ENTERPRISE BANCORP INC /MA/
Form 10-K
March 15, 2012
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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, 2011
OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number 001-33912
Enterprise Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Massachusetts	04-3308902
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
222 Merrimack Street, Lowell, Massachusetts	01852
(Address of principal executive offices)	(Zip code)

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

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

Common Stock, $0.01 par value per share	NASDAQ Global Market
(Title of each class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Exchange Act:
NONE
(Title of Class)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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) 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 or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid price and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter. 101,152,221 as of June 30, 2011

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: March 5, 2012, Common Stock - Par Value $01: 9,509,767 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 1, 2012 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” or “Enterprise”) is a Massachusetts corporation organized in 1996, which operates as the parent holding company of Enterprise Bank and Trust Company referred to as Enterprise Bank (the “Bank”). Substantially all of the Company’s operations are conducted through the Bank. The Bank, a Massachusetts trust company and state chartered commercial bank which commenced banking operations in 1989, has five wholly owned subsidiaries which are included in the Company’s consolidated financial statements:

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

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

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

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

Market Area

The Company’s primary market area is the Merrimack Valley and North Central regions of Massachusetts and Southern New Hampshire. With the February 2012 opening of the Pelham, New Hampshire branch, Enterprise has nineteen full service branch banking offices located in the Massachusetts cities and towns of Acton, Andover, Billerica, Chelmsford, Dracut, Fitchburg, Leominster, Lowell, Methuen, Tewksbury, and Westford; and in the New Hampshire towns of Derry, Hudson, Pelham and Salem, which serve those cities and towns as well as the surrounding communities.

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

Products and Services

The Company principally is engaged in the business of attracting deposits from the general public and investing in commercial loans and investment securities. Through the Bank and its subsidiaries, the Company offers a range of commercial and consumer loan products, deposit and cash management products, investment advisory and management, trust and insurance services. Management continually examines new products and technologies in order to maintain a highly competitive mix of offerings and state of the art delivery channels in order to target product lines to customer needs. These products and services are outlined below.

Lending Products

•General

The Company specializes in lending to business entities, non-profit organizations, professionals and individuals. The Company's primary lending focus is on the development of high quality commercial relationships achieved through active business development efforts, strong community involvement and focused marketing strategies. Loans made to businesses include commercial mortgage loans, construction and land development loans, secured and unsecured commercial loans and lines of credit, and standby letters of credit. The Company also originates equipment lease financing for businesses. Loans made to individuals include conventional residential mortgage loans, home equity loans and lines, residential construction loans

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on primary residences, and secured and unsecured personal loans and lines of credit. The Company does not have a “sub-prime” mortgage program. The Company seeks to manage its loan portfolio to avoid concentration by industry or loan size to minimize its credit risk exposure.

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

A management loan review committee, consisting of senior lending officers, loan review and accounting personnel, meets monthly and is responsible for setting loan policy and procedures, as well as reviewing loans on the internal “watched asset list” and classified loan report. An internal credit review committee, consisting of senior lending officers and loan review personnel, generally meets three times per month, or on an as needed basis, to review loan requests related to borrowing relationships of certain dollar levels, as well as other borrower relationships recommended for discussion by committee members.

The Executive Committee of the Company’s Board of Directors (the "Board") consists of five outside members of the Board and three executive officers who are also members of the Board, with several directors who are not on the committee rotating in on a regular basis. The Executive Committee approves loan relationships exceeding certain prescribed dollar limits. A Loan Committee, consisting of six outside members of the Board, and two executive officers who are also members of the Board, reviews current portfolio statistics, problem credits, construction loan reviews, watched assets, loan delinquencies, and the allowance for loan losses, as well as current market conditions and issues relating to the construction and real estate development industry and the reports from the external loan review company. The Board’s Loan Committee is also responsible for approval of credit related charge-offs recommended by management. Approved charge-offs are forwarded to the full Board for ratification.

At December 31, 2011, 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 $27 million, subject to certain exceptions provided under applicable law.

See also “Risk Factors” contained in Item 1A, 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 Construction Loans

Commercial real estate loans include loans secured by both owner-use and non-owner occupied real estate. These loans are typically secured by a variety of commercial and industrial property types, including one-to-four family and multi-family apartment buildings, office or mixed-use facilities, strip shopping centers, or other commercial property, and are generally guaranteed by the principals of the borrower. Commercial real estate loans generally have repayment periods of approximately fifteen to twenty-five years. Variable interest rate loans have a variety of adjustment terms and indices, and are generally fixed for the first one to five years before periodic rate adjustments begin.

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

Commercial construction loans include the development of residential housing and condominium projects, the development of commercial and industrial use property and loans for the purchase and improvement of raw land. These loans are secured in whole or in part by the underlying real estate collateral and are generally guaranteed by the principals of the borrowers. Construction lenders work to cultivate long-term relationships with established developers. The Company limits the amount of financing provided to any single developer for the construction of properties built on a speculative basis. Funds for construction projects are disbursed as pre-specified stages of construction are completed. Regular site inspections are

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performed, either by experienced construction lenders on staff or by independent outside inspection companies, at each construction phase, prior to advancing additional funds. Commercial construction loans generally have terms of one to three years.

From time to time, Enterprise participates with other banks in the financing of certain commercial projects. 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 risk. In each case in which the Company participates in a loan, the rights and obligations of each participating bank are divided proportionately among the participating banks in an amount equal to their share of ownership and with equal priority among all banks. The balances participated out to other institutions are not carried as assets on the Company's financial statements. Loans originated by other banks in which the Company is the participating institution are carried in the loan portfolio at the Company's pro rata share of ownership. The Company performs an independent credit analysis of each commitment and a review of the participating institution prior to participation in the loan.

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

• Residential Loans

Enterprise originates conventional mortgage loans on one-to-four family residential properties. These properties may serve as the borrower's primary residence, or be vacation homes or investment properties. Loan to value limits vary generally from 80% for adjustable rate and multi-family owner occupied properties, up to 97% for fixed rate loans on 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 residences. Residential mortgage loans may have terms of up to 30 years at either fixed or adjustable rates of interest. Fixed and adjustable rate residential mortgage loans are generally originated using secondary market underwriting and documentation standards.

Depending on the current interest rate environment, management projections of future interest rates and the overall asset-liability management program of the Company, management may elect to sell those fixed and adjustable rate residential mortgage loans which are eligible for sale in the secondary market, or hold some or all of this residential loan production for the Company's portfolio. Mortgage loans are generally not pooled for sale, but instead sold on an individual basis. Enterprise may retain or sell the servicing when selling the loans. All loans sold are currently sold without recourse, subject to an early payment default period covering the first four payments for certain loan sales.

• Home Equity Loans and Lines of Credit

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

The Company originates home equity lines for one-to-four family residential properties with maximum combined loan to value ratios generally up to 80% of the assessed or appraised value of the property securing the loan. Home equity lines generally have interest rates that adjust monthly based on changes in the Prime Rate as published in The Wall Street Journal, 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 for the first ten years of the lines are interest only payments. Generally at the end of ten years, the line is frozen to future advances, and principal plus interest payments are collected over a fifteen-year amortization schedule.

• Consumer Loans

Consumer loans primarily consist of secured or unsecured personal loans and overdraft protection lines on checking accounts extended to individual customers.

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," under the headings "Credit Risk/Asset Quality" and "Allowance for Loan Losses," contained in the section "Financial Condition," and under the heading "Allowance for Loan Losses" which is contained in the "Critical Accounting Estimates" section of Item 7.

Deposit Products

Deposits have traditionally been the principal source of the Company's funds. Enterprise offers commercial checking, business and municipal savings accounts, money market and business sweep accounts, and escrow management accounts, as well as checking and Simplified Employee Pension ("SEP") accounts to employees of our business customers. A broad selection of competitive retail deposit products are also offered, including personal checking accounts earning interest or reward points, savings accounts, money market accounts, individual retirement accounts ("IRA") and term certificates of deposit ("CDs"). Terms on CDs typically range from one month to forty-eight months.

In addition to traditional in-house deposits, the Company also provides customers the ability to allocate money market deposits and CDs to networks of reciprocating Federal Deposit Insurance Corporation (the "FDIC") insured banks. Money market deposits are placed into overnight deposits and CDs are placed into selected term deposits via nationwide networks in increments that are covered by FDIC insurance. This allows the Company to offer full FDIC insurance coverage on larger deposit balances by placing the "excess" funds in FDIC insured accounts or term certificates issued by other banks participating in the networks. In exchange, the other institutions place dollar-for-dollar matching reciprocal and insurable deposits with the Company via the networks. Essentially, the equivalent of the original deposit comes back to the Company and is available to fund local loan growth. The original funds placed into the networks are not carried as deposits on the Company's balance sheet, however the network's reciprocal dollar deposits are carried as non-brokered deposits within the appropriate category under total deposits on the balance sheet.

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

Enterprise may also utilize brokered term and overnight deposits from a number of available sources, as an alternative to borrowed funds to support asset growth in excess of internally generated deposits. Brokered CD terms generally range from one to twelve months. The Company may also accept CDs and overnight brokered money market deposits, up to a predetermined amount, through a one-way settlements from the nationwide deposit networks discussed above. These non-reciprocal balances are carried in a sub-category labeled brokered deposits within total deposits.

Cash Management Services

In addition to the deposit products discussed above, business banking customers may take advantage of cash management services including remote deposit capture, ACH credit and debit origination, credit card processing, wholesale and retail lockbox deposit, escrow management, Interest on Lawyers Trust Accounts (or "IOLTA's"), NSF check recovery, coin and currency processing, check reconciliation, check payment fraud prevention, international and domestic wire transfers, corporate credit cards, payroll cards, and automated investment sweep of excess funds into FDIC insured money market and commercial checking accounts.

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

Product Delivery Channels

In addition to traditional product access channels, on-line banking customers may connect to their Bank accounts securely via personal computer or any internet-enabled phone or mobile device. Major on-line banking capabilities include the following: internal transfers; loan payments; bill payments; placement of stop payments; balance inquiries; access to images of checks

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paid; and access to prior period account statements. On-line customers have the ability to enroll in business or personal mobile banking. Mobile banking retail customers have the ability to check current account balances, view recent transactions and transfer funds between accounts; commercial customers can additionally conduct ACH transactions and wire transfers through mobile banking.

On-line and mobile banking utilize multiple layers of authentication, including personal identification numbers, and one-time passwords that change with every login.

Investment Services

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

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

Enterprise Investment Advisors utilizes an open-architecture “manager of managers” approach to client investment management. The philosophy is to identify and hire high performing independent investment management firms on behalf of our clients. Since 2008, the Company has partnered with Fortigent Advisors, LLP ("Fortigent"), an investment research and due diligence firm, to strengthen strategic development, improve manager access and selection and provide performance monitoring capabilities. Fortigent performs detailed research and due diligence reviews and provides an objective analysis of each independent management firm based on historic returns, management, 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.

Complementing our open-architecture “manager of managers” approach, Enterprise Investment Advisors also offers the flexibility of an individually managed portfolio, for clients who prefer customized asset management, which includes our Large Cap Core Equity Strategy, a proprietary blend of value and growth stocks. Our secondary sources of research for our individually managed portfolios include Northern Trust, Goldman Sachs, Credit Suisse and Standard and Poors.

Enterprise Financial 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.

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

The securities in which the Company may invest are limited by regulation. In addition, an internal investment policy restricts fixed income investments to high quality securities within the following categories: U.S. treasury securities, federal agency obligations (obligations issued by government sponsored enterprises that are not backed by the full faith and credit of the

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United States government), mortgage-backed securities ("MBS's"), including collateralized mortgage obligations ("CMO's"), and municipal securities ("Municipals"). The Company has not purchased sub-prime mortgage-backed securities. The Company is required to purchase Federal Home Loan Bank of Boston ("FHLB") stock in association with the Bank's outstanding advances from the FHLB; this stock is classified as a restricted investment and carried at cost. The Company may also invest in certificates of deposit and, within prescribed regulatory limits, in both publicly traded and unlisted equity securities, registered mutual funds and unregistered funds, including private hedge funds, venture capital and private equity funds and "funds of funds" that may in turn invest in any of the foregoing. Since 2011, the Company has utilized an outside registered investment adviser to manage the municipal bond portfolio within prescribed guidelines set by management. The Company's internal investment policy also limits the categories within the investment portfolio and sets target sector ranges as a percentage of the total portfolio. The effect of changes in interest rates, market values and timing of principal payments 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, money market, and money market mutual funds accounts and short-term U.S. Agency Discount Notes,) and overnight and term federal funds sold ("fed funds"). Short-term investments not carried as cash equivalents are classified as "other short-term investments."

As of the balance sheet dates reflected in this annual report, all of the investment securities within the portfolio were classified as available for sale and carried at fair value,with the exception of restricted FHLB stock, which is carried on the balance sheet as a separate line item and is carried at cost. Management regularly reviews the portfolio for securities with unrealized losses that are other than temporarily impaired ("OTTI"). This assessment includes: evaluating the level and duration of the loss on individual securities; evaluating the credit quality of fixed income issuers; determining if any individual securities or mutual funds exhibit fundamental deterioration; and estimating whether it is unlikely that the individual security or fund will completely recover its unrealized loss within a reasonable period of time, or in the case of fixed income securities prior to maturity. In addition, management determines if it 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. If a decline in the market value of an equity security or fund is considered other than temporary, the cost basis of the individual security or fund is written down to market value with a charge to earnings. In the case of fixed income securities which the Company does not intend to sell and it is more likely than not that the Company will not be required to sell prior to a market price recovery or maturity, the noncredit portion of the impairment may be recognized in accumulated other comprehensive income with only the credit portion of the impairment charged to earnings.

Investment transaction summaries, portfolio allocations and projected cash flows are prepared quarterly and presented to the Asset-Liability Committee of the Company's Board of Directors ("ALCO") on a periodic basis. ALCO is comprised of six outside directors and three executive officers who are also directors of the Company, with various management liaisons. In addition, several directors who are not on the committee rotate in to the committee on a regular basis. ALCO regularly reviews the composition and key risk characteristics of the Company's investment portfolio, including effective duration, cash flow, market value at risk and asset class concentration. Credit risk inherent in the portfolio is closely monitored by management and presented at least annually to ALCO. ALCO also designates acceptable and unacceptable investment practices, approves the selection of securities dealers, and the Company's ongoing investment strategy.

See also "Risk Factors" contained in Item 1A, 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 principal source of funds. Asset growth in excess of deposits may be funded through the investment portfolio cash flow, or the following sources.

Borrowed Funds

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

Membership in the FHLB provides borrowing capacity based on qualifying collateral balances pre-pledged to the FHLB,

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including certain residential loans, home equity lines, commercial loans and U.S. Government and Agency securities. Borrowings from the FHLB have to date been utilized to fund short-term liquidity needs or specific lending projects under the FHLB's community development programs. This facility is an integral component of the Company's asset-liability management program.

The FRB Discount Window borrowing capacity is based on the pledge of qualifying collateral balances to the FRB. At December 31, 2011, the collateral pledged for this FRB facility was comprised primarily of certain municipal securities from the investment portfolio. Additional types of collateral are available to increase borrowing capacity with the FRB if necessary.

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

The Company may also borrow funds from customers (generally commercial and municipal customers) by entering into agreements to sell and repurchase investment securities from the Company's portfolio, with terms that may range from one week to six months. These repurchase agreements represent a cost competitive funding source. Interest rates paid on these repurchase agreements are based on market conditions and the Company's need for additional funds at the time of the transaction.

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

Junior Subordinated Debentures

In March 2000, the Company organized Enterprise (MA) Capital Trust I (the "Trust"), a statutory business trust created under the laws of Delaware, in order to issue $10.5 million of 10.875% trust preferred securities that mature in 2030 and are callable beginning in 2010, at a premium if called between 2010 and 2020 (to date, the Company has not called any portion of these trust preferred securities). The proceeds from the sale of the trust preferred securities were used by the Trust, along with the Company's $325 thousand capital contribution, to acquire $10.8 million in aggregate principal amount of the Company's 10.875% Junior Subordinated Debentures that mature in 2030 and are callable beginning in 2010 . The Company contributed $10.3 million of proceeds from the sale of these securities to the Bank in 2000.

Pursuant to the Accounting Standards Codification ("ASC") Topic 810 "Consolidation of Variable Interest Entities," issued by the Financial Accounting Standards Board (originally issued as Financial Interpretation No. 46R) in December 2003, the Company carries the $10.8 million of Junior Subordinated Debentures on the Company's financial statements as a liability, along with related interest expense, and the $10.5 million of trust preferred securities issued by the Trust, and the related non-interest expense, are excluded from the Company's financial statements.

Capital Resources

Capital planning by the Company and the Bank considers current needs and anticipated future growth. The primary sources of capital have been the original capitalization of the Bank of $15.5 million from the sale of common stock in 1988 and 1989, the issuance of $10.5 million of trust preferred securities in 2000 by the Trust, net proceeds of $8.8 million from the 2009 offering discussed below, retention of earnings less dividends paid since the Bank commenced operations, proceeds from the exercise of employee stock options and proceeds from purchases of shares pursuant to the Company's dividend reinvestment plan.

The Company has remaining approximately $16 million in capacity to raise capital under a shelf registration of rights and common stock which expires in September 2012. In the fourth quarter of 2009, in order to increase capital and position itself to take advantage of growth and market share opportunities, the Company raised $8.9 million in new capital through a combined Shareholder Subscription Rights Offering and Supplemental Community Offering, under a 2009 $25 million SEC shelf registration. The Company contributed the net proceeds from these offerings ($8.8 million net of offering expenses) to the Bank.

Management believes that current capital is adequate to support ongoing operations and that the Company and the Bank meet all capital adequacy requirements to which they are subject. As of December 31, 2011 and 2010, both the Company and the Bank qualified as "well capitalized" under applicable regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") and the FDIC.

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

Patents, Trademarks, etc.

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

Employees

At December 31, 2011, the Company employed 347 full-time equivalent employees, including 138 officers. 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

Enterprise Bank currently uses outside vendors to design, support and host its internet website. The underlying structure of the site allows for the ongoing maintenance of the information to be performed by authorized Company personnel. The site provides information on the Company and its products and services. Users have the ability to open various deposit accounts as well as the ability to submit mortgage loan applications online and, via a link, to access their on-line account and mobile banking services. The site also provides the access point to a variety of specified banking services and to various financial management tools. In addition, the site includes the following major capabilities: career opportunities; an ATM/Branch Locator/Map; and investor and corporate information, which includes a corporate governance page. The Company's corporate governance page includes the corporate governance guidelines, code of business conduct and ethics, and whistleblower protection policy, as well as the charters of the Board of Directors' Audit, Compensation and Personnel, and Corporate Governance/Nominating committees.

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

Competition

Enterprise faces strong competition to generate loans attract deposits, and to grow its insurance business and investment advisory assets. National and larger regional banks have a local presence in the Company's market area. These established larger banks, as well as recent larger entrants into the local market area, have certain competitive advantages, including the ability to make larger loans to a single borrower than is possible for the Company and greater financial resources. Numerous local savings banks, commercial banks, cooperative banks and credit unions have one or more offices in the Company's market area. The expanded commercial lending capabilities of credit unions and the shift to commercial lending by traditional savings banks means that both of these types of traditionally consumer-orientated institutions now compete for the Company's targeted commercial customers. In addition, the non-taxable status of credit unions provides them with certain cost and pricing advantages as compared to taxable institutions. Competition for loans, investment advisory assets, insurance business and deposits 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 and other non-bank delivery channels. Management actively seeks to strengthen its competitive position by capitalizing on the market opportunities and the continued pursuit of strategic growth within existing and neighboring geographic markets.

Management believes that the Company has established a positive reputation within its market area as a dependable commercial-focused community bank. Management is committed to differentiating the Company from the competition by providing a full range of diversified financial services and products with consistent and exceptional customer service, a highly-trained and dedicated staff of knowledgeable banking professionals, open and honest communication with clients, and a

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committed focus on active community involvement which has lead to a strong referral network with business and community leaders.

Management continually examines the Company’s product lines and technologies in order to maintain a highly competitive mix of offerings and delivery channels, and to target products to customer needs. Advances in, and the increased use of, technology, such as internet and mobile banking, electronic transaction processing and information security, are expected to have a significant impact on the future competitive landscape confronting financial institutions.

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

Supervision and Regulation

General

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

Regulatory Agencies

As a registered bank holding company, the Company is subject to the supervision and regulation of the Federal Reserve Board and, acting under delegated authority, the FRB pursuant to the Bank Holding Company Act of 1956, as amended (the “Bank Holding Company Act”).

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

Recent Developments

The Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which implements significant changes to the regulation of the financial services industry. Among other reforms, the Dodd-Frank Act includes provisions that are intended to accomplish the following objectives:

- Centralize responsibility for consumer financial protection by creating a new agency within the Federal Reserve System, the Consumer Financial Protection Bureau (the “CFPB”), with broad rulemaking, supervision and enforcement authority for a wide range of consumer protection laws that would apply to all banks and thrifts. Banking institutions with total assets of $10.0 billion or less, such as the Bank, will be 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.
- Apply consolidated capital requirements to bank holding companies and financial holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets.
- Require the federal banking agencies to make their capital requirements for banks and bank holding companies countercyclical, so that the minimum amount of required capital increases in times of economic expansion and decreases in times of economic contraction.
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Change the assessment base for federal deposit insurance from the amount of insured deposits to the amount of consolidated assets less tangible capital, eliminate the ceiling on the size of the FDIC's Deposit Insurance Fund ("DIF") and increase the floor of the size of the DIF.

- Make permanent the $250,000 limit for federal deposit insurance and provide unlimited federal deposit insurance until

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December 31, 2012 for non-interest bearing demand transaction accounts and IOLTA's at all insured depository institutions, and increase the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.

- Repeal the federal prohibitions on the payment of interest on demand deposits effective July 21, 2011, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- Impose 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.
- Implement corporate governance revisions, including executive compensation reporting obligations for financial institutions with total assets of more than $1.0 billion and executive compensation disclosure and proxy access requirements for all publicly traded companies.
- Increase the Federal Reserve Board's examination authority with respect to bank holding companies' non-banking subsidiaries.
- Significantly increases the regulation of mortgage lending and servicing by banks and nonbanks. In particular, requires mortgage originators to act in the best interests of a consumer and seeks to ensure that a consumer will have the capacity to repay a loan that the consumer enters into; mandates comprehensive additional residential mortgage loan related disclosures; requires mortgage loan securitizers to 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.

Many aspects of the Dodd-Frank Act are subject to rulemaking by various regulatory agencies and will take effect over several years, making it difficult at this time to anticipate the overall financial impact of this expansive legislation on the Company, its customers or the financial industry generally.

Bank Holding Company Regulation

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

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

Under the Bank Holding Company Act, any company must obtain approval of the Federal Reserve Board or, acting under delegated authority, the appropriate Federal Reserve Bank 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.

The Change in Bank Control Act of 1978, 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.

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 Commissioner before acquiring any such direct or indirect control of the Bank.

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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.

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 complimentary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally. A bank holding company will be able to successfully elect to be regulated as a financial holding company if all of its depository institution subsidiaries meet certain prescribed standards pertaining to management, capital adequacy and compliance with the Community Reinvestment Act of 1977, as amended (the “Community Reinvestment Act”), such as being “well-capitalized” and “well-managed,” and must have a Community Reinvestment Act rating of at least “satisfactory.” Financial holding companies remain subject to regulation and oversight by the Federal Reserve Board. The Company believes that the Bank, which is the Company's sole depository institution subsidiary, presently satisfies all of the requirements that must be met to enable the Company to successfully elect to become a financial holding company. However, the Company has no current intention of seeking to become a financial holding company. Such a course of action may become necessary or appropriate at some time in the future depending upon the Company's strategic plan.

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

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

Bank holding companies are not permitted to engage in unsound banking practices. For example, the Federal Reserve's Regulation Y requires a holding company to give the Federal Reserve 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 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 may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. As another example, a holding company could not impair its subsidiary bank's soundness by causing it to make funds available to non-banking subsidiaries or their customers if the Federal Reserve believed it not prudent to do so.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“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 $1.0 million for each day the activity continues. FIRREA also expanded the scope of individuals and entities against which such penalties may be assessed.

Bank Regulation

The Bank is subject to the supervision and regulation of the Commissioner 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,

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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 shareholders, 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 Commissioner 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 Commissioner 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 Commissioner 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 or sign a memorandum of understanding or requesting the Bank to enter into consent order;
- Requiring prior approval for any changes in senior management or the board of directors;
- Removing officers and directors and assessing civil monetary penalties; and
- Taking possession of, closing and liquidating the Bank or appointing the FDIC as receiver under certain circumstances.

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 DIF. In addition, the Bank may also form, subject to the approvals of the Commissioner 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 would be 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 Company 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 Company's strategic plan.

Capital Requirements

The federal banking agencies have adopted risk-based capital guidelines for bank holding companies and banks that are expected to provide a measure of capital that reflects the degree of risk associated with a banking organization's operations for both transactions reported on the balance sheet as assets, such as loans, and those recorded as off-balance sheet items, such as commitments, letters of credit and recourse arrangements. Under these capital guidelines, banking organizations are required to maintain certain minimum capital ratios, which are obtained by dividing its qualifying capital by its total risk-adjusted assets and off-balance sheet items. In general, the dollar amounts of assets and certain off-balance sheet items are “risk-adjusted” and assigned to various risk categories. In addition to such risk adjusted capital requirements, banking organizations are also required to maintain an additional minimum “leverage” capital ratio, which is calculated on the basis of average total assets without any adjustment for risk being made to the value of the assets. Qualifying capital is classified depending on the type of capital as follows:

- “Tier 1 capital” consists of common equity, retained earnings, qualifying non-cumulative perpetual preferred stock, a limited amount of qualifying cumulative perpetual preferred stock and minority interests in the equity accounts of consolidated subsidiaries, less goodwill and certain other intangible assets. In determining bank holding company compliance with holding company level capital requirements, qualifying Tier 1 capital may count trust preferred securities, subject to certain criteria and quantitative limits for inclusion of restricted core capital elements in Tier 1 capital provided that the bank holding company has total assets of less than $15.0 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

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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; and
- "Tier 3 capital" consists of qualifying unsecured subordinated debt.

Under the federal capital guidelines, there are three fundamental capital ratios: a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio. To be deemed "well capitalized", a bank holding company must have a total risk-based capital ratio and a Tier 1 risk-based capital ratio of at least 10% and 6%, respectively, and a bank must have a total risk-based capital ratio, a Tier 1 risk-based capital ratio and a Tier 1 leverage ratio of at least 10%, 6% and 5%, respectively. At December 31, 2011, the respective capital ratios of both the Company and the Bank exceeded the minimum percentage requirements to be deemed "well-capitalized" under applicable Federal Reserve Board and FDIC capital rules.

Pursuant to federal regulations, banks and bank holding companies must maintain capital levels commensurate with the level of risk to which they are exposed, including the volume and severity of problem loans. The federal banking agencies may change existing capital guidelines or adopt new capital guidelines in the future and have required many banks and bank holding companies subject to enforcement actions to maintain capital ratios in excess of the minimum ratios otherwise required to be deemed well capitalized, in which case the affected institution may no longer be deemed well capitalized and may be subject to restrictions on various activities, including a bank's ability to accept or renew brokered deposits.

The current risk-based capital guidelines are based upon the 1988 capital accord of the International Basel Committee on Banking Supervision, a committee of central banks and bank supervisors and regulators from the major industrialized countries that develops broad policy guidelines for use by each country's supervisors in determining the supervisory policies they apply.

In 2008 a revised international accord, referred to as Basel II, became mandatory for large internationally active banking organizations or "core" banks, defined as having total assets of $250 billion or more or consolidated foreign exposures of $10 billion or more, and emphasized internal assessment of credit, market and operational risk, as well as supervisory assessment and market discipline in determining minimum capital requirements. Basel II did not apply to, and was not adopted by, the Company or the Bank.

In September 2010, the Group of Governors and Heads of Supervisors of the Basel Committee on Banking Supervision, the oversight body of the Basel Committee, published its "calibrated" capital standards for major banking institutions, referred to as Basel III. Under these standards, when fully phased in on January 1, 2019, banking institutions will be required to maintain heightened Tier 1 common equity, Tier 1 capital, and total capital ratios, in amounts equal to 4.5%, 6.0% and 8.0% of risk-weighted assets, respectively, as well as maintaining a "capital conservation buffer" of 2.5% of risk-weighted assets. The Tier 1 common equity and Tier 1 capital ratio requirements will be phased in incrementally between January 1, 2013 and January 1, 2015; the deductions from common equity made in calculating Tier 1 common equity will be phased in incrementally over a four-year period commencing on January 1, 2014; and the capital conservation buffer will be phased in incrementally between January 1, 2016 and January 1, 2019. The Basel Committee also announced that a countercyclical buffer of 0% to 2.5% of common equity or other fully loss-absorbing capital will be implemented according to national circumstances as an extension of the conservation buffer.

The long-term impact, if any, of the Basel III capital standards on smaller, domestic banking organizations, such as the Company and the Bank, remains unclear at this time, although the Dodd-Frank Act does require the federal banking agencies to incorporate counter-cyclical components into their capital adequacy rules.

Prompt Corrective Action

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

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

Branching

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

Deposit Insurance

The FDIC insures the deposits of federally insured banks, such as the Bank, and thrifts, up to prescribed statutory limits for each depositor, through the DIF and safeguards the safety and soundness of the banking and thrift industries. The Dodd-Frank Act permanently raised the standard maximum deposit insurance amount to $250,000. On November 9, 2010, the FDIC Board of Directors also issued a final rule to implement a requirement under the Dodd-Frank Act that provides temporary unlimited deposit insurance coverage for non-interest bearing accounts and IOLTA's from December 31, 2010, through December 31, 2012. This temporary unlimited coverage is in addition to, and separate from, the coverage of at least $250,000 available to each depositor under the FDIC's general deposit insurance rules.

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. Since 2008, there have been higher levels of bank failures, which have dramatically increased resolution costs of the FDIC and depleted the DIF. In order to maintain a strong funding position and restore reserve ratios of the DIF, the FDIC has increased assessment rates of insured depository institutions and may continue to do so in the future. On November 12, 2009, the FDIC adopted a requirement for institutions to prepay in 2009 their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012.

The Bank is generally unable to control the amount of premiums that it is required to pay for FDIC insurance. If there are additional bank or financial institution failures or if the FDIC otherwise determines, the Bank may be required to pay even higher FDIC premiums than the recently increased levels. These announced increases and any future increases in FDIC insurance premiums may have a material and adverse affect on the Company's earnings. In addition, all FDIC-insured institutions are required to pay assessments to the FDIC to fund interest payments on bonds issued by the Financing Corporation (“FICO”), an agency of the federal government established to recapitalize the predecessor to the DIF. These assessments, which are included in Deposit Insurance Premiums on the Consolidated Statements of Income, will continue until the FICO bonds mature between 2017 and 2019.

In connection with the Dodd Frank Act's requirement that insurance assessments be based on assets, the FDIC has redefined its deposit insurance premium assessment base to be an institution's average consolidated total assets minus average tangible equity, as required by the Dodd-Frank Act, and revised its deposit insurance assessment rate schedule in light of this change to the assessment base. The revised rate schedule and other revisions to the assessment rules, which were adopted by the FDIC Board of Directors on February 7, 2011, became effective April 1, 2011. Pursuant to this new rule, the assessment base will be larger than the current assessment base, but the new rates are lower than current rates, ranging from approximately 2.5 basis points to 45 basis points (depending on applicable adjustments for unsecured debt and brokered deposits) until such time as the FDIC's reserve ratio equals 1.15% of total estimated insured deposits. Once the FDIC's reserve ratio equals or exceeds 1.15%, the applicable assessment rates may range from 1.5 basis points to 40 basis points. The Bank's deposit insurance expense decreased as a result of the changes to the Bank's deposit insurance premium assessment base implemented by the FDIC pursuant to the Dodd-Frank Act.

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The FDIC implemented two temporary programs under the Temporary Liquidity Guaranty Program ("TLGP"), which was adopted in October 2008 to strengthen public confidence and encourage liquidity in the nation's banking system: the Transaction Account Guarantee Program ("TAGP") (to provide deposit insurance for the full amount of most non-interest bearing transaction accounts through December 31, 2010) and the Debt Guarantee Program (to guarantee certain unsecured debt of financial institutions and their holding companies through the earlier of the maturity date of the debt or June 30, 2012). The Bank was a participant in the TAGP, which expired on December 31, 2010, and continues to provide temporary unlimited deposit insurance coverage for non-interest bearing accounts and IOLTA's pursuant to the Dodd-Frank Act requirement referred to above. The Bank also applied for, and was approved for participation in the Debt Guarantee Program, which expired on October 31, 2009, although neither the Company nor the Bank issued any guaranteed debt at any time under the program. The Dodd-Frank Act also authorizes the FDIC to guarantee debt of solvent institutions and their holding companies in a manner similar to the Debt Guarantee Program; however, the FDIC and the Federal Reserve must make a determination that there is a liquidity event that threatens the financial stability of the United States and the United States Department of the Treasury must approve the terms of the guarantee program.

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

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

Community Reinvestment Act

The Community Reinvestment Act requires that, in connection with examinations of financial institutions within its jurisdiction, the FDIC is to evaluate the record of each financial institution in meeting the credit needs of its local community, including low and moderate-income neighborhoods. These facts are also considered in evaluating mergers, acquisitions, and applications to open a branch or facility. Failure to adequately meet these criteria could impose additional requirements and limitations on us. Additionally, the Bank must publicly disclose the terms of various Community Reinvestment Act-related agreements. The Bank received a rating of "satisfactory" on its most recent Community Reinvestment Act examination.

Restrictions on Transactions with Affiliates and Loans to Insiders

The Bank is subject to the provisions of Section 23A 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

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Reserve;

- 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. 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, and going forward, will include investment funds managed by an institution as an affiliate, as well as other procedural and substantive hurdles.

The Bank is also subject to Section 23B of the Federal Reserve Act which, among other things, prohibits the Bank from engaging in any transaction with an affiliate unless the transaction is on terms substantially the same, or at least as favorable to the Bank or its subsidiaries, as those prevailing at the time for comparable transactions with nonaffiliated companies.

Under both Massachusetts and federal law, the Bank is also subject to restrictions on extensions of credit to its executive officers, directors, principal shareholders and their related interests. These extensions of credit (1) must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with third parties and (2) must not involve more than the normal risk of repayment or present other unfavorable features. The Dodd-Frank Act expanded coverage of transactions with insiders by including credit exposure arising from derivative transactions (which are also covered by the expansion of Section 23A). The Dodd-Frank Act prohibits an insured depository institution from purchasing or selling an asset to an executive officer, director, or principal shareholder (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.

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 USA PATRIOT Act of 2001, the Bank Secrecy Act, the Community Reinvestment Act, the Equal Credit Opportunity Act, the Truth in Lending 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.

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Item 1A. Risk Factors

An investment in the Company's common stock is subject to a variety of risks and uncertainties. The material risks and uncertainties that management believes affect the Company are described below. These risks and uncertainties are not listed in any particular order of priority and are not necessarily the only ones facing the Company. Additional risks and uncertainties that management is not aware of or focused on or that management currently deems immaterial may also impair the Company's business and results of operations.

This report is qualified in its entirety by these risk factors. If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company's common stock could decline significantly, and shareholders 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 further 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 financial condition, capital position, liquidity, and performance in a variety of ways. Potential adverse effects on the Company could include: continued downward pressure on its net interest margin; deterioration in its asset quality; a decline in the underlying values of commercial 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 financial condition and results of operations.

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. Weakening of economic conditions within the Company's market area or increases in interest rates could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. In addition, the Company may be impacted by the following risk 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 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 are also of typically larger balances. The underlying commercial

real estate values, the actual costs necessary to complete a construction project, or customer cash flow and payment expectations on such loans can be more easily influenced by adverse conditions in the related industries, the real estate market or in the economy in general. Any significant deterioration in the credit quality of the commercial loan portfolio or underlying collateral values could have a material adverse effect on the Company's financial condition and results of operations.

The Company May Need to Increase the Allowance for Loan Losses

The Company maintains an allowance for loan losses, which is established through a provision for loan losses charged to earnings, that represents management's estimate of probable losses inherent within the existing portfolio of loans. The determination of the appropriate level of the allowance for loan losses inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future 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.

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

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

Non-performing assets adversely affect net income in various ways. While the Company pays interest expense to fund non-performing assets, no interest income is recorded on non-accrual loans or other real estate owned, thereby adversely affecting income and returns on assets and equity. In addition, loan administration and workout costs increase, resulting in additional reductions of earnings. When taking collateral in foreclosures and similar proceedings, the Company is required to carry the property or loan at its then-estimated fair market value less estimated cost to sell, which, when compared to the carrying value of the loan, may result in a loss. These non-performing loans and other real estate owned also increase the Company's risk profile and the capital that regulators believe is appropriate in light of such risks. 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 results of operations.

The Company's Use of Appraisals in Deciding Whether to Make a Loan Secured by Real Property Does Not Ensure the Value of the Real Property Collateral

In considering whether to make a loan secured by real property, the Company generally requires an independent appraisal of the property. However, an appraisal is only an estimate of the value of the property at the time the appraisal is made, and an error in fact or judgment could adversely affect the reliability of an appraisal. In addition, events occurring after the initial appraisal may cause the value of the real estate to decrease. As a result of any of these factors, the value of collateral backing a loan may be less than supposed, 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 Owning Real Estate or Collateral

The cost of cleaning up or paying damages and penalties associated with environmental problems could increase the Company's operating expenses. 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 owns and lease 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. 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.

Sale of Loans in the Secondary Market is Impacted by Government Regulations
The Company sells residential mortgage loans in the secondary mortgage market. Potential changes to this market resulting from any possible government restrictions on, or restructuring of, the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") or from any new regulations in this area could impact the Company’s ability to generate and/or sell these loans.

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

The Company’s Investment Portfolio Could Incur Losses

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

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

As a member of the FHLB, the Company is required to purchase certain levels of FHLB capital stock in association with the Company's borrowing relationship from the FHLB. This stock is classified as a restricted investment and carried at cost, which management believes approximates fair value. FHLB stock represents the only restricted investment held by the Company.

Although recent financial results of the FHLB have continued to improve in 2011, if further deterioration in the FHLB financial condition or capital levels occurs, the Company's investment in FHLB capital stock may become other than temporarily impaired to some degree.

See the discussions contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Impairment Review of Securities,” which is contained in the “Critical Accounting Estimates” section, and under the headings “Investment” and "Federal Home Loan Bank Stock," included in the section entitled “Financial Condition,” for further information regarding the process by which the Company determines the level of other-than-temporary impairment. See also the discussion contained in this Item 1A under the heading “Sources of External Funding May Become Restricted and Impact the Company's Liquidity.”

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

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

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

The Company is Subject to Interest Rate Risk
The Company’s earnings and cash flows are largely dependent upon its net interest income, meaning the difference between interest income earned on interest-earning assets and interest expense paid on interest-bearing liabilities. 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 financial and credit markets, and competition. If the interest rates paid on interest-bearing liabilities increase at a faster rate 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 than the interest rates paid on interest-bearing liabilities.

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

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

The Company’s external funding sources include borrowing capacity at the FHLB and FRB, capacity in the brokered deposit markets, and through other borrowing arrangements with correspondent banks, as well as accessing the public equity market through offerings of the Company’s stock. The Company has in the past also raised funds through the issuance of trust preferred securities, which was a common means of raising capital and providing liquidity previously used by many large and small banking organizations. If, as a result of general economic conditions or other events, these sources of external funding become restricted or are eliminated (as has occurred in the case of trust preferred securities) the Company may not be able to raise adequate funds or may incur substantially higher funding costs or operating restrictions in order to raise the necessary funds to support the Company's operations and growth. Any such increase in funding costs or restrictions could have a negative impact on the Company’s net interest income and, consequently, on its results of operations and financial condition.

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

Increased Reliance on Borrowings and Brokered Deposits as Sources of Funds Could Adversely Affect the Company’s Profitability

The Company has traditionally funded asset growth principally through deposits and borrowings. As a general matter, deposits are typically a lower cost source of funds than external wholesale funding (brokered deposits and borrowed funds), because interest rates paid for deposits are typically less than interest rates charged for wholesale funding (notwithstanding the recent declines in overnight borrowing rates). If, as a result of competitive pressures, market interest rates, 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 funding in the future. Any such increased reliance on wholesale funding could have a negative impact on the Company’s net interest income and, consequently, on its results of operations and financial condition.

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

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 may subject the Company and/or the Bank to various enforcement actions including restrictions on the ability to open new branches. If the Company’s capital levels decline and the Company is unable to raise additional capital to offset that decline, then its capital ratios may fall below regulatory capital adequacy levels. The Company’s capital level 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, the Company's ability to grow, the Company's costs of funds and FDIC insurance costs, the Company's ability to pay dividends on common shares, the Company's ability to make acquisitions, and 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 may be restricted, and the interest rates that it pays may be restricted. At December 31, 2011, both the Company and the Bank were considered “well capitalized.”

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.

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The Trust Wealth Management Fees the Company Receives May Decrease as a Result of Poor Investment Performance, in Either Relative or Absolute Terms, Which Could Decrease Our Revenues and Net Earnings.
Enterprise Investment Advisors and Enterprise Financial Services derives its revenues primarily from investment management fees based on assets under management. Our ability to maintain or increase assets under management is subject to a number of factors, including investors' perception of our past performance, in either relative or absolute terms, market and various economic conditions, and competition from investment management companies. 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; competitive conditions; liquidity of global markets; international and regional political conditions; regulatory and legislative developments; monetary and fiscal policy; investor sentiment; availability and cost of capital; technological changes and events; outcome of legal proceedings; changes in currency values; inflation; credit ratings; and the size, volume and timing of transactions. A decline in the fair value of the assets under management caused by a decline in general economic conditions would decrease our wealth management fee income.
Investment performance is one of the most important factors in retaining existing clients and competing for new wealth management clients. Poor investment performance could reduce our revenues and impair our growth in the following ways:
- existing clients may withdraw funds from our wealth management business in favor of better performing products;
- asset-based management fees could decline from a decrease in assets under management;
- our ability to attract funds from existing and new clients might diminish; and
- our wealth managers and investment advisors may depart, to join a competitor or otherwise.

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. To the extent our future investment performance is perceived to be poor in either relative or absolute terms, the revenues and profitability of our trust and wealth management business will likely be reduced and our ability to attract new clients will likely be impaired. As such, fluctuations in the equity and debt markets can have a direct impact upon our net earnings.

Certain of Our Investment Advisory and Wealth Management Contracts are Subject to Termination on Short Notice
Certain of our investment advisory and wealth management clients can terminate their relationships with us, reduce their aggregate assets under management, or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, inflation, changes in investment preferences of clients, changes in our reputation in the marketplace, change in management or control of clients, loss of key investment management personnel and financial market performance.

The Use of Independent Investment Research Firms Expose the Company to Additional Risk
The Company relies on outside investment research and due diligence information, which is provided by several professional independent investment research firms, in selecting both independent management firms and individual securities for the Company's investment advisory clients. These firms are subject to a variety of risks and uncertainties, including significant exposures to changes in financial market conditions, including the impact of changes in interest rates, adverse changes in regional or national economic conditions, and general turbulence in domestic and foreign financial markets, among other things, which could adversely impact the fair market value of customer portfolios. Additionally, these firms are subject to risk associated with poor investment decisions, turnover in key personnel, internal and external securities fraud, information security or data breach, and financial losses, among others. Any risk that affects these independent firms could in turn expose the Company itself to various risks. The risks to the Company include but are not limited to, the loss of customer business, damage to the Company's reputation, exposure of the Company to civil litigation and possible financial liability, and a reduction in fee income, any of which could have a material adverse effect on the Company's financial condition and results of operations.

The Company is Subject to Extensive Government Regulation and Supervision

The Company is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not the interests of shareholders. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Federal and state statutes and related regulations, including tax policy and corporate

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governance rules, can significantly affect the way in which bank holding companies, and public companies in general, conduct business.

Changes to federal or state statutes, regulations or regulatory and tax policies, including changes in interpretation or implementation of new and existing statutes, regulations or policies, or new laws, regulation or accounting rules aimed at addressing the perceived causes of the recent financial crisis, could affect the Company in substantial and unpredictable ways, including subjecting the Company to additional operating, governance and compliance costs, increasing the Company’s deposit insurance premiums, limiting the types of financial services and products the Company may offer and/or increasing competition from other non-bank providers of financial services.

The CFPB has broad rulemaking authority to administer and carry out the purposes and objectives of the “Federal consumer financial laws, and to prevent evasions thereof,” with respect to all financial institutions that offer financial products and services to consumers. The CFPB is also authorized to prescribe rules applicable to any covered person or service provider, identifying and prohibiting acts or practices that are “unfair, deceptive, or abusive” in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service (“UDAAP authority”). The potential reach of the CFPB's broad new rulemaking powers and UDAAP authority on the operations of financial institutions offering consumer financial products or services including the Bank is currently unknown.

The Bank is subject to federal and state and fair lending laws, and failure to comply with these laws could lead to material penalties. Federal and state fair lending laws and regulations, such as the Equal Credit Opportunity Act and the Fair Housing Act, impose nondiscriminatory lending requirements on financial institutions. The Department of Justice, CFPB and other federal and state agencies are responsible for enforcing these laws and regulations. Private parties may also have the ability to challenge an institution's performance under fair lending laws in private class action litigation. A successful challenge to the Bank's performance under the fair lending laws and regulations could adversely impact the Bank's rating under the Community Reinvestment Act and result in a wide variety of sanctions, including the required payment of damages and civil money penalties, injunctive relief, imposition of restrictions on merger and acquisition activity and restrictions on expansion activity, which could negatively impact the Bank's reputation, business, financial condition and results of operations.

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

The Company Operates in a Competitive Industry and Market Area

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

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

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

Management regularly reviews and updates the Company's internal controls over financial reporting, disclosure controls and procedures, corporate governance policies and procedures and security controls, including information and physical security, 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 controls and procedures or failure to comply with regulations related to controls and procedures, or a physical theft or robbery, 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

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the Company’s business, results of operations and financial condition.

See the discussion under the heading “Opportunities and Risks” included in the section entitled “Overview,” which is contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for further information regarding the Company’s operational risk management.

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 and services. 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 keep pace with technological changes affecting the banking industry could have a material adverse effect on the Company’s business and, in turn, the Company’s financial condition and results of operations.

Information Systems Could Experience an Interruption or Breach in Security

The Company relies heavily on communications and information systems to conduct its business. The occurrence of any failures, interruptions or security breaches of the Company’s communication or information systems could disrupt the Company’s ability to conduct business and process transactions for an indeterminable length of time.

The Company also relies on independent firms to provide key services necessary to conducting its business. These services include, but are not limited to: electronic funds delivery networks; check clearing houses; electronic banking services; investment advisory, management and custodial services; correspondent banking services; information security assessments; and loan underwriting and review services. As such, these independent firms may have access to customers' personal information. The occurrence of any failures, interruptions or security breaches of the independent firms’ systems or in their delivery of services, could also impact the Company's ability to conduct business and process transactions.

Additionally, any failure or breach of customers’ home, business or mobile information system could also possibly impact the integrity of the Company’s information systems.

Any breakdown in the integrity of these information systems, or the Company's inability to identify, respond and correct such breakdown, could result in a loss of customer business, expose customers’ personal information to unauthorized parties, damage the Company’s reputation, subject the Company to 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 financial condition and results of operations.

See the discussion under the heading “Opportunities and Risks” included in the section entitled “Overview, ”which is contained in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” for further information regarding the Company’s information security and technology practices and the Company’s Business Continuity Plan.

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

The Company relies heavily on its personnel, facilities, information systems and third party service providers to conduct its business. A material loss of people, core operating facilities, access to information systems,or key service providers 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 financial condition and results of operations.

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

The Company May Not be Able to Attract and Retain Key Personnel

The Company's success depends, in large part, on its ability to attract and retain key personnel. Competition for the best people

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in most activities engaged in by the Company can be intense and the Company may not be able to hire or retain the key personnel that it depends upon for success. The unexpected loss of key personnel could have a material adverse impact on the Company's business because of their skills, knowledge of the Company's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

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

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.

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

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

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

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 shareholders. 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 29% of the Company's outstanding common stock as of December 31, 2011. 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 shareholders 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 is unable to pay dividends to the Company, then the Company will be unable to service debt, pay obligations or pay dividends on the Company's common stock. The Bank's inability to pay dividends could have a material adverse effect on the Company's business, financial condition, results of operations and the market price of the Company's common stock.

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

Additional Factors Described Elsewhere in This Report

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

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The Company conducts its business from its main office and operational support and lending offices in Lowell, Massachusetts. As of December 31, 2011, the Company had eighteen full service branch banking offices serving the Merrimack Valley and North Central regions of Massachusetts and Southern New Hampshire. The Company is obligated under various non-cancelable operating leases, most of which provide for periodic adjustments. Several leases provide the Company the right of first refusal should the property be offered for sale. The Company believes that all its facilities are well maintained and suitable for the purpose for which they are used.

The following table sets forth general information related to facilities owned or used by the Company as of December 31, 2011. All locations are in Massachusetts unless otherwise noted.

BRANCH LOCATION	OWNED OR LEASED
Acton	
340 Great Road	Leased
Andover	
8 High Street	Leased
Billerica	
674 Boston Road	Owned
Chelmsford	
20 Drum Hill Road	Owned
185 Littleton Road	Owned
Derry, NH	
47 Crystal Avenue	Leased
Dracut	
1168 Lakeview Avenue	Leased
Fitchburg	
420 John Fitch Highway	Leased
Hudson, NH	
45 Lowell Road	Owned
Leominster	
4 Central Street (1)	Leased
Lowell	
430 Gorham Street	Leased
222 Merrimack Street (Main Office)	Leased
Methuen	
255 Broadway Street	Owned
North Billerica	
223 Boston Road	Owned
Pelham, NH (opened for business February 2012)	
139 Bridge Street	Leased
Salem, NH	
130 Main Street	Leased
Tewksbury	
910 Andover Street	Leased
1120 Main Street	Leased
Westford	
237 Littleton Road	Owned

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OPERATION/LENDING OFFICES	
Lowell	
170 Merrimack/19 Palmer Street	Owned
222 Merrimack Street	Leased

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(1) The Company has the option to purchase this facility at any time during any extended term at the price of $550 thousand as adjusted for increases in the producer's price index. The Company's last five-year extended-term option ends in September 2020.

See note 6, "Premises and Equipment" and note 16, "Related Party Transactions" to the consolidated financial statements in Item 8 below, for further information regarding the Company's lease obligations listed above.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company or its subsidiaries are a party or to which any of its property is subject, other than ordinary routine litigation incidental to the business of the Company. After review with legal counsel, management does not believe resolution of any present litigation will have a material adverse effect on the 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 shares trade on the NASDAQ Global Market under the trading symbol "EBTC".

The following table sets forth sales volume and price information, to the best of management's knowledge, for the common stock of the Company for the periods indicated.

Fiscal Year	Trading Volume	Share Price High	Share Price Low
2011			
4th Quarter	615,223	$14.95	$11.60
3rd Quarter	748,588	17.75	11.81
2nd Quarter	1,466,677	19.83	14.26
1st Quarter	192,516	15.45	13.31
2010			
4th Quarter	309,114	$13.75	$10.75
3rd Quarter	254,340	11.50	10.12
2nd Quarter	1,156,222	13.05	10.03

1st Quarter	390,480	13.80	10.00

As of March 5, 2012, there were 951 registered shareholders of the Company’s common stock and 9,509,767 shares of the Company’s common stock outstanding.

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Dividends

In 2011, quarterly dividends of $0.105 per share were paid to the Company's stockholders in March, June, September and December. Total 2011 dividends of $0.42 per share represented an increase of 5.0% compared to total dividends of $0.40 also paid to the Company's stockholders on a quarterly basis in 2010.

The Company maintains a dividend reinvestment plan (the "DRP"). The DRP enables stockholders, at their discretion, to elect to reinvest 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. Stockholders utilized the DRP to reinvest $1.3 million, of the $3.9 million total dividends paid by the Company in 2011, into 84,760 shares of the Company's common stock.

On January 17, 2012, the Company announced a quarterly dividend of $0.11 per share, paid on March 1, 2012 to stockholders of record as of February 9, 2012. On an annualized basis, this quarterly dividend represents a 4.8% increase over the 2011 dividend rate.

As the principal asset of the Company, the Bank currently provides the only source of cash for the payment of dividends by the Company. Under Massachusetts law, trust companies such as the Bank may pay dividends only out of "net profits" and only to the extent that such payments will not impair the Bank's capital stock. Any dividend payment that would exceed the total of the Bank's net profits for the current year plus its retained net profits of the preceding two years would require the Commissioner's 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. These restrictions on the ability of the Bank to pay dividends to the Company may restrict the ability of the Company to pay dividends to the holders of its common stock.

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

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Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2011 with respect to the Company's Amended and Restated 1998 Stock Incentive Plan (the "1998 Plan"), 2003 Stock Incentive Plan, as amended, and 2009 Stock Incentive Plan which together constitute all of the Company's existing equity compensation plans that have been previously approved by the Company's stockholders. The 1998 Plan is closed to future grants, although several awards previously granted under this plan remain outstanding and may be exercised in the future. The Company does not have any existing equity compensation plans, including any existing individual equity compensation arrangements, which have not been previously approved by the Company's stockholders.

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	628,318	$13.95	206,610
Equity compensation plans not approved by security holders	—	—	—
TOTAL	628,318	$13.95	206,610

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Performance Graph

The following graph compares the cumulative total 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, 2011 in the value of $100 invested in (i) the Company's common stock, (ii) the Standard & Poors 500 Index, and (iii) the SNL Bank $1B to $5B index.

	Period Ending					
Index	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10	12/31/11
Enterprise Bancorp, Inc.	100.00	80.28	73.89	74.04	95.27	102.94
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.76
SNL Bank $1B - $5B Index	100.00	72.84	60.42	43.31	49.09	44.77

Sales of Unregistered Securities and Repurchases of Shares

The Company has not sold any equity securities that were not registered under the Securities Act of 1933, as amended, during the year ended December 31, 2011. Neither the Company nor any "affiliated purchaser" (as defined in the SEC's Rule 10b-18(a)(3)) has repurchased any of the Company's outstanding shares, nor caused any such shares to be repurchased on its behalf, during the fiscal year ended December 31, 2011.

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Item 6. Selected Financial Data

	Year Ended December 31,				
(Dollars in thousands, except per share data)	2011	2010	2009	2008	2007
EARNINGS DATA					
Net interest income	$58,326	$54,971	$48,446	$42,195	$40,679
Provision for loan losses	5,197	5,137	4,846	2,505	1,000
Net interest income after provision for loan losses	53,129	49,834	43,600	39,690	39,679
Non-interest income	11,276	10,694	9,582	9,488	8,453
Other than temporary impairment on investment securities	(3)	(8)	(797)	(3,702)	—
Net gains on sales of investment securities	791	875	1,487	305	1,655
Non-interest expense	49,088	45,681	42,708	37,884	34,844
Income before income taxes	16,105	15,714	11,164	7,897	14,943
Provision for income taxes	5,161	5,074	3,218	2,349	5,045
Net income	$10,944	$10,640	$7,946	$5,548	$9,898
COMMON SHARE DATA					
Basic earnings per share	$1.16	$1.15	$0.96	$0.70	$1.27
Diluted earnings per share	1.16	1.15	0.96	0.69	1.25
Book value per share at year end	13.45	12.56	11.84	11.35	11.00
Dividends paid per share	$0.42	$0.40	$0.38	$0.36	$0.32
Basic weighted average shares outstanding	9,401,714	9,216,524	8,268,502	7,973,527	7,819,160
Diluted weighted average shares outstanding	9,445,725	9,221,257	8,279,126	8,005,535	7,913,006
YEAR END BALANCE SHEET AND OTHER DATA					
Total assets	$1,489,163	$1,397,321	$1,304,001	$1,180,477	$1,057,666
Loans serviced for others	67,367	63,807	53,659	28,341	20,826
Investment assets under management	505,163	493,078	433,043	439,711	573,608
Total assets under management	$2,061,693	$1,954,206	$1,790,703	$1,648,529	$1,652,100
Total loans	$1,250,489	$1,143,346	$1,082,830	$948,641	$833,819
Allowance for loan losses	23,160	19,415	18,218	15,269	13,545
Investment securities	140,405	142,060	134,369	154,633	141,622
Interest-bearing deposits and fed funds	8,900	28,711	6,835	3,946	7,791
Deposits	1,333,158	1,244,071	1,144,948	947,903	868,786
Borrowed funds	4,494	15,541	24,876	121,250	81,429
Junior subordinated debentures	10,825	10,825	10,825	10,825	10,825
Total stockholders' equity	127,448	116,673	107,664	91,104	87,012
RATIOS					
Return on average total assets	0.75%	0.78%	0.64%	0.51%	0.99%
Return on average stockholders' equity	8.98%	9.42%	8.30%	6.26%	12.11%
Allowance for loan losses to total loans	1.85%	1.70%	1.68%	1.61%	1.62%

Stockholders’ equity to total assets	8.56	%	8.35	%	8.26	%	7.72	%	8.23	%
Dividend payout ratio	36.21	%	34.78	%	39.58	%	51.43	%	25.20	%

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

Management’s discussion and analysis should be read in conjunction with the Company’s consolidated financial statements and notes thereto, contained in Item 8, the information contained in the description of the Company’s business in Item 1 and other financial and statistical information contained in this annual report.

Special Note Regarding Forward-Looking Statements

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements concerning plans, objectives, future events or performance and assumptions and other statements that are other than statements of historical fact. Forward-looking statements may be identified by reference to a future period or periods or by use of forward-looking terminology such as “anticipates”, “believes”, “expects”, “intends”, “may”, “plans”, “pursue”, “views” and similar terms or expressions. Various statements contained in Item 2 - “Management's Discussion and Analysis of Financial Condition and Results of Operations” and Item 3 - “Quantitative and Qualitative Disclosures About Market Risk,” including, but not limited to, statements related to management's views on the banking environment and the economy, competition and market expansion opportunities, the interest rate environment, credit risk and the level of future non-performing assets and charge-offs, potential asset and deposit growth, future non-interest expenditures and non-interest income growth, and borrowing capacity are forward-looking statements. The Company wishes to caution readers that such forward-looking statements reflect numerous assumptions and involve a number of risks and uncertainties that may adversely affect the Company's future results. The following important factors, among others, could cause the Company's results for subsequent periods to differ materially from those expressed in any forward-looking statement made herein: (i) changes in interest rates could negatively impact net interest income; (ii) changes in the business cycle and downturns in the local, regional or national economies, including deterioration in the local real estate market, could negatively impact credit and/or asset quality and result in credit losses and increases in the Company's allowance for loan losses; (iii) changes in consumer spending could negatively impact the Company's credit quality and financial results; (iv) increasing competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services could adversely affect the Company's competitive position within its market area and reduce demand for the Company's products and services; (v) deterioration of securities markets could adversely affect the value or credit quality of the Company's assets and the availability of funding sources necessary to meet the Company's liquidity needs; (vi) changes in technology could adversely impact the Company's operations and increase technology-related expenditures; (vii) increases in employee compensation and benefit expenses could adversely affect the Company's financial results; (viii) changes in laws and regulations that apply to the Company's business and operations, including without limitation the recently enacted Dodd-Frank Act and the additional regulations that will be forthcoming as a result thereof, could adversely affect the Company's business environment, operations and financial results; (ix) changes in accounting standards, policies and practices, as may be adopted or established by the regulatory agencies, the Financial Accounting Standards Board (the “FASB”) or the Public Company Accounting Oversight Board could negatively impact the Company's financial results; (x) our ability to enter new markets successfully and capitalize on growth opportunities; (xi) future regulatory compliance costs, including any increase caused by new regulations imposed by the Consumer Finance Protection Bureau; and (xii) some or all of the risks and uncertainties described above in Item 1A could be realized, which could have a material adverse effect on the Company's business, financial condition and results of operation. Therefore, the Company cautions readers not to place undue reliance on any such forward-looking information and statements.

Critical Accounting Estimates

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

Allowance for Loan Losses

The allowance for loan losses is an estimate of credit risk inherent in the loan portfolio as of the specified balance sheet dates.

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

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

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

Management’s assessment of the adequacy of the allowance for loan losses is contained under the headings “Credit Risk/Asset Quality” and “Allowance for Loan Losses,” which are contained in the “Financial Condition” section of this Item 7.

Impairment Review of Investment Securities

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

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

Based on this impairment review, management determined that there were no securities carried in the Company’s investment securities portfolio at December 31, 2011 that were deemed other than temporarily impaired.

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

Impairment Review of Goodwill

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

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

Management's qualitative assessment takes into consideration macroeconomic conditions, industry and market considerations, cost or margin factors, financial performance and share price. Based on this assessment, the Company determined that it is not more likely than not that the Company's fair value is less than its carrying amount and therefore goodwill was not considered to be impaired at December 31, 2011.

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

The second step, if necessary, measures the amount of goodwill impairment loss to be recognized. The reporting unit must determine fair values for all assets and liabilities, excluding goodwill. The net of the assigned fair value of assets and liabilities is then compared to the book value of the reporting unit, and any excess book value becomes the implied fair value of goodwill. If the carrying amount of the goodwill exceeds the newly calculated implied fair value of that goodwill, an impairment loss is recognized in the amount required to write down the goodwill to the implied fair value.

Overview

Enterprise reported strong annual 2011 earnings results and numerous accomplishments for the year ended December 31, 2011. Net income amounted to $10.9 million, or $1.16 on a diluted earnings per share basis, for the year ended December 31, 2011, compared to $10.6 million, or $1.15, respectively, for the year ended December 31, 2010. The 3% increase in net income for the year ended December 31, 2011, when compared to the prior year, was primarily attributed to growth in loans, resulting in an increase in net interest income. The Company's growth also contributed to increases in non-interest income and the level of operating expenses in the year ended December 31, 2011.

In 2011, we increased our loans outstanding by $107.1 million, or 9%, versus December 31, 2010. Our 2011 loan growth represents a 77% increase from the $60.5 million in loan growth in 2010. Deposits, excluding brokered deposits, have increased $89.2 million, or 7%, since December 31, 2010. Total assets under management exceeded $2 billion in 2011. We believe this robust organic growth reflects our success in serving our market area, our commitment to our communities, and is the key driver of our strong earnings results.

Our focus remains on continued organic growth and expansion, while continuing to provide for our future by investing in our branch network, technology, progressive and technological product capabilities, and most importantly, in our people. In February 2012, Enterprise increased its geographic footprint by opening its 19th branch in Pelham, NH, our fourth location in Southern New Hampshire.

Composition of Earnings

The Company's earnings are largely dependent on its net interest income, which is the difference between interest earned on loans and investments and the cost of funding (primarily deposits and borrowings). Tax equivalent net interest income expressed as a percentage of average interest earning assets is referred to as net interest margin ("margin"). The re-pricing frequency of the Company's assets and liabilities are not identical, and therefore subject the Company to the risk of adverse changes in interest rates. This is often referred to as "interest rate risk" and is reviewed in more detail in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of this Form 10-K.

Net interest income increased $3.4 million, or 6%, for the year ended December 31, 2011 and amounted to $58.3 million. Net interest income for the quarter ended December 31, 2011 amounted to $15.3 million, an increase of $1.3 million, or 9%,

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compared to the December 2010 quarter. The increases in net interest income over the comparable 2010 periods were due primarily to loan growth. Average loan balances for the year ended and three months ended December 31, 2011 increased $79.8 million and $109.9 million, respectively, compared to the same periods in 2010. Net interest margin was 4.37% for the year ended December 31, 2011 compared to 4.41% for the year ended December 31, 2010. Tax equivalent net interest margin was 4.39% for the quarter ended December 31, 2011 compared to 4.33% for the quarter ended September 30, 2011, and 4.31% for the quarter ended December 31, 2010.

For the years ended December 31, 2011 and 2010, the provision for loan losses amounted to $5.2 million and $5.1 million, respectively. The provision for loan losses takes into consideration the level of loan growth, adversely classified and non-performing loans, specific reserves for impaired loans, net charge-offs, and the estimated impact of current economic conditions on credit quality. The level of loan growth during 2011 was $107.1 million compared to $60.5 million during the same period in 2010. The balance of the allowance for loan losses allocated to impaired loans amounted to $4.4 million at December 31, 2011, compared to $2.7 million at December 31, 2010. Total non-performing assets as a percentage of total assets were 1.83% at December 31, 2011, compared to 1.51% at December 31, 2010. For the year ended December 31, 2011, the Company recorded net charge-offs of $1.5 million, compared to net charge-offs of $3.9 million for the prior year. Net charge-offs as a percentage of average loans for the year ended December 31, 2011 amounted to 0.12% compared to 0.36% for 2010. Management continues to closely monitor the non-performing assets, charge-offs and necessary allowance levels, including specific reserves, and believes that current loan quality statistics are a function of the ongoing effects of the recent economic environment. The allowance for loan losses to total loans ratio was 1.85% at December 31, 2011, compared to 1.70% at December 31, 2010.

For further information regarding loan quality statistics and the allowance for loan losses, see the sections below under the heading "Financial Condition" titled "Credit Risk/Asset Quality" and "Allowance for Loan Losses."

Non-interest income for the year ended December 31, 2011 amounted to $12.1 million, an increase of $503 thousand, or 4%, compared to 2010. This increase primarily resulted from increases in investment advisory fees and deposit fee income, partially offset by a decrease in net gains on securities sales.

For the year ended December 31, 2011, non-interest expense amounted to $49.1 million, an increase of $3.4 million, or 7%, compared to the prior year. This increase resulted primarily from the Company's strategic growth initiatives, partially offset by reductions in the current period in FDIC insurance expense and fair value adjustment of other real estate owned ("OREO"). Increases in Other Operating Expenses of $738 thousand for year-end period included increases in foreclosed real estate costs, workout and delinquent loan expenses, and security expenses.

Sources and Uses of Funds

The Company’s primary sources of funds are deposits, brokered deposits, FHLB borrowings, current earnings and proceeds from the sales, maturities and paydowns on loans and investment securities. These funds are used to originate loans, purchase investment securities, conduct operations, expand the branch network, and pay dividends to shareholders.

Total assets amounted to $1.49 billion at December 31, 2011, an increase of 7% since December 31, 2010. The core asset strategy is to grow loans, primarily high quality commercial loans. Total loans increased 9% since December 31, 2010 and amounted to $1.25 billion, or 84% of total assets. Commercial loans amounted to $1.08 billion, or 86% of gross loans at December 31, 2011.

The investment portfolio is the other key component of earning assets and is primarily used to invest excess funds, provide liquidity and to manage the Company's asset-liability position. The carrying value of total investments amounted to $140.4 million at December 31, 2011, or 9% of total assets. The carrying value of the portfolio is relatively flat since December 31, 2010.

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

At December 31, 2011, total deposits, excluding brokered deposits, amounted to $1.33 billion, representing, an increase of $89.2 million, or 7%, over December 31, 2010 balances. At December 31, 2011, non-interest bearing checking account balances increased $78.8 million, or 34%, compared to balances at December 31, 2010, while money market account balances increased $17.5 million, or 4% over this same period. The deposit growth is primarily attributed to our focused sales and marketing efforts to attract relationship customers seeking an alternative to the larger regional and national banks, mutual funds and other investment alternatives, as well as the general inflow of funds into the deposit marketplace. The Company had no brokered deposits as December 31, 2011 and amounts were minimal at December 31, 2010.

Wholesale funding amounted to $4.5 million at December 31, 2011, compared to $15.6 million at December 31, 2010. Wholesale funding was primarily comprised of borrowed funds in both periods. The declines in wholesale funding were achieved due to the strong deposit growth during the period.

Opportunities and Risks

While the current economic environment continues to present significant challenges for all companies, management also believes that it has created opportunities for growth and customer acquisition. Notwithstanding the competition discussed above under the heading "Competition," in Item 1, "Business", management believes that customers continue to migrate from larger, national and regional banks to local, stable community banks, choosing to do business with local professional bankers who can offer them the flexibility, responsiveness and personalized service that a community bank such as Enterprise provides. Management views the Company’s product offerings, its customer service culture, and its investments in the communities we serve, as key elements in positioning Enterprise to take advantage of these market opportunities created by the current challenging banking landscape and recent industry consolidation within the local market.

The Company’s ability to achieve its long-term growth and market share objectives will depend upon the Company’s continued success in differentiating itself in the market place. Management believes that the Company has built a reputation within its market area based on consistently superior customer service and supporting the local communities, differentiating itself through its people, who act as trusted advisors to clients, and uphold the Company’s core values, including significant community involvement, which has led to a strong network with local business and community leaders. Management believes the Enterprise business model of providing a full range of diversified financial products, services and the latest technology, delivered by experienced local banking professionals, who possess strong technical skills, an in-depth knowledge of our markets and a trusted reputation within the community, creates opportunities for the Company to be the leading provider of banking and investment management services in its growing market area.

The Company seeks to increase deposit share, in both existing and new markets, through continuous reviews of deposit product offerings and delivery options targeted to customer needs, with targeted marketing strategies, together with carefully planned expansion into neighboring markets and new branch development. In the past two years, the Company has enhanced its branch network with the opening of the Hudson, New Hampshire office, the relocation of the Derry, New Hampshire branch to a larger facility, and has made strategic investments in renovations and improvements to existing branch locations. In addition, in February 2012, we opened our newest branch in Pelham, New Hampshire, our fourth location in Southern New Hampshire.

During this time, the Company has also made significant investments in its operations centers and business continuity planning. The Company continues to renovate and gain more space for back office operations at its headquarters and operations center in Lowell, Massachusetts, and recently installed a backup power generator at this location, and has completed construction of an off-site secondary data center which will provide backup processing capabilities for all locations.

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

Management continues to undertake significant strategic initiatives, including investments in employee training and development, marketing and public relations, technology and electronic product delivery, branch expansion and ongoing updates and renovations of existing branches and operations facilities. The current industry consolidation also provides management the opportunity to recruit experienced banking professionals with market knowledge and who compliment the Enterprise sales and service culture. While management recognizes that such investments increase expenses in the short-term, it believes that such initiatives are an investment in the long-term growth and earnings of the Company and are reflective of the opportunities in the current marketplace for community banks such as Enterprise.

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

A possible deterioration of the current economic environment could weaken the local New England economy, and have adverse repercussions on local industries leading to increased unemployment and foreclosures, further deterioration of local commercial real estate values, or other unforeseen consequences, which could have a severe negative impact on the Company’s financial condition, capital position, liquidity, and performance. In addition, the loan portfolio consists primarily of commercial real estate, commercial and industrial, and construction loans. These types of loans are typically larger and are generally viewed as having more risk of default than owner occupied residential real estate loans or consumer loans. The underlying commercial real estate values, customer cash flow and payment expectations and, in the case of commercial construction loans, the actual costs necessary to complete a construction project, can be more easily influenced by adverse conditions in the local or national economy, the real estate market, or the related industries. Any significant deterioration in the commercial loan portfolio or underlying collateral values due to a continuation or worsening of the current economic environment could have a material adverse effect on the Company’s financial condition and results of operations. The risk of loss due to customers’ non-payment of loans or lines of credit is called “credit risk.” Credit risk management is reviewed below in this Item 7 under the headings “Credit Risk/Asset Quality” and “Allowance for Loan Losses.”

The value of the investment portfolio as a whole, or individual securities held, including bonds issued by government agencies or municipalities and restricted FHLB capital stock, could be negatively impacted by any continued volatility in the financial markets, tightening of credit markets, and any possible subsequent effects of the recently ended recession, which could possibly result in the recognition of additional OTTI charges in the future. The re-pricing frequency of interest earning assets and liabilities are not identical, and therefore subject the Company to the risk of adverse changes in interest rates. This is often referred to as “interest rate risk” and is reviewed in more detail under Item 7A, “Quantitative and Qualitative Disclosures About Market Risk.”

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

Federal banking agencies require the Company and the Bank to meet minimum capital requirements. At December 31, 2011, both the Company and the Bank were categorized as “well capitalized”; however future unanticipated charges against capital could impact those regulatory capital designations. Moreover, the revisions to international capital standards contained in the so-called Basel III accords could eventually result in enhanced capital requirements for all U.S. banking organizations, including community banks, such as Enterprise Bank.

For additional information regarding the capital levels and capital requirements applicable to the Company and the Bank and their respective capital levels at December 31, 2011, see the sections entitled “Capital Resources” and “Capital Requirements” contained in Item 1 “Business” and note 12 “Stockholders’ Equity”, to the consolidated financial statements, contained in Item 8.

In addition, any further changes in government regulation or oversight, including the implementation by the federal regulatory agencies of the various requirements contained in the Dodd-Frank Act could affect the Company in substantial and unpredictable ways, including, but not limited to, subjecting the Company to additional operating, governance and compliance costs or potential loss of revenue due to the impact of an enhanced regulatory structure on the banking industry. Although several significant aspects of the Dodd-Frank Act expressly apply only to larger, “systemically significant” institutions, they may have the potential to influence the Company's business decisions, while other parts of the legislation apply either directly, or potentially indirectly, to activities of community banks, such as

Enterprise.

The full extent of the regulatory impact resulting from the Dodd-Frank Act will not be known for some time, as the various federal regulatory agencies are responsible for ultimately implementing over 240 new regulations over a period of years and the Government Accounting Office and other federal agencies are required to complete nearly 70 additional studies regarding various financial services industry issues that were raised during the legislative process.

Over the past several years, the Company's deposit insurance premium expense has fluctuated based on changes made by the federal government in an effort to restore the DIF. Additionally, certain provisions of the Dodd-Frank Act have the potential of impacting FDIC deposit insurance rates and methodology. The long-term effects that the new legislation and the FDIC’s future efforts to restore the DIF will have on the Company's deposit insurance premium expense remain unclear at this time.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. Operational risk management is also a key component of the Company’s risk management process, particularly as it relates to technology administration, information security, third-party vendor management and business continuity.

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 has implemented layered security approaches for all delivery channels that allow employees, customers, or vendors access to the Company's information and technology systems. This strategy includes internal and third party risk assessments, due diligence on vendors, and project and change management practices. These standards are designed to provide risk based oversight, coordinate and communicate ideas, and to prioritize and manage technology projects in a manner consistent with corporate objectives.

Management utilizes a combination of third party information security assessments, key technologies and ongoing internal evaluations in order to protect non-public customer information and continually monitors and safeguards information on its operating systems and those of third party service providers. The Company contracts with outside parties to perform a broad scope of both internal and external information security assessments on the Company’s systems on a regular basis. These third parties conduct penetration testing and vulnerability scans to test the network configuration and security controls, and assess internal practices aimed at protecting the Company’s operating systems. In addition, an outside service provider monitors usage patterns and identifies unusual activity on bank issued debit/ATM cards. The Company also utilizes firewall technology and a combination of software and third-party monitoring to detect intrusion, protect against unauthorized access and continuously scan for computer viruses on the Company’s information systems.

The Company may enter into third-party relationships by outsourcing certain operational functions or by using third parties to provide certain products and services to the Bank’s customers.   The Company is responsible for ensuring that activities conducted through third-party relationships are conducted in a safe and sound manner and in accordance with applicable laws and regulations, just as if the activity was performed by the Company itself. The Company has a third-party vendor management program in order to identify and control the risks arising from conducting activities through third party relationships. These risks may include, among other things, operational risk and the failure to deliver a particular product or service, non-compliance with applicable laws and regulations, loss of non-public personal information, vendor business decisions that are inconsistent with the Company’s strategic goals, or damage to the Company’s reputation; among others. The Company’s risk-based, third-party vendor management program is designed to provide a mechanism to enable management to determine what risk, if any, a particular vendor exposes the Company to, and to mitigate that risk by properly performing initial and ongoing due diligence when selecting or maintaining relationships with significant third-party providers.

The Company’s Business Continuity Plan consists of the information and procedures required to enable rapid recovery from an occurrence that would disable the Company for an extended period. The plan addresses issues and concerns regarding the loss of personnel, loss of information and/or loss of access to information under various scenarios including the following: the inability of staff or customers to travel to or to access bank offices; the serious threat of widespread public health or safety concerns; and the physical destruction or damage of facilities, infrastructure or systems. The plan, which is reviewed annually, establishes responsibility for assessing a disruption of business, contains alternative strategies for the continuance of critical business functions during an emergency situation, assigns responsibility for restoring services, and sets priorities by which critical services will be restored. The recent construction of a secondary off-site data center eliminated the need to outsource this function and provides the Company more control and auxiliary network processing capabilities. Any contingency plan, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the plan will be met as the assumptions used change over time or due to changes in circumstances and events.

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

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Financial Condition

Total assets increased $91.8 million, or 7%, over the prior year, amounting to $1.49 billion at December 31, 2011. The increase was primarily attributable to an increase in loan growth. The balance sheet composition and changes since the prior year are discussed below.

Cash and cash equivalents

Cash and cash equivalents is comprised of cash and due from banks, interest-earning deposits (deposit, money market, and money market mutual funds accounts) and fed funds. As of December 31, 2011, cash and cash equivalents amounted to 3% of total assets, compared to 4% of total assets, at December 31, 2010. Balances in cash and cash equivalents will fluctuate resulting primarily from the timing of deposit, borrowing and loan inflows and outflows, investment purchases and maturities, calls and sales proceeds, and the immediate liquidity needs of the Company.

Investments

As of December 31, 2011, the fair value of the investment portfolio decreased $1.7 million, or 1% compared to December 31, 2010. At December 31, 2011 and 2010, all investments were classified as available for sale and were carried at fair market value.

The investment portfolio represented 9% of total assets at December 31, 2011 and 10% of total assets at December 31, 2010. Fixed income investments comprised the majority of the fair value of the portfolio and represented 95% of total investments at December 31, 2011 and 97% at December 31, 2010.

The following table summarizes investments at the dates indicated:

	December 31,		
(Dollars in thousands)	2011	2010	2009
Federal agency obligations[1]	$40,397	$40,940	$25,631
Federal agency mortgage backed securities (MBS)[1]	39,688	42,525	39,737
Non-agency CMO	—	2,439	3,445
Municipal securities	51,209	51,589	60,592
Certificates of Deposits [2]	2,147	—	—
Fixed income securities	133,441	137,493	129,405
Equity investments	6,964	4,567	4,964
Total available for sale investments at fair value	$140,405	$142,060	$134,369

(1) These categories may include investments issued or guaranteed by government sponsored enterprises such as Fannie Mae (FNMA), Freddie Mac (FHLMC), Ginnie Mae (GNMA), Federal Farm Credit Bank (FFCB), or one of several Federal Home Loan Banks (FHLBs). All agency MBS/CMO investments owned by the Company are backed by residential mortgages.
(2) CDs represent bank issued term deposits that trade in the open market.

Included in the federal agency MBS category were Collateralized Mortgage Obligations (“CMO’s”) totaling $21.8 million, $26.0 million and $24.9 million, at December 31, 2011, 2010 and 2009, respectively.

During 2011, the Company recognized net gains amounting to $791 thousand, on the sales of $10.6 million of investments, and impairment charges on a previously impaired equity investment of $3 thousand. Principal paydowns, calls and maturities on fixed income securities totaled $55.7 million during 2011. These portfolio cash inflows were utilized to purchase $63.1 million of investments during 2011.

As of December 31, 2011, the net unrealized gains in the investment portfolio were $5.0 million compared to the net unrealized gains of $3.1 million at December 31, 2010. The unrealized gains at December 31, 2011 consisted of net unrealized gains on fixed income investments of $4.4 million (comprised of unrealized gains of $4.4 million and unrealized losses of $10 thousand), net unrealized gains on equity securities of $559 thousand (comprised of unrealized gains of $804 thousand and unrealized losses of $245 thousand)

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Unrealized gains or losses will only be recognized in the statements of income if the investments are sold. However, should an investment be deemed “other than temporarily impaired,” the Company is required to write-down the fair value of the investment. During 2011, the Company recorded fair market value impairment charges of $3 thousand on a previously impaired investment contained in its equity portfolio, to reflect the impact of declines in the equity markets during the period. During 2011, the Company sold $388 thousand of previously impaired equity funds and recognized gains of $207 thousand. See “Impairment Review of Securities” under the heading “Critical Accounting Estimates” above in this Item 7 for additional information regarding the accounting for other than temporary impairment.

See also Note 2, "Investments” and Note 13 "Fair Value Measurements" to the consolidated financial statements in Item 8 below, for further information regarding the Company’s unrealized gains and losses, other than temporary impairment review and investments pledged as collateral, as well as the Company's fair value measures for available-for sale investments.

The contractual maturity distribution at amortized cost, as of December 31, 2011, of the fixed income securities above, excluding CDs which mature in less than a year, with the weighted average yield for each category is set forth below:

	Under 1 Year			>1 – 5 Years			>5 – 10 Years			Over 10 Years		
(Dollars in thousands)	Balance	Yield		Balance	Yield		Balance	Yield		Balance	Yield	
Federal Agency Obligations	$5,014	0.53	%	$35,192	0.97	%	$—	—		$—	—	
MBS/CMO’s	—	—		159	1.85	%	14,443	2.87	%	23,672	3.52	%
Municipals(1)	3,909	4.14	%	12,240	3.07	%	20,115	4.51	%	12,130	6.30	%
	$8,923	2.11	%	$47,591	1.51	%	$34,558	3.82	%	$35,802	4.46	%

(1) Municipal security yields and total yields are shown on a tax equivalent basis.

Scheduled contractual maturities may not reflect the actual maturities of the investments. MBS/CMO’s are shown at their final maturity. However, due to prepayments and amortization the actual MBS/CMO cash flows may be faster than presented above. Similarly, included in the municipal and federal agency obligations categories are $37.8 million in securities which can be “called” before maturity. Actual maturity of these callable securities could be shorter if called. Management considers these factors when evaluating the net interest margin in the Company’s asset-liability management program.

Federal Home Loan Bank Stock

As a member of the FHLB, the Company is required to purchase certain levels of FHLB capital stock in association with the Bank’s borrowing relationship from the FHLB. This stock is classified as a restricted investment and carried at cost, which management believes approximates fair value. In February 2009, the FHLB began implementing a number of measures in order to strengthen its financial position and to increase its capital levels, including the indefinite suspension of its quarterly dividends and a moratorium on the repurchase of excess capital stock from member banks, among other programs. However, in the first quarter of 2011, the FHLB announced the reinstitution of quarterly dividends on capital stock balances based on improved profitability and capital levels. The FHLB cautioned that negative events such as further credit losses, a decline in income or regulatory disapproval could lead them to reconsider their plan to continue to declare modest cash dividends. The FHLB continues to take steps to protect members' capital and improve its profitability, including amendments to its capital plan and a joint capital enhancement agreement with the other eleven FHLBs, and continued their moratorium on excess capital stock repurchases through December 31, 2011. Although recent financial results of the FHLB have improved, and, in February 2012 the FHLB announced plans for a one-time capital stock repurchase, if further 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. At December 31, 2011, the Company’s investment in FHLB capital stock amounted to $4.7 million. Based on management's ongoing review, the Company has not recorded any other than temporarily impairment charges on this investment to date. Additionally, if as a result of deterioration in its financial condition the FHLB restricts its lending activities, the Company may need to utilize alternative funding sources to meet its liquidity needs.

Loans

Total loans increased $107.1 million, or 9%, and amounted to 84% of total assets at December 31, 2011, compared with 82% of total assets at December 31, 2010. The Company attributes the increase to its seasoned lending team, its sales and service culture and geographic market expansion. The Company has continued to selectively develop relationships with strong, credit-worthy customers. The mix of loans within the portfolio remained relatively unchanged with commercial loans amounting to approximately 86% of gross loans, reflecting a continued focus on commercial loan growth.

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

	December 31,									
	2011		2010		2009		2008		2007	
(Dollars in thousands)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of total
Comm'l real estate	$650,697	51.9 %	$595,075	52.0 %	$553,768	51.1 %	$472,279	49.7 %	$406,410	48.7 %
Comm'l & industrial	310,706	24.8 %	274,829	24.0 %	263,151	24.3 %	231,815	24.4 %	188,866	22.6 %
Comm'l construction	117,398	9.4 %	111,681	9.7 %	107,467	9.9 %	98,365	10.4 %	112,671	13.5 %
Total Commercial	1,078,801	86.1 %	981,585	85.7 %	924,386	85.3 %	802,459	84.5 %	707,947	84.8 %
Resid mortgages	83,368	6.7 %	79,521	7.0 %	80,808	7.4 %	72,750	7.6 %	63,452	7.6 %
Resid construction	2,943	0.2 %	2,874	0.2 %	6,260	0.6 %	6,375	0.7 %	4,120	0.5 %
Home equity loans and lines of credit	77,135	6.2 %	70,147	6.1 %	68,392	6.3 %	61,632	6.5 %	54,773	6.6 %
Consumer	4,570	0.4 %	4,228	0.4 %	3,824	0.4 %	4,857	0.5 %	4,493	0.5 %
Loans held for sale	5,061	0.4 %	6,408							