ENTERPRISE BANCORP INC /MA/
Form 10-K
March 13, 2019
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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, 2018
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 of organization)	(IRS Employer Identification No.)

222 Merrimack Street, Lowell, Massachusetts	01852
(Address of principal executive offices)	(Zip code)

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

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

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

filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o
Smaller reporting company o		Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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:
$379,229,680 ($40.43 per share) as of June 30, 2018

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date:
March 1, 2019, Common Stock, par value $0.01, 11,722,413 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 7, 2019 are incorporated by reference in Part III of this Form 10-K.

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PART I

Item 1. Business

Organization

Enterprise Bancorp, Inc. (the "Company," "Enterprise," "us," "we," or "our") 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 and its subsidiaries. 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 Wealth 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 Wealth 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.

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

Market Area

The Company's primary market area is the Greater Merrimack Valley, Nashoba Valley and North Central regions of Massachusetts and Southern New Hampshire (Southern Hillsborough and Rockingham counties). Enterprise has 24 full-service branch banking offices located in the Massachusetts communities of Acton, Andover, Billerica, Chelmsford, Dracut, Fitchburg, Lawrence, Leominster, Lowell, Methuen, Tewksbury, Tyngsboro and Westford, and in the New Hampshire communities of Derry, Hudson, Nashua, Pelham, Salem and Windham, which serve those cities and towns as well as the surrounding communities.

Management actively seeks to strengthen the Company's 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 commercial loans and investment securities and utilizing the resulting cash flows to conduct operations, expand service and product offerings, expand the branch network, and pay dividends to stockholders. Through the

Bank and its subsidiaries, the Company offers a range of commercial, residential and consumer loan products, deposit products and cash management services, electronic and digital banking options, insurance services, as well as wealth management, wealth services, and trust services. The integrated branch network serves all product channels with knowledgeable service providers and well-appointed facilities. 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.

The Company's business is not dependent on one, or a few, customers, or upon a particular industry, the loss of which would have a material adverse impact on the financial condition or operations of the Company.

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Lending Products

General

The Company specializes in lending to business entities, non-profit organizations, professional practices 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 businesses, strong community involvement, and focused marketing strategies. Loans made to businesses, non-profits, and professional practices may include commercial real estate mortgage loans, construction and land development loans, secured and unsecured commercial loans and lines of credit, and letters of credit. The Company also originates equipment lease financing for businesses. Loans made to individuals may include conventional residential mortgage loans, home equity loans and lines, residential construction loans on owner-occupied primary and secondary residences, and secured and unsecured personal loans and lines of credit. The Company manages its loan portfolio to avoid concentration by industry, relationship size, and source of repayment 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. The Company has 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 swap counterparty. The customer interest-rate swap agreement allows commercial banking customers to convert a floating-rate loan payment to a fixed-rate payment. The transaction structure effectively minimizes the Bank's net interest rate risk exposure resulting from such transactions.

Enterprise employs a seasoned commercial lending staff, with commercial lenders supporting each of the Bank's branch locations. 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 the internal credit ratings assigned to loans in the commercial loan portfolio on a pre-determined schedule. The review is focused on the non-criticized segment of the portfolio, based on the type, size, rating, and overall risk of the loan and generally encompasses 55% or more of the commercial portfolio. This same company is also contracted to perform limited stress testing on the commercial real estate loan portfolio on an annual basis.

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 since the prior review. 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, loan operations, risk management 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 credit 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 Loan Committee of the Company's Board of Directors (the "Board") approves loan relationships exceeding certain prescribed dollar limits. The Board's Loan Committee 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 the loan policy and credit-related charge-offs recommended by management, subject to final approval by the full Board.

At December 31, 2018, 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 $54.2 million, subject to certain exceptions provided under applicable law.

See also Item 1A, "Risk Factors," and "Credit Risk," contained under the heading "Financial Condition," 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 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 occupied (investor) real estate. These loans are typically secured by a variety of commercial and industrial property types, including 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 real estate loans generally have repayment periods of approximately 15 to 25 years. Variable interest-rate loans have a variety of adjustment terms and underlying interest-rate indices and are generally fixed for an initial period before periodic rate adjustments begin.

Commercial and industrial loans include seasonal and formula-based revolving lines of credit, working capital loans, equipment financing (including equipment leases), formula-based lines of credit, 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, loans 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. Revolving lines of credit are written on demand and are subject to annual credit review. 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 underlying real estate collateral and are generally guaranteed by the principals of the borrowers. In many cases, these loans move into the permanent commercial real estate portfolio when the construction phase is completed. 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, 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 and reduce credit risk exposure among each participating bank, while providing customers with larger credit vehicles than the individual bank might be willing or able to offer independently. 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. Each participation is governed by individual participation agreements executed by the lead bank and the participant at loan inception. When the participation qualifies as a sale under U.S. generally accepted accounting procedures ("GAAP"), the balances participated out to other institutions are not carried as assets on the Company's consolidated financial statements. 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 a participating institution are carried in the loan portfolio at the Company's pro-rata share of ownership.

In addition, the Company participates in various community development loan funds in which local banks contribute to a loan pool that is independently managed. These loan pools make small dollar loans available to local businesses and start-ups that might otherwise not qualify for traditional small business loans directly from banks, with the potential risk spread among the participating banks. The goal of these partnerships with community development loan funds is to stimulate local economic development, create jobs, and help small businesses and entrepreneurs to become more viable, bankable and an integrated part of the local community.

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Letters of credit are conditional commitments issued by the Company to guarantee the financial obligation or performance of 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 as vacation homes or investment properties. Loan-to-value policy 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 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 have in the past been originated for one-to-four family residential properties with maximum original loan-to-value ratios generally up to 80% of the automated valuation or appraised value of the property securing the loan. Home equity loan payments consist of monthly principal and interest based on amortization ranging from 3 to 15 years. The rates may be variable or fixed.

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 automated valuation 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 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 15-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 consist primarily of secured or unsecured personal loans, loans under 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."

Deposit Products

Deposits have traditionally been the principal source of the Company's funds. Enterprise offers a broad selection of competitive commercial and retail deposit products, including transactional checking accounts, non-transactional savings and money market accounts, commercial sweep products, and term certificates of deposit ("CDs") typically ranging from 1 month to 72 months. The Company caters its deposit product offerings to commercial businesses, professionals, municipalities, and individuals. 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 checking deposits, money markets, and CDs balances to nationwide networks of reciprocating FDIC insured banks. Deposits are placed into nationwide networks in increments that are eligible for 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 CDs 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 consolidated balance sheet, however the network's reciprocal dollar deposits are carried within the appropriate product category under customer deposits on the consolidated 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. Low-cost checking deposits are an important component of the Company's core funding strategy.

Enterprise also utilizes brokered deposits, mainly term products, from several 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 lending and deposit products discussed above, commercial banking and municipal customers may take advantage of cash management services and products that enhance the reporting on and acceptance of deposited funds, the use of those funds for such purposes as payments, disbursements and overnight investment through the use of investment sweep services including third party FDIC enhanced money markets or third party non-deposit mutual funds. Management believes that commercial customers benefit from the flexibility of these products, while retaining conservative investment options 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, customers may access their bank accounts securely via personal computer or any internet-enabled phone or mobile device. Various electronic banking capabilities are delivered through the Bank's online website and mobile app allowing customers to view account balances, transactions, check images and statements, as well as perform internal and external account transfers, pay bills, and make person-to-person payments and check deposits.

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

Wealth Management and Wealth Services

The Company provides a range of wealth advisory and management services delivered via two channels, Enterprise Wealth Management and Enterprise Wealth Services.

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

Enterprise Wealth Management primarily utilizes an open-architecture approach to client investment management. The philosophy is to identify and select high performing mutual funds and independent investment management firms on behalf of our clients. The Company partners with investment research and due diligence firms to strengthen strategic development and provide performance monitoring capabilities. These firms perform detailed research and due diligence reviews and provide

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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 Wealth Management 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.

Enterprise Wealth 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.

The Enterprise Wealth Management Committee ("EWMC") of the Board is responsible for overseeing that the fiduciary and investment activities of the Enterprise Wealth Management and Services department are consistent with those powers delegated by the Board and overseeing that prudent care and discretion are followed in the management of client assets including client and Bank risk exposure. EWMC is also responsible for reviewing investment performance of investment advisors, strategic planning initiatives and results, and proposed new products or services, among other responsibilities.

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. In addition to the Bank, the Company holds investment securities in three Massachusetts security corporation subsidiaries in order to provide enhanced tax savings associated with certain state tax policies related to investment income.

The securities in which the Company may invest are limited by regulation. In addition, an internal investment policy restricts investments in debt securities to high-quality securities within prescribed categories as approved by the Board. 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, identifies acceptable and unacceptable investment practices, and denotes approved security dealers. 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 reserve cash balances, money market and 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.

The Company primarily invests in debt securities, with a small portion of the portfolio invested in equities. As of the balance sheet dates reflected in this annual report, all of the debt securities within the Company's investment portfolio were classified as available-for-sale and carried at fair value, with changes in fair value reflected in Other Comprehensive Income. Management regularly reviews the portfolio for debt securities with unrealized losses that are other-than-temporarily impaired ("OTTI"). For debt securities, OTTI is generally recognized through a charge to earnings as of the balance sheet date, while non-OTTI unrealized losses are recognized in other comprehensive income. Unrealized losses on debt securities are deemed OTTI if: 1) the Company intends to sell the security, 2) it is more likely than not that the Company will be required to sell the security

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before recovery, or 3) a credit loss exists, and the Company does not expect to recover the entire amortized cost. For debt securities that have a credit loss, any portion of the loss related to other factors is recorded in other comprehensive income.

The equity securities are carried at fair value, with changes in fair value recognized in net income.

Management reports investment transactions, portfolio allocation, effective duration, fair value at risk and projected cash flows to the Board on a periodic basis. Credit risk inherent in the portfolio is closely monitored by management and presented at least annually to the Board. The Board also approves the Company's internal investment policy annually and ongoing investment strategy.

The Company is required to purchase Federal Home Loan Bank of Boston ("FHLB") stock at par value 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 fair value.

See also Item 1A, "Risk Factors," and "Impairment Review of Investment Securities," contained under the heading "Accounting Policies/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 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 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, U.S. government and agency securities and certain municipal 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. The FHLB funding 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 and are classified as "other borrowings" under Borrowed Funds on the Company's balance sheets.

See also Item 1A, "Risk Factors," 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 $14.9 million (net of deferred issuance costs) of outstanding subordinated debt at December 31, 2018, compared to $14.8 million at December 31, 2017, which 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. See also Note 7, "Borrowed Funds and Subordinated Debt" to the Company's consolidated financial statements contained in Item 8 below, for further information regarding the Company's subordinated debt.

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Capital Resources

Capital planning by the Company and the Bank considers current needs and anticipated future growth. Ongoing sources of capital include the retention of earnings, less dividends paid, 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 (together, the "DRSPP"). Additional sources of capital for the Company and the Bank have been proceeds from the issuance of common stock and proceeds from the issuance of subordinated debt. The Company believes its current capital is adequate to support ongoing operations.

Since January 1, 2015, the Company has been subject to increasing capital ratio requirements, with a phase-in period that ended in January 2019, as a result of regulation adopted by the federal bank regulatory agencies known as the "Basel III Rules." Management believes, as of December 31, 2018, that the Company and the Bank meet all capital adequacy requirements to which they were subject. As of December 31, 2018, the Company met the definition of "well-capitalized" under the applicable Federal Reserve Board regulations and the Bank qualified as "well-capitalized" under the prompt corrective action regulations of Basel III and the FDIC.

See also "Capital Requirements," under the heading "Supervision and Regulation," contained below, for further information regarding the Company's and the Bank's regulatory capital requirements. See Note 10, "Stockholders' Equity," to the Company's consolidated financial statements, contained in Item 8 below, for further information regarding the Company's stockholder's equity and capital ratios.

Patents, Trademarks, etc.

The Company holds several 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, 2018, the Company employed 508 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 general banking products and services and Company information, as noted below, and www.enterprisewealth.com, for wealth advisory and management services offered by the Bank, with a secure client portal that provides access to various customizable reports and statements for customers' wealth accounts. The underlying structure of the websites allows for ongoing maintenance to be performed by third parties, and updates of information to be performed by authorized Company personnel. The information contained on or accessible from our websites does not constitute a part of this report and is not incorporated by reference.

The Bank's site provides information on the Company and its products and services. Users have the ability to securely 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 a secure online banking platform. The site also provides the access point to a variety of specified banking services and information, various financial management tools, and Company 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's Audit, Compensation, and Corporate Governance/Nominating committees.

In the Investor Relations section of the Bank's website, under the SEC Filings tab, the Company makes available copies of the Company's annual reports on Form 10-K (this "Form 10-K"), quarterly reports on Form 10-Q ("Form 10-Q"), proxy statements and current reports on Form 8-K ("Form 8-K"). Additionally, the site includes current 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

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Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (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's website (www.sec.gov).

Competition

Enterprise faces robust competition to attract and retain customers within existing and neighboring geographic markets. The Company's ability to achieve its long-term strategic growth and market share objectives will depend in part upon management's continued success in differentiating the Company in the marketplace and its ability to strengthen its competitive position. National and larger regional banks and financial institutions have a local presence in the Company's market area. These larger institutions 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 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, wealth 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 electronic payment and funding channels, and other financial intermediaries. The evolving financial technology ("Fintech") industry also aims to compete with traditional banking services, and delivery methods, although the industry offers opportunities for strategic partnerships, it is also a source for direct competition. Consolidation within the industry and customer disenfranchisement with larger national/international banks are expected to continue to have an impact on the regional competitive market.

The Company faces increasing competition within its marketplace on the pricing and terms 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.

Management expects a challenging deposit landscape in coming years, as banks compete for deposit growth in order to fund liquidity needs and loan growth in a rising interest rate environment. The Company actively seeks to increase deposit market share and strengthen its competitive position through continuous reviews of deposit product offerings, cash management and ancillary services and state-of-the-art secure delivery channels, targeted to businesses, non-profits, professional practice groups, municipalities and consumers' needs.

Enterprise carefully plans market expansion through active development of new branch locations, identifying markets strategically located to complement existing locations while expanding the Company's geographic market footprint.

The increased use and advances in technology, such as internet and mobile banking, non-bank electronic payment channels, electronic transaction processing and cybersecurity, are expected to have a significant impact on the future competitive landscape confronting financial service businesses.

In addition, the cost of compliance with new government regulations, changes in tax legislation and the interest-rate environment continue to impact competition and consolidation within the industry in various ways, with some participants better equipped to manage these changes than others based on size, depth of resources, or competitive product positioning, among other factors. See also "Supervision and Regulation" contained below, and Item 1A, "Risk Factors," for further discussion on how 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.

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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"). The Massachusetts Division of Banks (the "Division") also retains supervisory jurisdiction over the Company.

As a Massachusetts state-chartered bank, the Bank is subject to the supervision and regulation of the Division and, with respect to the Bank's New Hampshire branching operations, the New Hampshire Banking Department. As a state-chartered bank that accepts deposits and 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 financial condition and results of 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, as amended (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 Division.

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.

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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 Division 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 (the "Dodd-Frank Act"), Section 13 of the Bank Holding Company Act, commonly known as the "Volcker Rule," was amended 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 consolidated financial statements at this time. Moreover, pursuant to Section 203 of the Economic Growth, Regulatory Relief, and Consumer Protection Act, (the "EGRRCPA"), the banking regulatory agencies have set forth a proposal that would exclude a community bank from the restrictions of the Volcker Rule if (i) the community bank, and every entity that controls it, has total consolidated assets equal to or less than $10 billion; and (ii) trading assets and liabilities of the community bank, and every entity that controls it, is equal to or less than 5% of its total consolidated assets.

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. These activities include securities underwriting and dealing, insurance underwriting and making merchant banking investments. 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-managed" and "well-capitalized," 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 its 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.

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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 to its regulators. 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 banking agencies have adopted the Interagency Guidelines for Establishing Standards for Safety and Soundness. The guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest-rate exposure, asset growth, asset quality, earnings and compensation, and fees and benefits. In general, these guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines. These guidelines also prohibit excessive compensation as an unsafe and unsound practice and describe compensation as excessive when the amounts paid are unreasonable or disproportionate to the services performed by an executive officer, employee, director or principal stockholder.

Bank holding companies are not permitted to engage in unsafe or unsound banking practices. The Federal Reserve Board 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. The Federal Reserve Board also has the authority to prohibit activities of non-banking subsidiaries of bank holding companies which represent unsafe and unsound banking practices or which constitute violations of laws or regulations.

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 may 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 believes it not prudent to do so.

The Federal Reserve Board can assess civil money penalties for activities conducted on a knowing and reckless basis, if such unsafe and unsound activities caused a substantial loss to a depository institution. The Financial Institutions Reform, Recovery and Enforcement Act ("FIRREA") expanded the Federal Reserve's 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. FIRREA increased the amount of civil money penalties which the Federal Reserve can assess 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. FIRREA also expanded the scope of individuals and entities against which such penalties may be assessed.

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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 consolidated 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 $3 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. 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 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 based on 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 Basel III Rules (defined below), 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 Basel III Rules are fully phased in, in January 2019. See "Capital Requirements under Basel III" below.

Capital Requirements under Basel III

The rules adopted by the regulators implementing the international regulatory capital framework, referred to as 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 disallow the inclusion of instruments, such as trust preferred securities (other than grandfathered trust preferred securities), in Tier 1 capital and constraints on the inclusion of minority interests, mortgage-servicing assets, deferred tax assets and certain investments in the capital of unconsolidated financial institutions.

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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 was 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 will 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 Basel III minimum capital ratios as applicable to the Company and the Bank in 2019 after the full phase-in period of the capital conservation buffer 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)	8.00%	2.50%	10.50%
Tier 1 Risk Based Capital (tier 1 to risk weighted assets)	6.00%	2.50%	8.50%
Tier 1 Leverage Ratio (tier 1 to average assets)	4.00%	—	4.00%
Common Equity Tier 1 Risk Based Capital (CET1 to risk weighted assets)	4.50%	2.50%	7.00%

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 were also allowed to 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 previous 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. These concessions may be expanded under a proposed interagency rulemaking release on September 27, 2017. This rulemaking could, if finalized and among other things, revise the definition and capital framework for high volatility commercial real estate and simplify the capital treatment of mortgage servicing assets, deferred tax assets, and investments in the capital of unconsolidated financial institutions.

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.

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In 2009, the Federal Reserve Board 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 Division 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 Division 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 Division 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 Division 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 a 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 Division 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.

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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. 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%, which are the same minimum capital standards to which the Company is held on a consolidated basis. 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.

As of December 31, 2018, the Bank exceeded all Basel III regulatory minimum capital requirements.

On November 21, 2018, federal regulators released a proposed rulemaking that would, if enacted, provide certain banks and their holding companies with the option to elect out of complying with the Basel capital requirements. Under the proposal, a qualifying community banking organization ("QCBO") would be eligible to elect the community bank leverage ratio framework if it has a community bank leverage ratio ("CBLR") greater than 9 percent at the time of election.

A QCBO is defined as a bank, a savings association, a bank holding company or a savings and loan holding company with:

- Total consolidated assets of less than $10 billion;
- Total off-balance sheet exposures (excluding derivatives other than credit derivatives and unconditionally cancelable commitments) of 25 percent or less of total consolidated assets;
- Total trading assets and trading liabilities of 5 percent or less of total consolidated assets;
- Mortgage saving assets ("MSAs") of 25 percent or less of CBLR tangible equity; and
- Temporary difference deferred tax assets ("DTA"s) of 25 percent or less of CBLR tangible equity.

A QCBO may elect out of complying with the Basel III capital requirements if, at the time of election, the QCBO has a CBLR above 9 percent. The numerator of the CBLR is referred to as "CBLR tangible equity" and is calculated as the QCBO's total capital as reported in compliance with Call Report and FR Y-9C instructions ("Reporting Instructions") (prior to including non-controlling interests in consolidated subsidiaries) less:

1. Accumulated other comprehensive income (referred to in the industry as AOCI);
2. Intangible assets, calculated in accordance with Reporting Instructions, other than mortgage servicing assets; and
3. Deferred tax assets that arise from net operating loss and tax credit carry forwards net of any related valuations allowances.

The denominator of the CBLR is the QCBO's average assets, calculated in accordance with Reporting Instructions and less intangible assets and deferred tax assets deductible from CBLR tangible equity.

So long as the Company is eligible for small bank holding company status under the Small Bank Holding Company Policy Statement, the Company would not be subject to this proposal, if enacted. The Company will continue to monitor this rulemaking. If the rulemaking goes into effect, the Company and the Bank will consider whether it would be possible and advantageous at the time to elect to comply with the community bank leverage ratio framework.

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Prompt Corrective Action

The federal banking agencies have issued regulations pursuant to the FDIA, as revised by the Basel III Rules, 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. 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 full 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 as of December 31, 2018.

A bank that may otherwise meet the minimum requirements to be classified as well-capitalized, adequately capitalized, or undercapitalized may be treated instead as though it were in the next lower capital category if the appropriate federal banking agency, after notice and opportunity for hearing, determines that an unsafe or unsound condition, or an unsafe or unsound practice, warrants such treatment. Under the prompt corrective action regulations, a bank that is deemed to be undercapitalized or in a lesser capital category will be required to submit to its primary federal banking regulator a capital restoration plan and to comply with the plan.

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

Branching

Massachusetts law provides that a Massachusetts banking company may be "eligible" to submit a notice to the Division and the FDIC to establish a branch within the Commonwealth. A bank is "eligible" to submit a notice to establish a branch in the Commonwealth if the following conditions are met: (i) the bank has received a satisfactory or higher Community Reinvestment Act (the "CRA") rating at its most recent CRA examination by the Division or federal regulator; (ii) the bank is adequately capitalized as defined under the provisions of the Federal Deposit Insurance Act and the FDIC's Capital Adequacy Regulations; and (iii) the bank has not been notified that it is in troubled condition by the Division or any federal regulatory agency. A bank must also submit a notice to the Division to relocate or close an existing branch in the Commonwealth. The Division and the FDIC consider several factors when making a decision to approve the notice, including financial condition, capital adequacy, earnings prospects, the needs of the community, and whether competition would be adversely affected.

Previously, under the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, (the "Riegle-Neal Act"), a bank's ability to branch into a particular state was largely dependent upon whether the state "opted in" to de novo interstate branching. Many states did not "opt-in," which resulted in branching restrictions in those states. The Dodd-Frank Act amended the Riegle-Neal legal framework for interstate branching to permit national banks and state banks to establish branches in any state if that state would permit the establishment of the branch by a state bank chartered in that state. The Bank may, therefore, also establish branches in any other state if that state would permit the establishment of a branch by a state bank chartered in that state. In this case, the Bank would also be required to file a notice with the Division, 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 of $250,000 for each depositor, through the DIF and safeguards the safety and soundness of the banking and thrift industries. 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.

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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. However, 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. Additionally, under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC.

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, in July 2016, 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.

On September 30, 2018 the DIF reserve ratio reached 1.36%. Because the reserve ratio exceeded the targeted 1.35%, two deposit assessment changes occurred under FDIC regulations: 1) Surcharges on large banks ended, the last surcharge on large banks was collected on December 28, 2018; and 2) Small banks were awarded assessment credits for the portion of their assessment that contributed to the growth in the reserve ratio from 1.15% to 1.35%, to be applied when the reserve ratio is at least 1.38%. The Bank's preliminary assessment credit as calculated by the FDIC is $683 thousand. The FDIC notes however the final amount may increase or decrease based on adjustments to other bank's preliminary small bank assessment credit estimates. Credits automatically will be applied each quarter that the reserve ratio is at least 1.38%, up to the full amount of a small bank's credit or assessment, whichever is less.

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 remaining FICO bonds mature in 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. 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. However, if the Bank's capital becomes impaired or the FDIC or Division otherwise determines that the Bank needs more than normal supervision, the Bank may be prohibited or otherwise limited from paying any dividends or making any other capital distributions.

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.

Community Reinvestment Act

The Community Reinvestment Act of 1977 and the regulations issued thereunder 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 Division 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, relocate or close 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 Division and "Satisfactory" by the FDIC on its most recent Community Reinvestment Act examination.

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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 non-affiliated 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, (2) must follow the credit underwriting procedures at least as stringent as those applicable to comparable transactions with third parties, and (3) 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, 2018, the Bank’s concentrations of commercial real estate loans fall below the established levels and the Company believes its credit risk administration to be consistent with the recently published policy statement.

The Basel III Capital Rules also require loans categorized as "high-volatility commercial real estate," or HVCRE, to be assigned a 150% risk weighting and require additional capital support. However, the EGRRCPA, signed into law in May 2018, prohibits federal banking regulators from imposing this higher capital standards on HVCRE exposures unless they are for higher risk loans for acquisition, development or construction, or ADC, and clarifying ADC status.

The Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Act 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. The interchange rate cap has been set 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 non-banks. 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 Consumer Financial Protection Bureau ("CFPB") 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-fifth of the rulemaking requirements are either still in the proposal stage or have not yet been proposed. In addition, on February 3, 2017, the President signed an executive order ("Order") calling for the administration to review various U.S. financial laws and regulations. Pursuant to this Order, the U.S. Department of the Treasury released their first report on June 12, 2017 and their second report on October 6, 2017. The full scope of the current administration's legislative agenda is not yet fully known, but it may include certain deregulatory measures for the banking industry, including the structure and powers of the CFPB and other areas under the Dodd-Frank Act. On May 24, 2018, the EGRRCPA amended provisions in the Dodd-Frank Act with the intent to relieve the regulatory burden on community banks. A theme of the EGRRCPA is to provide broad exemption for smaller banking institutions from certain requirements of the Dodd-Frank Act, by raising the level of consolidated assets an institution must have before it becomes subject to certain regulatory requirements. A number of changes made by the EGRRCPA require agency implementation either through rule making procedures or other action by the federal banking regulators. Accordingly, it is difficult to anticipate the continued impact this expansive legislation will have on the Company, its customers and the financial industry generally. Still, the Dodd-Frank Act is likely to continue to increase the Company's cost of doing business, limit the Bank's permissible activities, and affect the competitive balance within the industry and market.

For more information on the EGRRCPA, please see “Bank Regulation - Capital Adequacy Requirements,” above, and “New Banking Reform Legislation,” below.

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Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau 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. The rule generally requires creditors to make a reasonable, good faith determination of a consumer's ability to repay for certain consumer credit transactions secured by a dwelling and establishes certain protections from liability under this requirement for "qualified mortgages." The EGRRCPA provides that for certain insured depository institutions and insured credit unions with less than $10 billion in total consolidated assets, mortgage loans that are originated and retained in portfolio will automatically be deemed to satisfy the "ability to repay" requirement. To qualify for this treatment, the insured depository institutions and credit unions must meet conditions relating to prepayment penalties, points and fees, negative amortization, interest-only features and documentation.

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. TRID also has changed the scope of transactions applicable and adjusted the tolerance requirements and record retention requirements.

Home Mortgage Disclosure Act ("HMDA")

On October 15, 2015, pursuant to section 1094 of the Dodd-Frank Act, the CFPB issued amended rules in regard to the collection, reporting and disclosure of certain residential mortgage transactions under the Home Mortgage Disclosure Act (the "HMDA Rules"). The Dodd-Frank Act mandated additional loan data collection points in addition to authorizing the Bureau to require other data collection points under implementing Regulation C. Most of the provisions of the HMDA Rule go into effect on January 1, 2018 and apply to data collected in 2018 and reporting in 2019 and later years. The HMDA Rule adopts a uniform loan volume threshold for all financial institutions, modifies the types of transactions that are subject to collection and reporting, expands the loan data information being collected and reported, and modifies procedures for annual submission and annual public disclosures. EGRRCPA amended provisions of the HMDA rule to exempt certain insured institutions from most of the expanded data collection requirements required of the Dodd- Frank Act. Institutions originating fewer than 500 dwelling secured closed end mortgage loans or fewer than 500 dwelling secured open end lines are exempt from the expanded data collection requirements that went into effect January 1, 2018. The Bank will not receive this reporting relief based on the number of dwelling secured mortgage loans reported annually.

UDAP and UDAAP

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.

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Incentive Compensation

In June 2010, the Federal Reserve Board, the Office of the Comptroller of the Currency and the 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, publicly traded companies are required by the SEC 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. Also, certain publicly traded companies are required to disclose the ratio of the compensation of its chief executive officer (CEO) to the median compensation of its employees. These companies are required to provide disclosure of their pay ratios for their first fiscal year beginning on or after January 1, 2017.

The Dodd-Frank Act 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. In May 2016, the federal banking regulators, joined by the SEC, proposed such a rule that is tailored based on the asset size of the institution. All covered financial institutions would be subject to a prohibition on paying compensation, fees, and benefits that are "unreasonable" or "disproportionate" to the value of the services performed by a person covered by the proposed rule (generally, senior executive officers and employees who are significant risk-takers). Moreover, the proposed rule includes a new requirement which provides that an incentive-based compensation arrangement must (i) include financial and non-financial measures of performance, (ii) be designed to allow non-financial measures of performance to override financial measures of performance, when appropriate (so called safety and soundness factors), and (iii) be subject to adjustment to reflect actual losses, inappropriate risk taking, compliance deficiencies, or other measures or aspects of financial and non-financial performance. 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 expose 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. In addition, Massachusetts has established Standards for the Protection of Personal Information which create minimum standards to be met in connection with the safeguarding of personal information and outline the content and timing of disclosures required following a system breach or compromise.

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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 non-affiliated 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 non-affiliated 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 non-affiliated 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, and Anti-Money Laundering

Our Company and the Bank are also subject to the Bank Secrecy Act, as amended by the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (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. Financial institutions must take reasonable steps to conduct enhanced scrutiny of account relationships to guard against money laundering and to report any suspicious information maintained by financial institutions. 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 record-keeping 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.

On May 10, 2016, the Financial Crimes Enforcement Network issued a final rule regarding customer due diligence requirements for covered financial institutions in connection with their Bank Secrecy Act and Anti-Money Laundering policies. The final rule adds a requirement to understand the nature and purpose of customer relationships and identify the "beneficial owner" of legal entity customers. The formal implementation date was May 11, 2018. Bank regulators routinely examine institutions for compliance with these obligations and they must consider an institution's anti-money laundering compliance when considering regulatory applications filed by the institution, including applications for bank mergers and acquisitions. The regulatory authorities have imposed "cease and desist" orders and civil money penalty sanctions against institutions found to be violating these obligations.

USA PATRIOT Act and Know-Your-Customer

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 providing for a system of internal controls, designating individuals responsible for compliance, 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.

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.

New Banking Reform Legislation

Other key provisions of the EGRRCPA as it relates to community banks and bank holding companies include, but are not limited to: (i) simplifying capital calculations for banks with less than $10 billion in assets by requiring federal banking agencies to establish a community bank leverage ratio of tangible equity to average consolidated assets of not less than 8% or more than 10%, and provide that banks that maintain tangible equity in excess of such ratio will be deemed to be in compliance with risk-based capital and leverage requirements; (ii) assisting smaller banks with obtaining stable funding by providing an exception for reciprocal deposits from FDIC restrictions on acceptance of brokered deposits; (iii) raising the eligibility for use of short-form Call Reports from $1 billion to $5 billion in assets; (iv) clarifying definitions pertaining to HVCRE, which require higher capital allocations, so that only loans with increased risk are subject to higher risk weightings; and (v) changing the eligibility for use of the small bank holding company policy statement from institutions with under $1 billion in assets to institutions with under $3 billion in assets.

At this time, it is difficult to anticipate the continued impact this expansive legislation will have on the Company, its customers and the financial industry generally. To the extent the Dodd-Frank Act remains in place or is not further amended, it is likely to continue to increase the Company's cost of doing business, limit the Bank’s permissible activities, and affect the competitive balance within the industry and market.

Other Pending and Proposed Legislation

From time to time, various legislative and regulatory initiatives are introduced in Congress, 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 or Bank 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.

See also Item 1A, "Risk Factors," for further discussion on how new laws and regulations may affect the Company's business, financial condition and results of operations.

Risk Management Framework

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

The risk management framework enables the aggregation of risk across the Company and provides reasonable assurance that management has the tools, programs and processes in place to support informed decision making, anticipate risks before they materialize and maintain the Company's risk profile consistent with its strategic planning, and applicable laws and regulations.

The Company takes a comprehensive approach to risk management with a defined enterprise risk management and operational risk management framework which provides a structured approach for identifying, assessing and managing risks across the Company in a coordinated manner, which includes, but is not limited to: credit risk, market and interest rate risk, legal and regulatory compliance risk, reputational risk, strategic risk, liquidity management, information security, internal controls over financial reporting, physical security, loss and fraud prevention, policy reviews, third party vendor management and contract management, business continuity planning, short and long-term capital projects and facility planning, and corporate governance.

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The Company promotes proactive risk management by all Enterprise employees with clear ownership and accountability. Managers in each line of business have responsibility for identifying, assessing and managing the risks in their areas. The Risk Management department is responsible for providing guidance, oversight and input on remediation to business lines to provide reasonable assurance that risk assessments and mitigating controls and procedures are properly designed and functioning with in their areas. The Risk Management department also independently monitors operational risk, including information security, third-party risk management, disaster recovery and business continuity planning. In addition, the Internal Audit department, which is independent of management, through reviews and testing, confirms appropriate risk management controls, processes and systems are in place and functioning effectively. The Company also maintains a package of commercial insurance policies with national insurers, which provides for a broad range of insurance coverage for a variety of risk factors, at levels deemed appropriate by management. Policies are reviewed annually, or as circumstances change, by management for necessary updates and adjustments in coverage.

The Chief Executive Officer has overall responsibility for risk management and manages strategic and reputational risks. The Chief Risk Officer (the "CRO") is responsible for establishing and maintaining oversight of the Company's enterprise risk management and operational risk management framework. The CRO oversees operational, cybersecurity, legal and compliance risk, fraud management and the bank wide security and facilities management programs. The Chief Financial Officer is responsible for overseeing and managing market, interest rate, liquidity, and capital risk management activities, also evaluating the effectiveness of the design of internal controls over financial reporting. The Credit Director and Chief Lending Officer are responsible for overseeing and managing credit risk. The Chief Operating Officer is responsible for technology administration and the Human Resources Director is responsible for compensation risk management. Periodic reports relating to the Company's risk profile are provided to the Board for analysis and review, additional risk assessments and management reporting is provided to management and the Board or its committees as deemed necessary.

Key Risk Areas

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 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, or insufficient information security, cybersecurity 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, employee and customer 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. These key operational risks are discussed below.

- 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.

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The Company has implemented layered security approaches for all electronic delivery channels to mitigate rising cybersecurity 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, to continually monitor and attempt to safeguard information on its operating systems and those of third-party service providers, and to quickly detect attacks. The Company also utilizes firewall technology and a combination of software and third-party monitoring to detect intrusion, and cybersecurity threats, guard against unauthorized access, and continuously identify and prevent computer viruses on the Company's information systems. To minimize debit card losses, the Company works with a third-party provider to establish parameters for allowable transaction activity, monitor transactions, and alert customers of potentially fraudulent activity.

- 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 exposes the Company to, and to rate and mitigate that risk by

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properly performing initial and ongoing due diligence when selecting or maintaining relationships with critical third-party providers.

- 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; or denial of access to our systems or information by outside parties. 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, 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 Distributed 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. These disclosure controls and procedures compel the Company to make appropriate accurate and timely disclosures of material events and incidents. 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.

The Banking Technology Steering Committee of the Board oversees the information security program and monitors the results of third-party testing and risk assessments and responses to breaches of customer data, among other technology, cybersecurity and business continuity related functions.

The Company maintains a set of internal controls over financial reporting designed to provide reasonable assurance to management that the information required to be disclosed in reports it files with or furnishes to the SEC is prepared and fairly presented based on properly recorded, processed, and summarized information. See Item 9A, "Controls and Procedures," for management’s reports on its evaluation of disclosure controls and internal controls over financial reporting.

For information regarding capital planning, current capital framework requirements applicable to the Company and the Bank and their respective capital levels at December 31, 2018, see the section within Item 1, "Business," entitled "Capital Resources" and the sections within "Supervision and Regulation" entitled "Capital Requirements" and "Capital Requirements under Basel III" and for the Bank "Capital Adequacy Requirements" and also see Note 10, "Stockholders' Equity," to the consolidated financial statements contained in Item 8, "Financial Statements and Supplementary Data."

Credit risk management is reviewed in detail in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Credit Risk." The Loan Committee of the Board oversees the effectiveness of the credit risk management.

Liquidity management is the coordination of activities so that cash needs are anticipated and met, readily and efficiently. Liquidity management is reviewed in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Liquidity."

Interest rate risk is reviewed in detail under Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," below.

The Asset Liability Committee of the Board oversees the effectiveness of liquidity and interest rate risk management.

Any system of controls or contingency plan, however well designed and operated, is based in part on certain assumptions and has inherent limitations and may not prevent or detect all risks, and therefore can provide only reasonable, not absolute, assurances that the objectives of the controls and procedures will be met. Any breakdown in the integrity of the design or functioning of the control, or the Company's inability to identify, respond and correct such breakdown, could subject the Company to increased costs and additional regulatory scrutiny, or result in loss of customer business, expose customers' personal information to unauthorized parties, damage the Company's reputation, and expose the Company to regulatory enforcement actions, civil litigation and possible financial liability, additional expenses, or losses, any of which could have a material adverse effect on 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, financial condition and results of operations.

This annual report on Form 10-K is qualified in its entirety by these risk factors. If any of the following risks occur, the Company's business, 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: 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; 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 bank regulatory reform, 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. Any future deregulatory measures for the banking industry, including the structure and powers of the Consumer Finance Protection Bureau and other areas under the Dodd-Frank Act or EGRRCPA could change banking statutes and the operating environment of the Company in substantial and unpredictable ways. 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. 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.

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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 that has been or may be adopted by the CFPB, FRB and FDIC. The Company and the Bank are also subject to a variety of federal and state laws and regulations which mandate nondiscriminatory lending requirements and certain disclosure requirements, 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 reputational risk, the failure to comply in any material respect with any of these laws and regulations could subject the Bank to various enforcement actions and/or penalties, including but not limited to 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 also 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 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 and are dependent on the skills and experience of the business' management team. 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 its 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. 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.

The Financial Accounting Standards Board has announced changes to accounting standards that will impact the way banking organizations estimate their allowance for loan losses beginning in January 2020. Upon initial adoption of the pending standard in January 2020, the resulting change to the allowance for loan losses will be offset with a cumulative effect adjustment to retained earnings, with subsequent provisions for loan losses booked to earnings. These changes or any others to accounting rules governing credit impairment estimates and recognition may increase the level of the allowance for loan losses, which 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 Note 1, "Summary of Significant Accounting Policies," Item (u) "Recent Accounting Pronouncements," under the section "Accounting pronouncements not yet adopted by the Company" for further information regarding Accounting Standards Update No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments."

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Increases in the Company's Non-performing 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 value less estimated cost to sell, which, when compared to the carrying value of the loan, may result in a loss. In addition, any errors in documentation or previously unknown defects in deeds may impact the Company's ability to prefect title of the collateral in foreclosure. These non-performing loans and other real estate owned assets 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 involve a large degree of estimates and assumptions and an error in fact or judgment could adversely affect the reliability of the valuation. Changes in those estimates resulting from continuing change in the economic environment and events occurring after the initial assessment may cause the value of the assets to decrease in future periods. As future events and their effects cannot be determined with precision, actual values could differ significantly from these estimates. 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.

Concentrations in Commercial Real Estate Lending are Subject to Heightened Risk Management and Regulatory Review

As noted above, the Company's loan portfolio consists primarily of commercial real estate loans. If a concentration in commercial real estate lending is present, as measured under government banking regulations, management must employ heightened risk management practices that address the following key elements: 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. When a concentration is determined to exist, the Company may incur additional operating expenses in order to comply with additional risk management practices and increased capital requirements which could have a material adverse effect on the Company's financial condition and results of operations.

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

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The Company's Investment Portfolio Could Incur Losses or Fair Value Could Deteriorate
There are inherent risks associated with the Company's investment activities. These risks include the impact from changes in interest rates, weakness in real estate, municipalities, government sponsored enterprises, or other industries, the impact of changes in income tax rates on the value of tax-exempt securities, 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 value and/or the ultimate collectability of the Company's investments. In addition to fair value impairment which could be caused by the factors noted above, fair 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 fair value of the debt security 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.

Changes in the fair value of equity securities are recorded in the Company's Consolidated Income Statement. The fair value changes of equity securities that will be recognized in net income in the future will depend on the amount of dollars invested in equities and the magnitude of changes in equity market values.

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.

In addition, the benefit of tax-exempt investments are directly related to the enacted tax law and rates, and lower tax rates will diminish the tax advantages of certain investments, as recently experienced with the 2017 Tax Cuts and Jobs Act ("the 2017 Tax Act).

See also "Impairment Review of Investment Securities," included in the section entitled "Accounting Policies/Critical Accounting Estimates," contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," Item (d), "Restricted Cash and Investments" and Item (e), "Investments," included in Note 1, "Summary of Significant Account Policies," to the Company's consolidated financial statements, contained in Item 8 below, and Note 2, "Investment Securities" to the Company's consolidated financial statements, contained in Item 8 below, for further information regarding the process by which the Company determines the level of OTTI, as well as information regarding fair value adjustments on equity securities.

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. In addition, certain assets may have rate caps and floors which restrict the level of rate movement that the Company can impose. If the interest rates paid on interest-bearing deposits and other 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 also 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. 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, or may have to increase deposit rates to maintain deposit levels in the future. Any such increased reliance on wholesale funding, or increases in funding rates in general, could have a negative impact on the Company's net interest income and, consequently, on its results of operations and financial condition.

See also "Other Sources of Funds," contained in Item 1, "Business," and "Liquidity," included in the section entitled "Financial Condition," contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 also "Other Sources of Funds," contained in Item 1, "Business," and "Liquidity," included in the section entitled "Financial Condition," contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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 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 activity), 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 have a negative impact on 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, 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

The Company's Enterprise Wealth Management and Enterprise Wealth Services channels derive their revenues primarily from investment management fees based on assets under management. Wealth management and wealth services 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. Any decrease in assets under management could reduce related fee income which in turn could have a negative impact on the Company's net interest income and, consequently, on its results of operations and financial condition.

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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 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, other financial intermediaries and non-bank electronic payment and funding channels. The evolving Fintech industry also aims to compete with traditional banking services, and delivery methods, although the industry offers opportunities for strategic partnerships, it is also a source for direct competition. 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.

Risk Management 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, or any illegal activity conducted by a Bank customer, 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 also "Risk Management Framework," contained above in Item 1, 'Business," for further information regarding the Company's operational risk management, information security and technology practices, the Company's Disaster Recovery and Business Continuity Plan and third-party risk management.

The Company is Subject to Technology Related Risk

The use of technology related products, services, delivery channels, access points and processes expose the Company to various risks, particularly operational, privacy, cybersecurity, 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.

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The Infrastructure Necessary to Run Technology May Experience an Interruption or Failure
The Company's and key service provider's information systems, in general, rely heavily on infrastructures such as electrical grids, voice and data communication, and internet server networks, which could be subject to failures or disruptions as a result of natural disasters, power or telecommunications disruptions, acts of terrorism or war, physical or electronic security breaches, industry wide or localized cyber-attacks, wide-spread Distributed Denial of Service 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 (including any breakdown in logic and/or algorithms used), 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 or breach in these information systems or the Company's inability to identify, respond and correct such breakdown or breach, 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.

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 the 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 cybersecurity 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, disclose and correct such infiltration in a timely manner, 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 and deter customers from using the Company's services, 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.

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 interruptions in customer services and our 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.

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; wealth advisory, management and custodial services; wealth brokerage 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.

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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, maintain liquidity, manage certain loan participations, mortgage sales activities and interest-rate swaps, 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, develop 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 through organic growth. 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 via 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, cybersecurity 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.

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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, fiduciary duties, customer expectations of service levels, in addition to potentially illegal activity (at a federal or state level) conducted by any of our customers, 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 Company's Insurance Coverage May Not be Adequate to Prevent Additional Liabilities or Expenses

The Company maintains insurance policies that provide coverage for various risks at levels the Company deems adequate to provide reasonable coverage for losses. The coverage applies to incidents and events which may impact such areas as: loss of bank facilities; accidental injury or death of employees; injuries sustained on bank premises; cyber and technology attacks or breaches; loss of customer nonpublic personal information; processing of fraudulent transactions; robberies, embezzlement and theft; improper processing of negotiable items or electronic transactions; improper loan underwriting and perfection of collateral, among others. These policies will provide varying degrees of coverage for losses under specific circumstances, and in most cases after related deductible amounts are paid by the Company. However, there is no guarantee that the circumstance of an incident will meet the criteria for insurance coverage under a specific policy, and despite the insurance policies in place the Company may experience a loss incident or event which could have a material adverse effect on the Company's business, reputation, 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 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 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 ("FASB") 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.

See item (u), "Recent Accounting Pronouncements," contained in Note 1, "Summary of Significant Accounting Policies," to the consolidated financial statements, contained in Item 8 below, for further information about the status of the Company's assessment of recently adopted and pending Accounting Standard Updates.

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Changes in Tax Policies at Both the Federal and State Levels Could Impact the Company's Financial Condition and Results of Operations

The Company's financial performance is impacted by federal and state tax laws. Enactment of new legislation, or changes in the interpretation of existing law, may have a material effect on the Company's financial condition and results of operations. A deferred tax asset ("DTA) is created by the tax effect of the differences between an asset's book value and its tax basis. The DTA is measured using enacted tax rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. Accordingly, a reduction in enacted tax rates may result in a decrease in current tax expense and a decrease to the Company's DTA, with an offsetting charge to current tax expense. The alternative would occur with an increase to enacted tax rates. In addition, certain tax strategies taken in the past derive their tax benefit from the current enacted tax rates. Accordingly, a change in enacted tax rates may result in a decrease/increase to anticipated benefit of the Company's previous transactions which in turn, could have a material effect on the Company's financial condition and results of operations.

The 2017 Tax Act reduced the Bank's federal tax rate beginning in 2018 to 21% from its previous level of approximately 35%. As noted above, the change required the Bank to revalue its DTAs for the year ended 2017 based upon the lower rate at which they will be recovered, thereby lowering their value. The reduction of the corporate federal tax rate was only one of many aspects of the new regulation that will have an impact on the Company's effective tax rate beginning in 2018.

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 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.

See also "Accounting Policies/Critical Accounting Estimates," contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further information regarding significant areas that management applies estimates and assumptions.

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

In accordance with GAAP, 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 would 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 also "Impairment Review of Goodwill," included in the section entitled "Accounting Policies/Critical Accounting Estimates," contained in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for further information regarding the process by which the Company determines whether an impairment of goodwill has occurred.

The Net Deferred Tax Assets May be Determined to be Unrealizable in Future Periods

In making its assessment on the future realizability of net DTAs, management considers all available positive and negative evidence, including recent financial operations, projected future taxable income, and recoverable past income tax paid. If in the future, management believes based upon historical and expected future earnings that it is more likely than not that the Company will not generate sufficient taxable income to utilize the DTA balance, then a valuation allowance would be booked against the DTA, with the write down offset to current earning Factors beyond management's control can affect future levels of taxable income and there can be no assurances that sufficient taxable income will be generated to fully realize the DTAs in the future. Any write down of the DTA 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.

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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 20% of the Company's outstanding common stock as of December 31, 2018. Management views this ownership commitment by insiders as an integral component of maintaining the Company's locally managed connection to the communities we serve and sense of ownership. 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 section entitled "Dividends," contained in Item 5, "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities" below.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's main office and operational support 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 on-site customer parking. The Company has an agreement to purchase one of the leased buildings in its main campus and anticipates this transaction will be completed during the first half of 2019. The Company also owns and maintains a back-up operations/data facility in the Merrimack Valley region of Massachusetts. As of December 31, 2018, the Company had 24 full-service branch banking offices serving the Greater Merrimack Valley, Nashoba Valley and North Central regions of Massachusetts, and Southern New Hampshire (Southern Hillsborough and Rockingham counties). Of these branches, 14 were leased and 10 were owned. The Company also has ATMs at 5 remote locations within its primary customer service area.

The Company believes that all of 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.

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.

The Company currently collects rent through non-cancelable leases for a small portion of the overall square-footage within its owned Lowell, MA campus headquarters and at one of its owned branch locations. For the years ended December 31, 2018, 2017 and 2016, these leases are deemed immaterial.

See also Note 5, "Premises and Equipment." to the Company's consolidated financial statements contained 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 business, consolidated financial condition or results of operations of the Company.

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."

As of March 1, 2019, there were 1,249 registered stockholders of the Company's common stock and 11,722,413 shares of the Company's common stock outstanding.

Dividends

In 2018, quarterly dividends of $0.145 per share were paid to the Company's stockholders in March, June, September and December. Total 2018 dividends of $0.58 per share compared to total dividends of $0.54 were paid to the Company's stockholders on a quarterly basis in 2017.

The Company maintains a 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. See Note 10, "Stockholders' Equity," to the consolidated financial statements in Item 8 below for further information regarding the share purchase option under the DRSPP.

For the year ended December 31, 2018, the Company paid $6.8 million in cash dividends to holders of common stock. Stockholders utilized the dividend reinvestment portion of the DRSPP to purchase an aggregate of 37,999 shares of the Company's common stock totaling $1.3 million. In 2017, the Company paid $6.2 million in cash dividends to holders of common stock. Stockholders utilized the dividend reinvestment portion of the DRSPP to purchase 44,752 shares of the Company's common stock totaling $1.5 million.

On January 15, 2019, the Company announced a quarterly dividend of $0.16 per share, which was paid on March 4, 2019 to stockholders of record as of February 11, 2019.

See the sections within Item 1, "Business," under the heading "Supervision and Regulation" entitled "Regulatory Restrictions on Dividends" and "Restrictions on Dividend and Other Capital Distributions," for information on factors that could impact the payment of dividends.

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Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2018, with respect to the Company's 2009 Stock Incentive Plan, as amended, and the 2016 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. The 2009 plan expires in March of 2019.

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	183,845	$ 20.90	417,857
Equity compensation plans not approved by security holders	—	—	—
TOTAL	183,845	$ 20.90	417,857

Repurchases of Common Stock

The following table represents information with respect to repurchases of common stock made by the Company during the three months ended December 31, 2018:

	Total Number of Shares Repurchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs Announced	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October	4,024	$31.12	—	—
November	—	—	—	—
December	—	—	—	—

(1) Amounts include shares repurchased that were not part of a publicly announced repurchase plan or program. These shares were owned and tendered by employees as payment for taxes on vesting restricted stock (net settlement of shares).

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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, 2018 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	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Enterprise Bancorp, Inc.	$100.00	$122.19	$113.09	$189.99	$175.10	$168.22
S&P 500 Index	100.00	113.69	115.26	129.05	157.22	150.33
SNL Bank $1B - $5B Index	100.00	104.56	117.04	168.38	179.51	157.27

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Item 6. Selected Financial Data

	Year Ended December 31,				
(Dollars in thousands, except per share data)	2018	2017	2016	2015	2014
EARNINGS DATA					
Net interest income	$108,835	$97,522	$86,792	$78,294	$71,230
Provision for loan losses	2,250	1,430	2,993	3,267	1,395
Net interest income after provision for loan loss	106,585	96,092	83,799	75,027	69,835
Non-interest income	14,940	14,958	13,639	13,139	12,813
Net (losses) gains on sales of investment securities	(2,950)	716	802	1,828	1,619
Non-interest expense	80,878	76,145	70,328	65,732	62,031
Income before income taxes	37,697	35,621	27,912	24,262	22,236
Provision for income taxes	8,816	16,228	9,161	8,114	7,585
Net income	$28,881	$19,393	$18,751	$16,148	$14,651
COMMON SHARE DATA					
Basic earnings per share	$2.47	$1.68	$1.71	$1.56	$1.45
Diluted earnings per share	2.46	1.66	1.70	1.55	1.44
Book value per share at year end	21.80	19.97	18.72	17.38	16.35
Dividends paid per share	$0.58	$0.54	$0.52	$0.50	$0.48
Basic weighted average shares outstanding	11,679,520	11,568,430	10,966,333	10,323,016	10,118,762
Diluted weighted average shares outstanding	11,750,462	11,651,763	11,039,511	10,389,934	10,209,243
YEAR END BALANCE SHEET AND OTHER DATA					
Total assets	$2,964,358	$2,817,564	$2,526,269	$2,285,531	$2,022,228
Loans serviced for others	89,232	89,059	80,996	71,272	64,122
Investment assets under management	800,751	844,977	725,338	678,377	674,604
Total assets under management[1]	$				