange income.

Income on bank-owned life insurance increased due primarily to the purchase of additional BOLI investments in 2015.

Net gains on security sales are typically driven by market or strategic opportunities.

Other income for 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.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2015 increased $3.7 million, or 6%, compared to 2014. The significant changes are discussed below:

The following table sets forth the components of non-interest expense and the related changes for the periods indicated.

	Year Ended December 31,			
(Dollars in thousands)	2015	2014	Change	% Change
Salaries and employee benefits	$40,285	$38,029	$2,256	6 %
Occupancy and equipment expenses	7,308	6,515	793	12 %
Technology and telecommunications expenses	5,710	5,167	543	11 %
Advertising and public relations expenses	2,719	2,928	(209)	(7)%
Audit, legal and other professional fees	1,785	1,695	90	5 %
Deposit insurance premiums	1,214	1,169	45	4 %
Supplies and postage expenses	988	1,053	(65)	(6)%
Investment advisory and custodial expenses	328	552	(224)	(41)%
Other operating expenses	5,395	4,923	472	10 %
Total non-interest expense	$65,732	$62,031	$3,701	6 %

Salaries and employee benefits increased to support the Company's strategic growth and market expansion initiatives since the prior year, including increases in performance-based compensation. Additionally, 2014 included costs from the effect of discount rate changes on certain accrued benefit plans.

Occupancy and equipment expenses increased due primarily to the expansion of our main campus in Lowell, increased utility costs, and investments in maintaining our facilities.

Technology and telecommunications expense increased primarily as a result of investments to support our strategic growth, network infrastructure and security, improve our service capabilities and enhance business continuity.

Advertising and public relations expenses decreased due primarily to the timing of corporate community events, partially offset by increased costs to support the Company's expansion and business development efforts.

Investment advisory and custodial expenses decreased due primarily to a reduction in third party institutional custodian charges.

Other non-interest expense increased due primarily to the prepayment fees associated with the redemption of the Trust Preferred Securities as noted above.

Income Tax Expense

The effective tax rate for the year ended December 31, 2015 was 33.4% and for the year ended December 31, 2014 was 34.1%. Refer to Note 12 "Income Taxes" to the Company's consolidated financial statements, contained in Item 8, for additional information about the Company's taxes.

Results of Operations

COMPARISON OF YEARS ENDED DECEMBER 31, 2014 AND 2013

Unless otherwise indicated, the reported results are for the year ended December 31, 2014 with the “comparable year” or “prior year” being the year ended December 31, 2013. Average yields are presented on a tax equivalent basis.

Net Income

The Company earned net income in 2014 of $14.7 million compared to $13.5 million for 2013, an increase of 8%. Diluted earnings per share for 2014 was $1.44 compared to $1.36 for the prior year, which represented an increase of 6%.

In 2014, the Company's financial results included increases in net interest income, non-interest income, and non-interest expenses, as compared to 2013. Net income also benefited from an increase in net gains on sales of investment securities and a lower loan loss provision, as compared to the year ended December 31, 2013.

Net Interest Income

The Company’s net interest income for the year ended December 31, 2014 was $71.2 million compared to $65.8 million for the year ended December 31, 2013, an increase of $5.4 million, or 8%. The increase in net interest income over the comparable year was due primarily to loan growth, partially offset by a decrease in margin.

Net Interest Margin

The Company's margin was 4.02% for the year ended December 31, 2014 compared to 4.07% for the prior year. Net interest margin was 4.01% for the quarter ended December 31, 2014, which is relatively consistent with the quarterly margin of 4.02% at September 30, 2014 and down slightly from 4.04% at December 31, 2013.

Interest and Dividend Income

Total interest and dividend income for the year ended December 31, 2014 was $76.5 million, an increase of $5.4 million, or 8%, from the prior year. The increase resulted primarily from growth of $169.7 million, or 10%, in the average balance of interest earning assets for the year ended December 31, 2014, partially offset by a 9 basis point decline in the average tax equivalent yield on interest earning assets.

Interest income on loans and loans held for sale, which accounted for the majority of interest income, increased $4.2 million, or 6%, compared to the prior period, due primarily to loan growth partially offset by a decline in loan yields. Average loan and loans held for sale balances increased $145.7 million, or 10%, compared to the prior year, and amounted to $1.59 billion for the year ended December 31, 2014, while the average yield on loans declined 16 basis points compared to the prior period and amounted to 4.58% for the year ended December 31, 2014.

Income on investment securities amounted to $4.5 million, an increase of $1.1 million, or 33%, compared to the same period in 2013. This increase resulted from both an increase in the average balance of investment securities by $31.7 million, or 17%, and an increase in investment yield of 34 basis points, due primarily to a shift from shorter duration securities to longer duration securities as part of the Bank's asset-liability management strategy.

Interest Expense

Total interest expense amounted to $5.2 million, a decrease of $88 thousand, or 2%, compared to the prior year. The decrease resulted primarily from a 4 basis point decrease in the average cost of funding due primarily to the reduction in deposit market interest rates over the period, partially offset by an increase in the average balances, primarily wholesale funding, over the comparable year.

Interest expense on interest checking, savings and money market accounts decreased $56 thousand, or 3%, over the comparable year, resulting primarily from a decrease in the average cost of these accounts, partially offset by an increase in average balances. The average cost of these accounts decreased 3 basis points to 0.22%, while the average balance increased $99.8 million, or 11%, over the prior year.

Interest expense on CDs amounted to $1.1 million, a decrease of $368 thousand, or 25%, over the comparable period. The decrease was due primarily to a decline in rates over the comparable period and to a lesser extent, decreases in the average balances. The average cost of CDs decreased 11 basis points, to 0.58%, for the year ended December 31, 2014 while the average balances decreased $22.8 million, or 11%, compared to the same prior period in 2013.

Interest expense on brokered deposits amounted to $755 thousand, an increase of $394 thousand over the comparable period, due primarily to increased average balances, partially offset by a decrease of 12 basis points in the average cost. The average balances increased by $46.5 million compared to the same 2013 period.

Interest expense on borrowed funds, consisting primarily of FHLB borrowings, decreased by $58 thousand, or 60%, over the prior year. The decrease was primarily attributed to the decrease in average balances by approximately $12.3 million, and to a lesser extent a decline of 8 basis points in the average costs of these borrowings.

The interest expense and average rate on junior subordinated debentures was $1.2 million and 10.88%, respectively, for both years ended December 31, 2014 and 2013.

The average balance of non-interest bearing demand deposits increased $46.8 million, or 11%, to $456.9 million at December 31, 2014. The average balance of these accounts represented 27% and 26% of total average deposits for the years ended December 31, 2014 and 2013, respectively. Non-interest bearing demand deposits are an important component of the Bank’s core funding strategy.

Provision for Loan Losses

The provision for loan losses was $1.4 million and $3.3 million for the years ended December 31, 2014 and 2013, respectively. 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. The provision reflects management’s estimate of the loan loss allowance necessary to support the level of credit risk inherent in the portfolio during the period.

See “Credit Risk," "Asset Quality,” and “Allowance for Loan Losses” under the heading, “Financial Condition,” in this Item 7 above, for further information regarding the provision for loan losses.

Non-Interest Income

Non-interest income for the year ended December 31, 2014 increased $640 thousand, or 5%, compared to 2013. The significant changes are discussed below.

The following table sets forth the components of non-interest income and the related changes for the periods indicated.

	Year Ended December 31,				
(Dollars in thousands)	2014	2013	Change	% Change	
Investment advisory fees	$4,618	$4,285	$333	8	%
Deposit and interchange fees	5,036	4,788	248	5	%
Income on bank-owned life insurance, net	413	459	(46)	(10)	%
Net gains on sales of investment securities	1,619	1,239	380	31	%
Gains on sales of loans	406	792	(386)	(49)	%
Other income	2,340	2,229	111	5	%

Total non-interest income	$14,432	$13,792	$640	5	%

Investment advisory income increased $333 thousand, or 8%, compared to the same period in the prior year, due primarily to net asset growth from changes in market values.

Deposit and interchange fees increased $248 thousand, or 5%, mainly as a result of increases in overdraft fees and interchange fees over the prior period. Deposit and interchange fees primarily include servicing fees received on customer deposit accounts and ATM interchange income.

Net gains on security sales for the year ended December 31, 2014 increased $380 thousand compared to the prior year. Investment sales are typically driven by market or strategic opportunities. Net gains resulted primarily from our equity portfolio; during 2014 one of the equity positions held in the Company's portfolio was acquired resulting in a gain of $549 thousand.

The decrease in gains on loans sales resulted primarily from a lower volume of mortgage origination activity in the first half of 2014, as a result of increasing residential mortgage rates that began in the latter half of 2013. During 2014, the Company sold $19.7 million in residential loans, compared to $42.6 million for the prior year.

Other income increased $111 thousand, or 5%, due primarily to increases in fee income from ancillary banking products and services over the prior period. The prior year also included gains of $121 thousand in OREO sales.

Non-Interest Expense

Non-interest expense for the year ended December 31, 2014 increased $6.2 million, or 11%, compared to 2013. The significant changes are discussed below:

The following table sets forth the components of non-interest expense and the related changes for the periods indicated.

	Year Ended December 31,				
(Dollars in thousands)	2014	2013	Change	% Change	
Salaries and employee benefits	$38,029	$33,551	$4,478	13	%
Occupancy and equipment expenses	6,515	6,035	480	8	%
Technology and telecommunications expenses	5,167	4,647	520	11	%
Advertising and public relations expenses	2,928	2,708	220	8	%
Audit, legal and other professional fees	1,695	1,742	(47)	(3)	%
Deposit Insurance Premiums	1,169	1,118	51	5	%
Supplies and postage expenses	1,053	967	86	9	%
Investment advisory and custodial expenses	552	540	12	2	%
Other operating expenses	4,923	4,516	407	9	%
Total non-interest expense	$62,031	$55,824	$6,207	11	%

Salaries and employee benefits increased by $4.5 million, or 13%. The increase was due primarily to the personnel and benefit costs necessary to support the Company’s strategic growth and market expansion initiatives since the prior period, including an increase in performance-based compensation. Salaries and benefits expenses also included a net cost of approximately $214 thousand compared to a net benefit of $337 thousand during 2013, due primarily to the effect of changing interest rates on certain accrued benefit plans.

Occupancy and equipment expenses increased $480 thousand, or 8%, due primarily to expansion of our branch network and main office and investments in maintaining our facilities.

Technology and telecommunications expense increased $520 thousand, or 11%, primarily as a result of investments to support our strategic growth and network infrastructure, improve our service capabilities and enhance business continuity.

Advertising and public relations expenses increased $220 thousand, or 8%, due primarily to increased costs to support the Company's expansion and business development efforts.

Other non-interest expense increased $407 thousand, or 9%, in general and administrative costs to support strategic growth initiatives, including deposit product costs and business development costs, and workout loan costs.

Income Tax Expense

The effective tax rate for the year ended December 31, 2014 was 34.1% and for the year ended December 31, 2013 was 33.9%. Refer to Note 12 "Income Taxes" to the Company's consolidated financial statements, contained in Item 8, for additional information about the Company's taxes.

Recent Accounting Pronouncements Not Yet Adopted

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU is intended to create a single source of revenue guidance which is more principles based than current revenue guidance. The guidance affects any entity that either enters into contracts with customers to transfer goods or services, or enters into contracts for the transfer of non-financial assets, unless those contracts are within the scope of other standards. In August 2015, the FASB issued ASU 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" to amend the effective date of ASU 2014-09. The amendments in ASU 2014-09 are effective for annual and interim periods within fiscal years beginning after December 15, 2017. Earlier adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the potential impact of the ASU on the Company's financial statements and results of operations.

In January 2015, the FASB issued Accounting Standards Update (ASU) 2015-01, "Income Statement-Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." This ASU will align more closely GAAP income statement presentation guidance with International Audit Standards (IAS) 1, Presentation of Financial Statements, which prohibits the presentation and disclosure of extraordinary items. The amendments in this update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The adoption of this standard is not expected to have a material impact on the Company's financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance:

- Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income;
- Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes;
- Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements;
- Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; and
- Requires a reporting organization to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk (also referred to as “own credit”) when the organization has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.

The new guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The new guidance permits early adoption of the own credit provision. The Company is currently evaluating the effects of this statement.

For information regarding recently adopted accounting pronouncements by the Company, see Item (t) in Note 1, "Summary of Significant Accounting Policies," under the heading "Recently Adopted Accounting Pronouncements."

70

Impact of Inflation and Changing Prices

The Company's asset and liability structure is substantially different from that of an industrial company in that virtually all assets and liabilities of the Company are monetary in nature. Management believes the impact of inflation on financial results depends upon the Company's ability to react to changes in interest rates and by such reaction, reduce the inflationary impact on performance. Interest rates do not necessarily move in the same direction, or at the same magnitude, as the prices of other goods and services. As discussed previously, management seeks to manage the relationship between interest-sensitive assets and liabilities in order to protect against wide net interest income fluctuations, including those resulting from inflation.

Various information shown elsewhere in this annual report will assist in the understanding of how well the Company is positioned to react to changing interest rates and inflationary trends. In particular, additional information related to the margin sensitivity analysis is contained in Item 7A below and other maturity and repricing information of the Company's investment securities, certificates of deposits and borrowed funds is contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" under the heading "Financial Condition" in this report.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Margin Sensitivity Analysis

The Company's primary market risk is interest rate risk. Oversight of interest rate risk management is the responsibility of ALCO. Annually, ALCO reviews and approves the Company's asset-liability management policy, which provides management with guidelines for controlling interest rate risk, as measured through net interest income sensitivity to changes in interest rates, within certain tolerance levels. ALCO also establishes and monitors guidelines for the Company's liquidity and capital ratios. 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's asset-liability management strategies and guidelines are reviewed on a periodic basis by management and presented and discussed with ALCO on at least a quarterly basis. These strategies and guidelines are revised based on changes in interest rate levels, general economic conditions, competition in the marketplace, the current interest rate risk position of the Company, anticipated growth and other factors.

One of the principal factors in maintaining planned levels of net interest income is the ability to design effective strategies to manage the impact of interest rate changes on future net interest income. Quarterly, management completes a net interest income sensitivity analysis, which is presented to the committee. This analysis includes a simulation of the Company's net interest income under various interest rate scenarios. Variations in the interest rate environment affect numerous factors, including prepayment speeds, reinvestment rates, maturities of investments (due to call provisions), and interest rates on various asset and liability accounts.

The Company can be subject to margin compression depending on the economic environment and the shape of the yield curve. Under the Company's current balance sheet position, the Company's margin generally performs slightly better over time in a rising rate environment, while it generally decreases in a declining rate environment and when the yield curve is flattening or inverted.

Under a flattening yield curve scenario, margin compression occurs as the spread between the cost of funding and the yield on interest earning assets narrows. Under this scenario the degree of margin compression is highly dependent on the Company's ability to fund asset growth through lower cost deposits. However, if the curve is flattening, while short-term rates are rising, the adverse impact on margin may be somewhat delayed, as increases in the Prime Rate will initially result in the Company's asset yields re-pricing more quickly than funding costs.

Under an inverted yield curve situation, shorter-term rates exceed longer-term rates, and the impact on margin is similar but more adverse than the flat curve scenario. Again, however, the extent of the impact on margin is highly dependent on the Company's balance sheet mix.

In a declining rate environment, margin compression will eventually occur as the yield on interest earning assets decreases more rapidly than decreases in funding costs. The primary causes would be the impact of interest rate decreases (including decreases in the Prime Rate) on adjustable rate loans and the fact that decreases in deposit rates may be limited or lag decreases in the Prime Rate.

Margin for the year ended December 31, 2015 declined slightly compared to the same period in 2014, due in part to an increase in lower yielding overnight Federal Reserve balances and other interest earning cash balances, as well as loans repricing and investment portfolio cash flow reinvested at lower rates due to flattening of the interest rate yield curve. Additional margin compression may occur if the yield curve continues to flatten.

At December 31, 2015, management continues to consider the Company's primary interest rate risk exposure to be margin compression that may result from changes in interest rates and/or changes in the mix of the Company's balance sheet components. This would include the mix of fixed versus variable rate loans and investments on the asset side, and higher cost versus lower cost deposits and overnight borrowings versus term borrowings and certificates of deposit on the liability side.

The following table summarizes the projected cumulative net interest income for a 24-month period as of December 31, 2015 and the percent changes compared to the rates unchanged scenario, assuming parallel yield curve shifts and gradual interest rate changes applied during the period. Although net interest income is projected to decline slightly over a 24 month period if rates rise 200 basis points, it is projected to increase in the long-term as adjustable rate loans re-price.

	December 31, 2015	
(Dollars in thousands)	Net interest income	Percentage Change
Changes in interest rates		
Rates Rise 400 Basis Points	$169,724	0.27 %
Rates Rise 200 Basis Points	167,915	(0.80)%
Rates Unchanged	169,267	—

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements

	Page
Consolidated Balance Sheets as of December 31, 2015 and 2014	74
Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013	75
Consolidated Statement of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013	76
Consolidated Statements of Changes in Stockholders' Equity for the years ended December 31, 2015, 2014 and 2013	77
Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014, and 2013	78
Notes to the Consolidated Financial Statements	79
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	130
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	131

ENTERPRISE BANCORP, INC.
Consolidated Balance Sheets

(Dollars in thousands)	December 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents:		
Cash and due from banks	$32,318	$30,044
Interest-earning deposits	19,177	10,102
Total cash and cash equivalents	51,495	40,146
Investment securities at fair value	300,358	245,065
Federal Home Loan Bank Stock	3,050	3,357
Loans held for sale	1,709	2,371
Loans, less allowance for loan losses of $29,008 at December 31, 2015 and $27,121 at December 31, 2014	1,830,954	1,645,483
Premises and equipment	30,553	30,370
Accrued interest receivable	7,790	6,733
Deferred income taxes, net	14,111	12,852
Bank-owned life insurance	28,018	16,315
Prepaid income taxes	57	770
Prepaid expenses and other assets	11,780	13,110
Goodwill	5,656	5,656
Total assets	$2,285,531	$2,022,228
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	$2,018,148	$1,768,546
Borrowed funds	53,671	58,900
Subordinated debt	14,822	10,825
Accrued expenses and other liabilities	18,287	16,441
Accrued interest payable	276	566
Total liabilities	2,105,204	1,855,278
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $0.01 par value per share; 1,000,000 shares authorized; no shares issued	—	—
Common stock $0.01 par value per share; 20,000,000 shares authorized; 10,377,787 shares issued and outstanding at December 31, 2015 (including 144,717 shares of unvested participating restricted awards) and 10,207,943 shares issued and outstanding at December 31, 2014 (including 157,694 shares of unvested participating restricted awards)	104	102
Additional paid-in capital	61,008	57,130
Retained earnings	116,941	105,951
Accumulated other comprehensive income	2,274	3,767
Total stockholders' equity	180,327	166,950

Total liabilities and stockholders' equity	$2,285,531	$2,022,228

See accompanying notes to consolidated financial statements.

ENTERPRISE BANCORP, INC.
Consolidated Statements of Income
Years Ended December 31,

(Dollars in thousands, except per share data)	2015	2014	2013
Interest and dividend income:			
Loans and loans held for sale	$77,946	$71,854	$67,673
Investment securities	5,346	4,504	3,381
Other interest-earning assets	179	115	68
Total interest and dividend income	83,471	76,473	71,122
Interest expense:			
Deposits	4,068	4,028	4,058
Borrowed funds	38	38	96
Subordinated debt	1,071	1,177	1,177
Total interest expense	5,177	5,243	5,331
Net interest income	78,294	71,230	65,791
Provision for loan losses	3,267	1,395	3,279
Net interest income after provision for loan losses	75,027	69,835	62,512
Non-interest income:			
Investment advisory fees	4,750	4,618	4,285
Deposit and interchange fees	4,879	5,036	4,788
Income on bank-owned life insurance, net	553	413	459
Net gains on sales of investment securities	1,828	1,619	1,239
Gains on sales of loans	492	406	792
Other income	2,465	2,340	2,229
Total non-interest income	14,967	14,432	13,792
Non-interest expense:			
Salaries and employee benefits	40,285	38,029	33,551
Occupancy and equipment expenses	7,308	6,515	6,035
Technology and telecommunications expenses	5,710	5,167	4,647
Advertising and public relations expenses	2,719	2,928	2,708
Audit, legal and other professional fees	1,785	1,695	1,742
Deposit insurance premiums	1,214	1,169	1,118
Supplies and postage expenses	988	1,053	967
Investment advisory and custodial expenses	328	552	540
Other operating expenses	5,395	4,923	4,516
Total non-interest expense	65,732	62,031	55,824
Income before income taxes	24,262	22,236	20,480
Provision for income taxes	8,114	7,585	6,951
Net income	$16,148	$14,651	$13,529
Basic earnings per share	$1.56	$1.45	$1.37
Diluted earnings per share	$1.55	$1.44	$1.36

Basic weighted average common shares outstanding	10,323,016	10,118,762	9,862,678
Diluted weighted average common shares outstanding	10,389,934	10,209,243	9,950,609

See accompanying notes to consolidated financial statements.

ENTERPRISE BANCORP, INC.
Consolidated Statements of Comprehensive Income
Years Ended December 31,

(Dollars in thousands)	2015	2014	2013
Net income	$16,148	$14,651	$13,529
Other comprehensive income (loss), net of taxes:			
Gross unrealized holding (losses)/gains on investments arising during the period	(518)	4,225	(1,910)
Income tax benefit/(expense)	216	(1,553)	752
Net unrealized holding (losses)/gains, net of tax	(302)	2,672	(1,158)
Less: Reclassification adjustment for net gains included in net income			
Net realized gains on sales of securities during the period	1,828	1,619	1,239
Income tax expense	(637)	(569)	(443)
Reclassification adjustment for gains realized, net of tax	1,191	1,050	796
Total other comprehensive income (loss)	(1,493)	1,622	(1,954)
Comprehensive income	$14,655	$16,273	$11,575

See accompanying notes to consolidated financial statements.

ENTERPRISE BANCORP, INC.
Consolidated Statements of Changes in Stockholders' Equity
Years Ended December 31, 2015, 2014 and 2013

(Dollars in thousands, except share data)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders' Equity
Balance at December 31, 2012	9,676,477	$97	$ 48,194	$87,159	$ 4,099	$ 139,549
Net Income				13,529		13,529
Other comprehensive (loss) income, net					(1,954)	(1,954)
Tax benefit from stock compensation			25			25
Common stock dividend paid ($0.46 per share)				(4,535)		(4,535)
Common stock issued under dividend reinvestment plan	69,633	1	1,238			1,239
Stock-based compensation, net	90,824	1	1,651			1,652
Stock options exercised, net	155,626	1	1,828			1,829
Balance at December 31, 2013	9,992,560	$100	$ 52,936	$96,153	$ 2,145	$ 151,334
Net Income				14,651		14,651
Other comprehensive income (loss), net					1,622	1,622
Tax benefit from stock compensation			320			320
Common stock dividend paid ($0.48 per share)				(4,853)		(4,853)
Common stock issued under dividend reinvestment plan	60,586	1	1,218			1,219
Common stock issued, other	2,917	—	64			64
Stock-based compensation, net	69,926	1	1,703			1,704
Stock options exercised, net	81,954	—	889			889
Balance at December 31, 2014	10,207,943	$102	$ 57,130	$105,951	$ 3,767	$ 166,950
Net Income				16,148		16,148
Other comprehensive (loss) income, net					(1,493)	(1,493)
Tax benefit from stock compensation			217			217
Common stock dividend paid ($0.50 per share)				(5,158)		(5,158)
Common stock issued under dividend reinvestment plan	58,529	1	1,276			1,277
Common stock issued, other	7,674	—	171			171
Stock-based compensation, net	65,015	1	1,783			1,784
Stock options exercised, net	38,626	—	431			431
Balance at December 31, 2015	10,377,787	$104	$ 61,008	$116,941	$ 2,274	$ 180,327

See accompanying notes to consolidated financial statements.

ENTERPRISE BANCORP, INC
Consolidated Statements of Cash Flows
Years Ended December 31,

(Dollars in thousands)	2015	2014	2013
Cash flows from operating activities:			
Net income	$16,148	$14,651	$13,529
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	3,267	1,395	3,279
Depreciation and amortization	5,603	5,458	5,015
Stock-based compensation expense	1,803	1,752	1,662
Mortgage loans originated for sale	(23,673)	(20,864)	(35,284)
Proceeds from mortgage loans sold	24,827	20,154	43,378
Net gains on sales of loans	(492)	(406)	(792)
Net gains on sales of OREO	(154)	—	(121)
Net gains on sales of investments	(1,828)	(1,619)	(1,239)
Net gains on life insurance	(163)	—	—
Income on bank-owned life insurance, net	(553)	(413)	(459)
OREO fair value adjustment	—	—	23
Changes in:			
Accrued interest receivable	(1,057)	(547)	(358)
Prepaid expenses and other assets	1,527	(6,597)	6,592
Deferred income taxes	(406)	90	(183)
Accrued expenses and other liabilities	1,342	85	780
Subordinated debt issuance costs	(178)	—	—
Accrued interest payable	(290)	1	(38)
Net cash provided by operating activities	25,723	13,140	35,784
Cash flows from investing activities:			
Proceeds from sales of investment securities available-for-sale	25,115	25,371	9,564
Net proceeds (purchase) from FHLB capital stock	307	967	(64)
Proceeds from maturities, calls and pay-downs of investment securities	26,731	40,497	27,923
Purchase of investment securities	(108,962)	(90,918)	(70,663)
Net increase in loans	(188,738)	(150,079)	(165,135)
Additions to premises and equipment, net	(3,938)	(4,667)	(6,580)
Proceeds from OREO sales and payments	1,015	—	652
Purchase of OREO	—	(457)	—
Purchase of bank-owned life insurance	(11,390)	—	—
Net cash used in investing activities	(259,860)	(179,286)	(204,303)
Cash flows from financing activities:			
Net increase in deposits	249,602	132,554	160,965
Net (decrease) increase in borrowed funds	(5,229)	22,366	9,994
Repayment of subordinated debt	(10,825)	—	—
Proceeds from the issuance of subordinated debt	15,000	—	—
Cash dividends paid	(5,158)	(4,853)	(4,535)
Proceeds from issuance of common stock	1,448	1,283	1,239
Proceeds from exercise of stock options, net	431	889	1,829
Tax benefit from stock-based compensation	217	320	25
Net cash provided by financing activities	245,486	152,559	169,517
Net increase (decrease) in cash and cash equivalents	11,349	(13,587)	998

Cash and cash equivalents at beginning of year	40,146	53,733	52,735
Cash and cash equivalents at end of year	$51,495	$40,146	$53,733
Supplemental financial data:			
Cash paid for: Interest	$5,467	$5,242	$5,369
Cash paid for: Income taxes	7,594	7,466	7,342
Supplemental schedule of non-cash activity:			
Purchase of investment securities not yet settled	2,296	2,336	703
Transfer from loans to other real estate owned	—	290	168
Bank owned life insurance proceeds not yet received	403	—	—
Capital expenditures incurred not yet paid	525	—	—

See accompanying notes to consolidated financial statements.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

(a) Organization of Holding Company and Basis of Presentation

The consolidated financial statements of Enterprise Bancorp, Inc. (the “Company” or “Enterprise”), a Massachusetts corporation, include the accounts of the Company and its wholly owned subsidiary Enterprise Bank and Trust Company (the “Bank”). The Bank is a Massachusetts trust company organized in 1989. Substantially all of the Company’s operations are conducted through the Bank.

The Bank’s subsidiaries include Enterprise Insurance Services, LLC and Enterprise Investment Services, LLC, organized under the laws of the state of Delaware for the purposes of engaging in insurance sales activities and offering non-deposit investment products and services, respectively. In addition, the Bank has the following subsidiaries that are incorporated in the Commonwealth of Massachusetts and classified as security corporations in accordance with applicable Massachusetts General Laws: Enterprise Security Corporation; Enterprise Security Corporation II; and Enterprise Security Corporation III, 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.

The Company has 22 full-service branches serving the greater Merrimack Valley and North Central regions of Massachusetts and Southern New Hampshire. The Company also plans to open its second Nashua, NH branch in the second quarter of 2016. Through the Bank and its subsidiaries, the Company offers a range of commercial and consumer loan products, and deposit and cash management services. The Company also offers investment advisory and wealth management, trust, and insurance services. The services offered through the Bank and its subsidiaries are managed as one strategic unit and represent the Company’s only reportable operating segment.

Prior to March 2015, pursuant to the Accounting Standards Codification (“ASC”) Topic 810 “Consolidation of Variable Interest Entities,” issued by the Financial Accounting Standards Board ("FASB"), the Company carried junior subordinated debentures as a liability on its consolidated financial statements, along with the related interest expense. The debentures were issued by a statutory business trust (the "Trust") created by the Company in March 2000 under the laws of the state of Delaware, and the trust preferred securities issued by the Trust, and the related non-interest expense, had been excluded from the Company’s consolidated financial statements. In March 2015, the Company redeemed in full the junior subordinated debentures, which in turn allowed the Trust to redeem in full the trust preferred securities. The Company also dissolved the Trust in April 2015. See Note 7, "Borrowed Funds and Subordinated Debt," below for further information on the Company's subordinated debt.

The Federal Deposit Insurance Corporation (“FDIC”) and the Massachusetts Division of Banks (the “Division”) have regulatory authority over the Bank. The Bank is also subject to certain regulatory requirements of the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”) and, with respect to its New Hampshire branch operations, the New Hampshire Banking Department. The business and operations of the Company are subject to the regulatory oversight of the Federal Reserve Board. The Commissioner also retains supervisory jurisdiction over the Company.

The accompanying audited consolidated financial statements and notes thereto have been prepared in accordance with GAAP and the instructions for Form 10-K through the rules and interpretive releases of the SEC under federal securities law. In the opinion of management, the accompanying consolidated financial statements reflect all

necessary adjustments consisting of normal recurring accruals for a fair presentation. All significant intercompany balances and transactions have been eliminated in the accompanying consolidated financial statements. Certain previous years' amounts in the consolidated financial statements, and notes thereto, have been reclassified to conform to the current year's presentation.

(b) Uses of estimates

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, assumptions and estimates to be utilized. These assumptions and estimates affect the reported values of assets and liabilities at the balance sheet date and income and expenses for the years then ended. As future events and their effects cannot be determined with

precision, actual results could differ significantly from these estimates should the assumptions and estimates used change over time due to changes in circumstances. 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. The three most significant areas in which management applies critical assumptions and estimates are the estimate of the allowance for loan losses, impairment review of investment securities and the impairment review of goodwill.

(c) Cash and cash equivalents

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 are 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 overnight and term federal funds sold ("fed funds"). Balances in cash and cash equivalents will fluctuate resulting primarily from 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.

(d) Investments

Investments that are intended to be held for indefinite periods of time but which may not be held to maturity or on a long-term basis are considered to be “available-for-sale” and are carried at fair value. Net unrealized appreciation and depreciation on investments available-for-sale, net of applicable income taxes, are reflected as a component of accumulated other comprehensive income. Included as available-for-sale are securities that are purchased in connection with the Company’s asset-liability risk management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other related factors. In instances where the Company has the positive intent to hold investment securities to maturity, investment securities will be classified as held-to-maturity and carried at amortized cost. As of the balance sheet dates, all of the Company’s investment securities were classified as available-for-sale and carried at fair value.

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 other-than-temporary impairment (“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: reviews of market pricing, evaluating the level and duration of the loss on individual securities; ongoing credit quality evaluations; determining if any individual security or mutual fund 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. OTTI on equity securities are recognized through a charge to earnings. OTTI on fixed income securities are assessed in order to determine the impairment attributed to 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 market prices. 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.

Investment securities' discounts are accreted and premiums are amortized over the period of estimated principal repayment using methods that approximate the interest method.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Gains or losses on the sale of investment securities are recognized on the trade date on a specific identification basis.

(e) Restricted Investments

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Bank is required to purchase certain levels of FHLB stock in association with outstanding advances from the FHLB. This stock investment 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.

In conjunction with the OTTI review noted above under investments, management also regularly reviews its holdings of FHLB stock for OTTI. Based on management's ongoing review, the Company has not recorded any OTTI charges on this investment to date. If it was determined that a write-down of FHLB stock was required, impairment would be recognized through a charge to earnings.

(f) Loans Held for Sale

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. 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 held for sale are carried at the lower of aggregate amortized cost or market value. Market value is based on comparable market prices for loans with similar rates and terms. When loans are sold, a gain or loss is recognized to the extent that the sales proceeds plus unamortized fees and costs exceed, or are less than, the carrying value of the loans. Gains and losses are determined using the specific identification method.

(g) Loans

Loans made by the Company 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 owner occupied primary and secondary residences, secured and unsecured personal loans and lines of credit. Most loans granted by the Company are collateralized by real estate or equipment and/or are guaranteed by the principals of the borrower. The ability and willingness of the single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity and real estate values within the borrowers' geographic areas. The ability and willingness of commercial real estate, commercial and construction loan borrowers to honor their repayment commitments is generally dependent on the health of the real estate sector in the borrowers' geographic areas and the general economy, among other factors.

Loans are reported at the principal amount outstanding, net of deferred origination fees and costs. The aggregate amount of overdrawn deposit accounts are reclassified as loan balances. Loan origination fees received, offset by direct loan origination costs, are deferred and amortized using the straight line method over three to five years for lines of credit and demand notes or over the life of the related loans using the level-yield method for all other types of

loans. When loans are paid off, the unamortized fees and costs are recognized as an adjustment to interest income.

Loans acquired at a net premium are initially measured at fair value as of the acquisition date without carryover of historical allowance for loan losses. Credit discounts representing losses of unpaid loan principal balances expected over the life of the loans are included in the determination of acquisition date fair value. The fair-market valuation of loans acquired at a premium is amortized into interest income on a level-yield basis over the life of the loan. Subsequent to the purchase date, the methods utilized to estimate the required allowance for loan losses are similar to originated loans.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(h) Allowance for Loan 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 allowance for loan losses is established through a provision for loan losses, 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.

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 uses a two-tiered approach that makes use of specific reserves for loans individually evaluated and deemed impaired and general reserves for larger groups of homogeneous loans.

On a quarterly basis, the Company prepares an estimate of the allowance necessary to cover estimated credit risk inherent in the portfolio as of the specified balance sheet dates. The adequacy of the allowance for loan losses is reviewed and evaluated on a regular basis by an internal management committee, a sub-committee of the Board of Directors and the full Board itself.

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.

See Note 4, "Allowance for Loan Losses," for additional accounting policies related to non-accrual, impaired and troubled debt restructured loans and to the allowance for loan losses.

(i) Other Real Estate Owned

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 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.

(j) Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation or amortization is computed on a straight-line basis over the lesser of the estimated useful lives of the asset or the respective lease term (with reasonably assured renewal options) for leasehold improvements generally as follows:

Bank premises and leasehold improvements	10 to 39 years
Computer software and equipment	3 to 5 years
Furniture, fixtures and equipment	3 to 10 years

(k) Bank Owned Life Insurance

The Company has purchased bank owned life insurance (“BOLI”) on certain current and former senior and executive officers. The cash surrender value carried on the balance sheet at December 31, 2015 and December 31, 2014 amounted to $28.0 million and $16.3 million, respectively. The increase over the prior year was primarily due to the purchase of additional BOLI investments. There are no associated surrender charges under the outstanding policies.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(l) Impairment of Long-Lived Assets Other than Goodwill

The Company reviews long-lived assets, including premises and equipment, for impairment on an ongoing basis or whenever events or changes in business circumstances indicate that the remaining useful life may warrant revision or that the carrying amount of the long-lived asset may not be fully recoverable. If impairment is determined to exist, any related impairment loss is recognized through a charge to earnings. Impairment losses on assets disposed of, if any, are based on the estimated proceeds to be received, less cost of disposal.

(m) Goodwill

Goodwill carried on the Company’s consolidated financial statements was $5.7 million at both December 31, 2015 and December 31, 2014. This asset is related to the Company’s acquisition of two branch offices in July 2000.

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.

(n) Investment Assets Under Management

Investment assets under management, consisting of assets managed through Enterprise Investment Advisors and Enterprise Investment Services and the commercial sweep product, totaled $678.4 million and $674.6 million at December 31, 2015 and 2014, respectively. Fee income is recorded on an accrual basis and recognized over the period in which it is earned. Securities and other property held in a fiduciary or agency capacity are not included in the consolidated balance sheets because they are not assets of the Company.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(o) Derivatives

The Company recognizes all derivatives as either assets or liabilities on its balance sheet and measures those instruments at fair market value.

Interest rate lock commitments related to the origination of mortgage loans that will be sold are considered derivative instruments. The commitments to sell loans are also considered derivative instruments. The Company generally does not pool mortgage loans for sale, but instead, sells the loans on an individual basis. To reduce the net interest rate exposure arising from its loan sale activity, the Company enters into the commitment to sell these loans at essentially the same time that the interest rate lock commitment is quoted on the origination of the loan. The Company estimates the fair value of these derivatives based on current secondary mortgage market prices. At December 31, 2015 and 2014, the estimated fair values of these derivative instruments were considered to be immaterial.

Beginning in 2015, the Company implemented a “Back-to-Back Swap” program whereby the Bank enters into an interest rate swap with a qualified commercial banking customer and simultaneously enters into an equal and opposite interest rate swap with a counterparty. The transaction structure effectively minimizes the Bank’s net risk exposure resulting from such transactions. The customer interest-rate swap agreement allows commercial banking customers to convert a floating-rate loan payment to fixed-rate loan payment.

Back-to-Back Swaps do not meet hedge accounting requirements and therefore changes in the fair value of both the customer swaps and the counterparty swaps, which have an offsetting inverse relationship, are recognized directly in earnings. See Note 8, "Commitments, Contingencies and Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk" for more information about the Company's derivatives.

(p) Stock Based Compensation

The Company’s financial statements include stock-based compensation expense for the portion of stock option awards, net of estimated forfeitures, and stock awards for which the requisite service has been rendered during the period. The compensation expense has been estimated based on the estimated grant-date fair value of the awards, or in the case of stock awards, the market value of the common stock on the date of grant. The Company will recognize the remaining estimated compensation expense for the portion of outstanding awards and compensation expense for any future awards, net of estimated forfeitures, as the requisite service is rendered (i.e., on a straight-line basis over the remaining vesting period of each award) or as performance objectives are met. Stock awards that do not require future service (“vested awards”) will be expensed immediately. Stock-based compensation also includes Director stock compensation for stock awards and stock in lieu of cash fees, both included in other operating expenses, described in more detail in Note 11 "Stock-Based Compensation Plans."

(q) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax attributable to differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities will be adjusted accordingly through the provision for income taxes.

The Company's policy is to classify interest resulting from underpayment of income taxes as income tax expense in the first period the interest would begin accruing according to the provisions of the relevant tax law. The Company classifies penalties resulting from underpayment of income taxes as income tax expense in the period for which the Company claims or expects to claim an uncertain tax position or in the period in which the Company's judgment changes regarding an uncertain tax position.

The income tax provisions will differ from the expense that would result from applying the federal statutory rate to income before taxes, due primarily to the impact of tax-exempt interest from certain investment securities, loans and bank owned life insurance.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The Company did not have any unrecognized tax benefits accrued as income tax liabilities or receivables or as deferred tax items at December 31, 2015 or December 31, 2014. The Company is subject to U.S. federal and state income tax examinations by taxing authorities for the 2012 through 2015 tax years.

(r) Earnings per Share

Basic earnings per share are calculated by dividing net income by the weighted average number of common shares outstanding (including participating securities) during the year. The Company's only participating securities are unvested restricted stock awards that contain non-forfeitable rights to dividends. Diluted earnings per share reflects the effect on weighted average shares outstanding of the number of additional shares outstanding if dilutive stock options were converted into common stock using the treasury stock method.

(s) Reporting Comprehensive Income

Comprehensive income is defined as all changes to equity except investments by and distributions to stockholders. Net income is one component of comprehensive income, with other components referred to in the aggregate as other comprehensive income. The Company’s only other comprehensive income component is the net unrealized holding gains or losses on investments available-for-sale, net of deferred income taxes. The Company initially excludes these unrealized holding gains and losses from net income; however, they are later reported as reclassifications out of accumulated other comprehensive income into net income when the securities are sold. When securities are sold, the reclassification of realized gains and losses on available-for-sale securities are included on the Consolidated Statements of Income under the "non-interest income" subheading on the line item "net gains on sales of investment securities" and the related income tax expense is included in the line item "provision for income taxes," both of which are also detailed on the Consolidated Statements of Comprehensive Income under the subheading "reclassification adjustment for net gains included in net income."

(t) Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-03, Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. Entities are required to apply the new guidance on a retrospective basis, wherein the balance sheet of each individual period presented should be adjusted to reflect the period-specific effects of applying the new guidance. For public business entities, the amendments are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption of the amendments is permitted for financial statements that have not been previously issued. The Company early adopted this ASU as of January 1, 2015 in relation to the Company's Fixed-to-Floating Rate Subordinated Notes issued in January 2015. This adoption did not have a material impact on the Company's financial statements or results of operations.

In January 2014, the FASB issued ASU No. 2014-04, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40) - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure. The amendments are intended to reduce diversity of practice by clarifying when a creditor should be considered to have received physical possession of residential real estate property collateralizing a residential

mortgage loan, such that the loan should be removed, and the real estate property recognized, on the financial statements. Additionally, the amendments require interim and annual disclosure of both the amount of foreclosed residential real estate property held by the creditor and the recorded investment in collateralized residential mortgage loans that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods beginning after December 15, 2014. As this ASU primarily offers clarification of existing standards and added disclosures, the adoption of this ASU in the first quarter of 2015 did not have a material impact on the Company's financial statements or results of operations.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

In January 2014, the FASB issued ASU No. 2014-01, Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects. The amendments in this ASU apply to all reporting entities that invest in qualified affordable housing projects through limited liability entities that are flow through entities for tax purposes. The amendments in this ASU eliminate the effective yield election and permit reporting entities to make an accounting policy election to account for such investments using the proportional amortization method if certain conditions are met. The investor must recognize any subsequent impairment loss when it is more likely than not that the carrying amount of the investment will not be realized. Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The decision to apply the proportional amortization method of accounting is an accounting policy decision that must be applied consistently to all qualifying affordable housing project investments rather than a decision to be applied to individual investments. A reporting entity must disclose information that enables users of its financial statements to understand the nature of such investments and the effect of the measurement, and the related tax credits, on its financial position and results of operations. The amendments in this ASU are to be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods beginning after December 15, 2014. The adoption of this ASU in the first quarter of 2015 did not have a material impact on the Company's financial statements or results of operations.

For information regarding recent accounting pronouncements not yet adopted by the Company, see Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Recent Accounting Pronouncements Not Yet Adopted."

(2) Investments

The amortized cost and fair values of investments at December 31, 2015 and 2014 are summarized as follows:

(Dollars in thousands)	2015 Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Federal agency obligations[1]	$78,626	$352	$153	$78,825
Residential federal agency MBS[1]	75,105	406	648	74,863
Commercial federal agency MBS[1]	23,908	—	363	23,545
Municipal securities	96,189	2,357	35	98,511
Corporate bonds	10,257	44	95	10,206
Certificates of Deposit [2]	2,753	—	2	2,751
Total fixed income securities	286,838	3,159	1,296	288,701
Equity investments	10,043	1,966	352	11,657
Total available-for-sale investments, at fair value	$296,881	$5,125	$1,648	$300,358

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(Dollars in thousands)	2014 Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Federal agency obligations[1]	$59,518	$318	$24	$59,812
Residential federal agency MBS[1]	88,303	1,015	516	88,802
Municipal securities	72,113	2,157	66	74,204
Corporate bonds	7,937	61	26	7,972
Total fixed income securities	227,871	3,551	632	230,790
Equity investments	11,370	3,071	166	14,275
Total available-for-sales investments, at fair value	$239,241	$6,622	$798	$245,065

(1) These categories may include investments issued or guaranteed by government sponsored enterprises such as 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 category were collateralized mortgage obligations (“CMO’s”) totaling $20.8 million and $13.3 million at December 31, 2015 and 2014 respectively. All of the commercial MBS investments held by the Company were CMOs.

At December 31, 2015, the equity portfolio consisted primarily of investments in a diversified group of mutual funds, with a small portion of the portfolio (approximately 16%) invested in individual common stock of entities in the financial services industry.

Net unrealized appreciation and depreciation on investments available-for-sale, net of applicable income taxes, are reflected as a component of accumulated other comprehensive income.
The net unrealized gain or loss in the Company's fixed income portfolio fluctuates as market interest rates rise and fall. Due to the fixed rate nature of this portfolio, as market rates fall the value of the portfolio rises, and as market rates rise, the value of the portfolio declines. The unrealized gains or losses on fixed income investments will also decline as the securities approach maturity or if the issuer is credit impaired. Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss on the fixed income portfolio is deemed to be other than temporary, the credit loss portion is charged to earnings and the noncredit portion is recognized in accumulated other comprehensive income.
The net unrealized gain or loss on equity securities will fluctuate based on changes in the market value of the mutual funds and individual securities held in the portfolio. Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss on an equity security is deemed to be other than temporary prior to a sale, the loss is charged to earnings.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The following tables summarize investments (fixed income and equity) having temporary impairment, due to the fair market values having declined below the amortized costs of the individual investments, and the period that the investments have been temporarily impaired at December 31, 2015 and 2014.

	2015					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency obligations	$27,420	$153	$—	$—	$27,420	$153
Residential federal agency MBS	20,517	276	10,935	373	31,452	649
Commercial federal agency MBS	23,545	363	—	—	23,545	363
Municipal securities	6,988	32	261	2	7,249	34
Corporate bonds	4,574	78	419	17	4,993	95
Certificates of Deposit	1,976	2	—	—	1,976	2
Equity investments	4,204	351	24	1	4,228	352
Total temporarily impaired investments	$89,224	$1,255	$11,639	$393	$100,863	$1,648

	2014					
	Less than 12 months		12 months or longer		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair value	Unrealized Losses	Fair Value	Unrealized Losses
Federal agency obligations	$7,959	$24	$—	$—	$7,959	$24
Residential federal agency MBS	—	—	23,801	516	23,801	516
Municipal securities	3,597	31	2,794	35	6,391	66
Corporate bonds	2,704	12	871	14	3,575	26
Equity investments	2,008	162	21	4	2,029	166
Total temporarily impaired investments	$16,268	$229	$27,487	$569	$43,755	$798

Management regularly reviews the portfolio for securities with unrealized losses that are other-than-temporarily impaired. During the years ended December 31, 2015 and 2014, the Company did not record any fair value impairment charges on its investments. As of December 31, 2015, there were 86 securities in an unrealized loss position in the Company's portfolio (fixed income and equity, excluding CDs). Management attributes these unrealized losses to increases in current market yields compared to the yields at the time the investments were purchased by the Company and the impact of market value fluctuations on the equity portion of our portfolio. Management does not consider these investments to be other-than-temporarily impaired at December 31, 2015 because (1) the decline in market value is not attributable to credit quality for fixed income securities, or a fundamental deterioration in the equity funds or issuers, and (2) the Company does not intend to, and it is more likely than not that it will not be required to, sell those investments prior to a market price recovery or maturity.

In assessing the Company's investments in federal agency mortgage-backed securities and federal agency obligations, the contractual cash flows of these investments are guaranteed by the respective government sponsored enterprise (FHLMC, FNMA, FFCB, or FHLB) or wholly-owned government corporation (GNMA). Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Company's investments. Management's assessment of other fixed income investments within the portfolio includes reviews of market pricing, ongoing credit

quality evaluations, assessment of the investments' materiality, and duration of the investments' unrealized loss position. In addition, the Company utilizes an outside registered investment adviser to manage the corporate and municipal bond portfolios, within prescribed guidelines set by management, and to provide assistance in assessing the

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

credit risk of those portfolios. At December 31, 2015, the Company's corporate and municipal bond portfolios did not contain any securities below investment grade, as reported by major credit rating agencies. For equities and funds, management's assessment includes the severity of the declines, whether it is unlikely that the security or fund will completely recover its unrealized loss within a reasonable time period and if the equity security or fund exhibits fundamental deterioration.
As noted in the table above, a small portion of the portfolio invested in CDs was also in an unrealized loss position at December 31, 2015 due to market rates. The unrealized loss was not considered to be material and the securities are expected to mature at par value.

The contractual maturity distribution of total fixed income investments at December 31, 2015 is as follows:

	Within One Year		After One, but within Five Years		After Five, but within Ten Years		After Ten Years	
(Dollars in thousands)	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 federal agency MBS	—	— %	3,576	3.15 %	1,299	1.90 %	70,230	2.11 %
Commercial federal agency 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 amortized cost and fair values of $49.1 million and $50.3 million, respectively, at December 31, 2015, which can be redeemed by the issuers prior to the maturity presented above. Management considers these factors when evaluating the interest rate risk in the Company's asset-liability management program.

From time to time the Company may pledge securities as collateral against deposit account balances of municipal deposit customers, and for borrowing capacity with the FHLB and the Federal Reserve Bank of Boston ("FRB"). The fair value of securities pledged as collateral for these purposes was $286.0 million at December 31, 2015 and $230.8 million at December 31, 2014.

Sales of investments for the years ended December 31, 2015, 2014, and 2013 are summarized as follows:

(Dollars in thousands)	2015	2014	2013
Amortized cost of investments sold	$23,287	$23,752	$8,325
Gross realized gains on sales	1,990	1,654	1,243
Gross realized losses on sales	(162)	(35)	(4)

Total proceeds from sales of investments	$25,115	$25,371	$9,564

Tax-exempt interest earned on the municipal securities portfolio was $2.9 million for the year ended December 31, 2015, $2.4 million for the year ended December 31, 2014 and $2.1 million for the year ended December 31, 2013.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

See Item (d) “Investments,” contained in Note 1, “Summary of Significant Accounting Policies,” for additional information regarding the accounting for the Company’s investments portfolio. See also Note 14, “Fair Value Measurements,” for additional information regarding the Company’s fair value measurement of investments.

(3) Loans

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, long-term relationships with established commercial developers, strong community involvement and focused marketing strategies. 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 and loan size to lessen its credit risk exposure.

See Note 4, "Allowance for Loan Losses," for information on the Company's credit risk management, non-accrual, impaired and troubled debt restructured loans and the allowance for loan losses.

Major classifications of loans at the periods indicated, are as follows:

(Dollars in thousands)	December 31, 2015	December 31, 2014
Commercial real estate	$936,921	$862,747
Commercial and industrial	458,553	402,994
Commercial construction	202,993	168,044
Total commercial loans	1,598,467	1,433,785
Residential mortgages	169,188	149,959
Home equity loans and lines	83,373	80,018
Consumer	10,747	10,708
Total retail loans	263,308	240,685
Gross loans	1,861,775	1,674,470
Deferred loan origination fees, net	(1,813)	(1,866)
Total loans	1,859,962	1,672,604
Allowance for loan losses	(29,008)	(27,121)
Net loans	$1,830,954	$1,645,483

Loan Categories

Commercial loans:

Commercial real estate loans include loans secured by both owner-use and non-owner occupied 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 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

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

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 periodically adjusted variable rate loans and lines and generally have terms of one to three years.

From time to time, the Company 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. Loans originated by other banks in which the Company is the participating institution amounted to $62.3 million at December 31, 2015 and $65.3 million at December 31, 2014.

Standby 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, or be 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. The Company 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

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

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 original 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 original loan to value ratios generally up to 80% of the appraised value of the property securing the loan. Home equity lines generally have interest rates that adjust monthly based on changes in the 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 requires 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.

Related Party Loans

Certain of the Company's directors, officers, principal stockholders and their associates are credit customers of the Company in the ordinary course of business. In addition, certain directors are also directors, trustees, officers or stockholders of corporations and non-profit entities or members of partnerships that are customers of the Bank and that enter into loan and other transactions with the Bank in the ordinary course of business. All loans and commitments included in such transactions are on such terms, including interest rates, repayment terms and collateral, as those prevailing at the time for comparable transactions with persons who are not affiliated with the Bank and do not involve more than a normal risk of collectability or present other features unfavorable to the Bank.

As of December 31, 2015 and 2014, the outstanding loan balances to directors, officers, principal stockholders and their associates were $17.5 million and $18.2 million, respectively. All loans to these related parties were current and accruing at those dates. Unadvanced portions of lines of credit available to these individuals were $10.6 million and $6.5 million, as of December 31, 2015 and 2014, respectively. During 2015, new loans and net increases in loan balances or lines of credit under existing commitments of $6.7 million were made and principal paydowns of $3.3 million were received.

Loans Serviced for Others

At December 31, 2015 and 2014, the Company was servicing residential mortgage loans owned by investors amounting to $18.5 million and $19.3 million, respectively. Additionally, the Company was servicing commercial

loans participated out to various other institutions amounting to $52.7 million and $44.8 million at December 31, 2015 and 2014, respectively. See the discussion above for further information regarding commercial participations.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Loans Serving as Collateral

Loans designated as qualified collateral and pledged to the FHLB for borrowing capacity for the periods indicated are summarized below:

(Dollars in thousands)	December 31, 2015	December 31, 2014
Commercial real estate	$281,802	$276,657
Residential mortgages	118,855	107,906
Home equity	13,972	15,677
Total loans pledged to FHLB	$414,629	$400,240

Tax-exempt Interest

Tax-exempt interest earned on qualified commercial loans was $1.6 million for the year ended December 31, 2015 and $1.4 million and $1.3 million for the years ended December 31, 2014 and 2013, respectively. Average tax-exempt loan balances were $50.9 million and $38.3 million for the years ended December 31, 2015 and 2014, respectively.

(4) Allowance for Loan Losses

While the Company seeks to manage its loan portfolio to avoid concentration by industry and loan size to lessen its credit risk exposure, inherent in the lending process is the risk of loss due to customer non-payment, or “credit risk.” The Company endeavors to minimize this risk through sound underwriting practices and the risk management function, however, 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 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.

Allowance for probable loan losses methodology

On a quarterly basis, management prepares an estimate of the allowance necessary to cover estimated credit losses. 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, which are collectively evaluated relying on a combination of qualitative and quantitative factors that could have an impact on the credit quality of the portfolio.

Specific Reserves for loans individually evaluated for impairment

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.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

General Reserves for loans collectively evaluated for impairment

In assessing the general reserves management has segmented the portfolio for groups of loans with similar risk characteristics, by I. Non-classified loans, and II. Regulatory problem-asset segments. These groups are further subdivided by loan category or internal risk rating, respectively. The general loss allocation factors take into account the quantitative historic loss experience, qualitative or environmental factors such as those identified above, as well as regulatory guidance and industry data.

I.Non-classified loans by credit type:

Management has established the modified historic loss factor for non-classified loan segments by first calculating net charge-offs over a period of time, divided by the average loan balance over that same period. The time period utilized equates to the estimated loss emergence period for each loan segment. This average period may be changed from time to time to be reflective of the most appropriate corresponding conditions (market, economic, etc.). These historic loss factors are then adjusted up or down based on management’s assessment of current qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the segment’s historical loss experience. These key qualitative factors include the following broad categories:

- Several key areas of expansion and growth, including geographic market, changes in lending staff, new or expanded product lines, changes in composition and portfolio concentrations;
- Changes in the trend and current volume and severity of past due loans, non-accrual loans and the severity of adversely classified and impaired loans compared to historical levels; and
- The current economic environment and conditions (local, state and national) and their general implications to each loan category.

Management weighs the current effect of each of these areas on each particular non-classified loan segment in determining the allowance allocation factors. Management must exercise significant judgment when evaluating the effect of these qualitative factors on the amount of the allowance for loan losses on the non-classified segments because data may not be reasonably available or directly applicable to determine the precise impact of a factor on the collectability of the loan portfolio as of the evaluation date. The methodology contemplates a range of acceptable levels for these factors due to the subjective nature of the factors and the qualitative considerations related to the inherent credit risk in the portfolio.

II.Regulatory problem-assets segments by credit rating:

For determining the reserve percentages for problem-loans, management has segmented the portfolio following the regulatory problem-asset segments by risk rating: Criticized; Substandard; Doubtful; or Loss, after excluding loans that are individually evaluated for impairment. Management utilizes regulatory guidance and industry data in relation to the Company's own portfolio statistics as a basis for determining the allocation factors for each class of regulatory problem-assets.

Management recognizes that additional issues may also impact the estimate of credit losses to some degree. From time to time management will re-evaluate the qualitative factors, regulatory guidance, and industry data in use in order to consider the impact of other issues which, based on changing circumstances, may become more significant in the future.

94

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The balances of loans as of December 31, 2015 by segment and evaluation method are summarized as follows:

(Dollars in thousands)	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total Loans
Commercial real estate	$12,287	$924,634	$936,921
Commercial and industrial	7,810	450,743	458,553
Commercial construction	3,032	199,961	202,993
Residential	366	168,822	169,188
Home equity	169	83,204	83,373
Consumer	24	10,723	10,747
Deferred fees	—	(1,813)	(1,813)
Total loans	$23,688	$1,836,274	$1,859,962

See the section titled "Impaired Loans" below, for information regarding the changes in impaired loans balances at December 31, 2015 compared to the prior year.

The balances of loans as of December 31, 2014 by segment and evaluation method are summarized as follows:

(Dollars in thousands)	Loans individually evaluated for impairment	Loans collectively evaluated for impairment	Total Loans
Commercial real estate	$15,003	$847,744	$862,747
Commercial and industrial	10,901	392,093	402,994
Commercial construction	2,675	165,369	168,044
Residential	465	149,494	149,959
Home equity	180	79,838	80,018
Consumer	28	10,680	10,708
Deferred fees	—	(1,866)	(1,866)
Total loans	$29,252	$1,643,352	$1,672,604

Credit Risk Management

The level of adversely classified loans, delinquent and non-performing assets is largely a function of economic conditions, the overall banking environment, the Company's underwriting and credit risk management standards. The Company’s commercial lending focus may entail significant additional risks compared to long term financing on existing, owner-occupied residential real estate. The Company endeavors to minimize this risk through sound underwriting practices and the risk management function. 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 individual loans, individual review of adversely classified loans, 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.

However, despite prudent loan underwriting and ongoing credit risk management, adverse changes within the Company's market area or deterioration in the local, regional or national economic conditions could negatively impact the portfolio's credit risk profile and the Company's asset quality in the future.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

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.

Credit Quality Indicators

Adversely Classified Loans

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 loans characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. These loans are inadequately protected by the sound net worth and paying capacity of the borrower; repayment has become increasingly reliant on collateral liquidation or reliance on guaranties; credit weaknesses are well-defined; borrower cash flow is insufficient to meet the required debt service specified in the loan terms and to meet other obligations, such as trade debt and tax payments.

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. The probability of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as an estimated loss is deferred until more exact status may be determined.

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 impaired or restructured, or some combination thereof. Loans which are evaluated to be of weaker credit quality are reviewed on a more frequent basis by management.

The following tables present the credit risk profile by internally assigned adverse risk rating category at the periods indicated.

	December 31, 2015				
(Dollars in thousands)	Adversely Classified			Not Adversely Classified	Gross Loans
	Substandard	Doubtful	Loss		
Commercial real estate	$12,487	$—	$—	$924,434	$936,921
Commercial and industrial	8,670	—	3	449,880	458,553
Commercial construction	1,776	—	—	201,217	202,993
Residential	1,278	—	—	167,910	169,188
Home equity	503	—	5	82,865	83,373
Consumer	38	11	—	10,698	10,747
Total gross loans	$24,752	$11	$8	$1,837,004	$1,861,775

96

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(Dollars in thousands)	December 31, 2014 Adversely Classified			Not Adversely Classified	Gross Loans
	Substandard	Doubtful	Loss		
Commercial real estate	$11,409	$1,188	$19	$850,131	$862,747
Commercial and industrial	11,298	51	57	391,588	402,994
Commercial construction	2,759	—	—	165,285	168,044
Residential	1,133	—	—	148,826	149,959
Home equity	464	—	—	79,554	80,018
Consumer	48	—	—	10,660	10,708
Total gross loans	$27,111	$1,239	$76	$1,646,044	$1,674,470

Total adversely classified loans amounted to 1.33% of total loans at December 31, 2015, as compared to 1.70% at December 2014. At December 31, 2015, as compared to December 2014, adversely classified balances declined $3.7 million, primarily due to several larger commercial loan payoffs, charge-offs, upgrades and principal payments within the commercial real estate and commercial and industrial loan segments, partially offset by additional credit downgrades within the commercial real estate, commercial and industrial, and commercial construction portfolio during the period.

Past Due and Non-Accrual Loans

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans 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 and 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. Additionally, deposit accounts overdrawn for 90 or more days are included in the consumer non-accrual numbers below.

The following table presents an age analysis of past due loans as of December 31, 2015.

(Dollars in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Non-accrual Loans	Total Past Due Loans	Current Loans	Gross Loans
Commercial real estate	$1,124	$1,140	$8,506	$10,770	$926,151	$936,921
Commercial and industrial	1,218	691	4,323	6,232	452,321	458,553
Commercial construction	581	—	335	916	202,077	202,993
Residential	250	180	366	796	168,392	169,188
Home equity	622	—	288	910	82,463	83,373
Consumer	35	10	27	72	10,675	10,747
Total gross loans	$3,830	$2,021	$13,845	$19,696	$1,842,079	$1,861,775

97

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The following table presents an age analysis of past due loans as of December 31, 2014.

(Dollars in thousands)	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Non-accrual Loans	Total Past Due Loans	Current Loans	Gross Loans
Commercial real estate	$1,471	$1,235	$9,714	$12,420	$850,327	$862,747
Commercial and industrial	1,184	101	5,950	7,235	395,759	402,994
Commercial construction	—	—	447	447	167,597	168,044
Residential	1,328	370	763	2,461	147,498	149,959
Home equity	29	—	245	274	79,744	80,018
Consumer	94	1	17	112	10,596	10,708
Total gross loans	$4,106	$1,707	$17,136	$22,949	$1,651,521	$1,674,470

At December 31, 2015 and December 31, 2014, all loans 90 or more days past due were carried as non-accruing. Non-accrual loans which were not adversely classified amounted to $402 thousand at December 31, 2015 and $211 thousand at December 31, 2014. These balances primarily represented the guaranteed portions of non-performing U.S. Small Business Administration loans. The majority of the non-accrual loan balances were also carried as impaired loans during the periods and are discussed further below.

The ratio of non-accrual loans to total loans amounted to 0.74% and 1.02% at December 31, 2015 and December 31, 2014, respectively. Reductions in non-accrual loans were seen in all commercial segments, led by commercial and industrial and commercial real estate loans as loan payoffs, charge-offs and principal payment continued during the period.

At December 31, 2015, additional funding commitments for loans on non-accrual status totaled $910 thousand. The Company's obligation to fulfill the additional funding commitments on non-accrual loans is generally contingent on the borrower's compliance with the terms of the credit agreement. If the borrower is not in compliance, additional funding commitments may or may not be made at the Company's discretion.

The reduction in interest income for the years ended December 31, associated with non-accruing loans is summarized as follows:

(Dollars in thousands)	2015	2014	2013
Income in accordance with original loan terms	$1,052	$1,007	$1,171
Less income recognized	426	323	680
Reduction in interest income	$626	$684	$491

Impaired Loans

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. An impaired or TDR loan classification will be considered for upgrade based on the borrower's sustained performance over

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

time and their improving financial condition, the expectation of the borrower's ability to continue to service the loan in accordance with the original or modified terms and the collectability of the remaining balance, and in the case of TDR loans, an interest rate at or greater than a market rate for a similar credit at the time of modification.

Impaired loans are individually evaluated for credit loss and a specific reserve is assigned for the amount of the estimated credit loss. Refer to heading “Allowance for probable loan losses methodology” contained within this Note 4 for further discussion of management’s methodology used to estimate specific reserves for impaired loans.

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.

The following table sets forth the recorded investment in impaired loans and the related specific allowance allocated as of December 31, 2015.

(Dollars in thousands)	Unpaid contractual principal balance	Total recorded investment in impaired loans	Recorded investment with no allowance	Recorded investment with allowance	Related specific allowance
Commercial real estate	$14,903	$12,287	$11,734	$553	$186
Commercial and industrial	9,816	7,810	5,253	2,557	1,078
Commercial construction	3,147	3,032	1,583	1,449	499
Residential	453	366	366	—	—
Home equity	308	169	164	5	5
Consumer	25	24	—	24	24
Total	$28,652	$23,688	$19,100	$4,588	$1,792

The following table sets forth the recorded investment in impaired loans and the related specific allowance allocated as of December 31, 2014.

(Dollars in thousands)	Unpaid contractual principal balance	Total recorded investment in impaired loans	Recorded investment with no allowance	Recorded investment with allowance	Related specific allowance
Commercial real estate	$17,182	$15,003	$14,800	$203	$68
Commercial and industrial	11,991	10,901	5,461	5,440	1,516
Commercial construction	2,862	2,675	1,150	1,525	519
Residential	537	465	465	—	—
Home equity	183	180	—	180	26
Consumer	28	28	—	28	28
Total	$32,783	$29,252	$21,876	$7,376	$2,157

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The following table presents the average recorded investment in impaired loans and the related interest recognized during the year ends indicated.

	December 31, 2015		December 31, 2014		December 31, 2013	
(Dollars in thousands)	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized	Average recorded investment	Interest income recognized
Commercial real estate	$13,827	$196	$14,135	$223	$17,673	$237
Commercial and industrial	9,372	97	10,682	156	9,444	92
Commercial construction	2,202	83	3,158	105	3,227	77
Residential	449	—	1,082	3	745	9
Home equity	174	1	208	—	120	—
Consumer	45	—	27	2	18	2
Total	$26,069	$377	$29,292	$489	$31,227	$417

Interest income that was not recognized on loans that were deemed impaired as of December 31, 2015, 2014 and 2013, amounted to $688 thousand, $647 thousand, and $445 thousand, respectively. All payments received on impaired loans in non-accrual status are applied to principal. At December 31, 2015, additional funding commitments for impaired loans totaled $749 thousand. The Company's obligation to fulfill the additional funding commitments on impaired loans is generally contingent on the borrower's compliance with the terms of the credit agreement. If the borrower is not in compliance, additional funding commitments may or may not be made at the Company's discretion.

Troubled Debt Restructurings

Loans are designated as a TDR when, as part of an agreement to modify the original contractual terms of the loan, the Bank grants the borrower a concession on the terms, that would otherwise not be considered, as a result of financial difficulties of the borrower. Typically, such concessions 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.

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 on accrual status amounted to $10.1 million and $11.9 million at December 31, 2015 and December 31, 2014, 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. The Company continues to work with commercial relationships and enters into loan modifications to the extent deemed to be necessary or appropriate to ensure the best mutual outcome given the current economic environment.

At December 31, 2015, additional funding commitments for TDR loans totaled $469 thousand. The Company's obligation to fulfill the additional funding commitments on non-accrual loans is generally contingent on the borrower's compliance with the terms of the credit agreement. If the borrower is not in compliance, additional funding commitments may or may not be made at the Company's discretion.

100

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The following tables present certain information regarding loan modifications classified as troubled debt restructures.

Troubled debt restructure agreements entered into during the year ended December 31, 2015.

(Dollars in thousands)	Number of restructurings	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial real estate	4	$269	$371
Commercial and industrial	8	1,786	1,600
Commercial construction	2	1,339	1,339
Residential	—	—	—
Home equity	—	—	—
Consumer	1	4	3
Total	15	$3,398	$3,313

Loans modified as troubled debt restructuring within the previous twelve months for which there was a subsequent payment default during the year ended December 31, 2015.

(Dollars in thousands)	Number of TDRs that defaulted	Post-modification outstanding recorded investment
Commercial real estate	—	$—
Commercial and industrial	3	759
Commercial construction	—	—
Residential	—	—
Home equity	—	—
Consumer	—	—
Total	3	$759

There were no subsequent charge-offs associated with TDRs modified during 2015. At December 31, 2015, specific reserves allocated to the 2015 TDRs amounted to $201 thousand, as management considers it likely the un-reserved principal will ultimately be collected. Interest payments received on non-accruing 2015 TDR loans which were applied to principal and not recognized as interest income amounted to $18 thousand.

Troubled debt restructure agreements entered into during the year ended December 31, 2014.

(Dollars in thousands)	Number of restructurings	Pre-modification outstanding recorded investment	Post-modification outstanding recorded investment
Commercial real estate	3	$1,972	$1,972
Commercial and industrial	8	263	256
Commercial construction	—	—	—
Residential	1	124	121
Home equity	1	73	73
Consumer	—	—	—
Total	13	$2,432	$2,422

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Loans modified as troubled debt restructuring within the previous twelve months for which there was a subsequent payment default during the year ended December 31, 2014.

(Dollars in thousands)	Number of TDRs that defaulted	Post-modification outstanding recorded investment
Commercial real estate	—	$—
Commercial and industrial	1	64
Commercial construction	—	—
Residential	1	121
Home equity	—	—
Consumer	—	—
Total	2	$185

There were $66 thousand in charge-offs associated with TDRs noted in the table above. At December 31, 2014, specific reserves allocated to the 2014 TDRs amounted to $43 thousand as management considered it likely the principal would ultimately be collected. Interest payments received on non-accruing 2014 TDR loans which were applied to principal and not recognized as interest income amounted to $9 thousand.

Other Real Estate Owned

The Company carried no OREO at December 31, 2015 compared to $861 thousand at December 31, 2014. During the year ended December 31, 2015, the Company sold the three properties held at December 31, 2014, recognizing net gains on OREO sales of $154 thousand; there were no additions to OREO, or subsequent impairment write-downs during the period. During the year ended December 31, 2014, there were no sales or subsequent impairment write-downs on OREO.

Allowance for Loan Loss Activity

The allowance for loan losses is established through a provision for loan losses, 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 allowance for loan losses amounted $29.0 million at December 31, 2015 compared to $27.1 million at December 31, 2014. 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. Specific reserves declined due to current charge-offs on commercial relationships for which management deemed collectability of amounts due was unlikely based on current realizable collateral values, partially offset by additional reserves for newly impaired loans during the period. Loan growth for the year ended December 31, 2015 was $187.4 million, compared to $148.5 million for 2014. For the year ended December 31, 2015, the Company recorded net charge-offs of $1.4 million compared to $1.2 million for 2014. Provisions made to the allowance for loan losses amounted to $3.3 million and $1.4 million for the years ended December 31, 2015 and 2014, respectively. 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.

Management continues to closely monitor the non-performing assets, charge-offs and necessary allowance levels, including specific reserves. Based on management’s judgment as to the existing credit risks inherent in the loan portfolio, as discussed above under the heading "Credit Quality Indicators," management believes that the Company’s allowance for loan losses is adequate to absorb probable losses from specifically known and other probable credit risks associated with the portfolio as of December 31, 2015.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Changes in the allowance for loan losses for the years ended December 31, are summarized as follows:

(Dollars in thousands)	2015	2014	2013
Balance at beginning of year	$27,121	$26,967	$24,254
Provision charged to operations	3,267	1,395	3,279
Loan recoveries	409	735	415
Less: Loans charged-off	1,789	1,976	981
Balance at end of year	$29,008	$27,121	$26,967

Changes in the allowance for loan losses by segment for the year ended December 31, 2015, are presented below:

(Dollars in thousands)	Cmml Real Estate	Cmml and Industrial	Cmml Constr	Resid. Mortgage	Home Equity	Cnsmr	Total
Beg. Balance, 12/31/14	$12,664	$9,245	$3,384	$989	$608	$231	$27,121
Provision	909	1,805	496	72	(83)	68	3,267
Recoveries	74	279	25	—	15	16	409
Less: Charge offs	133	1,571	—	—	—	85	1,789
Ending Balance, 12/31/15	$13,514	$9,758	$3,905	$1,061	$540	$230	$29,008
Ending allowance balance allotted to:							
Loans individually evaluated for impairment	$186	$1,078	$499	$—	$5	$24	$1,792
Loans collectively evaluated for impairment	$13,328	$8,680	$3,406	$1,061	$535	$206	$27,216

Changes in the allowance for loan losses by segment for the year ended December 31, 2014, are presented below:

(Dollars in thousands)	Cmml Real Estate	Cmml and Industrial	Cmml Constr	Resid. Mortgage	Home Equity	Cnsmr	Total
Beg. Balance, 12/31/13	$13,174	$8,365	$3,493	$1,057	$653	$225	$26,967
Provision	(186)	1,627	(41)	(22)	(19)	36	1,395
Recoveries	21	616	66	—	1	31	735
Less: Charge offs	345	1,363	134	46	27	61	1,976
Ending Balance, 12/31/14	$12,664	$9,245	$3,384	$989	$608	$231	$27,121
Ending allowance balance allotted to:							
Loans individually evaluated for impairment	$68	$1,516	$519	$—	$26	$28	$2,157
Loans collectively evaluated for impairment	$12,596	$7,729	$2,865	$989	$582	$203	$24,964

During 2012, the Company purchased a group of residential mortgage loans with a carrying value of $7.4 million at December 31, 2015. These purchased 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. To date this portfolio has paid down by approximately $19.0 million and no losses have been recorded.

103

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(5) Premises and Equipment

Premises and equipment at December 31, are summarized as follows:

(Dollars in thousands)	2015	2014
Land	$4,614	$4,594
Bank premises and leasehold improvements	33,597	32,556
Computer software and equipment	9,014	6,764
Furniture, fixtures and equipment	16,649	15,548
Total premises and equipment, before accumulated depreciation	63,874	59,462
Less accumulated depreciation	(33,321)	(29,092)
Total premises and equipment, net of accumulated depreciation	$30,553	$30,370

Total depreciation expense related to premises and equipment amounted to $4.3 million, $4.2 million and $3.9 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Total rent expense for the years ended December 31, 2015, 2014 and 2013 amounted to $1.2 million, $1.1 million and $910 thousand, respectively.

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.

At December 31, 2015, minimum lease payments for these operating leases were as follows:

(Dollars in thousands)	
Payable in:	
2016	$1,476
2017	1,454
2018	1,133
2019	695
2020	606
Thereafter	5,100
Total minimum lease payments	$10,464

The Company currently collects rent through leases for a small portion of the overall square-footage within its Lowell, MA campus headquarters. Rental income was $153 thousand for both the years ended December 31, 2015 and 2014, and $150 thousand for the year ended December 31, 2013.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(6) Deposits

Deposits at December 31, are summarized as follows:

(Dollars in thousands)	2015	2014
Non-interest bearing demand deposits	$570,589	$470,025
Interest bearing checking	313,674	253,126
Savings	167,304	149,940
Money market	692,114	631,676
Certificates of deposit $250,000 or less	129,993	141,379
Certificates of deposit more than $250,000	37,704	37,215
Total non-brokered deposits (1)	1,911,378	1,683,361
Brokered deposits (2)	106,770	85,185
Total deposits	$2,018,148	$1,768,546

(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.
(2) Primarily brokered CDs $250,000 and under.

The aggregate amount of overdrawn deposits that have been reclassified as loan balances were $407 thousand and $1.1 million at December 31, 2015 and 2014, respectively.

The following table shows the scheduled maturities of certificates of deposit (including brokered deposits with a weighted average remaining life of approximately 1.4 years):

(Dollars in thousands)	December 31, 2015	December 31, 2014
Due in less than twelve months	$176,792	$166,325
Due in over one year through two years	37,729	30,043
Due in over two years through three years	23,429	22,776
Due in over three years through four years	26,501	17,618
Due in over four years through five years	5,983	26,140
Due in over five years	4,033	877
Total certificates of deposit	$274,467	$263,779

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(7) Borrowed Funds and Subordinated Debt

Borrowed funds and subordinated debt outstanding at December 31, are summarized as follows:

	2015			2014			2013		
(Dollars in thousands)	Amount	Average Rate		Amount	Average Rate		Amount	Average Rate	
FHLB borrowings	$40,671	0.51	%	$58,900	0.30	%	$36,534	0.30	%
Other borrowings	13,000	0.60	%	—	—	%	—	—	%
Total borrowed funds	$53,671	0.53	%	$58,900	0.30	%	$36,534	0.30	%
Subordinated debt	14,822	6.16	%	10,825	10.88	%	10,825	10.88	%
Total borrowed funds and subordinated debt	$68,493	1.75	%	$69,725	1.94	%	$47,359	2.72	%

The contractual maturity distribution as of December 31, 2015, of borrowed funds with the weighted average cost for each category is set forth below:

	Overnight			Within 12 months		
(Dollars in thousands)	Balance	Rate		Balance	Rate	
FHLB borrowings	$40,000	0.51	%	$671	0.70	%
Other borrowings	13,000	0.60	%	—	—	%
Total borrowed funds	$53,000	0.53	%	$671	0.70	%

The FHLB borrowings due within 12 months had original maturities of one to two years, and are linked to certain outstanding commercial loans under various community investment programs of the FHLB.

Maximum FHLB and other borrowings outstanding at any month end during 2015, 2014, and 2013 were $53.7 million, $58.9 million, and $57.4 million, respectively.

The following table summarizes the average balance and average cost of borrowed funds for the years ended December 31,

	Year ended December 31,								
	2015			2014			2013		
(Dollars in thousands)	Average Balance	Average Cost		Average Balance	Average Cost		Average Balance	Average Cost	
FHLB advances	$10,731	0.36	%	$12,085	0.31	%	$24,385	0.39	%
Other borrowings	36	0.61	%	28	0.56	%	14	0.46	%
Total borrowed funds	$10,767	0.36	%	$12,113	0.31	%	$24,399	0.39	%

The Company’s primary borrowing source is the FHLB, but the Company may choose to borrow from other established business partners. “Other borrowings” represents overnight advances from the FRB or federal funds purchased from correspondent banks. At December 31, 2015, other borrowings was comprised of an overnight borrowing with a correspondent bank.

As a member of the FHLB, the Bank has the potential capacity to borrow an amount up to the value of its discounted qualified collateral. Borrowings from the FHLB are secured by certain securities from the Company's investment portfolio not otherwise pledged and certain residential and commercial real estate loans. At December 31, 2015, based on qualifying collateral less outstanding advances, the Bank had the capacity to borrow additional funds from the FHLB of up to approximately $370 million. In addition, based on qualifying collateral, the Bank had the capacity to borrow funds from the FRB Discount Window up to approximately $100 million. The Bank also has pre-approved

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

borrowing arrangements with large correspondent banks in order to provide overnight and short-term borrowing capacity.

See Note 2, "Investments," and Note 3, "Loans" above to these consolidated financial statements for further information regarding securities and loans pledged for borrowed funds.

The Company also carried subordinated debt of $14.8 million at December 31, 2015, and $10.8 million at December 31, 2014.

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 note issuance costs were $190 thousand and have been netted against the subordinated debt on the balance sheet in accordance with recent accounting guidance which 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"). In March 2000, Enterprise (MA) Capital Trust I (the "Trust"), a subsidiary of Enterprise Bancorp, issued $10.5 million of 10.875% trust preferred securities that were to mature in 2030 and were callable at a premium. The proceeds from the sale of the trust preferred securities were used by the Trust, along with the Company's $325 thousand capital contribution, to acquire $10.8 million in aggregate principal amount of the Company's 10.875% Debt that was to mature in 2030 and was callable.

In March 2015, the Company redeemed the Debt in full using proceeds from the $15.0 million in Notes issued in January 2015, which in turned allowed the Trust to redeem in full the trust preferred securities. The Company dissolved the Trust in April 2015.

(8) Commitments, Contingencies and Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to originate loans, standby letters of credit, unadvanced portions of loans and lines of credit and derivative instruments.

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of these instruments reflect the extent of involvement the Company has in the particular classes of financial instruments.

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

107

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Financial instruments with off-balance sheet credit risk at December 31, 2015 and 2014 are as follows:

(Dollars in thousands)	2015	2014
Commitments to originate loans	$48,641	$33,870
Commitments to originate residential mortgages loans for sale	1,516	1,471
Commitments to sell residential mortgage loans	3,225	3,842
Standby letters of credit	22,712	19,359
Unadvanced portions of commercial real estate loans	13,128	27,335
Unadvanced portions of commercial loans and lines	337,970	306,745
Unadvanced portions of construction loans (commercial & residential)	138,162	143,016
Unadvanced portions of home equity lines	73,397	64,337
Unadvanced portions of consumer loans	2,999	3,017

Commitments to originate loans are agreements to lend to a customer provided there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower.

The Company originates residential mortgage loans under agreements to sell such loans, and 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.

Standby 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, the Company creates a loan for the customer with the same criteria associated with similar loans.

Unadvanced portions of loans and lines of credit represent credit extended to customers but not yet drawn upon, and are secured or guaranteed under preexisting loan agreements. Commercial loans and lines may be collateralized by the assets underlying the borrower's business such as accounts receivable, equipment, inventory and real property or may be unsecured loans and lines to financially strong borrowers and are generally guaranteed by the principals of the borrower. Commercial real estate loans are generally secured by the underlying real property and rental agreements. Residential mortgage and home equity loans are secured by the real property financed. Consumer loans such as installment loans are generally secured by the personal property financed, while credit card loans and overdraft protection lines are generally unsecured. The Company seeks to manage its loan portfolio to avoid concentration by industry or loan size to minimize its credit risk exposure.

The Bank is required by the FRB to maintain in reserves certain amounts of vault cash and/or deposits with the FRB. The average daily reserve requirement included in "Cash and Due from Banks" was approximately $7.4 million and $14.3 million, based on the two week computation periods encompassing December 31, 2015 and 2014, respectively.

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 financial condition or

results of operations of the Company.

Derivatives and Hedging Activities

Interest rate lock commitments related to the origination of mortgage loans that will be sold are considered derivative instruments. The commitments to sell loans are also considered derivative instruments. The Company generally does

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

not pool mortgage loans for sale, but instead, sells the loans on an individual basis. To reduce the net interest rate exposure arising from its loan sale activity, the Company enters into the commitment to sell these loans at essentially the same time that the interest rate lock commitment is quoted on the origination of the loan. The Company estimates the fair value of these derivatives based on current secondary mortgage market prices. At December 31, 2015 and 2014, the estimated fair values of these derivative instruments were considered to be immaterial.

The Company may use interest-rate contract swaps as part of its interest-rate risk management strategy. Interest-rate swap agreements are entered into as hedges against future interest-rate fluctuations on specifically identified assets or liabilities. The Company did not have derivative fair value hedges or derivative cash flow hedges at December 31, 2015 and 2014.

Derivatives not designated as hedges, such as Back-to-Back Swaps as detailed in Note 1 are not speculative but rather, result from a service the Company provides to certain customers. The Company had two interest-rate swaps with an aggregate notional amount of $10.1 million at December 31, 2015. There were no interest-rate swaps related to this program at December 31, 2014.

Asset derivatives and liability derivatives are included in other assets and accrued expenses and other liabilities on the consolidated balance sheets, respectively.

The table below presents the fair value and classification of the Company’s derivative financial instruments at December 31, 2015.

	As of December 31, 2015	
(Dollars in thousands)	Asset Derivatives	Liability Derivatives
Back-to-Back Swaps	$16	$16

There was no gain or loss recognized in income on derivatives during the year ended December 31, 2015.

By using derivative financial instruments, the Company exposes itself to credit risk. Credit risk is the risk of failure by the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk for the Company. When the fair value of a derivative is negative, the Company owes the counterparty and, therefore, it does not possess credit risk. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that management believes to be creditworthy. As the swaps are subject to master netting agreements, the Company had limited exposure relating to interest rate swaps with institutional counterparties at December 31, 2015. The Company did not have any credit risk exposure for derivative financial instruments at December 31, 2015.

Certain derivative agreements contain provisions that require the Company to post collateral if the derivative exposure exceeds a threshold amount. The Company did not have any collateral posted as of December 31, 2015.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The table below presents the offsetting of derivatives and amounts subject to master netting agreements not offset in the consolidated balance sheet at the dates indicated.

	As of December 31, 2015					
	Gross Amounts of Recognized Asset/Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets Presented in the Statement of Financial Position	Gross amounts not offset in the Statement of Financial Position		
(Dollars in thousands)				Financial Instruments	Cash collateral (Received)/Posted	Net Amount
Asset Derivatives						
Back-to-Back Swaps	$16	—	$16	—	—	$16
Liability Derivatives						
Back-to-Back Swaps	$16	—	$16	—	—	$16

The Company has agreements with certain derivative counterparties that contain credit-risk-related contingent provisions. These provisions provide the counterparty with the right to terminate its derivative positions and require the Company to settle its obligations under the agreements if the Company defaults on certain of its indebtedness.

(9) Stockholders' Equity

The Company's authorized capital is divided into common stock and preferred stock. The Company is authorized to issue 20,000,000 shares of common stock and 1,000,000 shares of preferred stock.

Holders of common stock are entitled to one vote per share, and are entitled to receive dividends if and when declared by the Board of Directors. Dividend and liquidation rights of the common stock may be subject to the rights of any outstanding preferred stock.

The Company has a shareholders rights plan. Under the plan each share of common stock includes a right to purchase under certain circumstances one one-hundredth of a share of the Company's Series A Junior Participating Preferred Stock, par value $0.01 per share, at a purchase price of $52.00 per one one-hundredth of a preferred share, subject to adjustment, or, in certain circumstances, to receive cash, property, shares of common stock or other securities of the Company. The rights are not presently exercisable and remain attached to the shares of common stock until the occurrence of certain triggering events that would ordinarily be associated with an unsolicited acquisition or attempted acquisition of 10% or more of the Company's outstanding shares of common stock. The rights will expire, unless earlier redeemed, exchanged, or otherwise rescinded by the Company, on January 13, 2018. The rights have no voting or dividend privileges, and unless and until they become exercisable, have no dilutive effect on the earnings of the Company.

The Company issues restricted stock awards that upon vesting, may be net share-settled to cover payment for employee tax obligations, resulting in shares of common stock being reaquired by the Company. See Note 11, "Stock-Based Compensation Plans," below for further information about stock-based compensation issued by the Company and net share-settlement.

Capital Adequacy Requirements

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

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

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 dividend reinvestment plan and direct stock purchase plan.

Although management believes its current capital is adequate to support ongoing operations, 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.

In July 2013, the Federal Reserve, the FDIC and OCC, adopted a final rule that implements the Basel III changes to the international regulatory capital framework and revises the U.S. risk-based and leverage capital requirements for U.S. banking organizations. As a result of these regulatory changes, that became effective January 1, 2015, with a phase in period that extends to January 2019, the Company is subject to increased capital ratios, changes in the capital ratio calculations and the methodology used to calculate such ratios.

The Company began implementing the new regulatory requirements under Basel III in 2015. Management believes, as of December 31, 2015, that the Company and the Bank meet all capital adequacy requirements to which they were subject. As of December 31, 2015, both the Company and the Bank qualified as “well capitalized” under then applicable Federal Reserve Board and FDIC regulations. The current regulatory requirements, and the Company's and the Bank's actual capital amounts and ratios are presented as of December 31, 2015 in the table below.

	Actual		Minimum Capital for Capital Adequacy Purposes		Minimum Capital To Be Well Capitalized*	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
The Company						
Total Capital (to risk weighted assets)	$212,871	10.70 %	$159,198	8.00 %	$198,997	10.00 %
Tier 1 Capital (to risk weighted assets)	172,397	8.66 %	119,398	6.00 %	159,198	8.00 %
Tier 1 Capital (to average assets)*	172,397	7.73 %	89,173	4.00 %	N/A	N/A
Common equity tier 1 capital to risk-weighted assets	172,397	8.66 %	89,549	4.50 %	$129,348	6.50 %
The Bank						
Total Capital (to risk weighted assets)	$209,670	10.54 %	$159,189	8.00 %	$198,987	10.00 %
Tier 1 Capital (to risk weighted assets)	184,019	9.25 %	119,392	6.00 %	159,189	8.00 %
Tier 1 Capital (to average assets)	184,019	8.25 %	89,172	4.00 %	111,465	5.00 %
Common equity tier 1 capital to risk-weighted assets	184,019	9.25 %	89,544	4.50 %	129,341	6.50 %

*For the Bank to qualify as “well capitalized," it must maintain a leverage capital ratio (Tier 1 capital to average assets) of at least 5%. This requirement does not apply to the Company.

Under Basel III, capital ratio requirements for all banking organizations have increased and include a "capital conservation buffer," of 2.5% above the regulatory minimum risk-based capital requirements shown above. Both the Company's and the Bank's actual ratios, as outlined in the table above, would exceed this Basel III "Adequate" Ratio with full Capital Conservation Buffer as of December 31, 2015.

The capital conservation buffer requirement began 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. If a banking organization dips into its capital conservation buffer it may be restricted in its ability to pay dividends and discretionary bonus payments to its executive officers.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Although community banks began complying with the Basel III rules on January 1, 2015, as previously noted above, there is a phase in period for several aspects, including the capital conservation buffer, which began in January 2016 and extends to January 2019. For further information on the Basel III requirements see the “Supervision and Regulation” contained in Item 1, "Business" in this Form 10-K.

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 "Adequate" 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 to risk weighted assets	4.5%	2.5%	7.0%

Failure to meet minimum capital requirements can initiate or result in certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a material adverse effect on the Company’s financial statements. Under applicable capital adequacy requirements and the regulatory framework for prompt corrective action applicable to the Bank, the Company must meet specific capital guidelines that involve quantitative measures of the Company’s assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company’s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As noted above, capital ratios for 2015 are based on the Basel III regulatory capital framework implemented at the beginning of 2015. The capital ratios presented below for 2014 are based on the capital requirements in effect before the implementation of Basel III. As of December 31, 2014, the Company and the Bank met all capital adequacy requirements to which they were subject. As of December 31, 2014, both the Company and the Bank qualified as “well capitalized” under then applicable Federal Reserve Board and FDIC regulations. Prior to 2015, to have been categorized as "well capitalized" under the prompt corrective action framework, the Company and the Bank were required to maintain minimum Total and Tier 1 capital ratios, and in the case of the Bank, leverage capital ratios, as set forth in the table below.

	Actual		Minimum Capital for Capital Adequacy Purposes		Minimum Capital To Be Well Capitalized*	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2014						
The Company						
Total Capital (to risk weighted assets)	$189,733	11.27 %	$134,732	8.00 %	$168,415	10.00 %
Tier 1 Capital (to risk weighted assets)	167,299	9.93 %	67,366	4.00 %	101,049	6.00 %
Tier 1 Capital (to average assets)*	167,299	8.41 %	79,578	4.00 %	N/A	N/A

The Bank									
Total Capital (to risk weighted assets)	$188,446	11.19	%	$134,726	8.00	%	$168,407	10.00	%
Tier 1 Capital (to risk weighted assets)	166,013	9.86	%	67,363	4.00	%	101,044	6.00	%
Tier 1 Capital (to average assets)	166,013	8.35	%	79,544	4.00	%	99,430	5.00	%

*For the Bank to qualify as “well capitalized," it must maintain a leverage capital ratio (Tier 1 capital to average assets) of at least 5%. This requirement does not apply to the Company.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Dividends

Neither the Company nor the Bank may declare or pay dividends on its stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital requirements or if such declaration and payment would otherwise violate regulatory requirements.

As the principal asset of the Company, the Bank currently provides the only source of cash for the payment of dividends by the Company. 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 FDIC Improvement Act 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.

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.

(10) Employee Benefit Plans

401(k) Defined Contribution Plan and Profit Sharing

The Company has a 401(k) defined contribution employee benefit plan. The 401(k) plan allows eligible employees to contribute a percentage of their earnings to the plan. A portion of the employee contribution, as determined by the Compensation Committee of the Board of Directors, is matched by the Company. The Company's current percentage

match has been 60% up to the first 6% contributed by the employee.

All eligible employees, at least 18 years of age and completing 1 hour of service, may participate in the 401(k) plan. Vesting for the Company’s 401(k) plan matching contribution is based on years of service with participants becoming 20% vested on January 1st of the year following their date of hire and each subsequent January 1st increasing pro-rata to 100% vesting on January1st following five years of service. Amounts not distributable to an employee following termination of employment are used to offset plan expenses and the Company's contributions.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Prior to 2014, the Company also had a profit sharing component to the 401(k) plan. In 2014, the profit sharing component of the 401(k) plan was replaced by combining this component with an existing cash-based variable compensation vehicle. For the year ended December 31, 2013, the Company's expense for the profit sharing contribution to the 401(k) plan was $458 thousand.

The Company's expense for the 401(k) plan match (excluding the profit sharing component) was $859 thousand, $792 thousand and $692 thousand, respectively, for the years ended December 31, 2015, 2014, and 2013.

Supplemental Retirement Plan (SERP)

The Company has salary continuation agreements with two of its current executive officers, and one former executive officer. These salary continuation agreements provide for a predetermined fixed-cash supplemental retirement benefit to be provided for a period of 20 years after the individual reaches a defined "benefit age." The individuals covered under the SERP have reached the defined benefit age and are receiving payments under the plan. Additionally, the Company has not recognized service cost in the current or prior year as each officer had previously attained their individually defined benefit age and was fully vested under the plan.

This non-qualified plan represents a direct liability of the Company, and as such has no specific assets set aside to settle the benefit obligation. The funded status is the aggregate amount accrued, or the "Accumulated Benefit Obligation," which is equal to the present value of the benefits to be provided to the employee or any beneficiary. Because the Company's benefit obligations provide for predetermined fixed-cash payments, the Company does not have any unrecognized costs to be included as a component of accumulated other comprehensive income.

The amounts charged to expense for this plan are included in the table below. The Company anticipates accruing an additional $124 thousand to the plan for the year ending December 31, 2016.

The following table provides a reconciliation of the changes in the supplemental retirement benefit obligation and the net periodic benefit cost for the years ended December 31:

(Dollars in thousands)	2015	2014	2013
Reconciliation of benefit obligation:			
Benefit obligation at beginning of year	$2,844	$2,889	$3,181
Net periodic benefit cost:			
Interest cost	133	128	157
Actuarial loss (gain)	(47)	103	(173)
Net periodic benefit costs	$86	$231	$(16)
Benefits paid	(276)	(276)	(276)
Benefit obligation at end of year	$2,654	$2,844	$2,889
Funded status:			
Accrued liability as of December 31	$(2,654)	$(2,844)	$(2,889)
Discount rate used for benefit obligation[1]	4.75%	4.50%	5.00%

(1)

Management utilizes the Moody's 20 year AA corporate bond rates to establish the reasonableness of the discount rate used. The Company reviews and periodically updates the discount rate to reflect changes in bond market rates. The impact of the discount rate change is reflected as the actuarial gain or loss.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Benefits expected to be paid in each of the next five years and in the aggregate five years thereafter:

(Dollars in thousands)	
2016	$276
2017	276
2018	276
2019	276
2020	276
2021-2025	1,379

Supplemental Life Insurance

The Company has provided supplemental life insurance through split-dollar life insurance arrangements for certain executive and senior officers on whom the Bank owns bank-owned life insurance ("BOLI"). See Item (k) "Bank Owned Life Insurance" in Note 1, "Summary of Significant Accounting Policies," for further information regarding BOLI.

These arrangements provide a death benefit to the officer's designated beneficiaries that extend to postretirement periods for some of the supplemental life insurance plans. The Company has recognized a liability for these future postretirement benefits.

These non-qualified plans represent a direct liability of the Company, and as such has no specific assets set aside to settle the benefit obligation. The funded status is the aggregate amount accrued, or the “Accumulated Postretirement Benefit Obligation,” which is the present value of the future retirement benefits associated with this arrangement.

The following table provides a reconciliation of the changes in the supplemental life insurance plan obligation and the net periodic benefit cost for the years ended December 31:

(Dollars in thousands)	2015	2014	2013
Reconciliation of benefit obligation:			
Benefit obligation at beginning of year	$1,723	$1,576	$1,664
Net periodic benefit cost:			
Service cost	(56)	(38)	2
Interest cost	86	74	74
Actuarial loss (gain)	39	111	(164)
Total net period cost (benefit)	$69	$147	$(88)
Benefit obligation at end of year	$1,792	$1,723	$1,576
Funded status:			
Accrued liability as of December 31	$(1,792)	$(1,723)	$(1,576)
Discount rate used for benefit obligation[1]	4.75%	4.50%	5.00%

(1) Management utilizes the Moody’s 20 year AA corporate bond rates to establish the reasonableness of the discount rate used. The Company reviews and periodically updates the discount rate to reflect changes in bond market rates. The impact of the discount rate change is reflected as the actuarial gain or loss.

The amounts charged to expense for the postretirement cost of insurance for split dollar insurance coverage are included in the table above. The Company anticipates accruing an additional $76 thousand to the plan for the year ending December 31, 2016.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

See Note 11, “Stock-Based Compensation Plans” below, for additional information regarding employee benefits offered in the form of stock option and stock awards.

(11) Stock-Based Compensation Plans

The Company currently has two individual stock incentive plans: the 2003 plan as amended in 2009, and the 2009 plan as amended in 2012. The plans permit the Board of Directors to grant, under various terms, both incentive and non-qualified stock options (for the purchase of newly issued shares of common stock), restricted stock, restricted stock units and stock appreciation rights to officers and other employees, directors and consultants. These plans also allow for newly issued shares of common stock to be issued without restrictions, to officers and other employees, directors and consultants. As of December 31, 2015, 210,683 shares remain available for future grants under the 2009 plan. The 2003 plan is closed to future grants, although several awards previously granted under this plan remain outstanding and may be exercised in the future.

Total stock-based compensation expense related to these plans includes stock options and stock awards to officers and other employees included in salary and benefits expense, and stock awards and stock compensation in lieu of cash fees to directors both included in other operating expenses, and was $1.8 million for both the years ended December 31, 2015 and 2014 and $1.7 million for the year ended December 31, 2013. The total tax benefit recognized related to the stock-based compensation expense was $720 thousand, $700 thousand and $660 thousand for the years ended 2015, 2014 and 2013, respectively.

The actual tax benefit arising during the period for the tax deduction from stock-based compensation was $217 thousand, $320 thousand and $25 thousand in 2015, 2014, and 2013, respectively.

Stock Option Awards

Options granted since 2013 vest 50% in year two and 50% in year four, on the anniversary date of the awards. Options that are outstanding and have been granted under the plans prior to 2013 generally vest ratably over four years. Vested options are only exercisable while the employee remains employed with the Bank and for a limited period thereafter. For all awards, if a grantee’s employment or other service relationship, such as service as a director, is terminated for any reason, then any stock options granted that have not vested as of the time of such termination generally must be forfeited, unless the Compensation Committee or the Board of Directors, as the case may be, waives such forfeiture requirement.

Under the terms of the plans, stock options may not be granted at less than 100% of the fair market value of the shares on the date of grant and may not have a term of more than ten years. Any shares of common stock reserved for issuance pursuant to options granted under the 2009 plan that are returned to the Company unexercised shall remain available for issuance under such plan, while the plan is open. For participants owning 10% or more of the Company’s outstanding common stock (of which there are currently none), incentive stock options may not be granted at less than 110% of the fair market value of the shares on the date of grant and may not have an expiration term of more than five years.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The Company utilizes the Black-Scholes option valuation model in order to determine the per share grant date fair value of option grants. The table below provides a summary of the options granted, including the fair value, the fair value as a percentage of the market value of the stock at the date of grant and the average assumptions used in the model for the years indicated.

Stock Option Awards	2015	2014	2013
Options granted	27,376	31,229	47,684
Term in years	10.0	10.0	10.0
Average assumptions used in the model:			
Expected volatility	47 %	47 %	48 %
Expected dividend yield	2.90 %	2.88 %	2.96 %
Expected life in years	7.0	7.0	7.0
Risk-free interest rate	1.95 %	2.19 %	1.35 %
Market price on date of grant	$21.03	$20.29	$16.61
Per share weighted average fair value	$8.51	$8.32	$6.66
Fair value as a percentage of market value at grant date	40 %	41 %	40 %

The expected volatility is the anticipated variability in the Company’s share price over the expected life of the option base on the Company's historical volatility.

The expected dividend yield is the Company’s projected dividends based on historical annualized dividend yield to coincide with volatility divided by its share price at the date of grant.

The expected life represents the period of time that the option is expected to be outstanding. The Company utilized the simplified method and under this method, the expected term equals the vesting term plus the contractual term divided by 2.

The risk-free interest rate is based on the U.S. Treasury rate in effect at the time of grant for a period equivalent to the expected life of the option.

Stock option transactions during the year ended December 31, 2015 are summarized as follows:

(Dollars in thousands, except per share data)	Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Life in Years	Aggregate Intrinsic Value
Outstanding December 31, 2014	319,884	$14.92	4.1	$3,303
Granted	27,376	21.03		
Exercised	43,923	12.47		
Forfeited/Expired	2,368	17.56		
Outstanding December 31, 2015	300,969	$15.82	4.2	$2,116
Vested and Exercisable at December 31, 2015	204,344	$14.35	2.6	$1,738

The aggregate intrinsic value in the table above represents the difference between the closing price of the Company’s common stock on December 31, 2015 and the exercise price, multiplied by the number of options. If the closing price

was less than the exercise price of the option, no intrinsic value was assigned to the grant. At December 31, 2015, all of the vested and exercisable options were in-the money. The intrinsic value of options vested and exercisable represents the total pretax intrinsic value that would have been received by the option holders had all in-the-money vested option holders exercised their options on December 31, 2015. The intrinsic value will change based on the fair market value of the Company's stock.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Cash received from option exercises was $431 thousand, $889 thousand and $1.8 million in 2015, 2014 and 2013, respectively, net of payments to cover employee tax obligations. The total intrinsic value of options exercised was $396 thousand, $867 thousand and $1.1 million in 2015, 2014 and 2013, respectively.

Accounting guidance requires that the stock-based compensation expense recognized in earnings be based on the amount of awards ultimately expected to vest; therefore, a forfeiture assumption must be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company has estimated forfeitures based on historical experience for the portion of the grant which had vested and/or grants already vested based on similarities in the type of options and employee group.

Compensation expense recognized in association with the stock option awards amounted to $318 thousand, $363 thousand and $422 thousand for the years ended 2015, 2014 and 2013, respectively. The total tax benefit recognized related to the stock option expense was $127 thousand, $145 thousand, and $165 thousand for the years ended 2015, 2014, and 2013, respectively.

As of December 31, 2015, there was $451 thousand of unrecognized stock-based compensation expense, net of estimated forfeitures, related to non-vested stock options. That cost is expected to be recognized over the remaining weighted average vesting period of 1.9 years.

Stock Awards

Stock-based compensation expense recognized in association with the stock awards amounted to $1.2 million for the year ended December 31, 2015, $1.1 million for the year ended December 31, 2014, and $1.0 million for the year ended December 31, 2013. The total tax benefit recognized related to stock award compensation expense was $491 thousand, $458 thousand, and $418 thousand for the years ended 2015, 2014, and 2013, respectively.

In 2015, the Company granted 105 shares of fully vested stock as employee anniversary awards at a grant date fair market value of $23.64 per share. In 2014, the Company granted 2,142 shares of fully vested stock as employee anniversary awards at a grant date fair market value of 20.95 per share. There were no fully vested stock awards granted in 2013.

Restricted stock awards are granted at the market price on the date of the grant. Employee awards generally vest over four years in equal portions beginning on or about the first anniversary date of the award or are performance based awards. Employee performance based awards vest upon the Company achieving certain predefined performance objectives. Director awards generally vest over two years in equal portions beginning on or about the first anniversary date of the award.

The table below provides a summary of restricted stock awards granted in the years indicated.

Restricted Stock Awards	2015	2014	2013
Two Year Vesting	7,276	6,660	6,146
Four Year Vesting	17,775	19,167	26,660
Performance-Based Vesting	30,262	33,017	47,735
Total Restricted Stock Awards	55,313	58,844	80,541

Weighted average grant date fair value	$21.03	$20.29	$16.43

If a grantee's employment or other service relationship, such as service as a director, is terminated for any reason, then any shares of restricted stock that have not vested as of the time of such termination generally must be forfeited, unless the Compensation Committee or the Board of Directors, as the case may be, waives such forfeiture requirement.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The restricted stock awards allow for the receipt of dividends, and the voting of all shares, whether or not vested, throughout the vesting periods at the same proportional level as common shares outstanding.

Upon vesting, restricted stock awards may be net share-settled to cover payment for employee tax obligations, resulting in shares of common stock being reaquired by the Company. In accordance with Chapter 156D of the Massachusetts General Laws, a statute known as the Massachusetts Business Corporation Act, which applies to Massachusetts corporations such as the Company, eliminates the concept of “treasury stock” and provides that shares a Massachusetts company reacquires will be treated as authorized but unissued shares.

Any shares that are returned to the Company prior to vesting or as payment for employee tax obligations upon vesting shall remain available for issuance under such plan, while the plan is still open.

The following table sets forth a summary of the activity for the Company’s restricted stock awards.

(Dollars in thousands, except per share data)	Restricted Stock	Weighted Average Grant Price Per Share	Weighted Average Remaining Life In Years	Aggregate Intrinsic Value
Unvested December 31, 2014	157,694	$17.71	2.2	$3,982
Granted	55,313	21.03		
Vested/released	66,588	17.17		
Forfeited	1,702	18.58		
Unvested December 31, 2015	144,717	$19.22	1.0	$3,304

As of December 31, 2015, there remained $1.7 million of unrecognized compensation expense related to the restricted stock awards. That cost is expected to be recognized over the remaining weighted average vesting period of 1.6 years.

Director Stock Compensation in Lieu of Fees

In addition to restricted stock awards discussed above, the members of the Company’s Board of Directors may opt to receive newly issued shares of the Company’s common stock in lieu of cash compensation for attendance at Board and Board Committee meetings. Directors must make an irrevocable election to receive shares of common stock in lieu of cash fees prior to December 31st of the preceding year. Directors are granted shares of common stock in lieu of cash fees at a per share price which reflects the market value of the common stock on the first business day of the year.

Total directors' fee expense, included in other operating expenses, amounted to $424 thousand, $444 thousand and $356 thousand for the years ended December 31, 2015, 2014 and 2013, respectively. Included in the 2015 expense was stock compensation in lieu of cash fees of $254 thousand, which represented 10,657 shares issued to Directors in January 2016, at a fair market value price of $23.86 per share, which reflected the fair value of the common stock on January 2, 2015. Included in the 2014 expense was stock compensation of $242 thousand, which represented 11,612 shares issued to Directors in January 2015, at a fair market value price of $20.84 per share, which reflected the fair value of the common stock on January 2, 2014. Included in the 2013 expense was stock compensation of $194 thousand, which represented 11,136 shares issued to Directors in January 2014, at a fair market value price of $17.43 per share, which reflected the fair value of the common stock on January 2, 2013.

The total tax benefit recognized related to the expense of Director stock compensation for attendance was $102 thousand, $97 thousand and $77 thousand, for the years ended 2015, 2014 and 2013, respectively.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(12) Income Taxes

The components of income tax expense for the years ended December 31, were calculated using the asset and liability method as follows:

(Dollars in thousands)	2015	2014	2013
Current tax expense:			
Federal	$6,808	$5,814	$5,492
State	1,712	1,681	1,642
Total current tax expense	8,520	7,495	7,134
Deferred tax (benefit)/ expense:			
Federal	(284)	85	(100)
State	(122)	5	(83)
Total deferred tax (benefit)/ expense	(406)	90	(183)
Total income tax expense	$8,114	$7,585	$6,951

The provision for income taxes differs from the amount computed by applying the statutory U.S. federal income tax rate (35%) for 2015 and (34%) for prior years to income before taxes as follows:

(Dollars in thousands)	2015	2014	2013
Computed income tax expense at statutory rate	$8,492	$7,560	$6,963
State income taxes, net of federal tax benefit	1,034	1,113	1,029
Tax-exempt income, net of disallowance	(1,226)	(1,060)	(988)
Bank-owned life insurance income, net	(251)	(140)	(156)
Other	65	112	103
Total income tax expense	$8,114	$7,585	$6,951
Effective income tax rate	33.4%	34.1%	33.9%

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

At December 31, the tax effects of each type of income and expense item that give rise to deferred taxes are:

(Dollars in thousands)	2015	2014
Deferred tax asset:		
Allowance for loan losses	$11,800	$11,026
Depreciation	3,103	3,033
Other-than-temporary impairment on equity securities	22	168
Supplemental employee retirement plans	1,080	1,156
Non-accrual interest	1,393	1,440
Stock-based compensation expense	873	751
Other	163	97
Total	18,434	17,671
Deferred tax liability:		
Goodwill	2,300	2,140
Net unrealized gains on investments securities	1,204	2,057
Deferred origination costs	812	622
Other	7	—
Total	4,323	4,819
Net deferred tax asset	$14,111	$12,852

Management believes that it is more likely than not that current recoverable income taxes and the expectation of future taxable income, based on the Company's history of reporting taxable income, will generate sufficient taxable income to realize the deferred tax asset existing at December 31, 2015. However, factors, beyond management's control, such as the general state of the economy can affect future levels of taxable income and there can be no assurances that sufficient taxable income will be generated to fully realize the deferred tax assets in the future. In addition, management has the ability to sell any of the equity securities affected by the OTTI charge. A sale of the equity securities would ensure that, for tax purposes, a portion of the losses on sales could be applied against investment gains realized on the portfolio during the past three years, before the ability to carry back losses against these gains expires.

The Company paid total income taxes in 2015, 2014, and 2013 of $7.6 million, $7.5 million, and $7.3 million, respectively.

The Company did not have any unrecognized tax benefits accrued as income tax liabilities or receivables or as deferred tax items at December 31, 2015 or December 31, 2014.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and in the states of Massachusetts and New Hampshire. The Company is subject to U.S. federal and state income tax examinations by taxing authorities for the 2012 through 2015 tax years.

The Company invests in qualified affordable housing projects as a limited partner. In 2015, the Company estimated approximately $71 thousand of Federal Low Income Housing tax credits to be recognized. In both 2014 and 2013, the Company recognized $71 thousand of Federal Low Income Housing tax credits. The Company anticipates that it will receive additional tax credits related to the Federal Low Income Housing Tax Credit program in the amount of $460

thousand which are expected to be realized over the next 7 years.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(13) Earnings per share

The table below presents the increase in average shares outstanding, using the treasury stock method, for the diluted earnings per share calculation for the years ended December 31st:

	2015	2014	2013
Basic weighted average common shares outstanding	10,323,016	10,118,762	9,862,678
Dilutive shares	66,918	90,481	87,931
Diluted weighted average common shares outstanding	10,389,934	10,209,243	9,950,609

For the year ended December 31, 2015, all options outstanding were included in the year-to-date calculation of diluted earnings per share, as they were all considered "in the money" under the treasury stock method.

See Item (r) “Earnings per Share,” contained in Note 1, “Summary of Significant Accounting Policies,” for additional information regarding the earnings per share calculation.

(14) Fair Value Measurements

The FASB defines the fair value of an asset or liability to be the price which a seller would receive in an orderly transaction between market participants (an exit price) and also establishes a fair value hierarchy segregating fair value measurements using three levels of inputs: (Level 1) quoted market prices in active markets for identical assets or liabilities; (Level 2) significant other observable inputs, including quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs such as interest rates and yield curves, volatilities, prepayment speeds, credit risks and default rates which provide a reasonable basis for fair value determination or inputs derived principally from observed market data; and (Level 3) significant unobservable inputs for situations in which there is little, if any, market activity for the asset or liability. Unobservable inputs must reflect reasonable assumptions that market participants would use in pricing the asset or liability, which are developed on the basis of the best information available under the circumstances.

The following tables summarize significant assets and liabilities carried at fair value and placement in the fair value hierarchy at the dates specified:

	December 31, 2015	Fair Value Measurements using:		
(Dollars in thousands)	Fair Value	(level 1)	(level 2)	(level 3)
Assets measured on a recurring basis:				
Fixed income securities	$288,701	$—	$288,701	$—
Equity securities	11,657	11,657	—	—
FHLB Stock	3,050	—	—	3,050
Interest-rate swaps	16	—	16	—
Assets measured on a non-recurring basis:				
Impaired loans (collateral dependent)	2,516	—	—	2,516
Liabilities measured on a recurring basis:				
Interest-rate swaps	16	—	16	—

122

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

	December 31, 2014	Fair Value Measurements using:		
(Dollars in thousands)	Fair Value	(level 1)	(level 2)	(level 3)
Assets measured on a recurring basis:				
Fixed income securities	$230,790	$—	$230,790	$—
Equity securities	14,275	14,275	—	—
FHLB Stock	3,357	—	—	3,357
Assets measured on a non-recurring basis:				
Impaired loans (collateral dependent)	5,174	—	—	5,174
Other real estate owned	861	—	—	861

The Company did not have cause to transfer any assets between the fair value measurement levels during the year ended December 31, 2015 or the year ended December 31, 2014. There were no liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2014.

All of the Company's fixed income investments and equity securities that are considered “available-for-sale” are carried at fair value. The fixed income category above includes federal agency obligations, commercial and residential federal agency MBS, municipal securities, corporate bonds, and certificates of deposits as held at those dates. The Company utilizes third-party pricing vendors to provide valuations on its fixed income securities. Fair values provided by the vendors were generally determined based upon pricing matrices utilizing observable market data inputs for similar or benchmark securities in active markets and/or based on a matrix pricing methodology which employs The Bond Market Association’s standard calculations for cash flow and price/yield analysis, live benchmark bond pricing and terms/condition data available from major pricing sources. Therefore, management regards the inputs and methods used by third-party pricing vendors to be “Level 2 inputs and methods” as defined in the “fair value hierarchy.” The Company periodically obtains a second price from an impartial third-party on fixed income securities to assess the reasonableness of prices provided by the primary independent pricing vendor.

The Company’s equity portfolio fair value is measured based on quoted market prices for the shares, therefore these securities are categorized as Level 1 within the fair value hierarchy.

The Bank is required to purchase FHLB stock at par value 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, therefore these securities are categorized as Level 3 measures. See Note 1, “Summary of Significant Accounting Policies,” under Item (e) "Restricted Investments," above, for further information regarding the Company’s fair value assessment of FHLB capital stock.

Impaired loan balances in the table above represent those collateral dependent impaired commercial loans where management has estimated the credit loss by comparing the loan’s carrying value against the expected realizable fair value of the collateral (appraised value or internal analysis less estimated cost to sell, adjusted as necessary for changes in relevant valuation factors subsequent to the measurement date). Certain inputs used in these assessments, and possible subsequent adjustments, are not always observable, and therefore, collateral dependent impaired loans are categorized as Level 3 within the fair value hierarchy. A specific allowance is assigned to the collateral dependent impaired loan for the amount of management’s estimated credit loss. The specific allowances assigned to the collateral dependent impaired loans at December 31, 2015 amounted to $1.4 million compared to $1.7 million at December 31, 2014.

When OREO property is acquired, it is generally recorded at the lesser of the loan’s remaining principal balance, net of 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. Certain inputs used in appraisals or the Company's internal analysis, are not always observable, and therefore, OREO may be categorized as Level 3 within the fair value hierarchy. The Company carried no OREO at December 31, 2015 compared to $861 thousand at December 31, 2014. The Company sold the three properties held at December 31, 2014, recognizing net gains on OREO sales of $154 thousand, during the year ended December 31, 2015; there were no additions to OREO,

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

or subsequent impairment write-downs during the period. There were no sales or subsequent write downs of OREO during the year ended December 31, 2014.

The fair values for the interest-rate swap assets and liabilities represent a FASB Level 2 measurement and are based on settlement values adjusted for credit risks associated with the counterparties and the Company and observable market interest rate curves. The settlement values are based on discounted cash flow analysis, a widely accepted valuation technique, reflecting the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. Credit risk adjustments consider factors such as the likelihood of default by the Company and its counterparties, its net exposures and remaining contractual life. The change in value of interest-rate swap assets and liabilities attributable to credit risk was not significant during the reported periods. Refer also to Note 8, "Commitments, Contingencies and Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk," for additional information on the Company's interest-rate swaps.

Standby 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 fair value of these commitments was estimated to be the fees charged to enter into similar agreements, and accordingly these fair value measures are deemed to be FASB Level 2 measurements. In accordance with the FASB, the estimated fair values of these commitments are carried on the balance sheet as a liability and amortized to income over the life of the letters of credit, which is typically one year. The estimated fair value of these commitments carried on the balance sheet at December 31, 2015 and December 31, 2014 were deemed immaterial.

Interest-rate lock commitments related to the origination of mortgage loans that will be sold are considered derivative instruments. The commitments to sell loans are also considered derivative instruments. The Company generally does not pool mortgage loans for sale, but instead, sells the loans on an individual basis. To reduce the net interest rate exposure arising from its loan sale activity, the Company enters into the commitment to sell these loans at essentially the same time that the interest rate lock commitment is quoted on the origination of the loan. The Company estimates the fair value of these derivatives based on current secondary mortgage market prices. These commitments are accounted for in accordance with FASB guidance. The fair values of the Company’s derivative instruments are deemed to be FASB Level 2 measurements. At December 31, 2015 and December 31, 2014, the estimated fair value of the Company’s interest-rate lock commitments and commitments to sell these mortgages loans were considered to be immaterial.

The following table presents additional quantitative information about assets measured at fair value on a recurring and non-recurring basis for which the Company utilized Level 3 inputs (significant unobservable inputs for situations in which there is little, if any, market activity for the asset or liability) to determine fair value as of December 31, 2015.

(Dollars in thousands)	Fair Value	Valuation Technique	Unobservable Input	Unobservable Input Value or Range
Assets measured on a recurring basis:				
FHLB Stock	$3,050	FHLB Stated Par Value	N/A	N/A
Assets measured on a non-recurring basis:				
Impaired loans (collateral dependent)	$2,516	Appraisal of collateral	Appraisal adjustments (1)	5% - 50%

(1) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.

Estimated Fair Values of Assets and Liabilities

In addition to disclosures regarding the measurement of assets and liabilities carried at fair value on the balance sheet, the Company is also required to disclose fair value information about financial instruments for which it is practicable to estimate that value, whether or not recognized on the balance sheet.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

The carrying values, estimated fair values and placement in the fair value hierarchy of the Company's financial instruments for which fair value is only disclosed but not recognized on the balance sheet at the dates indicated are summarized as follows:

	December 31, 2015		Fair value measurement		
(Dollars in thousands)	Carrying Amount	Fair Value	Level 1 inputs	Level 2 Inputs	Level 3 Inputs
Financial assets:					
Loans held for sale	$1,709	$1,709	$—	$1,709	$—
Loans, net	1,830,954	1,845,009	—	—	1,845,009
Financial liabilities:					
Certificates of deposit (including brokered)	274,467	273,419	—	273,419	—
Borrowed funds	53,671	53,670	—	53,670	—
Subordinated debt	14,822	13,961	—	—	13,961

	December 31, 2014		Fair value measurement		
(Dollars in thousands)	Carrying Amount	Fair Value	Level 1 inputs	Level 2 Inputs	Level 3 Inputs
Financial assets:					
Loans held for sale	$2,371	$2,381	$—	$2,381	$—
Loans, net	1,645,483	1,668,863	—	—	1,668,863
Financial liabilities:					
Certificates of deposit (including brokered)	263,779	262,774	—	262,774	—
Borrowed funds	58,900	58,899	—	58,899	—
Subordinated debt	10,825	13,017	—	—	13,017

Excluded from this table are certain financial instruments with carrying values that approximated their fair value at the dates indicated, as they were short-term in nature or payable on demand. These include cash and cash equivalents, accrued interest receivable, non-term deposit accounts, and accrued interest payable. The respective carrying values of these instruments would all be considered to be classified within Level 1 of their fair value hierarchy.

Also excluded from these tables are the fair values of the unused portion of lines of credit and letters of credit which were estimated to be the fees currently charged to enter into similar agreements and are deemed immaterial, as well as, commitments to originate non-mortgage loans that were short-term, were at current market rates and estimated to have no significant change in fair value.

In cases where quoted fair values are not available, fair values are based upon estimates using various valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following methods and assumptions were used by the Company in estimating fair values of its financial instruments:

Loans held for sale: Loans held for sale are recorded at the lower of aggregate amortized cost or market value. The fair value is based on comparable market prices for loans with similar rates and terms.

Loans: The fair value of loans was determined using discounted cash flow analysis, using interest rates currently being offered by the Company. The incremental credit risk for adversely classified loans was considered in the determination of the fair value of the loans. This method of estimating fair value does not incorporate the exit price concept of fair value.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Financial liabilities: The fair values of certificates of deposit and borrowings were estimated using discounted cash flow analysis using rates offered by the Bank, or advance rates offered by the FHLB on December 31, 2015 and December 31, 2014 for similar instruments. The fair value of subordinated debt was estimated using discounted cash flow analysis using a market rate of interest at December 31, 2015 and December 31, 2014.

Limitations: The estimates of fair value of financial instruments were based on information available at December 31, 2015 and December 31, 2014 and are not indicative of the fair market value of those instruments as of the date of this report. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company’s entire holdings of a particular financial instrument. The fair value of the Company's time deposit liabilities do not take into consideration the value of the Company's long-term relationships with depositors, which may have significant value.

Because no active market exists for a portion of the Company’s financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates were based on existing on- and off-balance sheet financial instruments without an attempt to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments, including premises and equipment and foreclosed real estate.

In addition, the tax ramifications related to the realization of the unrealized appreciation and depreciation can have a significant effect on fair value estimates and have not been considered in any of the estimates. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(15) Parent Company Only Financial Statements

Balance Sheets

	December 31,	
(Dollars in thousands)	2015	2014
Assets		
Cash	$2,737	$699
Investment in subsidiaries	191,949	176,946
Other assets	546	510
Total assets	$195,232	$178,155
Liabilities and Stockholders’ Equity		
Liabilities		
Subordinated debt	$14,822	$10,825
Accrued interest payable	78	370
Other liabilities	5	10
Total liabilities	14,905	11,205
Stockholders' equity:		
Preferred stock, $0.01 par value per share; 1,000,000 shares authorized; no shares issued	—	—
Common stock $0.01 par value per share; 20,000,000 shares authorized; 10,377,787 shares issued and outstanding at December 31, 2015 (including 144,717 shares of unvested participating restricted awards) and 10,207,943 shares issued and outstanding at December 31, 2014 (including 157,694 shares of unvested participating restricted awards)	104	102
Additional paid-in capital	61,008	57,130
Retained earnings	116,941	105,951
Accumulated other comprehensive income	2,274	3,767
Total stockholders’ equity	180,327	166,950
Total liabilities and stockholders’ equity	$195,232	$178,155

Statements of Income

	For the years ended December 31,		
(Dollars in thousands)	2015	2014	2013
Equity in undistributed net income of subsidiaries	$17,277	$13,744	$13,571
Dividends distributed by subsidiaries	—	1,850	950
Loss distributed by divested subsidiary	(210)	—	—
Other income	17	—	—
Total income	17,084	15,594	14,521
Interest expense	1,071	1,177	1,177
Other operating expenses	500	194	225
Total operating expenses	1,571	1,371	1,402
Income before income taxes	15,513	14,223	13,119

Benefit from income taxes	(635)	(428)	(410)
Net income	$16,148	$14,651	$13,529

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

Parent Company Only Financial Statements
Statements of Cash Flows

	For the years ended December 31,		
(Dollars in thousands)	2015	2014	2013
Cash flows from operating activities:			
Net income	$16,148	$14,651	$13,529
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed net income of subsidiaries	(17,277)	(13,744)	(13,571)
Payment from subsidiary bank for stock compensation expense	1,791	1,704	1,652
Changes in:			
Other assets	(36)	(277)	9
Other liabilities	(12)	(3)	10
Subordinated debt issuance costs	(178)	—	—
Accrued interest payable	(292)	—	—
Net cash provided by operating activities	144	2,331	1,629
Cash flows from investing activities			
Investment in subsidiary	781	—	—
Net cash provided by investing activities	781	—	—
Cash flows from financing activities:			
Repayment of subordinated debt	(10,825)	—	—
Proceeds from the issuance of subordinated debt	15,000	—	—
Cash dividends paid	(5,158)	(4,853)	(4,535)
Proceeds from issuance of common stock	1,448	1,283	1,239
Proceeds from exercise of stock options	431	889	1,829
Tax benefit from stock-based compensation	217	320	25
Net cash provided by financing activities	1,113	(2,361)	(1,442)
Net increase (decrease) in cash and cash equivalents	2,038	(30)	187
Cash and cash equivalents, beginning of year	699	729	542
Cash and cash equivalents, end of year	$2,737	$699	$729

See Note 1, “Summary of Significant Accounting Policies,” under Item (a) "Organization of Holding Company and Basis of Presentation" and Note 7, "Borrowed Funds and Subordinated Debt," above, for further information regarding changes in both the Company's investment in the Capital Trust and in subordinated debt.

The Parent Company’s Statements of Comprehensive Income and Statements of Changes in Stockholders’ Equity are identical to the Consolidated Statements of Comprehensive Income and the Consolidated Statements of Changes in Stockholders’ Equity and therefore are not presented here.

128

ENTERPRISE BANCORP, INC
Notes to the Consolidated Financial Statements

(16) Quarterly Results of Operations (Unaudited)

(Dollars in thousands, except share data)	2015 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest and dividend income	$19,839	$20,437	$21,224	$21,971
Interest expense	1,385	1,253	1,264	1,275
Net interest income	18,454	19,184	19,960	20,696
Provision for loan losses	625	1,225	250	1,167
Net interest income after provision for loan losses	17,829	17,959	19,710	19,529
Non-interest income	3,125	3,222	3,177	3,615
Net gains on sales of investment securities	900	456	7	465
Non-interest expense	16,210	16,267	16,548	16,707
Income before income taxes	5,644	5,370	6,346	6,902
Provision for income taxes	2,024	1,855	2,054	2,181
Net income	$3,620	$3,515	$4,292	$4,721
Basic earnings per share	$0.35	$0.34	$0.41	$0.46
Diluted earnings per share	$0.35	$0.34	$0.41	$0.45

(Dollars in thousands, except share data)	2014 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Interest and dividend income	$18,231	$18,780	$19,394	$20,068
Interest expense	1,317	1,328	1,302	1,296
Net interest income	16,914	17,452	18,092	18,772
Provision for loan losses	200	200	765	230
Net interest income after provision for loan losses	16,714	17,252	17,327	18,542
Non-interest income	2,991	3,137	3,325	3,360
Net gains on sales of investment securities	488	127	215	789
Non-interest expense	14,825	15,445	15,115	16,646
Income before income taxes	5,368	5,071	5,752	6,045
Provision for income taxes	1,862	1,757	1,921	2,045
Net income	$3,506	$3,314	$3,831	$4,000
Basic earnings per share	$0.35	$0.33	$0.38	$0.39
Diluted earnings per share	$0.35	$0.32	$0.37	$0.39

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
Enterprise Bancorp, Inc.:

We have audited the accompanying consolidated balance sheets of Enterprise Bancorp, Inc. and its subsidiaries (the Company) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Bancorp, Inc. and its subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 15, 2016, expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Boston, Massachusetts
March 15, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors and Stockholders
Enterprise Bancorp, Inc.:

We have audited Enterprise Bancorp, Inc. and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Enterprise Bancorp, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Enterprise Bancorp, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Enterprise Bancorp, Inc. and subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015, and our report dated March 15, 2016, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Boston, Massachusetts
March 15, 2016

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains a set of disclosure controls and procedures designed to ensure that the information required to be disclosed in reports that it files or submits to the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

The Company carried out an evaluation as of the end of the period covered by this report, under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system was designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation and fair presentation of published financial statements. All internal control systems, however, no matter how well designed, have inherent limitations and may not prevent or detect misstatement. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, it used the 2013 criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in "Internal Control-Integrated Framework." Based on management's assessment, the Company believes that, as of December 31, 2015, the Company's internal control over financial reporting is effective based on these criteria.

The Company's independent registered public accounting firm has issued a report on the effectiveness of the Company's internal control over financial reporting, which appears on page 131 of this report.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that has occurred during the Company's most recent fiscal quarter (i.e., the three months ended December 31, 2015) that has materially affected, or is reasonably likely to materially affect, such internal control.

Item 9B. Other Information

None.

Part III

Items 10, 11, 12, 13 and 14.

The information required in Items 10, 11, 12, 13 and 14 of this part is incorporated herein by reference to the Company’s definitive proxy statement for its annual meeting of stockholders to be held May 3, 2016, which it expects to file with the SEC within 120 days of the end of the fiscal year covered by this report. For additional information on availability of the Company’s corporate governance guidelines, see the section titled “Company Website," contained in Item 1, "Business," to this Form 10-K.

Part IV

Item 15. Exhibits, Financial Statement Schedules

(a) The following documents are filed as part of this annual report:

(1) Financial Statements

See Index to Consolidated Financial Statements contained in Item 8 above.

(2) Financial Statement Schedules

None (information included in financial statements)

(3) Exhibits

Exhibit No. and Description

3.1	Amended and Restated Articles of Organization of the Company, incorporated by reference to the Company's Current Report on Form 8-K filed June 10 2013.
3.2	Amended and Restated Bylaws of the Company, as amended as of January 15, 2013, incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on January 22, 2013.
4.1	Renewal Rights Agreement dated as of December 11, 2007 by and between the Company and Computershare Trust Company, N.A., as Rights Agent, including Terms of Series A Junior Participating Preferred Stock, Summary of Rights to Purchase Shares of Series A Junior Participating Preferred Stock, and Form of Rights Certificate attached as Exhibits A, B and C thereto, incorporated by reference to Exhibit 4.5 to the Company's Current Report on Form 8-K filed on December 13, 2007.
10.1	Enterprise Bancorp, Inc. Employee Stock Purchase Plan, incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 (Reg. No. 333-136700), filed on August 17, 2006.
10.2	Enterprise Bancorp, Inc. 2003 Stock Incentive Plan, as amended May 2, 2006, incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 (Reg. No. 333-133792) filed May 4, 2006.
10.3.1	Specimen Nonqualified Stock Option Agreement under Enterprise Bancorp, Inc. 2003 Stock Incentive Plan, as amended, incorporated by reference to Exhibit 10.49.2 to the Company's Form 10-Q for the quarter ended March 31, 2007 (applicable to grants after December 31, 2006 and prior to March 17, 2009).
10.3.2	Specimen Nonqualified Stock Option Agreement (includes Company right of repayment) under Enterprise Bancorp, Inc. 2003 Stock Incentive Plan, as amended, incorporated by reference to Exhibit 10.49.4 to the Company's Form 10-Q for the quarter ended March 31, 2007 (applicable to grants after December 31, 2006 and prior to March 17, 2009).
10.4.1	Form of Restricted Stock Agreement dated as of March 17, 2009 under Enterprise Bancorp, Inc. 2003 Stock Incentive Plan, as amended, by and between the Company and each of George L. Duncan and James A. Marcotte, incorporated by reference to Exhibit 10.1 to the Company's Form Current Report on Form 8-K filed on March 26, 2009.

10.4.2	Form of Nonqualified Stock Option Agreement dated as of March 17, 2009 under Enterprise Bancorp, Inc. 2003 Stock Incentive Plan, as amended, by and between the Company and James A. Marcotte, incorporated by reference to Exhibit 10.2 to the Company's Form Current Report on Form 8-K filed on March 26, 2009.

10.5.1	Salary Continuation Agreement dated as of July 15, 2005 by and between the Bank and George L. Duncan, incorporated by reference to Exhibit 10.39.1 to the Company's Current Report on Form 8-K filed on July 20, 2005, as amended by Form 8-K/A filed on February 23, 2006.
10.5.2	Salary Continuation Agreement dated as of July 15, 2005 by and between the Bank and Richard W. Main, incorporated by reference to Exhibit 10.39.2 to the Company's Current Report on Form 8-K filed on July 20, 2005, as amended by Form 8-K/A filed on February 23, 2006.
10.6.1	First Amendment dated as of December 19, 2008 to Salary Continuation Agreement dated as of July 15, 2005 by and between the Bank and George L. Duncan, incorporated by reference to Exhibit 10.1.1 to the Company's Current Report on Form 8-K filed on December 24, 2008.
10.6.2	First Amendment dated as of December 19, 2008 to Salary Continuation Agreement dated as of July 15, 2005 by and between the Bank and Richard W. Main, incorporated by reference to Exhibit 10.1.2 to the Company's Current Report on Form 8-K filed on December 24, 2008.
10.7.1	Change in Control/Noncompetition Agreement dated as of December 18, 2008 by and among the Company, the Bank and Stephen J. Irish, incorporated by reference to Exhibit 10.12 to the Company's Form 10-K for the year ended December 31, 2008.
10.7.2	Change in Control/Noncompetition Agreement dated as of December 21, 2010 by and among the Company, the Bank and James A. Marcotte, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 22, 2010.
10.8.1	Employment Agreement dated July 9, 2015 by and among the Company, the Bank and George L. Duncan incorporated by reference to Exhibit 10.1.1 to the Company's Current Report on Form 8-K filed on July 9, 2015
10.8.2	Employment Agreement dated July 9, 2015 by and among the Company, the Bank and Richard W. Main, incorporated by reference to Exhibit 10.1.2 to the Company's Current Report on Form 8-K filed on July 9, 2015.
10.8.3	Employment Agreement dated July 9, 2015 by and among the Company, the Bank and John P. Clancy, Jr. incorporated by reference to Exhibit 10.1.2 to the Company's Current Report on Form 8-K filed on July 9, 2015.
10.9.1	Supplemental Life Insurance Agreement dated as of July 15, 2005 by and between the Bank and George L. Duncan, incorporated by reference to Exhibit 10.40.1 to the Company's Current Report on Form 8-K filed on July 20, 2005.
10.9.2	Supplemental Life Insurance Agreement dated as of July 15, 2005 by and between the Bank and Richard W. Main, incorporated by reference to Exhibit 10.40.2 to the Company's Current Report on Form 8-K filed on July 20, 2005.
10.10	Enterprise Bank and Trust Company Supplemental Life Insurance Plan adopted April 5, 2006, incorporated by reference to Exhibit 10.52 to the Company's Form 10-Q for the quarter ended September 30, 2006.
10.11	Enterprise Bancorp, Inc. 2009 Stock Incentive Plan, as amended on May 1, 2012 and June 16, 2015.
10.12.1	Specimen Nonqualified Stock Option Agreement under Enterprise Bancorp, Inc. 2009 Stock Incentive Plan, incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on May 6, 2009.

10.12.2	Specimen Restricted Stock Agreement under Enterprise Bancorp, Inc. 2009 Stock Incentive Plan, incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on May 6, 2009.
10.12.3	Specimen Restricted Stock Agreement for grants of restricted stock to officers and directors under Enterprise Bancorp, Inc. 2009 Stock Incentive Plan, incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2010.

10.13.1	Form of Restricted Stock Agreement dated as of March 19, 2013 under Enterprise Bancorp, Inc. 2009 Stock Incentive Plan, as amended, by and between the Company and each of George L. Duncan, John P. Clancy, Richard W. Main, James A. Marcotte, and Stephen J. Irish incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 25, 2013.
10.13.2	Form of Nonqualified Stock Option Agreement dated as of March 19, 2013 under Enterprise Bancorp, Inc. 2009 Stock Incentive Plan, as amended, by and between the Company and each of George L. Duncan, John P. Clancy, Richard W. Main, James A. Marcotte, and Stephen J. Irish incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 25, 2013.
10.14.1	Specimen Restricted Stock Agreement for grants of restricted stock to officers and directors under Enterprise Bancorp, Inc. 2009 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 25, 2013.
10.14.2	Specimen Restricted Stock Agreement for grants of restricted stock to officers and directors under Enterprise Bancorp, Inc. 2009 Stock Incentive Plan, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 24, 2014.
10.15.1	Enterprise Bank 2014 Variable Compensation Incentive Plan, incorporated by reference to Exhibit 10 to the Company's Current Report on Form 8-K filed on March 21, 2014.
10.15.2	Enterprise Bank 2015 Variable Compensation Incentive Plan, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 23, 2015.
10.16	Enterprise Bancorp, Inc. Dividend Reinvestment and Direct Stock Purchase Plan, incorporated by reference to the section of the Company's Registration Statement on Form S-3 (Reg. No. 333-197504), filed on August 8, 2014, appearing under the heading "The Plan."
10.17	Form of Subordinated Note Purchase Agreement dated January 30, 2015, incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 3, 2015.
21.0	Subsidiaries of the Registrant.
23.0	Consent of KPMG LLP.
31.1	Certification of principal executive officer under Securities and Exchange Act Rule 13a—14(a).
31.2	Certification of principal financial officer under Securities and Exchange Act Rule 13a—14(a).
32.0	Certification of principal executive officer and principal financial officer under 18 U.S.C § 1350 furnished pursuant to Securities and Exchange Act Rule 13a—14(b).
101	Interactive data files pursuant to Rule 405 of Regulation S-T: The following materials from Enterprise Bancorp, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015 were formatted in XBRL (eXtensible Business Reporting Language):

(i) Consolidated Balance Sheets as of December 31, 2015 and December 31, 2014,
(ii) Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013,
(iii) Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013,
(iv) Consolidated Statements of Changes in Equity for the years ended December 31, 2015, 2014 and 2013,

(v) Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013, and
(vi) Notes to Consolidated Financial Statements.

(b) Exhibits required by Item 601 of Regulation S-K

The exhibits listed above either have been previously filed and are incorporated herein by reference to the applicable prior filing or are filed herewith.

(c) Additional Financial Statement Schedules

None

ENTERPRISE BANCORP, INC.
SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

March 15, 2016

ENTERPRISE BANCORP, INC.
By: /s/ James A. Marcotte
James A. Marcotte
Executive Vice President,
Chief Financial Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ George L. Duncan George L. Duncan	Chairman	March 15, 2016
/s/ Gino J. Baroni Gino J. Baroni	Director	March 15, 2016
/s/ John P. Clancy, Jr. John P. Clancy Jr.	Director, Chief Executive Officer	March 15, 2016
/s/ John R. Clementi John R. Clementi	Director	March 15, 2016
/s/ James F. Conway, III James F. Conway, III	Lead Director, Vice Chairman	March 15, 2016
/s/ Carole A. Cowan Carole A. Cowan	Director	March 15, 2016
/s/ Normand E. Deschene Normand E. Deschene	Director	March 15, 2016
/s/ John T. Grady, Jr. John T. Grady, Jr.	Director	March 15, 2016
/s/ Eric W. Hanson Eric W. Hanson	Director	March 15, 2016
/s/ Mary Jane King Mary Jane King	Director	March 15, 2016
/s/ John A. Koutsos John A. Koutsos	Director	March 15, 2016
/s/ Joseph C. Lerner Joseph C. Lerner	Director	March 15, 2016
/s/ Richard W. Main Richard W. Main	Director, President	March 15, 2016
/s/Jacqueline F. Moloney Jacqueline F. Moloney	Director	March 15, 2016
/s/ Luis M. Pedroso Luis M. Pedroso	Director	March 15, 2016

137

/s/ Michael T. Putziger Michael T. Putziger	Director	March 15, 2016
/s/ Carol L. Reid Carol L. Reid	Director	March 15, 2016
/s/ Michael A. Spinelli Michael A. Spinelli	Director, Secretary	March 15, 2016
/s/ James A. Marcotte James A. Marcotte	Executive Vice President, Chief Financial Officer and Treasurer	March 15, 2016
/s/ Michael K. Sullivan Michael K. Sullivan	Controller of the Bank	March 15, 2016