

ENTERPRISE BANCORP INC /MA/
Form 10-Q
May 06, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 31, 2016

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 (I.R.S. Employer Identification No.)
incorporation or organization)

222 Merrimack Street, Lowell, Massachusetts 01852
(Address of principal executive offices) (Zip code)
(978) 459-9000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition for "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

As of May 2, 2016, there were 10,474,757 shares of the issuer's common stock outstanding- Par Value \$0.01 per share

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PART I-FINANCIAL INFORMATION

Item 1 - Financial Statements
ENTERPRISE BANCORP, INC.
Consolidated Balance Sheets
(Unaudited)

(Dollars in thousands)	March 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents:		
Cash and due from banks	\$34,018	\$ 32,318
Interest-earning deposits	24,912	19,177
Total cash and cash equivalents	58,930	51,495
Investment securities at fair value	304,946	300,358
Federal Home Loan Bank stock	2,793	3,050
Loans held for sale	770	1,709
Loans, less allowance for loan losses of \$29,910 at March 31, 2016 and \$29,008 at December 31, 2015	1,834,782	1,830,954
Premises and equipment, net	31,984	30,553
Accrued interest receivable	8,393	7,790
Deferred income taxes, net	12,962	14,111
Bank-owned life insurance	28,209	28,018
Prepaid income taxes	—	57
Prepaid expenses and other assets	15,207	11,780
Goodwill	5,656	5,656
Total assets	\$2,304,632	\$ 2,285,531
Liabilities and Stockholders' Equity		
Liabilities		
Deposits	\$2,087,737	\$ 2,018,148
Borrowed funds	671	53,671
Subordinated debt	14,825	14,822
Accrued expenses and other liabilities	13,497	18,287
Income taxes payable	1,551	—
Accrued interest payable	266	276
Total liabilities	\$2,118,547	\$ 2,105,204
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, \$0.01 par value per share; 1,000,000 shares authorized; no shares issued	—	—
Common stock \$0.01 par value per share; 20,000,000 shares authorized; 10,473,738 shares issued and outstanding at March 31, 2016 (including 155,421 shares of unvested participating restricted awards), 10,377,787 shares issued and outstanding at December 31, 2015 (including 144,717 shares of unvested participating restricted awards)	105	104
Additional paid-in-capital	61,927	61,008
Retained earnings	119,904	116,941
Accumulated other comprehensive income	4,149	2,274
Total stockholders' equity	\$186,085	\$ 180,327
Total liabilities and stockholders' equity	\$2,304,632	\$ 2,285,531

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
 Consolidated Statements of Income
 (Unaudited)

(Dollars in thousands, except per share data)	Three months ended	
	March 31,	
	2016	2015
Interest and dividend income:		
Loans and loans held for sale	\$20,881	\$ 18,582
Investment securities	1,540	1,225
Other interest-earning assets	44	32
Total interest and dividend income	22,465	19,839
Interest expense:		
Deposits	1,088	992
Borrowed funds	63	21
Subordinated debt	231	372
Total interest expense	1,382	1,385
Net interest income	21,083	18,454
Provision for loan losses	850	625
Net interest income after provision for loan losses	20,233	17,829
Non-interest income:		
Investment advisory fees	1,104	1,177
Deposit and interchange fees	1,242	1,154
Income on bank-owned life insurance, net	191	100
Net gains on sales of investment securities	2	900
Gains on sales of loans	89	156
Other income	578	538
Total non-interest income	3,206	4,025
Non-interest expense:		
Salaries and employee benefits	10,485	9,581
Occupancy and equipment expenses	1,813	1,960
Technology and telecommunications expenses	1,423	1,417
Advertising and public relations expenses	679	730
Audit, legal and other professional fees	488	359
Deposit insurance premiums	326	293
Supplies and postage expenses	229	258
Investment advisory and custodial expenses	89	46
Other operating expenses	1,337	1,566
Total non-interest expense	16,869	16,210
Income before income taxes	6,570	5,644
Provision for income taxes	2,257	2,024
Net income	\$4,313	\$ 3,620
Basic earnings per share	\$0.41	\$ 0.35
Diluted earnings per share	\$0.41	\$ 0.35
Basic weighted average common shares outstanding	10,405,110	10,243,044
Diluted weighted average common shares outstanding	10,471,784	10,310,474

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
 Consolidated Statements of Comprehensive Income
 (Unaudited)

(Dollars in thousands)	Three months ended March 31,	
	2016	2015
Net income	\$4,313	\$3,620
Other comprehensive income, net of taxes:		
Gross change in unrealized holding gains on investments arising during the period	3,026	2,107
Income tax expense	(1,150)	(724)
Net unrealized holding gains, net of tax	1,876	1,383
Less: Reclassification adjustment for net gains included in net income		
Net realized gains on sales of securities during the period	2	900
Income tax expense	(1)	(314)
Reclassification adjustment for gains realized, net of tax	1	586
Total other comprehensive income	1,875	797
Comprehensive income	\$6,188	\$4,417

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.

Consolidated Statement of Changes in Stockholders' Equity
(Unaudited)

(Dollars in thousands, except per share data)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at December 31, 2015	\$ 104	\$ 61,008	\$ 116,941	\$ 2,274	\$ 180,327
Net income			4,313		4,313
Other comprehensive income, net				1,875	1,875
Common stock dividend paid (\$0.13 per share)			(1,350)		(1,350)
Common stock issued under dividend reinvestment plan	—	336			336
Common stock issued other	—	16			16
Stock-based compensation, net	1	422			423
Stock options exercised, net	—	145			145
Balance at March 31, 2016	\$ 105	\$ 61,927	\$ 119,904	\$ 4,149	\$ 186,085

See the accompanying notes to the unaudited consolidated interim financial statements.

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ENTERPRISE BANCORP, INC.
 Consolidated Statements of Cash Flows
 (Unaudited)

	Three months ended March 31,	
	2016	2015
(Dollars in thousands)		
Cash flows from operating activities:		
Net income	\$4,313	\$3,620
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses	850	625
Depreciation and amortization	1,425	1,389
Stock-based compensation expense	443	488
Mortgage loans originated for sale	(3,273)	(6,729)
Proceeds from mortgage loans sold	4,301	8,131
Net gains on sales of loans	(89)	(156)
Net gains on sales of OREO	—	(154)
Net gains on sales of investments	(2)	(900)
Income on bank-owned life insurance, net	(191)	(100)
Changes in:		
Accrued interest receivable	(603)	(268)
Prepaid expenses and other assets	(3,580)	6,807
Deferred income taxes	—	74
Accrued expenses and other liabilities	(662)	(228)
Subordinated debt issuance costs	3	(190)
Accrued interest payable	(10)	(282)
Net cash provided by operating activities	2,925	12,127
Cash flows from investing activities:		
Proceeds from sales of investment securities available-for-sale	306	10,151
Net proceeds (purchases) from FHLB capital stock	257	(882)
Proceeds from maturities, calls and pay-downs of investment securities	4,785	6,443
Purchase of investment securities	(9,210)	(9,877)
Net increase in loans	(4,678)	(9,459)
Additions to premises and equipment, net	(3,006)	(786)
Proceeds from OREO sales and payments	—	901
Proceeds from bank-owned life insurance	405	—
Net cash used in investing activities	(11,141)	(3,509)
Cash flows from financing activities:		
Net increase in deposits	69,589	96,748
Net decrease in borrowed funds	(53,000)	(58,000)
Repayment of subordinated debt	—	(10,825)
Proceeds from issuance of subordinated debt	—	15,000
Cash dividends paid	(1,350)	(1,279)
Proceeds from issuance of common stock	352	368
Exercise of stock options, net of repurchases for tax withholdings and tax benefit on stock options and restricted stock	60	384
Net cash provided by financing activities	15,651	42,396
Net increase in cash and cash equivalents	7,435	51,014
Cash and cash equivalents at beginning of period	51,495	40,146

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Cash and cash equivalents at end of period	\$58,930	\$91,160
Supplemental financial data:		
Cash Paid For: Interest	\$1,392	\$1,667
Cash Paid For: Income Taxes	636	587
Supplemental schedule of non-cash investing activity:		
Net purchases of investment securities not yet settled	100	2,237
See accompanying notes to the unaudited consolidated interim financial statements.		

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ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Interim Financial Statements

(1) Summary of Significant Accounting Policies

(a) Organization of Holding Company and Basis of Presentation

The accompanying unaudited consolidated interim financial statements and these notes should be read in conjunction with the December 31, 2015 audited consolidated financial statements and notes thereto contained in the 2015 Annual Report on Form 10-K of Enterprise Bancorp, Inc. (the "Company" or "Enterprise"), a Massachusetts corporation, as filed with the Securities and Exchange Commission (the "SEC") on March 15, 2016. The Company has not changed its accounting policies from those disclosed in its 2015 Annual Report on Form 10-K.

The Company's unaudited consolidated interim financial statements include the accounts of the Company and its wholly owned subsidiary, Enterprise Bank and Trust Company (the "Bank"). The Bank is a Massachusetts trust company organized in 1989. Substantially all of the Company's operations are conducted through the Bank and its subsidiaries.

The Bank's subsidiaries include Enterprise Insurance Services, LLC and Enterprise Investment Services, LLC, organized under the laws of the State of Delaware for the purposes of engaging in insurance sales activities and offering non-deposit investment products and services, respectively. In addition, the Bank has the following subsidiaries that are incorporated in the Commonwealth of Massachusetts and classified as security corporations in accordance with applicable Massachusetts General Laws: Enterprise Security Corporation; Enterprise Security Corporation II; and Enterprise Security Corporation III. The security corporations, which hold various types of qualifying securities, are limited to conducting securities investment activities that the Bank itself would be allowed to conduct under applicable laws.

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

Prior to the end of March 2015, pursuant to the Accounting Standards Codification ("ASC") Topic 810 "Consolidation of Variable Interest Entities," issued by the Financial Accounting Standards Board ("FASB"), the Company carried Junior Subordinated Debentures as a liability on its consolidated financial statements, along with the related interest expense. The debentures were issued by a statutory business trust (the "Trust") created by the Company in March 2000 under the laws of the State of Delaware, and the trust preferred securities issued by the Trust, and the related non-interest expense, were excluded from the Company's consolidated financial statements. In March 2015, the Company redeemed in full the Junior Subordinated Debentures, which in turn allowed the Trust to redeem in full the trust preferred securities. The Company also dissolved the Trust in April 2015. See Note 6, "Borrowed Funds and Subordinated Debt," below for further information on the Company's subordinated debt.

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

over the Company.

The accompanying unaudited consolidated interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and the instructions for Form 10-Q through the rules and interpretive releases of the SEC under federal securities law. In the opinion of management, the accompanying unaudited consolidated interim financial statements reflect all necessary adjustments consisting of normal recurring accruals for a fair presentation. All significant intercompany balances and transactions have been eliminated in the accompanying unaudited consolidated interim financial statements. Certain previous years' amounts in the consolidated financial statements, and notes thereto, have been reclassified to conform to the current year's presentation. Interim results are not necessarily indicative of results to be expected for the entire year.

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(b) Critical Accounting Estimates

In preparing the unaudited consolidated interim financial statements in conformity with GAAP, management is required to exercise judgment in determining many of the methodologies, assumptions and estimates to be utilized. These assumptions and estimates affect the reported values of assets and liabilities as of the balance sheet date and income and expenses for the period then ended. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates should the assumptions and estimates used change over time due to changes in circumstances. Changes in those estimates resulting from continuing change in the economic environment and other factors will be reflected in the financial statements and results of operations in future periods.

As discussed in the Company's 2015 Annual Report on Form 10-K, the three most significant areas in which management applies critical assumptions and estimates that are particularly susceptible to change relate to the determination of the allowance for loan losses, impairment review of investment securities and the impairment review of goodwill. Refer to Note 1, "Summary of Significant Accounting Policies," to the Company's consolidated financial statements included in the Company's 2015 Annual Report on Form 10-K for significant accounting policies. The Company has not changed its significant accounting policies from those disclosed in its 2015 Annual Report filed on Form 10-K.

(c) Reporting Comprehensive Income

Comprehensive income is defined as all changes to stockholders' equity except investments by and distributions to stockholders. Net income is one component of comprehensive income, with other components referred to in the aggregate as other comprehensive income. The Company's only other comprehensive income component is the net unrealized holding gains or losses on investments available-for-sale, net of deferred income taxes. Pursuant to Accounting Standards Update ("ASU") No. 2013-02, Comprehensive Income (Topic 220): Reporting Amounts Reclassified Out of Accumulated Other Comprehensive Income, the Company initially excludes these unrealized holding gains and losses from net income; however, they are later reported as reclassifications out of accumulated other comprehensive income into net income when the securities are sold. When securities are sold, the reclassification of realized gains and losses on available-for-sale securities are included on the Consolidated Statements of Income under the "non-interest income" subheading on the line item "net gains on sales of investment securities" and the related income tax expense is included in the line item "provision for income taxes," both of which are also detailed on the Consolidated Statements of Comprehensive Income under the subheading "reclassification adjustment for net gains included in net income."

(d) Restricted Investments

As a member of the Federal Home Loan Bank of Boston ("FHLB"), the Company is required to purchase certain levels of FHLB capital stock at par value 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.

In conjunction with the other-than-temporary-impairment ("OTTI") review on available-for-sale investments (See Note 2, "Investments," for additional information), management also regularly reviews its holdings of FHLB stock for OTTI. Based on management's periodic review, the Company has not recorded any OTTI charges on this investment to date. If it was determined that a write-down of FHLB stock was required, impairment would be recognized through a charge to earnings.

(e) Income Taxes

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

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

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

The Company did not have any unrecognized tax benefits accrued as income tax liabilities or receivables or as deferred tax items at March 31, 2016. The Company is subject to U.S. federal and state income tax examinations by taxing authorities for the 2012 through 2015 tax years.

(f) Subsequent Events

Although the Company believes its current capital is adequate to support ongoing operations, on April 21, 2016, the Company commenced a subscription rights offering to the Company's stockholders, together with a supplemental community offering, with the intention of raising up to \$10 million in gross proceeds. The Company has the ability to accept oversubscription requests in the rights offering and/or to facilitate sales of shares to new investors in the community offering resulting in gross proceeds of up to \$12 million. All shares sold in the offerings will be sold at a per share price of \$21.50. Subject to early termination or extension at the sole discretion of the Company, the rights offering is scheduled to expire on May 27, 2016 and the supplemental community offering is scheduled to expire on June 10, 2016. The Company intends to use the net proceeds from the offerings to support future asset growth and for various corporate purposes. The Company is using its existing shelf registration statement in connection with the offerings.

(g) Recent Accounting Pronouncements

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

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

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

ENTERPRISE BANCORP, INC.
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(2)Investments

The amortized cost and carrying values of investment securities at the dates specified are summarized as follows:

(Dollars in thousands)	March 31, 2016			
	Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Federal agency obligations ⁽¹⁾	\$78,640	\$ 1,097	\$ 19	\$79,718
Residential federal agency MBS ⁽¹⁾	72,069	844	184	72,729
Commercial federal agency MBS ⁽¹⁾	27,499	286	—	27,785
Municipal securities	97,040	2,928	43	99,925
Corporate bonds	10,284	128	29	10,383
Certificates of deposits ⁽²⁾	1,943	17	—	1,960
Total fixed income securities	287,475	5,300	275	292,500
Equity investments	10,969	1,879	402	12,446
Total available-for-sale securities, at fair value	\$298,444	\$ 7,179	\$ 677	\$304,946

(Dollars in thousands)	December 31, 2015			
	Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Federal agency obligations ⁽¹⁾	\$78,626	\$ 352	\$ 153	\$78,825
Residential federal agency MBS ⁽¹⁾	75,105	406	648	74,863
Commercial federal agency MBS ⁽¹⁾	23,908	—	363	23,545
Municipal securities	96,189	2,357	35	98,511
Corporate bonds	10,257	44	95	10,206
Certificates of deposits ⁽²⁾	2,753	—	2	2,751
Total fixed income securities	286,838	3,159	1,296	288,701
Equity investments	10,043	1,966	352	11,657
Total available-for-sale securities, at fair value	\$296,881	\$ 5,125	\$ 1,648	\$300,358

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

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

Included in the residential federal agency MBS category were collateralized mortgage obligations ("CMOs") totaling \$20.0 million and \$20.8 million at March 31, 2016 and December 31, 2015 respectively. All of the commercial MBS investments held by the Company were CMOs.

At March 31, 2016, the equity portfolio consisted primarily of investments in a diversified group of mutual funds, with a portion of the portfolio (approximately 16%) invested in individual common stock of entities in the financial services industry.

Net unrealized appreciation and depreciation on investments available-for-sale, net of applicable income taxes, are reflected as a component of accumulated other comprehensive income.

The net unrealized gain or loss in the Company's fixed income portfolio fluctuates as market interest rates rise and fall. Due to the fixed rate nature of this portfolio, as market rates fall the value of the portfolio rises, and as market rates rise, the value

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Notes to the Unaudited Consolidated Interim Financial Statements

of the portfolio declines. The unrealized gains or losses on fixed income investments will also decline as the securities approach maturity, or if the issuer is credit impaired. Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss on a fixed income investment is deemed to be other than temporary, the credit loss portion is charged to earnings and the noncredit portion is recognized in accumulated other comprehensive income.

The net unrealized gain or loss on equity securities will fluctuate based on changes in the market value of the mutual funds and individual securities held in the portfolio. Unrealized gains or losses will be recognized in the statements of income if the securities are sold. However, if an unrealized loss on an equity security is deemed to be other than temporary prior to a sale, the loss is charged to earnings.

Management regularly reviews the portfolio for securities with unrealized losses that are other-than-temporarily impaired. During the three months ended March 31, 2016 and 2015, the Company did not record any fair value impairment charges on its investments. As of March 31, 2016, there were a total of 36 investments (fixed income and equity, excluding CDs), with a fair market value of \$28.6 million, in an unrealized loss position totaling \$677 thousand, including 9 investments in an unrealized loss position totaling \$194 thousand that have been temporarily impaired for 12 months or longer. Management attributes these unrealized losses to increases in market yields compared to the yields at the time the investments were purchased by the Company and the impact of market value fluctuations on the equity portion of our portfolio. Management does not consider these investments to be other-than-temporarily impaired at March 31, 2016, because (1) the decline in market value is not attributable to credit quality for fixed income securities or a fundamental deterioration in the equity fund or issuers, and (2) the Company does not intend to, and it is more likely than not that it will not be required to, sell those investments prior to a market price recovery or maturity.

In assessing the Company's investments in federal agency mortgage-backed securities and federal agency obligations, the contractual cash flows of these investments are guaranteed by the respective government sponsored enterprise (FHLMC, FNMA, FFCB, or FHLB) or wholly-owned government corporation (GNMA). Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Company's investments. Management's assessment of other fixed income investments within the portfolio includes reviews of market pricing, ongoing credit quality evaluations, assessment of the investments' materiality, and duration of the investments' unrealized loss position. In addition, the Company utilizes an outside registered investment adviser to manage the corporate and municipal bond portfolios, within prescribed guidelines set by management, and to provide assistance in assessing the credit risk of those portfolios. At March 31, 2016, the Company's corporate and municipal bond portfolios did not contain any securities below investment grade, as reported by major credit rating agencies. For equities and funds, management's assessment includes the severity of the declines, whether it is unlikely that the security or fund will completely recover its unrealized loss within a reasonable time period and if the equity security or fund exhibits fundamental deterioration.

As noted in the table above, a small portion of the fixed income portfolio is also invested in short-term CDs purchased on the open market; none of which were in an unrealized loss position at March 31, 2016.

