

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

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

For the quarterly period ended September 30, 2023

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

(State or other jurisdiction of
incorporation or organization)

04-3308902

(I.R.S. Employer Identification No.)

222 Merrimack Street, Lowell, Massachusetts

(Address of principal executive offices)

01852

(Zip code)

(978) 459-9000

(Registrant's telephone number, including area code)

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

| Title of each class | Trading Symbol(s) | Name of each exchange on which registered |
|--|--------------------------|--|
| Common Stock, \$0.01 par value per share | EBTC | NASDAQ Stock Market |

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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition for "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer x

Non-accelerated filer ☐ Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

☐ Yes x No

As of **October 31, 2023**, there were **12,256,998** shares of the issuer's common stock outstanding, par value \$0.01 per share.

ENTERPRISE BANCORP, INC.
INDEX

| | Page Number |
|--|--------------------|
| Cover Page | 1 |
| Index | 2 |
| PART I - FINANCIAL INFORMATION | |
| Item 1 Financial Statements (unaudited) | 3 |
| Consolidated Balance Sheets - September 30, 2023 and December 31, 2022 | 3 |
| Consolidated Statements of Income - Three and nine months ended September 30, 2023 and 2022 | 4 |
| Consolidated Statements of Comprehensive Income - Three and nine months ended September 30, 2023 and 2022 | 5 |
| Consolidated Statements of Changes in Shareholders' Equity - Three and nine months ended September 30, 2023 and 2022 | 6 |
| Consolidated Statements of Cash Flows - Nine months ended September 30, 2023 and 2022 | 8 |
| Notes to Unaudited Consolidated Interim Financial Statements | 9 |
| Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations | 33 |
| Item 3 Quantitative and Qualitative Disclosures About Market Risk | 49 |
| Item 4 Controls and Procedures | 50 |
| PART II - OTHER INFORMATION | |
| Item 1 Legal Proceedings | 50 |
| Item 1A Risk Factors | 50 |
| Item 2 Unregistered Sales of Equity Securities and Use of Proceeds | 51 |
| Item 3 Defaults Upon Senior Securities | 51 |
| Item 4 Mine Safety Disclosures | 51 |
| Item 5 Other Information | 51 |
| Item 6 Exhibits | 52 |
| Signature page | 53 |

PART I-FINANCIAL INFORMATION
Item 1 - Financial Statements
ENTERPRISE BANCORP, INC.

Consolidated Balance Sheets

(Unaudited)

| | September 30, 2023 | December 31, 2022 |
|---|-----------------------|----------------------|
| (Dollars in thousands, except per share data) | | |
| Assets | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | \$ 45,345 | \$ 36,901 |
| Interest-earning deposits with banks | 180,076 | 230,688 |
| Total cash and cash equivalents | 225,421 | 267,589 |
| Investments: | | |
| Debt securities at fair value (amortized cost of \$ 806,077 and \$940,227, respectively) | 672,894 | 816,102 |
| Equity securities at fair value | 6,038 | 4,269 |
| Total investment securities at fair value | 678,932 | 820,371 |
| Federal Home Loan Bank ("FHLB") stock | 2,403 | 2,343 |
| Loans: | | |
| Total loans | 3,404,014 | 3,180,518 |
| Allowance for credit losses | (57,905) | (52,640) |
| Net loans | 3,346,109 | 3,127,878 |
| Premises and equipment, net | 43,391 | 44,228 |
| Lease right-of-use asset | 24,979 | 24,923 |
| Accrued interest receivable | 18,572 | 17,117 |
| Deferred income taxes, net | 55,080 | 51,981 |
| Bank-owned life insurance | 65,106 | 64,156 |
| Prepaid income taxes | 2,548 | 683 |
| Prepaid expenses and other assets | 14,177 | 11,408 |
| Goodwill | 5,656 | 5,656 |
| Total assets | <u>\$ 4,482,374</u> | <u>\$ 4,438,333</u> |
| Liabilities and shareholders' Equity | | |
| Liabilities | | |
| Deposits | \$ 4,060,403 | \$ 4,035,806 |
| Borrowed funds | 4,290 | 3,216 |
| Subordinated debt | 59,419 | 59,182 |
| Lease liability | 24,589 | 24,415 |
| Accrued expenses and other liabilities | 31,288 | 31,442 |
| Accrued interest payable | 2,686 | 2,005 |
| Total liabilities | 4,182,675 | 4,156,066 |
| Commitments and Contingencies | | |
| Shareholders' Equity | | |
| Preferred stock, \$0.01 par value per share; 1,000,000 shares authorized; no shares issued | — | — |
| Common stock, \$0.01 par value per share; 40,000,000 shares authorized; 12,256,964 and 12,133,516 shares issued and outstanding, respectively | 123 | 121 |
| Additional paid-in capital | 106,451 | 103,793 |
| Retained earnings | 296,291 | 274,560 |
| Accumulated other comprehensive loss | (103,166) | (96,207) |
| Total shareholders' equity | 299,699 | 282,267 |
| Total liabilities and shareholders' equity | <u>\$ 4,482,374</u> | <u>\$ 4,438,333</u> |

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

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

| (Dollars in thousands, except per share data) | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|------------|---------------------------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| Interest and dividend income: | | | | |
| Loans and loans held for sale | \$ 44,501 | \$ 35,306 | \$ 125,855 | \$ 98,149 |
| Investment securities | 4,316 | 4,728 | 14,356 | 14,097 |
| Other interest-earning assets | 3,468 | 2,068 | 7,593 | 2,642 |
| Total interest and dividend income | 52,285 | 42,102 | 147,804 | 114,888 |
| Interest expense: | | | | |
| Deposits | 12,889 | 1,460 | 28,568 | 2,731 |
| Borrowed funds | 28 | 13 | 70 | 39 |
| Subordinated debt | 866 | 850 | 2,600 | 2,485 |
| Total interest expense | 13,783 | 2,323 | 31,238 | 5,255 |
| Net interest income | 38,502 | 39,779 | 116,566 | 109,633 |
| Provision for credit losses | 1,752 | 1,000 | 6,756 | 3,939 |
| Net interest income after provision for credit losses | 36,750 | 38,779 | 109,810 | 105,694 |
| Non-interest income: | | | | |
| Wealth management fees | 1,673 | 1,626 | 4,933 | 4,965 |
| Deposit and interchange fees | 1,987 | 2,045 | 6,330 | 5,847 |
| Income on bank-owned life insurance, net | 327 | 303 | 950 | 893 |
| Net (losses) gains on sales of debt securities | — | — | (2,419) | 1,062 |
| Net gains on sales of loans | 14 | 8 | 34 | 30 |
| Losses on equity securities | (181) | (193) | (8) | (688) |
| Other income | 666 | 736 | 2,242 | 2,143 |
| Total non-interest income | 4,486 | 4,525 | 12,062 | 14,252 |
| Non-interest expense: | | | | |
| Salaries and employee benefits | 19,159 | 18,915 | 53,815 | 53,450 |
| Occupancy and equipment expenses | 2,433 | 2,203 | 7,439 | 6,982 |
| Technology and telecommunications expenses | 2,626 | 2,599 | 7,937 | 8,154 |
| Advertising and public relations expenses | 592 | 510 | 2,077 | 1,737 |
| Audit, legal and other professional fees | 735 | 693 | 2,157 | 2,078 |
| Deposit insurance premiums | 654 | 391 | 1,944 | 1,313 |
| Supplies and postage expenses | 251 | 219 | 753 | 663 |
| Other operating expenses | 1,862 | 2,007 | 5,853 | 5,770 |
| Total non-interest expense | 28,312 | 27,537 | 81,975 | 80,147 |
| Income before income taxes | 12,924 | 15,767 | 39,897 | 39,799 |
| Provision for income taxes | 3,225 | 3,805 | 9,746 | 9,389 |
| Net income | \$ 9,699 | \$ 11,962 | \$ 30,151 | \$ 30,410 |
| Basic earnings per share | \$ 0.79 | \$ 0.99 | \$ 2.47 | \$ 2.51 |
| Diluted earnings per share | \$ 0.79 | \$ 0.98 | \$ 2.46 | \$ 2.50 |
| Basic weighted average common shares outstanding | 12,247,892 | 12,119,348 | 12,210,740 | 12,094,613 |
| Diluted weighted average common shares outstanding | 12,264,778 | 12,156,695 | 12,233,861 | 12,143,468 |

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

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

| (Dollars in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|--------------------|---------------------------------|--------------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net income | \$ 9,699 | \$ 11,962 | \$ 30,151 | \$ 30,410 |
| Other comprehensive loss, net of tax | | | | |
| Net change in fair value of debt securities | (15,573) | (23,295) | (6,959) | (100,335) |
| Total other comprehensive loss, net of tax | (15,573) | (23,295) | (6,959) | (100,335) |
| Total comprehensive (loss) income, net | <u>\$ (5,874)</u> | <u>\$ (11,333)</u> | <u>\$ 23,192</u> | <u>\$ (69,925)</u> |

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

ENTERPRISE BANCORP, INC.
Consolidated Statements of Changes in Shareholders' Equity
(Unaudited)

| | Common Stock | | Additional | Retained | Accumulated | Total |
|---|-------------------|---------------|-------------------|-------------------|---------------------|-------------------|
| | Shares | Amount | Paid-in | Earnings | Other | Shareholders' |
| (Dollars in thousands, except per share data) | | | Capital | | Comprehensive | Equity |
| | | | | | Loss | |
| Balance at June 30, 2023 | 12,244,733 | \$ 122 | \$ 105,552 | \$ 289,409 | \$ (87,593) | \$ 307,490 |
| Net income | | | | 9,699 | | 9,699 |
| Other comprehensive loss, net | | | | | (15,573) | (15,573) |
| Common stock dividend declared (\$0.230 per share) | | | | (2,817) | | (2,817) |
| Common stock issued under dividend reinvestment plan | 12,926 | 1 | 377 | | | 378 |
| Common stock issued, other | 244 | — | 6 | | | 6 |
| Stock-based compensation, net | (415) | — | 542 | | | 542 |
| Net settlement for employee taxes on restricted stock and options | (1,625) | — | (49) | | | (49) |
| Stock options exercised, net | 1,101 | — | 23 | | | 23 |
| Balance at September 30, 2023 | <u>12,256,964</u> | <u>\$ 123</u> | <u>\$ 106,451</u> | <u>\$ 296,291</u> | <u>\$ (103,166)</u> | <u>\$ 299,699</u> |
| Balance at June 30, 2022 | 12,115,924 | \$ 121 | \$ 102,108 | \$ 255,259 | \$ (72,378) | \$ 285,110 |
| Net income | | | | 11,962 | | 11,962 |
| Other comprehensive loss, net | | | | | (23,295) | (23,295) |
| Common stock dividend declared (\$0.205 per share) | | | | (2,483) | | (2,483) |
| Common stock issued under dividend reinvestment plan | 11,297 | — | 354 | | | 354 |
| Common stock issued, other | 344 | — | 11 | | | 11 |
| Stock-based compensation, net | 61 | | 553 | | | 553 |
| Net settlement for employee taxes on restricted stock and options | (1,408) | — | (46) | | | (46) |
| Stock options exercised, net | 1,235 | — | 27 | | | 27 |
| Balance at September 30, 2022 | <u>12,127,453</u> | <u>\$ 121</u> | <u>\$ 103,007</u> | <u>\$ 264,738</u> | <u>\$ (95,673)</u> | <u>\$ 272,193</u> |

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

ENTERPRISE BANCORP, INC.
Consolidated Statements of Changes in Shareholders' Equity (continued)
(Unaudited)

| (Dollars in thousands, except per share data) | Common Stock | | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive (Loss)/Income | Total Stockholders' Equity |
|---|-------------------|---------------|----------------------------------|----------------------|--|----------------------------------|
| | Shares | Amount | | | | |
| Balance at December 31, 2022 | 12,133,516 | \$ 121 | \$ 103,793 | \$ 274,560 | \$ (96,207) | \$ 282,267 |
| Net income | | | | 30,151 | | 30,151 |
| Other comprehensive loss, net | | | | | (6,959) | (6,959) |
| Common stock dividends declared (\$0.690 per share) | | | | (8,420) | | (8,420) |
| Common stock issued under dividend reinvestment plan | 37,145 | 1 | 1,123 | | | 1,124 |
| Common stock issued, other | 975 | — | 30 | | | 30 |
| Stock-based compensation, net | 79,166 | 1 | 1,823 | | | 1,824 |
| Net settlement for employee taxes on restricted stock and options | (9,229) | — | (444) | | | (444) |
| Stock options exercised, net | 15,391 | — | 126 | | | 126 |
| Balance at September 30, 2023 | <u>12,256,964</u> | <u>\$ 123</u> | <u>\$ 106,451</u> | <u>\$ 296,291</u> | <u>\$ (103,166)</u> | <u>\$ 299,699</u> |
| Balance at December 31, 2021 | 12,038,382 | \$ 120 | \$ 100,352 | \$ 241,761 | \$ 4,662 | \$ 346,895 |
| Net income | | | | 30,410 | | 30,410 |
| Other comprehensive loss, net | | | | | (100,335) | (100,335) |
| Common stock dividends declared (\$0.615 per share) | | | | (7,433) | | (7,433) |
| Common stock issued under dividend reinvestment plan | 30,821 | — | 1,053 | | | 1,053 |
| Common stock issued, other | 1,195 | — | 41 | | | 41 |
| Stock-based compensation, net | 60,345 | 1 | 1,785 | | | 1,786 |
| Net settlement for employee taxes on restricted stock and options | (9,136) | — | (332) | | | (332) |
| Stock options exercised, net | 5,846 | — | 108 | | | 108 |
| Balance at September 30, 2022 | <u>12,127,453</u> | <u>\$ 121</u> | <u>\$ 103,007</u> | <u>\$ 264,738</u> | <u>\$ (95,673)</u> | <u>\$ 272,193</u> |

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

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

| (Dollars in thousands) | Nine months ended September 30, | |
|---|---------------------------------|------------|
| | 2023 | 2022 |
| Cash flows from operating activities: | | |
| Net income | \$ 30,151 | \$ 30,410 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for credit losses | 6,756 | 3,939 |
| Depreciation and amortization | 4,700 | 5,292 |
| Stock-based compensation expense | 1,735 | 1,724 |
| Income on bank-owned life insurance, net | (950) | (893) |
| Net losses (gains) on sales of debt securities | 2,419 | (1,062) |
| Mortgage loans originated for sale | (2,047) | (1,263) |
| Proceeds from mortgage loans sold | 2,081 | 1,293 |
| Net gains on sales of loans | (34) | (30) |
| Net losses on equity securities | 8 | 688 |
| Changes in: | | |
| Net increase in other assets | (6,785) | (16,433) |
| Net decrease in other liabilities | (734) | (3,249) |
| Net cash provided by operating activities | 37,300 | 20,416 |
| Cash flows from investing activities: | | |
| Proceeds from sales of debt securities | 84,779 | 32,715 |
| Purchase of debt securities | — | (97,789) |
| Proceeds from maturities, calls and pay-downs of debt securities | 46,258 | 68,149 |
| Net purchases of equity securities | (1,777) | (2,718) |
| Net purchases of FHLB capital stock | (60) | (179) |
| Net increase in loans | (223,586) | (188,758) |
| Additions to premises and equipment, net | (3,169) | (3,415) |
| Net cash used in investing activities | (97,555) | (191,995) |
| Cash flows from financing activities: | | |
| Net increase in deposits | 24,597 | 157,799 |
| Net increase (decrease) in borrowed funds | 1,074 | (2,545) |
| Cash dividends paid, net of dividend reinvestment plan | (7,296) | (6,380) |
| Proceeds from issuance of common stock | 30 | 41 |
| Net settlement for employee taxes on restricted stock and options | (444) | (332) |
| Net proceeds from stock option exercises | 126 | 108 |
| Net cash provided by financing activities | 18,087 | 148,691 |
| Net decrease in cash and cash equivalents | (42,168) | (22,888) |
| Cash and cash equivalents at beginning of period | 267,589 | 436,576 |
| Cash and cash equivalents at end of period | \$ 225,421 | \$ 413,688 |

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

(1) Summary of Significant Accounting Policies*(a) Organization of the Company and Basis of Presentation*

The accompanying unaudited consolidated interim financial statements and these notes should be read in conjunction with the December 31, 2022 audited consolidated financial statements and notes thereto contained in the Annual Report on Form 10-K of Enterprise Bancorp, Inc. (the "Company," "Enterprise," "we," or "our") for the year ended December 31, 2022 (the "2022 Annual Report on Form 10-K") as filed with the Securities and Exchange Commission (the "SEC") on March 8, 2023. The Company has not materially changed its significant accounting policies from those disclosed in its 2022 Annual Report on Form 10-K. See Item (e), "Recent Accounting Pronouncements," below in this Note 1.

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

The Bank's subsidiaries include Enterprise Wealth Services, LLC which was organized under the laws of the State of Delaware, to offer non-deposit investment products and services. In addition, the Bank has the following subsidiaries that are incorporated in the Commonwealth of Massachusetts and classified as security corporations in accordance with applicable Massachusetts General Laws: Enterprise Security Corporation; Enterprise Security Corporation II; and Enterprise Security Corporation III. The security corporations, which hold various types of qualifying securities, are limited to conducting investment activities that the Bank itself would be allowed to conduct under applicable laws. In February 2023, the Bank organized the EBTC NMTC Investment Fund - CHC, LLC (the "NMTC Investment Fund") under the laws of the State of Delaware. Otherwise, the services offered through the Bank and its subsidiaries are managed as one strategic unit and represent the Company's only reportable operating segment.

The accompanying unaudited consolidated interim financial statements, and notes thereto, in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 (this "Form 10-Q"), have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and the SEC instructions for Quarterly Reports on Form 10-Q. In the opinion of management, the accompanying unaudited consolidated interim financial statements reflect all necessary adjustments, consisting of normal recurring accruals and elimination of intercompany balances, for a fair presentation. Interim results are not necessarily indicative of results to be expected for the entire year, or any future period.

(b) Uses of Estimates

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

As discussed in the Company's 2022 Annual Report on Form 10-K, the most significant areas in which management applies critical assumptions and estimates are: the estimates of the allowance for credit losses ("ACL") for loans, available for sale securities and reserve for unfunded commitments, and the impairment review of goodwill. Refer to Note 1, "Summary of Significant Accounting Policies," to the Company's audited consolidated financial statements included in the Company's 2022 Annual Report on Form 10-K for accounting policies related to these significant estimates.

(c) Unconsolidated Variable Interest Entity / Proportional Accounting

In March 2023, the Bank made an equity contribution to the NMTC Investment Fund, a newly formed Delaware limited liability company, in order to invest in the NMTC program administered by the U.S. Department of the Treasury's Community Development Financial Institutions Fund and allocated to Community Development Entities ("CDE").

The NMTC program provides federal tax incentives for investments in distressed communities and promotes economic improvements through the development of successful businesses in these communities. The NMTCs are available to investors over a seven-year period and are subject to recapture if certain events occur during such period. The Bank invested \$3.7 million in the Investment Fund and anticipates receiving \$ 4.8 million of federal tax credits over the next seven years (5% in each of the

first three years, and 6% in each of the next four years). The underlying project is structured through a qualified CDE, which in turn has made loans to a qualified active low-income business. The Bank has no unfunded commitments associated with its NMTC investment.

The Company has elected to account for the tax equity investment using the proportional amortization method. Under this accounting method, the NMTC Investment Fund is not consolidated with the Company and, instead, the initial cost of the investment is amortized in proportion to the amount of tax credits and other tax benefits received over the allotment period. The investment is carried within the line "Prepaid expenses and other assets" on the Company's Consolidated Balance Sheet and the investment amortization expense and tax credits are presented on a net basis within the line "Provision for income taxes" on the Company's Consolidated Statements of Income. During the three and nine months ended September 30, 2023, the related amortization expense amounted to \$143 thousand and \$334 thousand, respectively, and the related tax credits amounted to \$ 153 thousand and \$459 thousand, respectively.

(d) Income Taxes

Deferred income taxes are recognized based on the expected future tax consequences of differences between the financial statement and tax basis of assets and liabilities, calculated using currently enacted tax rates. Management records net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making this determination, we consider all available positive and negative evidence, including recent financial operations and projected future taxable income.

(e) Recent Accounting Pronouncements

Accounting pronouncements adopted by the Company

In March 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2023-02, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method." ASU 2023-02 permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. The election can be made for each individual qualifying tax credit investment. Under the proportional amortization method, the initial cost of an investment is amortized in proportion to the amount of tax credits and other tax benefits received, with the amortization and tax credits recognized as a component of income tax expense. To qualify for the proportional amortization method, all of the following conditions must be met: (1) It is probable that the income tax credits allocated to the tax equity investor will be available; (2) The tax equity investor does not have the ability to exercise significant influence over the operating and financial policies of the underlying project; (3) Substantially all of the projected benefits are from income tax credits and other income tax benefits; (4) The tax equity investor's projected yield based solely on the cash flows from the income tax credits and other income tax benefits is positive; and (5) The tax equity investor is a limited liability investor in the limited liability entity for both legal and tax purposes, and the tax equity investor's liability is limited to its capital investment. Under the proportional amortization method, the investment shall be tested for impairment when events or changes in circumstances indicate that it is more likely than not that the carrying amount of the investment will not be realized. An impairment loss shall be measured as the amount by which the carrying amount of an investment exceeds its fair value. A previously recognized impairment loss shall not be reversed. ASU 2023-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2023. The Company has elected to early adopt ASU 2022-01 effective on January 1, 2023, applying the new guidance to a new investment in NMTC made in the first quarter of 2023, and the adoption did not have a significant impact on the financial statements.

In March 2022, the FASB issued ASU 2022-01, "Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method." This ASU clarifies the guidance on fair value hedge accounting of interest rate risk for portfolios of financial assets. The ASU amends the guidance in ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities," that, among other things, established the "last-of-layer" method for making the fair value hedge accounting for these portfolios more accessible. ASU 2022-01 renames that method the "portfolio layer" method and addresses feedback from stakeholders regarding its application. The Company adopted ASU 2022-01 effective on January 1, 2023 and the adoption did not have a significant impact on the financial statements.

In March 2022, the FASB issued ASU 2022-02, "Financial Instruments—Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." This ASU eliminates the accounting guidance for troubled debt restructurings by creditors that have adopted the current expected credit loss ("CECL") methodology for estimating allowances for credit losses and enhances the disclosure requirements for loan restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross charge-offs for financing receivables

and net investment in leases by year of origination in the vintage disclosures. The Company adopted ASU 2022-02 effective on January 1, 2023, prospectively, and the adoption did not have a significant impact on the financial statements.

(f) Subsequent Events

The Company has evaluated subsequent events and transactions from September 30, 2023 through the date this Form 10-Q was filed with the SEC for potential recognition or disclosure as required by GAAP and determined there were no material subsequent events requiring recognition or disclosure.

(2) Investment Securities

Debt Securities

All of the Company's debt securities were classified as available-for-sale and carried at fair value as of the dates specified in the tables below. The amortized cost and fair values of debt securities at the dates specified are summarized as follows:

| (Dollars in thousands) | September 30, 2023 | | | |
|--|--------------------|------------------|-------------------|-------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Federal agency obligations | \$ 5,008 | \$ — | \$ 62 | \$ 4,946 |
| U.S. treasury securities | 45,982 | — | 1,704 | 44,278 |
| Federal agency collateralized mortgage obligations ("CMO") | 407,415 | — | 78,193 | 329,222 |
| Federal agency mortgage-backed securities ("MBS") | 21,756 | — | 3,855 | 17,901 |
| Taxable municipal securities | 263,183 | 1 | 45,931 | 217,253 |
| Tax-exempt municipal securities | 46,724 | 1 | 1,394 | 45,331 |
| Corporate bonds | 4,054 | — | 188 | 3,866 |
| Subordinated corporate bonds | 11,955 | — | 1,858 | 10,097 |
| Total debt securities, at fair value | <u>\$ 806,077</u> | <u>\$ 2</u> | <u>\$ 133,185</u> | <u>\$ 672,894</u> |

| (Dollars in thousands) | December 31, 2022 | | | |
|--------------------------------------|-------------------|------------------|-------------------|-------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Federal agency obligations | \$ 5,014 | \$ — | \$ 37 | \$ 4,977 |
| U.S. treasury securities | 45,942 | — | 2,691 | 43,251 |
| Federal agency CMO | 474,777 | 3 | 67,798 | 406,982 |
| Federal agency MBS | 24,172 | 27 | 3,178 | 21,021 |
| Taxable municipal securities | 287,435 | 29 | 48,187 | 239,277 |
| Tax-exempt municipal securities | 84,457 | 66 | 870 | 83,653 |
| Corporate bonds | 6,480 | — | 186 | 6,294 |
| Subordinated corporate bonds | 11,950 | — | 1,303 | 10,647 |
| Total debt securities, at fair value | <u>\$ 940,227</u> | <u>\$ 125</u> | <u>\$ 124,250</u> | <u>\$ 816,102</u> |

Accrued interest receivable on available-for-sale debt securities, included in the "Accrued Interest Receivable" line item on the Company's Consolidated Balance Sheets, amounted to \$4.0 million at both September 30, 2023 and December 31, 2022.

At September 30, 2023, management performed its quarterly analysis of all securities with unrealized losses and determined that the losses were primarily attributable to significant increases in market interest rates experienced over the last several quarters. Management concluded that no ACL for available-for-sale securities was necessary as of September 30, 2023 and anticipates they will mature or be called at par value.

The following tables summarize the duration of unrealized losses for debt securities at September 30, 2023 and December 31, 2022:

| (Dollars in thousands) | September 30, 2023 | | | | | | |
|---------------------------------|---------------------|-------------------|---------------------|-------------------|-------------------|-------------------|---------------|
| | Less than 12 months | | 12 months or longer | | Total | | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | # of Holdings |
| Federal agency obligations | \$ 4,946 | \$ 62 | \$ — | \$ — | \$ 4,946 | \$ 62 | 1 |
| U.S. treasury securities | — | — | 44,278 | 1,704 | 44,278 | 1,704 | 6 |
| Federal agency CMO | 32,356 | 1,720 | 296,866 | 76,473 | 329,222 | 78,193 | 87 |
| Federal agency MBS | 1,614 | 60 | 16,287 | 3,795 | 17,901 | 3,855 | 11 |
| Taxable municipal securities | 4,033 | 666 | 212,220 | 45,265 | 216,253 | 45,931 | 251 |
| Tax-exempt municipal securities | 32,686 | 746 | 11,913 | 648 | 44,599 | 1,394 | 95 |
| Corporate bonds | — | — | 3,866 | 188 | 3,866 | 188 | 18 |
| Subordinated corporate bonds | — | — | 10,097 | 1,858 | 10,097 | 1,858 | 6 |
| Total | \$ 75,635 | \$ 3,254 | \$ 595,527 | \$ 129,931 | \$ 671,162 | \$ 133,185 | 475 |

| (Dollars in thousands) | December 31, 2022 | | | | | | |
|---------------------------------|---------------------|-------------------|---------------------|-------------------|-------------------|-------------------|---------------|
| | Less than 12 months | | 12 months or longer | | Total | | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | # of Holdings |
| Federal agency obligations | \$ 4,977 | \$ 37 | \$ — | \$ — | \$ 4,977 | \$ 37 | 1 |
| U.S. treasury securities | 2,878 | 109 | 40,373 | 2,582 | 43,251 | 2,691 | 6 |
| Federal agency CMO | 164,391 | 13,004 | 233,051 | 54,794 | 397,442 | 67,798 | 102 |
| Federal agency MBS | 9,923 | 797 | 9,165 | 2,381 | 19,088 | 3,178 | 11 |
| Taxable municipal securities | 93,345 | 10,411 | 144,903 | 37,776 | 238,248 | 48,187 | 273 |
| Tax-exempt municipal securities | 66,277 | 870 | — | — | 66,277 | 870 | 112 |
| Corporate bonds | 6,294 | 186 | — | — | 6,294 | 186 | 31 |
| Subordinated corporate bonds | 6,206 | 743 | 4,440 | 560 | 10,646 | 1,303 | 6 |
| Total | \$ 354,291 | \$ 26,157 | \$ 431,932 | \$ 98,093 | \$ 786,223 | \$ 124,250 | 542 |

The contractual maturity distribution at September 30, 2023 of debt securities was as follows:

| (Dollars in thousands) | Amortized Cost | Fair Value |
|--------------------------------------|-------------------|-------------------|
| Due in one year or less | \$ 58,578 | \$ 57,689 |
| Due after one, but within five years | 79,463 | 74,128 |
| Due after five, but within ten years | 262,618 | 216,464 |
| Due after ten years | 405,418 | 324,613 |
| Total debt securities | \$ 806,077 | \$ 672,894 |

Scheduled contractual maturities shown above may not reflect the actual maturities of the investments. The actual MBS/CMO cash flows likely will be faster than presented above due to prepayments and amortization. Similarly, included in the table above are callable securities, comprised of municipal securities and corporate bonds, with a fair value of \$127.5 million, which can be redeemed by the issuers prior to the maturity presented above. Management considers these factors when evaluating the interest-rate risk in the Company's asset-liability management program.

From time to time, the Company may pledge debt securities as collateral for deposit account balances of municipal customers, and for borrowing capacity with the FHLB and the Federal Reserve Bank of Boston ("FRB"). The fair value of debt securities pledged as collateral for these purposes was \$661.6 million and \$804.2 million at September 30, 2023 and December 31, 2022, respectively.

During the three months ended September 30, 2023 and September 30, 2022, the Company had no sales of debt securities. Sales of debt securities during the nine months ended September 30, 2023, were made in order to improve the Company's balance sheet positioning and enhance future earnings. Sales of debt securities for the nine months ended September 30, 2023 and September 30, 2022 are summarized as follows:

| (Dollars in thousands) | Nine months ended September 30, | |
|---|---------------------------------|------------------|
| | 2023 | 2022 |
| Amortized cost of debt securities sold ⁽¹⁾ | \$ 87,198 | \$ 31,653 |
| Gross realized gains on sales | — | 1,062 |
| Gross realized losses on sales | (2,419) | — |
| Total proceeds from sales of debt securities | <u>\$ 84,779</u> | <u>\$ 32,715</u> |

(1) Amortized cost of investments sold is determined on a specific identification basis and includes pending trades based on trade date, if applicable.

Equity Securities

The Company held equity securities with a fair value of \$ 6.0 million at September 30, 2023 and \$ 4.3 million at December 31, 2022. At September 30, 2023, the equity portfolio consisted of investments in broad-based equity index funds and common stock of entities in the financial services industry. The equity portfolio also included mutual funds held in conjunction with the Company's supplemental executive retirement and deferred compensation plan.

Gains and losses on equity securities for the three and nine months ended September 30, 2023 and September 30, 2022 are summarized as follows:

| (Dollars in thousands) | Three months ended September 30, | | Nine months ended September 30, | |
|---|----------------------------------|-----------------|---------------------------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| Net losses recognized during the period on equity securities | \$ (181) | \$ (193) | \$ (8) | \$ (688) |
| Less: Net losses recognized on equity securities sold during the period | — | — | (29) | — |
| Unrealized (losses) gains recognized during the reporting period on equity securities still held at the end of the period | <u>\$ (181)</u> | <u>\$ (193)</u> | <u>\$ 21</u> | <u>\$ (688)</u> |

(3) Loans

Loan Portfolio Classifications

Major classifications of loans and their amortized cost as of the dates indicated were as follows:

| (Dollars in thousands) | September 30, 2023 | December 31, 2022 |
|-----------------------------|-----------------------|----------------------|
| Commercial real estate | \$ 2,032,458 | \$ 1,921,410 |
| Commercial and industrial | 425,334 | 414,490 |
| Commercial construction | 501,179 | 424,049 |
| Total commercial loans | <u>2,958,971</u> | <u>2,759,949</u> |
| Residential mortgages | 362,514 | 332,632 |
| Home equity loans and lines | 74,433 | 79,807 |
| Consumer | 8,096 | 8,130 |
| Total retail loans | <u>445,043</u> | <u>420,569</u> |
| Total loans | <u>3,404,014</u> | <u>3,180,518</u> |
| ACL for loans | (57,905) | (52,640) |
| Net loans | <u>\$ 3,346,109</u> | <u>\$ 3,127,878</u> |

Net deferred loan origination fees, included in the amortized costs of loans reflected in the table above, amounted to \$ 5.5 million at September 30, 2023 and \$5.2 million at December 31, 2022. Accrued interest receivable on loans amounted to \$ 14.5 million and \$13.1 million at September 30, 2023 and December 31, 2022, respectively, and was included in the "Accrued interest receivable" line item on the Company's Consolidated Balance Sheets.

Commercial loans originated by other banks in which the Company is a participating institution are carried at the pro-rata share of ownership and amounted to \$114.9 million at September 30, 2023 and \$ 94.8 million at December 31, 2022. See also "Loans serviced for others" below for information related to commercial loans participated out to various other institutions.

Loans serviced for others

At September 30, 2023 and December 31, 2022, the Company was servicing residential mortgage loans owned by investors amounting to \$ 8.1 million and \$8.9 million, respectively. Additionally, the Company was servicing commercial loans originated by the Company and participated out to various other institutions amounting to \$68.2 million and \$59.1 million at September 30, 2023 and December 31, 2022, respectively.

Loans serving as collateral

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

| (Dollars in thousands) | September 30, 2023 | December 31, 2022 |
|-------------------------------|-------------------------------|------------------------------|
| Commercial real estate | \$ 521,370 | \$ 113,830 |
| Residential mortgages | 339,206 | 309,023 |
| Home equity | 34,062 | 39,724 |
| Total loans pledged to FHLB | <u>\$ 894,638</u> | <u>\$ 462,577</u> |

(4) ACL for Loans

Although there have been no material changes to the Company's ACL for loans methodology, underwriting practices, or credit risk management system used to estimate credit loss exposure since December 31, 2022, during the quarter ended September 30, 2023, the Company made a minor modification to its ACL estimation process as described in Note 4 to the 2022 Annual Report on Form 10-K under the heading "loans collectively evaluated." The Company streamlined its allowance estimation process to collectively evaluate all non-impaired loans as one cohort segmented by loan type. Previously, the Company separately evaluated non-classified loans and adversely classified loans. The change did not have a material impact on the ACL for loans at September 30, 2023.

See Note 4, "ACL for Loans," to the Company's audited consolidated financial statements contained in the 2022 Annual Report on Form 10-K.

The credit risk management function focuses on a wide variety of factors and early detection of credit issues is critical to minimize credit losses. Accordingly, management regularly monitors these factors, among others, through ongoing credit reviews. This review includes the assessment of internal credit quality indicators such as, among others, the risk classification of loans, past due and non-accrual loans, individually evaluated loans, loan modifications, and the level of foreclosure activity. These credit quality indicators are outlined below.

Risk ratings and adversely classified loans

The Company's loan risk rating system classifies loans depending on risk of loss characteristics. Adversely classified ratings for loans determined to be of weaker credit range from "special mention," for loans that may need additional monitoring, to the more severe adverse classifications of "substandard," "doubtful," and "loss" based on criteria established under banking regulations.

ENTERPRISE BANCORP, INC.

Notes to the Unaudited Consolidated Interim Financial Statements

The following tables present the amortized cost basis of the Company's loan portfolio risk ratings within portfolio classifications, by origination date, or revolving status as of the dates indicated:

| Balance at September 30, 2023 | | | | | | | | | |
|----------------------------------|--------------------------------|------------|------------|------------|------------|------------|-----------------|--------------|-----------|
| in thousands) | Term Loans by Origination Year | | | | | | Revolving Loans | | |
| | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Revolving Loans | Converted to | |
| | | | | | | | | Term | Total |
| Commercial real estate | | | | | | | | | |
| | \$ 150,141 | \$ 378,402 | \$ 376,672 | \$ 201,198 | \$ 220,002 | \$ 656,160 | 1,606 | \$— | 1,994,181 |
| Mention | 31 | 15,783 | — | — | 494 | 9,936 | — | — | 26,244 |
| Standard | — | 1,341 | 638 | — | 992 | 9,062 | — | — | 12,033 |
| Commercial real estate | 160,172 | 395,526 | 377,310 | 201,198 | 221,488 | 675,158 | 1,606 | — | 2,032,458 |
| period charge-offs | — | — | — | — | — | — | — | — | — |
| Commercial and industrial | | | | | | | | | |
| | 58,446 | 54,826 | 47,487 | 27,705 | 25,404 | 47,475 | 152,220 | 3,298 | 416,861 |
| Mention | — | — | — | 85 | 217 | 225 | 2,297 | 234 | 3,058 |
| Standard | — | — | 18 | — | 3 | 202 | 776 | 4,407 | 5,406 |
| Commercial and industrial | — | 9 | — | — | — | — | — | — | 9 |
| Commercial and industrial | 58,446 | 54,835 | 47,505 | 27,790 | 25,624 | 47,902 | 155,293 | 7,939 | 425,334 |
| period charge-offs | 15 | 83 | — | — | 67 | 218 | — | — | 383 |
| Commercial construction | | | | | | | | | |
| | 107,928 | 166,863 | 146,074 | 24,820 | 17,797 | 9,011 | 27,514 | — | 500,007 |
| Mention | — | — | — | — | 1,172 | — | — | — | 1,172 |
| Commercial construction | 107,928 | 166,863 | 146,074 | 24,820 | 18,969 | 9,011 | 27,514 | — | 501,179 |
| period charge-offs | — | — | — | — | — | — | — | — | — |
| Residential mortgages | | | | | | | | | |
| | 48,768 | 107,308 | 71,294 | 47,050 | 19,363 | 67,053 | — | — | 360,836 |
| Mention | — | — | — | — | — | 110 | — | — | 110 |
| Standard | — | — | — | — | 1,055 | 513 | — | — | 1,568 |
| Residential mortgages | 48,768 | 107,308 | 71,294 | 47,050 | 20,418 | 67,676 | — | — | 362,514 |
| period charge-offs | — | — | — | — | — | — | — | — | — |
| Home equity | | | | | | | | | |
| | 467 | 779 | 570 | 447 | 325 | 800 | 70,390 | 369 | 74,147 |
| Standard | — | — | — | — | — | 77 | — | 209 | 286 |
| Home equity | 467 | 779 | 570 | 447 | 325 | 877 | 70,390 | 578 | 74,433 |
| period charge-offs | — | — | — | — | — | — | — | — | — |
| Consumer | | | | | | | | | |
| | 2,763 | 1,790 | 1,488 | 790 | 702 | 563 | — | — | 8,096 |
| Consumer | 2,763 | 1,790 | 1,488 | 790 | 702 | 563 | — | — | 8,096 |
| period charge-offs | 6 | 20 | — | — | — | — | — | — | 26 |
| Total | \$ 378,544 | \$ 727,101 | \$ 684,241 | \$ 302,095 | \$ 287,526 | \$ 801,187 | 254,803 | 8,517 | 3,404,014 |
| period charge-offs | \$ 21 | \$ 103 | \$ — | \$ — | \$ 67 | \$ 218 | \$ — | \$ — | 409 |

ENTERPRISE BANCORP, INC.
Notes to the Unaudited Consolidated Interim Financial Statements

Balance at December 31, 2022

| in thousands) | Term Loans by Origination Year | | | | | | | Revolving Loans | |
|----------------------------------|--------------------------------|---------|---------|---------|---------|---------|-----------------|-----------------|-----------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | Prior | Revolving Loans | Converted to | |
| | | | | | | | | Term | Total |
| Commercial real estate | | | | | | | | | |
| | \$ 391,515 | 381,771 | 204,125 | 218,664 | 114,175 | 587,354 | 1,347 | \$00 | 1,889,151 |
| Mention | — | — | — | 507 | 2,041 | 16,248 | — | — | 18,796 |
| Standard | — | 289 | — | 1,160 | 1,404 | 10,610 | — | — | 13,463 |
| Commercial real estate | 391,515 | 382,060 | 204,125 | 220,331 | 117,620 | 604,212 | 1,347 | 200 | 1,921,410 |
| Commercial and industrial | | | | | | | | | |
| | 59,824 | 53,059 | 33,027 | 29,293 | 13,364 | 43,724 | 171,670 | 3,235 | 407,196 |
| Mention | — | — | — | 11 | 66 | 278 | 3,132 | — | 3,487 |
| Standard | — | 19 | — | 8 | 138 | 325 | 2,964 | 353 | 3,807 |
| Commercial and industrial | 59,824 | 53,078 | 33,027 | 29,312 | 13,568 | 44,327 | 177,766 | 3,588 | 414,490 |
| Commercial construction | | | | | | | | | |
| | 151,107 | 169,549 | 35,651 | 31,189 | 7,729 | 3,379 | 19,778 | 1,473 | 419,855 |
| Mention | — | — | — | 3,900 | — | — | — | — | 3,900 |
| Standard | — | 294 | — | — | — | — | — | — | 294 |
| Commercial construction | 151,107 | 169,843 | 35,651 | 35,089 | 7,729 | 3,379 | 19,778 | 1,473 | 424,049 |
| Residential mortgages | | | | | | | | | |
| | 112,804 | 73,955 | 49,549 | 20,140 | 18,799 | 54,620 | — | — | 329,867 |
| Mention | — | — | — | — | — | 325 | — | — | 325 |
| Standard | — | — | — | 1,060 | — | 1,380 | — | — | 2,440 |
| Residential mortgages | 112,804 | 73,955 | 49,549 | 21,200 | 18,799 | 56,325 | — | — | 332,632 |
| Equity | | | | | | | | | |
| | 328 | 596 | 456 | 345 | — | 1,220 | 75,324 | 1,054 | 79,323 |
| Standard | — | 273 | — | — | — | 211 | — | — | 484 |
| Home equity | 328 | 869 | 456 | 345 | — | 1,431 | 75,324 | 1,054 | 79,807 |
| Other | | | | | | | | | |
| | 3,144 | 1,852 | 1,063 | 1,045 | 606 | 420 | — | — | 8,130 |
| Consumer | 3,144 | 1,852 | 1,063 | 1,045 | 606 | 420 | — | — | 8,130 |
| Loans | \$ 718,722 | 681,657 | 323,871 | 307,322 | 158,322 | 710,094 | 274,215 | 6,315 | 3,180,518 |

The total amortized cost basis of adversely classified loans amounted to \$ 49.9 million, or 1.47% of total loans, at September 30, 2023, and \$ 47.0 million, or 1.48% of total loans, at December 31, 2022.

Past due and non-accrual loans

The following tables present an age analysis of past due loans by portfolio classification as of the dates indicated:

| (Dollars in thousands) | Balance at September 30, 2023 | | | | | |
|---------------------------|-------------------------------|------------------------|-----------------------------|--|---------------------------------|---------------------|
| | 30-59 Days Past Due | 60-89 Days Past Due | Past Due 90 Days or More | Total Past Due Loans ⁽¹⁾ | Current Loans ⁽¹⁾ | Total Loans |
| Commercial real estate | \$ 1,717 | \$ — | \$ 1,373 | \$ 3,090 | \$ 2,029,368 | \$ 2,032,458 |
| Commercial and industrial | 481 | — | — | 481 | 424,853 | 425,334 |
| Commercial construction | — | — | — | — | 501,179 | 501,179 |
| Residential mortgages | 1,691 | 222 | 1,055 | 2,968 | 359,546 | 362,514 |
| Home equity | 452 | 63 | 185 | 700 | 73,733 | 74,433 |
| Consumer | 40 | — | — | 40 | 8,056 | 8,096 |
| Total loans | \$ 4,381 | \$ 285 | \$ 2,613 | \$ 7,279 | \$ 3,396,735 | \$ 3,404,014 |

| (Dollars in thousands) | Balance at December 31, 2022 | | | | | |
|---------------------------|------------------------------|------------------------|-----------------------------|--|---------------------------------|---------------------|
| | 30-59 Days Past Due | 60-89 Days Past Due | Past Due 90 Days or More | Total Past Due Loans ⁽¹⁾ | Current Loans ⁽¹⁾ | Total Loans |
| Commercial real estate | \$ 2,818 | \$ 1,268 | \$ 1,631 | \$ 5,717 | \$ 1,915,693 | \$ 1,921,410 |
| Commercial and industrial | 786 | 39 | 217 | 1,042 | 413,448 | 414,490 |
| Commercial construction | 412 | — | 294 | 706 | 423,343 | 424,049 |
| Residential mortgages | 1,119 | 55 | 149 | 1,323 | 331,309 | 332,632 |
| Home equity | 163 | — | 73 | 236 | 79,571 | 79,807 |
| Consumer | 21 | — | — | 21 | 8,109 | 8,130 |
| Total loans | \$ 5,319 | \$ 1,362 | \$ 2,364 | \$ 9,045 | \$ 3,171,473 | \$ 3,180,518 |

(1) The loan balances in the tables above include loans designated as non-accrual according to their payment due status.

At September 30, 2023 and December 31, 2022, all loans past due 90 days or more were carried as non-accrual, however, not all non-accrual loans were 90 days or more past due in their payments. Loans that were less than 90 days past due where reasonable doubt existed as to the full and timely collection of interest or principal have also been designated as non-accrual, despite their payment due status.

The following tables present the amortized cost of non-accrual loans by portfolio classification as of the dates indicated:

| (Dollars in thousands) | Balance at September 30, 2023 | | | |
|---------------------------|-------------------------------|--|---|-----------------------------|
| | Total Non- accrual Loans | Non-accrual Loans without a Specific Reserve | Non-accrual Loans with a Specific Reserve | Related Specific Reserve |
| Commercial real estate | \$ 5,503 | \$ 4,511 | \$ 992 | \$ 252 |
| Commercial and industrial | 4,355 | 759 | 3,596 | 2,690 |
| Commercial construction | — | — | — | — |
| Residential mortgages | 1,536 | 1,536 | — | — |
| Home equity | 262 | 262 | — | — |
| Consumer | — | — | — | — |
| Total loans | \$ 11,656 | \$ 7,068 | \$ 4,588 | \$ 2,942 |

| (Dollars in thousands) | Balance at December 31, 2022 | | | |
|---------------------------|------------------------------|--|---|--------------------------|
| | Total Non-accrual Loans | Non-accrual Loans without a Specific Reserve | Non-accrual Loans with a Specific Reserve | Related Specific Reserve |
| Commercial real estate | \$ 3,355 | \$ 2,317 | \$ 1,038 | \$ 298 |
| Commercial and industrial | 730 | 348 | 382 | 382 |
| Commercial construction | 294 | 294 | — | — |
| Residential mortgages | 1,532 | 1,532 | — | — |
| Home equity | 211 | 211 | — | — |
| Consumer | — | — | — | — |
| Total loans | \$ 6,122 | \$ 4,702 | \$ 1,420 | \$ 680 |

The ratio of non-accrual loans to total loans amounted to 0.34% and 0.19% at September 30, 2023 and December 31, 2022, respectively.

At September 30, 2023 and December 31, 2022, additional funding commitments for non-accrual loans were not material.

Collateral dependent loans

The total recorded investment in collateral dependent loans amounted to \$ 13.6 million at September 30, 2023 compared to \$ 25.2 million at December 31, 2022. Total accruing collateral dependent loans amounted to \$2.1 million while non-accrual collateral dependent loans amounted to \$ 11.5 million as of September 30, 2023. As of December 31, 2022, total accruing collateral dependent loans amounted to \$19.5 million, while non-accrual collateral dependent loans amounted to \$5.7 million.

The following tables present the recorded investment in collateral dependent loans and the related specific allowance by portfolio allocation as of the dates indicated:

| (Dollars in thousands) | Balance at September 30, 2023 | | | | |
|---------------------------|--------------------------------------|---|--|---|--------------------------|
| | Unpaid Contractual Principal Balance | Total Recorded Investment in Collateral Dependent Loans | Recorded Investment without a Specific Reserve | Recorded Investment with a Specific Reserve | Related Specific Reserve |
| Commercial real estate | \$ 8,688 | \$ 7,216 | \$ 6,224 | \$ 992 | \$ 252 |
| Commercial and industrial | 6,813 | 4,433 | 976 | 3,457 | 2,564 |
| Commercial construction | — | — | — | — | — |
| Residential mortgages | 1,888 | 1,678 | 1,678 | — | — |
| Home equity | 362 | 286 | 286 | — | — |
| Consumer | — | — | — | — | — |
| Total | \$ 17,751 | \$ 13,613 | \$ 9,164 | \$ 4,449 | \$ 2,816 |

| (Dollars in thousands) | Balance at December 31, 2022 | | | | |
|---------------------------|--------------------------------------|---|--|---|--------------------------|
| | Unpaid Contractual Principal Balance | Total Recorded Investment in Collateral Dependent Loans | Recorded Investment without a Specific Reserve | Recorded Investment with a Specific Reserve | Related Specific Reserve |
| Commercial real estate | \$ 24,530 | \$ 21,916 | \$ 20,878 | \$ 1,038 | \$ 298 |
| Commercial and industrial | 3,210 | 863 | 863 | — | — |
| Commercial construction | 294 | 294 | 294 | — | — |
| Residential mortgages | 2,096 | 1,914 | 1,914 | — | — |
| Home equity | 386 | 211 | 211 | — | — |
| Consumer | — | — | — | — | — |
| Total | \$ 30,516 | \$ 25,198 | \$ 24,160 | \$ 1,038 | \$ 298 |

At September 30, 2023 and December 31, 2022, additional funding commitments for collateral dependent loans were immaterial.

Loan modifications to borrowers experiencing financial difficulty

Effective on January 1, 2023, the Company adopted ASU 2022-02, "Financial Instruments—Credit Losses (Topic 326), Troubled Debt Restructurings ("TDR") and Vintage Disclosures," which eliminated the accounting guidance for TDRs and enhanced the disclosure requirements for loan restructurings made with borrowers experiencing financial difficulty. The adoption did not have a significant impact on the financial statements.

The Company continues to work with loan customers experiencing financial difficulty and may enter into loan modifications to the extent deemed to be necessary or appropriate while attempting to achieve the best mutual outcome given the individual financial circumstances and future prospects of the borrower. An assessment of whether a borrower is experiencing financial difficulty is made on the date of the modification. Modifications made for borrowers experiencing financial difficulty may be concessions in the form of principal forgiveness, interest rate reductions, payment deferrals of principal, interest or both, or term extensions, or some combination thereof. When a debt has been previously modified, the Company considers the cumulative effect of modifications made within the prior twelve-month period before the current modification, when determining whether or not a delay in payment resulting from the current modification is insignificant.

The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty by type of concession granted during the period indicated:

| (Dollars in thousands) | Three months ended | |
|---------------------------|--------------------|-----------------------|
| | September 30, 2023 | |
| | Payment Deferrals | % of Loan Class Total |
| Commercial and industrial | \$ 143 | 0.03 % |
| Total | \$ 143 | — % |

The following table presents the amortized cost basis of loan modifications made to borrowers experiencing financial difficulty by type of concession granted during the period indicated:

| (Dollars in thousands) | Nine months ended | |
|---------------------------|--------------------|-----------------------|
| | September 30, 2023 | |
| | Payment Deferrals | % of Loan Class Total |
| Commercial real estate | \$ 272 | 0.01 % |
| Commercial and industrial | 177 | 0.04 % |
| Residential mortgages | 32 | 0.01 % |
| Total | \$ 481 | 0.01 % |

The following table presents the financial effect of loan modifications made to borrowers experiencing financial difficulty during the period indicated:

| | Three months ended | |
|---------------------------|------------------------------------|--|
| | September 30, 2023 | |
| | Weighted Average Payment Deferrals | |
| Commercial and industrial | 0.5 years | |

The following table presents the financial effect of loan modifications made to borrowers experiencing financial difficulty during the period indicated:

| | Nine months ended | |
|---------------------------|------------------------------------|--|
| | September 30, 2023 | |
| | Weighted Average Payment Deferrals | |
| Commercial real estate | 0.5 years | |
| Commercial and industrial | 0.5 years | |
| Residential mortgages | 0.5 years | |

The Company closely monitors the performance of loans that are modified for borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table presents the performance status of loans that had been modified within the preceding twelve months for borrowers experiencing financial difficulty, at the period indicated.

| (Dollars in thousands) | Balance at September 30, 2023 | | | | |
|---------------------------|-------------------------------|------------------------|------------------------|-----------------------------|-------------------|
| | Current | 30-59 Days Past Due | 60-89 Days Past Due | Past Due 90 Days or More | Total Past Due |
| Commercial real estate | \$ 272 | \$ — | \$ — | \$ — | \$ — |
| Commercial and industrial | 233 | — | — | — | — |
| Commercial construction | — | — | — | — | — |
| Residential mortgages | 175 | — | — | — | — |
| Home equity | — | — | — | — | — |
| Consumer | — | — | — | — | — |
| Total | \$ 680 | \$ — | \$ — | \$ — | \$ — |

During the nine months ended September 30, 2023, there were no subsequent defaults on loans that had been modified within the preceding twelve months for borrowers experiencing financial difficulty, and at September 30, 2023, additional funding commitments to borrowers experiencing financial difficulty who were party to a loan modification were immaterial.

Prior-period TDR disclosures

Prior to adopting the new accounting standard on loan modifications, the Company accounted for modifications of loans to borrowers experiencing financial difficulty as TDRs, when the modification resulted in a concession and specific reserves were charged to the ACL if necessary for the amount of estimated credit loss. The following discussion reflects loans that were considered TDRs prior to January 1, 2023. For further information on the Company's TDR accounting policies, see Note 1, "Summary of Significant Accounting Policies," to the Company's audited consolidated financial statements contained in the 2022 Annual Report on Form 10-K.

At September 30, 2022, additional funding commitments for TDR loans were immaterial.

The following table presents the number and balance of loans modified as TDRs, by portfolio classification, during the three months indicated:

| (Dollars in thousands) | Three months ended September 30, 2022 | | |
|------------------------|--|---|--|
| | Number of Restructurings | Pre-modification Outstanding Recorded Investment | Post-modification Outstanding Recorded Investment |
| | | | |
| Commercial real estate | 1 | \$ 131 | \$ 131 |
| Total | 1 | \$ 131 | \$ 131 |

The following table presents the number and balance of loans modified as TDRs, by portfolio classification, during the nine months indicated:

| (Dollars in thousands) | Nine months ended September 30, 2022 | | |
|------------------------|---|---|--|
| | Number of Restructurings | Pre-modification Outstanding Recorded Investment | Post-modification Outstanding Recorded Investment |
| | | | |
| Commercial real estate | 5 | \$ 3,319 | \$ 2,841 |
| Total | 5 | \$ 3,319 | \$ 2,841 |

There were no subsequent charge-offs associated with the TDRs noted in the table above during the nine months ended September 30, 2022.

There were no payment defaults on loans modified as TDRs within the preceding twelve months during the three months ended September 30, 2022.

Payment defaults by portfolio classification, during the nine months indicated, on loans modified as TDRs within the preceding twelve months are detailed below:

| (Dollars in thousands) | Nine months ended September 30, 2022 | |
|---------------------------|---|--|
| | Number of TDRs that Defaulted | Post- modification Outstanding Recorded Investment |
| Commercial real estate | 3 | \$ 1,325 |
| Commercial and industrial | 1 | 45 |
| Total | 4 | \$ 1,370 |

The following table sets forth the post modification balances of TDRs listed by type of modification for TDRs that occurred during the nine-month period indicated:

| (Dollars in thousands) | Nine months ended September 30, 2022 | |
|---|---|----------|
| | Number of Restructurings | Amount |
| Temporary interest only payment plan | 3 | \$ 151 |
| Deferral of interest | 1 | 1,306 |
| Other payment concessions | 1 | 1,384 |
| Total | 5 | \$ 2,841 |
| Amount of ACL for loans associated with TDRs listed above | | \$ 271 |

ACL for loans and provision for credit loss activity

The following table presents changes in the provision for credit losses on loans and unfunded commitments during the three- and nine-month periods indicated:

| (Dollars in thousands) | Three months ended | | Nine months ended | |
|--------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2023 | September 30, 2022 | September 30, 2023 | September 30, 2022 |
| Provision for credit losses on loans | \$ 994 | \$ 560 | \$ 5,355 | \$ 3,580 |
| Provision for unfunded commitments | 758 | 440 | 1,401 | 359 |
| Total provision for credit losses | \$ 1,752 | \$ 1,000 | \$ 6,756 | \$ 3,939 |

ACL for loans

The ACL for loans amounted to \$57.9 million and \$52.6 million at September 30, 2023 and December 31, 2022, respectively. The ACL for loans to total loans ratio was 1.70% and 1.66% at September 30, 2023 and December 31, 2022, respectively.

The following tables present changes in the ACL for loans by portfolio classification, during the three months indicated:

| (Dollars in thousands) | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Residential Mortgage | Home Equity | Consumer | Total |
|--------------------------------------|---------------------------|------------------------------|----------------------------|-------------------------|----------------|----------|-----------|
| Beginning Balance at June 30, 2023 | \$ 39,577 | \$ 9,104 | \$ 4,718 | \$ 2,453 | \$ 698 | \$ 349 | \$ 56,899 |
| Provision for credit losses on loans | (1,064) | 2,068 | 594 | (396) | (160) | (48) | 994 |
| Recoveries | — | 87 | — | — | 3 | 7 | 97 |
| Less: Charge-offs | — | 80 | — | — | — | 5 | 85 |
| Ending Balance at September 30, 2023 | \$ 38,513 | \$ 11,179 | \$ 5,312 | \$ 2,057 | \$ 541 | \$ 303 | \$ 57,905 |

| (Dollars in thousands) | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Residential Mortgage | Home Equity | Consumer | Total |
|--------------------------------------|------------------------|---------------------------|-------------------------|----------------------|---------------|---------------|------------------|
| Beginning Balance at June 30, 2022 | \$ 35,379 | \$ 8,938 | \$ 3,667 | \$ 1,902 | \$ 554 | \$ 263 | \$ 50,703 |
| Provision for credit losses on loans | 404 | (44) | 95 | 74 | 11 | 20 | 560 |
| Recoveries | — | 29 | — | — | 2 | 4 | 35 |
| Less: Charge-offs | — | 82 | — | — | — | 5 | 87 |
| Ending Balance at September 30, 2022 | <u>\$ 35,783</u> | <u>\$ 8,841</u> | <u>\$ 3,762</u> | <u>\$ 1,976</u> | <u>\$ 567</u> | <u>\$ 282</u> | <u>\$ 51,211</u> |

The following tables present changes in the ACL for loans by portfolio classification, during the nine months indicated:

| (Dollars in thousands) | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Residential Mortgage | Home Equity | Consumer | Total |
|--|------------------------|---------------------------|-------------------------|----------------------|---------------|---------------|------------------|
| Beginning Balance at December 31, 2022 | \$ 36,564 | \$ 8,896 | \$ 3,961 | \$ 2,255 | \$ 633 | \$ 331 | \$ 52,640 |
| Provision for credit losses for loans | 1,949 | 2,368 | 1,351 | (198) | (100) | (15) | 5,355 |
| Recoveries | — | 298 | — | — | 8 | 13 | 319 |
| Less: Charge-offs | — | 383 | — | — | — | 26 | 409 |
| Ending Balance at September 30, 2023 | <u>\$ 38,513</u> | <u>\$ 11,179</u> | <u>\$ 5,312</u> | <u>\$ 2,057</u> | <u>\$ 541</u> | <u>\$ 303</u> | <u>\$ 57,905</u> |

| (Dollars in thousands) | Commercial Real Estate | Commercial and Industrial | Commercial Construction | Residential Mortgage | Home Equity | Consumer | Total |
|--|------------------------|---------------------------|-------------------------|----------------------|---------------|---------------|------------------|
| Beginning Balance at December 31, 2021 | \$ 31,847 | \$ 9,574 | \$ 4,090 | \$ 1,405 | \$ 465 | \$ 323 | \$ 47,704 |
| Provision for credit losses for loans | 3,936 | (680) | (328) | 571 | 93 | (12) | 3,580 |
| Recoveries | — | 139 | — | — | 9 | 14 | 162 |
| Less: Charge-offs | — | 192 | — | — | — | 43 | 235 |
| Ending Balance at September 30, 2022 | <u>\$ 35,783</u> | <u>\$ 8,841</u> | <u>\$ 3,762</u> | <u>\$ 1,976</u> | <u>\$ 567</u> | <u>\$ 282</u> | <u>\$ 51,211</u> |

Reserve for unfunded commitments

The Company's reserve for unfunded commitments amounted to \$5.7 million at September 30, 2023 and \$4.3 million at December 31, 2022. Management believes that the Company's ACL for loans and reserve for unfunded commitments were adequate as of September 30, 2023.

Other real estate owned ("OREO")

The Company carried no OREO at September 30, 2023 and December 31, 2022.

At September 30, 2023, the Company had \$1.1 million in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdictions. The Company had no such loans at December 31, 2022.

(5) Leases

As of September 30, 2023, the Company had 16 facilities contracted under various non-cancelable operating leases, most of which provide options to the Company to extend the lease periods and include periodic rent adjustments.

Lease expense for the three and nine months ended September 30, 2023 amounted to \$410 thousand and \$1.2 million, respectively, compared to \$397 thousand and \$1.2 million for the three and nine months ended September 30, 2022, respectively. Variable lease costs and short-term lease expenses included in lease expense during these periods were immaterial.

The weighted average remaining lease term for operating leases at September 30, 2023 and September 30, 2022 was 28.6 years and 29.7 years, respectively. The weighted average discount rate was 3.55% at September 30, 2023 and 3.44% at September 30, 2022.

At September 30, 2023, the remaining undiscounted cash flows by year of these lease liabilities were as follows:

| (Dollars in thousands) | Operating Leases |
|-------------------------------|------------------|
| 2023 (three remaining months) | \$ 378 |
| 2024 | 1,450 |
| 2025 | 1,457 |
| 2026 | 1,468 |
| 2027 | 1,474 |
| Thereafter | 33,199 |
| Total lease payments | 39,426 |
| Less: Imputed interest | 14,837 |
| Total lease liability | \$ 24,589 |

(6) Deposits

Deposits are summarized as follows as of the periods indicated:

| (Dollars in thousands) | September 30, 2023 | December 31, 2022 |
|----------------------------|--------------------|-------------------|
| Non-interest checking | \$ 1,130,732 | \$ 1,361,588 |
| Interest-bearing checking | 727,817 | 678,715 |
| Savings | 290,363 | 326,666 |
| Money market | 1,434,036 | 1,381,645 |
| CDs \$250,000 or less | 262,975 | 187,758 |
| CDs greater than \$250,000 | 214,480 | 99,434 |
| Deposits | \$ 4,060,403 | \$ 4,035,806 |

All of the Company's deposits outstanding at both September 30, 2023 and December 31, 2022 were customer deposits, and the Company had no brokered deposits at either September 30, 2023 or December 31, 2022. Customer deposits include reciprocal balances from checking, money market deposits and CDs received from participating banks in nationwide deposit networks due to our customers electing to participate in Company offered programs which allow for third-party enhanced Federal Deposit Insurance Corporation ("FDIC") deposit insurance. Under this enhanced deposit insurance program, the equivalent of the customers' original deposited funds comes back to the Company and are carried within the appropriate category under deposits. The Company's balances in these reciprocal products were \$815.0 million and \$589.7 million at September 30, 2023 and December 31, 2022, respectively.

(7) Borrowed Funds and Subordinated Debt

Borrowed funds at September 30, 2023 and December 31, 2022 are summarized, as follows:

| (Dollars in thousands) | September 30, 2023 | | December 31, 2022 | |
|------------------------|--------------------|--------|-------------------|--------|
| | Balance | Rate | Balance | Rate |
| Over 5 years | \$ 4,290 | 1.14 % | \$ 3,216 | 1.55 % |
| Total borrowed funds | \$ 4,290 | 1.14 % | \$ 3,216 | 1.55 % |

The Company's borrowed funds at September 30, 2023 and December 31, 2022 were comprised of FHLB advances related to specific lending projects under the FHLB's community development and affordable housing programs as well as borrowed funds from the New Hampshire Business Finance Authority borrowing under a New Hampshire community development program.

The Company also had outstanding subordinated debt (net of deferred issuance costs) of \$ 59.4 million at September 30, 2023 and \$ 59.2 million at December 31, 2022. The outstanding subordinated notes are due on July 15, 2030 and callable at the Company's option on or after July 15, 2025.

(8) Derivatives and Hedging Activities

For further information on the Company's derivatives and hedging activities, see Note 9, "Derivatives and Hedging," to the Company's audited consolidated financial statements contained in the 2022 Annual Report on Form 10-K.

The tables below present a summary of the Company's derivative financial instruments, notional amounts and fair values at the periods presented:

| (Dollars in thousands) | September 30, 2023 | | | |
|--|-----------------------|----------------------------------|---------------------------|--------------------------------------|
| | Asset Notional Amount | Asset Derivatives ⁽¹⁾ | Liability Notional Amount | Liability Derivatives ⁽¹⁾ |
| Derivatives designated as hedging instruments | | | | |
| Interest-rate contracts - pay fixed, receive floating | \$ 100,000 | \$ 393 | \$ — | \$ — |
| Total derivatives designated as hedging instruments | \$ 100,000 | \$ 393 | \$ — | \$ — |
| Derivatives not subject to hedge accounting | | | | |
| Interest-rate contracts - pay floating, receive fixed | \$ — | \$ — | \$ 7,589 | \$ 968 |
| Interest-rate contracts - pay fixed, receive floating | 7,589 | 968 | — | — |
| Risk participation agreements sold | — | — | 46,910 | 37 |
| Total derivatives not subject to hedge accounting | \$ 7,589 | \$ 968 | \$ 54,499 | \$ 1,005 |

| (Dollars in thousands) | December 31, 2022 | | | |
|--|-----------------------|----------------------------------|---------------------------|--------------------------------------|
| | Asset Notional Amount | Asset Derivatives ⁽¹⁾ | Liability Notional Amount | Liability Derivatives ⁽¹⁾ |
| Derivatives not subject to hedge accounting | | | | |
| Interest-rate contracts - pay floating, receive fixed | \$ — | \$ — | \$ 7,777 | \$ 782 |
| Interest-rate contracts - pay fixed, receive floating | 7,777 | 782 | — | — |
| Risk participation agreements sold | — | — | 24,660 | 73 |
| Total derivatives not subject to hedge accounting | \$ 7,777 | \$ 782 | \$ 32,437 | \$ 855 |

(1) Accrued interest balances related to the Company's interest-rate swaps are not included in the fair values above and are immaterial.

The Company had no derivatives designated as cash flow hedges at either September 30, 2023 or December 31, 2022.

Derivatives designated as hedging instruments
Fair value hedges

Derivatives designated as fair value hedges are utilized to mitigate the risk of adverse interest-rate fluctuations on specifically identified assets or liabilities. The Company's fair value hedges are used to manage its exposure to changes in the fair value of hedged items caused by changes in interest rates.

During the third quarter of 2023, the Company entered into one pay fixed, receive float, interest rate swap agreement to hedge against fixed-rate commercial real estate loan pools. This swap has a notional value of \$50.0 million and a term of two years.

During the second quarter of 2023, the Company entered into two pay fixed, receive float, interest rate swap agreements to hedge against fixed-rate commercial real estate loan pools. These swaps have a combined notional value of \$50.0 million and both have a term of two years.

As of September 30, 2023, the Company had three interest rate swap agreements with a combined notional value of \$ 100.0 million. Each interest rate swap agreement was designated as a fair value hedge and involves the net settlement of receiving floating-rate payments from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

Derivatives not subject to hedge accounting***Interest-rate Contracts***

Each back-to-back interest-rate swap consists of two interest-rate swaps (a customer swap and offsetting counterparty swap) and amounted to a total number of four interest-rate swaps outstanding at September 30, 2023 and December 31, 2022. As a result of this offsetting relationship, there were no net gains or losses recognized in income on back-to-back swaps during the nine months ended September 30, 2023 or September 30, 2022.

Interest-rate swaps with counterparties are subject to master netting agreements, while interest-rate swaps with customers are not. At September 30, 2023 and December 31, 2022, all back-to-back swaps with the counterparty were in asset positions, therefore there was no netting reflected in the Company's Consolidated Balance Sheets as of the respective dates.

Risk Participation Agreements

The Company enters into risk participation agreements ("RPAs") for which the Company has assumed credit risk for customers' performance under interest-rate swap agreements related to the customers' commercial loan and receives fee income commensurate with the risk assumed. The RPAs and the customers' loan are secured by the same collateral.

Credit Risk

The Company had two active interest-rate swap institutional counterparties which were rated A and A+ by S&P Global Ratings, respectively, and both of which were rated A2 by Moody's Investor Services at September 30, 2023. When the Company has credit risk exposure, collateral is posted by counterparties. Collateral posted by counterparties is restricted and not considered an asset of the Company, therefore, it is not carried on the Company's Consolidated Balance Sheets. If the Company posts collateral, the restricted cash is carried on the Company's Consolidated Balance Sheets. At September 30, 2023, the Company had \$1.4 million in credit risk exposure relating to interest-rate swaps with counterparties and the cash collateral posted by counterparties amounted to \$1.3 million. At December 31, 2022, the Company had credit risk exposure relating to interest-rate swaps with counterparties of \$708 thousand and the cash collateral posted by counterparties amounted to \$ 20 thousand.

Credit-risk-related Contingent Features

There have been no material changes to the credit-risk-related contingent provisions contained within the Company's interest-rate swaps with counterparties since December 31, 2022. As of September 30, 2023, the fair value of derivatives related to these agreements was at a net asset position of \$1.4 million, which excludes any adjustment for nonperformance risk. The Company has minimum collateral posting thresholds with certain of its derivative counterparties and as of September 30, 2023, has not posted collateral related to these agreements.

Other Derivative Related Activity

At December 31, 2022, the Company had one participation loan for which the originating bank utilizes a back-to-back interest-rate swap structure and the Company has assumed a contingent liability commensurate with its participation percentage in the loan. During the quarter ended September 30, 2023, the back-to-back interest-rate swap agreement on this loan matured, eliminating the related contingent liability.

Interest-rate lock commitments related to the origination of mortgage loans that will be sold are considered derivative instruments. The commitments to sell loans are also considered derivative instruments. At September 30, 2023 and December 31, 2022, the estimated fair value of the Company's interest-rate lock commitments and commitments to sell these mortgage loans were deemed immaterial.

(9) Regulatory Capital Requirements

As of September 30, 2023 and December 31, 2022, the Company met the definition of "well-capitalized" under the applicable regulations of the Board of Governors of the Federal Reserve System and the Bank qualified as "well-capitalized" under the prompt corrective action regulations of the FDIC and the Basel III capital guidelines.

The Company's and the Bank's actual capital amounts and ratios are presented as of September 30, 2023 and December 31, 2022 in the tables below:

| (Dollars in thousands) | Actual | | Minimum Capital for Capital Adequacy Purposes ⁽¹⁾ | | Minimum Capital to be Well Capitalized ⁽²⁾ | |
|---|------------|---------|--|--------|---|---------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of September 30, 2023 | | | | | | |
| The Company | | | | | | |
| Total Capital to risk-weighted assets ("RWA") | \$ 503,631 | 13.45 % | \$ 299,492 | 8.00 % | N/A | N/A |
| Tier 1 Capital to RWA | 397,209 | 10.61 % | 224,619 | 6.00 % | N/A | N/A |
| Tier 1 Capital to average assets ("AA") or Leverage Ratio | 397,209 | 8.59 % | 185,006 | 4.00 % | N/A | N/A |
| Common Equity Tier 1 Capital to RWA | 397,209 | 10.61 % | 168,464 | 4.50 % | N/A | N/A |
| The Bank | | | | | | |
| Total Capital to RWA | \$ 503,395 | 13.45 % | \$ 299,492 | 8.00 % | \$ 374,365 | 10.00 % |
| Tier 1 Capital to RWA | 456,392 | 12.19 % | 224,619 | 6.00 % | 299,492 | 8.00 % |
| Tier 1 Capital to AA, Leverage Ratio | 456,392 | 9.87 % | 185,006 | 4.00 % | 231,258 | 5.00 % |
| Common Equity Tier 1 Capital to RWA | 456,392 | 12.19 % | 168,464 | 4.50 % | 243,337 | 6.50 % |
| As of December 31, 2022 | | | | | | |
| The Company | | | | | | |
| Total Capital to RWA | \$ 476,307 | 13.49 % | \$ 282,567 | 8.00 % | N/A | N/A |
| Tier 1 Capital to RWA | 372,817 | 10.56 % | 211,926 | 6.00 % | N/A | N/A |
| Tier 1 Capital to AA, Leverage Ratio | 372,817 | 8.10 % | 184,194 | 4.00 % | N/A | N/A |
| Common Equity Tier 1 Capital to RWA | 372,817 | 10.56 % | 158,944 | 4.50 % | N/A | N/A |
| The Bank | | | | | | |
| Total Capital to RWA | \$ 475,668 | 13.47 % | \$ 282,567 | 8.00 % | \$ 353,209 | 10.00 % |
| Tier 1 Capital to RWA | 431,359 | 12.21 % | 211,926 | 6.00 % | 282,567 | 8.00 % |
| Tier 1 Capital to AA, Leverage Ratio | 431,359 | 9.37 % | 184,194 | 4.00 % | 230,243 | 5.00 % |
| Common Equity Tier 1 Capital to RWA | 431,359 | 12.21 % | 158,944 | 4.50 % | 229,586 | 6.50 % |

(1) Before application of the capital conservation buffer of 2.50% as of September 30, 2023, and December 31, 2022. See discussion below.

(2) For the Bank to qualify as "well-capitalized," it must maintain at least the minimum ratios listed under the regulatory prompt corrective action framework. This framework does not apply to the Company.

The Company is subject to the Basel III capital ratio requirements which include a "capital conservation buffer" of 2.50% above the regulatory minimum risk-based capital adequacy requirements shown above. If a banking organization dips into its capital conservation buffer it may be restricted in its activities, including its ability to pay dividends and discretionary bonus payments to its executive officers. Both the Company's and the Bank's actual ratios, as outlined in the table above, exceeded the Basel III risk-based capital requirement with the capital conservation buffer as of September 30, 2023. At September 30, 2023, the capital conservation buffer amounted to \$93.6 million for both the Company and the Bank.

(10) Comprehensive Income (Loss)

The following table presents a reconciliation of the changes in the components of other comprehensive income (loss) for the dates indicated, including the amount of income tax (expense) benefit allocated to each component of other comprehensive income (loss):

| (Dollars in thousands) | Three months ended September 30, 2023 | | | Three months ended September 30, 2022 | | |
|---|---------------------------------------|-------------|------------------|---------------------------------------|-------------|------------------|
| | Pre-Tax | Tax Benefit | After Tax Amount | Pre-Tax | Tax Benefit | After Tax Amount |
| Change in fair value of debt securities | \$ (20,132) | \$ 4,559 | \$ (15,573) | \$ (30,133) | \$ 6,838 | \$ (23,295) |
| Less: net security losses reclassified into non-interest income | — | — | — | — | — | — |
| Net change in fair value of debt securities | (20,132) | 4,559 | (15,573) | (30,133) | 6,838 | (23,295) |
| Total other comprehensive loss, net | \$ (20,132) | \$ 4,559 | \$ (15,573) | \$ (30,133) | \$ 6,838 | \$ (23,295) |

| (Dollars in thousands) | Nine months ended September 30, 2023 | | | Nine months ended September 30, 2022 | | |
|---|--------------------------------------|-------------|------------------|--------------------------------------|-----------------------|------------------|
| | Pre-Tax | Tax Benefit | After Tax Amount | Pre-Tax | Tax Benefit (Expense) | After Tax Amount |
| Change in fair value of debt securities | \$ (11,477) | \$ 2,633 | \$ (8,844) | \$ (128,511) | \$ 29,004 | \$ (99,507) |
| Less: net security (losses) gains reclassified into non-interest income | (2,419) | 534 | (1,885) | 1,062 | (234) | 828 |
| Net change in fair value of debt securities | (9,058) | 2,099 | (6,959) | (129,573) | 29,238 | (100,335) |
| Total other comprehensive income (loss), net | \$ (9,058) | \$ 2,099 | \$ (6,959) | \$ (129,573) | \$ 29,238 | \$ (100,335) |

Information on the Company's accumulated other comprehensive income (loss), net of tax, is comprised of the following components as of the periods indicated:

| (Dollars in thousands) | Three months ended September 30, 2023 | | Three months ended September 30, 2022 | |
|--|---------------------------------------|--------------|---------------------------------------|-------------|
| | Unrealized Losses on Debt Securities | Total | Unrealized Losses on Debt Securities | Total |
| Accumulated other comprehensive loss - beginning balance | \$ (87,593) | \$ (87,593) | \$ (72,378) | \$ (72,378) |
| Total other comprehensive loss, net | (15,573) | (15,573) | (23,295) | (23,295) |
| Accumulated other comprehensive loss - ending balance | \$ (103,166) | \$ (103,166) | \$ (95,673) | \$ (95,673) |

| (Dollars in thousands) | Nine months ended September 30, 2023 | | Nine months ended September 30, 2022 | |
|--|--------------------------------------|--------------|--|-------------|
| | Unrealized Losses on Debt Securities | Total | Unrealized Gains (Losses) on Debt Securities | Total |
| Accumulated other comprehensive loss - beginning balance | \$ (96,207) | \$ (96,207) | \$ 4,662 | \$ 4,662 |
| Total other comprehensive income (loss), net | (6,959) | (6,959) | (100,335) | (100,335) |
| Accumulated other comprehensive loss - ending balance | \$ (103,166) | \$ (103,166) | \$ (95,673) | \$ (95,673) |

(11) Stock-Based Compensation

There have been no material changes to The Enterprise Bancorp, Inc. 2016 Stock Incentive Plan (the "2016 Plan") since December 31, 2022. As of September 30, 2023, 371,020 shares of Company common stock remained available for future grants under the 2016 Plan.

Total stock-based compensation expense was \$584 thousand and \$1.7 million for the three and nine months ended September 30, 2023, respectively, compared to \$609 thousand and \$1.7 million for the three and nine months ended September 30, 2022, respectively.

Stock Option Awards

The Company issued no stock options during the nine months ended September 30, 2023. The table below provides a summary of the options granted, including the weighted average fair value, the fair value as a percentage of the market value of the stock at the date of grant and the average assumptions used in the model for the prior period:

| | Nine months ended September 30, 2022 | |
|--|---|-------|
| Options granted | 17,060 | |
| Term in years | 10 | |
| Weighted average assumptions used in the fair value model: | | |
| Expected volatility | 44 | % |
| Expected dividend yield | 3.05 | % |
| Expected life in years | 6.5 | |
| Risk-free interest-rate | 2.20 | % |
| Weighted average market price on date of grants | \$ | 38.57 |
| Per share weighted average fair value | \$ | 14.40 |
| Fair value as a percentage of market value at grant date | 37 | % |

Options granted during the first nine months of 2022 generally vest 50% in year two and 50% in year four, on or about the anniversary date of the awards.

The Company utilizes the Black-Scholes option valuation model to determine the per share grant date fair value of stock option grants.

The Company recognized stock-based compensation expense related to stock option awards of \$ 40 thousand and \$136 thousand for the three and nine months ended September 30, 2023, respectively, compared to \$53 thousand and \$153 thousand for the three and nine months ended September 30, 2022, respectively.

Restricted Stock Awards

Restricted stock awards are granted at the market price of the Company's common stock on the date of the grant. Employee restricted stock awards generally vest over four years in equal portions beginning on or about the first anniversary date of the restricted stock award or are performance-based restricted stock awards that vest upon the Company achieving certain predefined performance objectives. Non-employee director restricted stock awards generally vest over two years in equal portions beginning on or about the first anniversary date of the restricted stock award.

The table below provides a summary of restricted stock awards granted during the periods indicated:

| Restricted Stock Awards (number of underlying shares) | Nine months ended September 30, | |
|---|---------------------------------|----------|
| | 2023 | 2022 |
| Two-year vesting | 9,915 | 8,823 |
| Four-year vesting | 32,719 | 22,116 |
| Performance-based vesting | 31,270 | 22,254 |
| Total restricted stock awards granted | 73,904 | 53,193 |
| Weighted average grant date fair value | \$ 32.04 | \$ 38.57 |

Stock-based compensation expense recognized in association with stock awards, mainly restricted stock awards, amounted to \$ 502 thousand and \$1.4 million for the three and nine months ended September 30, 2023, respectively, compared to \$500 thousand and \$1.4 million for the three and nine months ended September 30, 2022, respectively.

Stock in Lieu of Directors' Fees

Non-employee members of the Company's Board of Directors (the "Board") may opt to receive newly issued shares of the Company's common stock in lieu of cash compensation for attendance at meetings of the Board and committees of the Board. Stock-based compensation expense related to these directors' fees amounted to \$42 thousand and \$165 thousand for the three and nine months ended September 30, 2023, respectively, compared to \$ 56 thousand and \$190 thousand for the three and nine months ended September 30, 2022, respectively.

(12) Earnings per Share

The table below presents basic earnings per share and the increase in average shares outstanding, using the treasury stock method, for the diluted earnings per share calculation for the periods indicated:

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|----------------------------------|------------|---------------------------------|------------|
| | 2023 | 2022 | 2023 | 2022 |
| Basic weighted average common shares outstanding | 12,247,892 | 12,119,348 | 12,210,740 | 12,094,613 |
| Dilutive shares | 16,886 | 37,347 | 23,121 | 48,855 |
| Diluted weighted average common shares outstanding | 12,264,778 | 12,156,695 | 12,233,861 | 12,143,468 |

Stock options outstanding that were determined to be anti-dilutive and therefore excluded from the calculation of dilutive shares amounted to 105,166 and 48,525 for the three and nine months ended September 30, 2023, respectively, compared to 49,321 and 34,473 for the three and nine months ended September 30, 2022, respectively. These stock options, which were not dilutive, may potentially dilute earnings per share in the future.

Unvested participating restricted stock awards amounted to 130,301 shares and 106,658 shares as of September 30, 2023 and December 31, 2022, respectively.

(13) Fair Value Measurements

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

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

| | September 30, 2023 | | | | |
|---|--------------------|--------------------------------|------------|-----------|-------|
| (Dollars in thousands) | Fair Value | Fair Value Measurements Using: | | | |
| | | (Level 1) | (Level 2) | (Level 3) | |
| Assets measured on a recurring basis: | | | | | |
| Debt securities | \$ 672,894 | \$ — | \$ 672,894 | \$ — | |
| Equity securities | 6,038 | 6,038 | — | — | |
| FHLB stock | 2,403 | — | 2,403 | — | |
| Interest-rate swaps | 1,361 | — | 1,361 | — | |
| Assets measured on a non-recurring basis: | | | | | |
| Individually evaluated loans (collateral dependent) | 1,633 | — | — | — | 1,633 |
| Liabilities measured on a recurring basis: | | | | | |
| Interest-rate swaps | \$ 968 | \$ — | \$ 968 | \$ — | |
| RPAs sold | 37 | — | 37 | — | |

| | December 31, 2022 | | | | |
|---|-------------------|--------------------------------|------------|-----------|--|
| | | Fair Value Measurements Using: | | | |
| (Dollars in thousands) | Fair Value | (Level 1) | (Level 2) | (Level 3) | |
| Assets measured on a recurring basis: | | | | | |
| Debt securities | \$ 816,102 | \$ — | \$ 816,102 | \$ — | |
| Equity securities | 4,269 | 4,269 | — | — | |
| FHLB stock | 2,343 | — | 2,343 | — | |
| Interest-rate swaps | 782 | — | 782 | — | |
| Assets measured on a non-recurring basis: | | | | | |
| Individually evaluated loans (collateral dependent) | 740 | — | — | 740 | |
| Liabilities measured on a recurring basis: | | | | | |
| Interest-rate swaps | \$ 782 | \$ — | \$ 782 | \$ — | |
| RPAs sold | 73 | — | 73 | — | |

The Company utilizes third-party pricing vendors to provide valuations on its debt securities.

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

The Bank is required to purchase FHLB stock at par value in association with advances from the FHLB. The stock is issued, redeemed, repurchased and transferred by the FHLB only at their fixed par value. This stock is classified as a restricted investment and carried at FHLB par value which management believes approximates fair value; therefore, these securities are categorized as Level 2 measures.

The fair values of derivative assets and liabilities, which are comprised of back-to-back swaps, fair value hedges and risk participation agreements, represent a FASB Level 2 measurement and are based on settlement values adjusted for credit risks and observable market interest-rate curves. The Company utilizes third-party vendors to provide valuations on its derivative assets and liabilities. Refer also to Note 8, "Derivatives and Hedging Activities," this Form 10-Q, contained above, for additional information on the Company's interest-rate swaps.

For loans individually assessed and deemed to be collateral dependent management has estimated the value and the probable credit loss by comparing the loan's amortized cost against the expected realizable fair value of the collateral (appraised value, or internal analysis, less estimated cost to sell, adjusted as necessary for changes in relevant valuation factors subsequent to the measurement date). Certain inputs used in these assessments, and possible subsequent adjustments, are not always observable,

and therefore, collateral dependent loans carried at realizable fair value are categorized as Level 3 within the fair value hierarchy. A specific reserve is assigned to the collateral dependent loan for the amount of management's estimated probable credit loss. The specific reserve assigned to individually evaluated loans that are collateral dependent amounted to \$2.8 million at September 30, 2023, compared to \$298 thousand at December 31, 2022.

The following table presents additional quantitative information about assets measured at fair value on a non-recurring basis for which the Company utilized Level 3 inputs (significant unobservable inputs for situations in which there is little, if any, market activity for the asset or liability) to determine fair value as of September 30, 2023 and December 31, 2022:

| | Fair Value | | | | |
|---|---------------|--------------|-------------------------|--------------------------------------|--------------------|
| | September 30, | December 31, | | | Unobservable Input |
| (Dollars in thousands) | 2023 | 2022 | Valuation Technique | Unobservable Input | Value or Range |
| Assets measured on a non-recurring basis: | | | | | |
| Individually evaluated loans (collateral dependent) | \$ 1,633 | \$ 740 | Appraisal of collateral | Appraisal adjustments ⁽¹⁾ | 15% - 50% |

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

Estimated Fair Values of Assets and Liabilities

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

Financial instruments for which the fair value is disclosed but not recognized on the Company's Consolidated Balance Sheets are summarized below. The table includes the carrying value, estimated fair value and its placement in the fair value hierarchy as follows:

| | September 30, 2023 | | | | | |
|------------------------|--------------------|--------------|------------------------|----------------|----------------|--|
| | | | Fair Value Measurement | | | |
| (Dollars in thousands) | Carrying Value | Fair Value | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Financial assets: | | | | | | |
| Loans, net | \$ 3,346,109 | \$ 3,154,436 | \$ — | \$ — | \$ 3,154,436 | |
| Financial liabilities: | | | | | | |
| CDs | 477,455 | 473,371 | — | 473,371 | — | |
| Borrowed funds | 4,290 | 2,670 | — | 2,670 | — | |
| Subordinated debt | 59,419 | 55,063 | — | 55,063 | — | |
| | December 31, 2022 | | | | | |
| | | | Fair Value Measurement | | | |
| (Dollars in thousands) | Carrying Value | Fair Value | Level 1 Inputs | Level 2 Inputs | Level 3 Inputs | |
| Financial assets: | | | | | | |
| Loans, net | \$ 3,127,878 | \$ 2,952,778 | \$ — | \$ — | \$ 2,952,778 | |
| Financial liabilities: | | | | | | |
| CDs | 287,192 | 281,800 | — | 281,800 | — | |
| Borrowed funds | 3,216 | 2,006 | — | 2,006 | — | |
| Subordinated debt | 59,182 | 55,407 | — | 55,407 | — | |

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

Also excluded from these tables are the fair values of commitments for unused portions of lines of credit and commitments to originate loans that were short-term, at current market rates and estimated to have no significant change in fair value.

(14) Supplemental Cash Flow Information

The supplemental cash flow information for the nine months ended September 30, 2023 and September 30, 2022 is as follows:

| (Dollars in thousands) | Nine months ended September 30, | |
|--|---------------------------------|----------|
| | 2023 | 2022 |
| Supplemental financial data: | | |
| Cash paid for: interest | \$ 30,557 | \$ 5,960 |
| Cash paid for: income taxes | 12,277 | 13,101 |
| Cash paid for: lease liability | 1,034 | 1,021 |
| Supplemental schedule of non-cash activity: | | |
| Net purchases of investment securities not yet settled | — | 3,700 |

Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis should be read in conjunction with the Enterprise Bancorp, Inc. (the "Company," "Enterprise," "we," or "our") unaudited consolidated interim financial statements and notes thereto contained in this Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2023 (this "Form 10-Q"), and the audited consolidated financial statements and notes thereto contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2022 (the "2022 Annual Report on Form 10-K") as filed with the Securities and Exchange Commission (the "SEC") on March 8, 2023.

Special Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements about the Company and its industry involve substantial risks and uncertainties. Statements other than statements of current or historical fact, including statements regarding the Company's future financial condition, results of operations, business plans, liquidity, cash flows, projected costs, and the impact of any laws or regulations applicable to the Company, are forward-looking statements. Forward-looking statements may be identified by reference to a future period or periods or by use of forward-looking terminology such as "will," "should," "could," "anticipates," "believes," "expects," "intends," "may," "plans," "pursue," "views" and similar terms or expressions. We caution you that any such forward-looking statements are not guarantees of future performance and are subject to risks, assumptions, estimates and uncertainties that are difficult to predict. Although we believe that the expectations reflected in these forward-looking statements are reasonable as of the date made, actual results may prove to be materially different from the results expressed or implied by the forward-looking statements.

There are or will be important factors that could cause our actual results to differ materially from those indicated in these forward-looking statements, including, but not limited to, the following:

- potential recession in the United States and our market areas;
- the impacts related to or resulting from recent bank failures and any continuation of the recent uncertainty in the banking industry, including the associated impact to the Company and other financial institutions of any regulatory changes or other mitigation efforts taken by government agencies in response thereto;
- increased competition for deposits and related changes in deposit customer behavior;
- failure of risk management controls and procedures;
- the adequacy of the allowance for credit losses;
- risk specific to commercial loans and borrowers;
- changes in the business cycle and downturns in the local, regional, or national economies, including changes in consumer spending and 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 credit losses;
- the effects of declines in housing prices in the United States and our market areas;
- declines in commercial real estate prices;
- the persistence of the current inflationary environment in the United States and our market areas, and its impact on market interest rates, the economy and credit quality;
- increases in unemployment rates in the United States and our market areas;
- deterioration of capital markets, which 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;
- changes in market interest rates could negatively impact the pricing of our loans and deposits and decrease our net interest income or net interest margin;
- increases in market interest rates could negatively impact bond market values and result in a lower net book value;
- our ability to successfully manage the current rising market interest-rate environment, our credit risk and the level of future non-performing assets and charge-offs;
- potential decreases or growth of assets, deposits, future non-interest expenditures and non-interest income;
- inability to maintain adequate liquidity;
- the inability to raise the necessary capital to fund our operations or to meet minimum regulatory capital levels would restrict our business and operations;

- material decreases in the amount of deposits we hold, or a failure to grow our deposit base as necessary to help fund our growth and operations;
- our ability to keep pace with technological change or difficulties when implementing new technologies;
- technology-related risk, including technological changes and technology service interruptions or failure could adversely impact the Company's operations and increase technology-related expenditures;
- cybersecurity risk, including cyber incidents or other failures, disruptions or security breaches and identity theft, could impact the Company's reputation, increase regulatory oversight, and impact the financial results of the Company;
- 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;
- our ability to retain and increase our aggregate assets under management;
- our ability to enter new markets successfully and capitalize on growth opportunities, including the receipt of required regulatory approvals;
- damage to our reputation in the markets we serve;
- risks associated with fraudulent, negligent, or other acts by our customers, employees or vendors;
- exposure to legal claims and litigation;
- our ability to maintain an effective system of disclosure controls and procedures and internal control over financial reporting;
- inability to attract, hire and retain qualified management personnel;
- recent and future changes in laws and regulations that apply to the Company's business and operations, and any additional regulations, or repeals that may be forthcoming as a result thereof, which could cause the Company to incur additional costs and adversely affect the Company's business environment, operations and financial results;
- future regulatory compliance costs, including any increase caused by new regulations imposed by the government;
- changes in tariffs and trade barriers;
- our ability to navigate the uncertain impacts of quantitative tightening and current and future governmental monetary and fiscal policies, including the current and future policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board");
- uncertainty regarding United States fiscal debt and budget matters;
- severe weather, natural disasters, acts of war or terrorism or other external events;
- our ability to comply with supervisory actions by federal and state banking agencies;
- changes in the scope and cost of Federal Deposit Insurance Corporation (the "FDIC") insurance and other coverage;
- changes in accounting and/or auditing standards, policies and practices, as may be adopted or established by the regulatory agencies, FASB, or the Public Company Accounting Oversight Board could negatively impact the Company's financial results; and
- systemic risks associated with the soundness of other financial institutions.

The Company cautions readers that the forward-looking statements in this Form 10-Q reflect numerous assumptions that management believes to be reasonable, but which are inherently uncertain and beyond the Company's control. Forward-looking statements involve a number of risks and uncertainties that could cause the Company's actual results to differ materially from those expressed in, or implied by, the forward-looking statement. Accordingly, we caution you that any such forward-looking statements are not guarantees of future performance and readers should not place undue reliance on such forward-looking information and statements. Any forward-looking statements in this Form 10-Q are based on information available to the Company as of the date of this Form 10-Q, and the Company undertakes no obligation to publicly update or otherwise revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by applicable law.

Overview

Executive Summary

The Company operates with a long-term outlook, focused on organic growth supported by continually investing in our people, products, services, technology, and branches.

Key Financial Highlights

Key financial results at or for the three months ended September 30, 2023 are as follows:

- Net income amounted to \$9.7 million, or \$0.79 per diluted common share.
- The return on average assets and average equity were 0.85% and 12.53%, respectively.
- Tax-equivalent net interest margin ("net interest margin") (non-GAAP) was 3.46%.
- Total loans increased 2% compared to June 30, 2023, and 9% compared to September 30, 2022.
- Total deposits decreased 0.4% compared to June 30, 2023, and 2% compared to September 30, 2022.
- The Company had no brokered deposits and only \$4.3 million in borrowed funds.

Supplemental Information

All balances and ratios presented in this section are at September 30, 2023 unless otherwise indicated.

Liquidity & Funding Capacity

- Overnight and short-term investments (total interest-earning deposits with banks) amounted to \$180.1 million.
- FHLB and Federal Reserve Bank of Boston secured borrowing capacity amounted to \$1.2 billion.
- The Company has several brokered deposit relationships (unsecured borrowings) which management estimated could provide an additional \$800.0 million in funding capacity.

Deposit Information

- Uninsured deposits amounted to 35% of total deposits.
- Deposit balances that utilize third party enhanced Federal Deposit Insurance Corporation ("FDIC") insured products amounted to \$815.0 million, or 20% of total deposits.
- Additional capacity to utilize these enhanced FDIC insured products exceeds the Company's total deposits balance.

Selected Financial Data and Ratios

The following table sets forth selected financial data and ratios for the Company at or for the three-month periods indicated:

| | At or for the three months ended | | | | | | | | | |
|---|----------------------------------|-----------|----------|-----------|-----------|-----------|--------------|-----------|---------------|-----------|
| | September 30, | | June 30, | | March 31, | | December 31, | | September 30, | |
| (Dollars in thousands, except per share data) | 2023 | | 2023 | | 2023 | | 2022 | | 2022 | |
| Balance Sheet Data | | | | | | | | | | |
| Total cash and cash equivalents | \$ | 225,421 | \$ | 258,825 | \$ | 215,693 | \$ | 267,589 | \$ | 413,688 |
| Total investment securities at fair value | | 678,932 | | 712,851 | | 830,895 | | 820,371 | | 831,030 |
| Total loans | | 3,404,014 | | 3,345,667 | | 3,230,156 | | 3,180,518 | | 3,109,369 |
| Allowance for credit losses | | (57,905) | | (56,899) | | (55,002) | | (52,640) | | (51,211) |
| Total assets | | 4,482,374 | | 4,502,344 | | 4,441,896 | | 4,438,333 | | 4,529,820 |
| Total deposits | | 4,060,403 | | 4,075,598 | | 4,016,156 | | 4,035,806 | | 4,138,038 |
| Subordinated debt | | 59,419 | | 59,340 | | 59,261 | | 59,182 | | 59,102 |
| Total shareholders' equity | | 299,699 | | 307,490 | | 311,318 | | 282,267 | | 272,193 |
| Total liabilities and shareholders' equity | | 4,482,374 | | 4,502,344 | | 4,441,896 | | 4,438,333 | | 4,529,820 |
| Wealth Management | | | | | | | | | | |
| Wealth assets under management | \$ | 984,647 | \$ | 1,009,386 | \$ | 930,714 | \$ | 891,451 | \$ | 835,661 |
| Wealth assets under administration | \$ | 211,046 | \$ | 214,116 | \$ | 206,569 | \$ | 198,586 | \$ | 185,977 |
| Shareholders' Equity Ratios | | | | | | | | | | |
| Book value per common share | \$ | 24.45 | \$ | 25.11 | \$ | 25.47 | \$ | 23.26 | \$ | 22.44 |
| Dividends paid per common share | \$ | 0.230 | \$ | 0.230 | \$ | 0.230 | \$ | 0.205 | \$ | 0.205 |
| Regulatory Capital Ratios | | | | | | | | | | |
| Total capital to risk weighted assets | 13.45 | % | 13.37 | % | 13.55 | % | 13.49 | % | 13.49 | % |
| Tier 1 capital to risk weighted assets ⁽¹⁾ | 10.61 | % | 10.52 | % | 10.64 | % | 10.56 | % | 10.52 | % |
| Tier 1 capital to average assets | 8.59 | % | 8.62 | % | 8.47 | % | 8.10 | % | 7.89 | % |
| Credit Quality Data | | | | | | | | | | |
| Non-performing loans | \$ | 11,656 | \$ | 7,647 | \$ | 7,532 | \$ | 6,122 | \$ | 5,717 |
| Non-performing loans to total loans | 0.34 | % | 0.23 | % | 0.23 | % | 0.19 | % | 0.18 | % |
| Non-performing assets to total assets ⁽²⁾ | 0.26 | % | 0.17 | % | 0.17 | % | 0.14 | % | 0.13 | % |
| ACL for loans to total loans | 1.70 | % | 1.70 | % | 1.70 | % | 1.66 | % | 1.65 | % |
| Net charge-offs (recoveries) | \$ | (12) | \$ | 146 | \$ | (44) | \$ | 166 | \$ | 52 |
| Income Statement Data | | | | | | | | | | |
| Net interest income | \$ | 38,502 | \$ | 38,093 | \$ | 39,971 | \$ | 42,165 | \$ | 39,779 |
| Provision for credit losses | | 1,752 | | 2,268 | | 2,736 | | 1,861 | | 1,000 |
| Total non-interest income | | 4,486 | | 2,819 | | 4,757 | | 4,210 | | 4,525 |
| Total non-interest expense | | 28,312 | | 25,623 | | 28,040 | | 28,167 | | 27,537 |
| Income before income taxes | | 12,924 | | 13,021 | | 13,952 | | 16,347 | | 15,767 |
| Provision for income taxes | | 3,225 | | 3,337 | | 3,184 | | 4,041 | | 3,805 |
| Net income | \$ | 9,699 | \$ | 9,684 | \$ | 10,768 | \$ | 12,306 | \$ | 11,962 |
| Income Statement Ratios | | | | | | | | | | |
| Diluted earnings per common share | \$ | 0.79 | \$ | 0.79 | \$ | 0.88 | \$ | 1.01 | \$ | 0.98 |
| Return on average total assets | 0.85 | % | 0.88 | % | 0.99 | % | 1.08 | % | 1.05 | % |
| Return on average shareholders' equity | 12.53 | % | 12.63 | % | 14.67 | % | 18.08 | % | 16.47 | % |
| Net interest margin (tax-equivalent) ⁽³⁾ | 3.46 | % | 3.55 | % | 3.76 | % | 3.81 | % | 3.61 | % |

(1) Ratio also represents common equity tier 1 capital to risk weighted assets as of the periods presented.

(2) The Company had no OREO as of the periods presented, and therefore, non-performing loans were the only component of non-performing assets.

(3) Tax-equivalent net interest margin is net interest income adjusted for the tax-equivalent effect associated with tax-exempt loan and investment income, expressed as a percentage of average interest-earning assets.

Risk Management Framework

Management utilizes a comprehensive enterprise risk management framework that enables a coordinated and structured approach for identifying, assessing and managing risks across the Company and provides reasonable assurance that management has the tools, programs, people, and processes in place to support informed decision making, anticipate risks before they materialize and maintain the Company's risk profile consistent with its strategic planning, and applicable laws and regulations.

See Part I, Item 1, "Business," under the "Risk Management Framework," of the Company's 2022 Annual Report on Form 10-K, for additional information on the Company's key risk mitigation strategies, and Part I, Item 1A, "Risk Factors," section of the Company's 2022 Annual Report on Form 10-K for numerous factors that could adversely affect the Company's future results of operations and financial condition, and its reputation and business model.

Accounting Policies/Critical Accounting Estimates

As discussed in the Company's 2022 Annual Report on Form 10-K and in this Form 10-Q, the most significant areas in which management applies critical assumptions and estimates are: the ACL for loans and available-for-sale securities, the reserve for unfunded commitments and the impairment review of goodwill.

The Company has not materially changed its significant accounting and reporting policies from those disclosed in its 2022 Annual Report on Form 10-K.

Recent Accounting Pronouncements

See Note 1, Item (e), "Recent Accounting Pronouncements," to the Company's unaudited consolidated interim financial statements in this Form 10-Q for information regarding recent accounting pronouncements.

Results of Operations for the three months ended September 30, 2023 and September 30, 2022

Unless otherwise indicated, the reported results are for the three months ended September 30, 2023 with the "prior year period" and "comparable period" being the three months ended September 30, 2022. Average yields are presented on an annualized tax-equivalent basis.

Net Income

Net income for the three months ended September 30, 2023, amounted to \$9.7 million, a decrease of \$2.3 million, or 19%, compared to the three months ended September 30, 2022. The components of the decrease in net income over the comparable period are discussed below.

Net Interest Income

Net interest income for the three months ended September 30, 2023, amounted to \$38.5 million, a decrease of \$1.3 million, or 3%, compared to the three months ended September 30, 2022. The decrease was due largely to an increase in deposit interest expense of \$11.4 million which resulted from continued market interest rates increases and a change in deposit mix, partially offset by increases in loan interest income of \$9.2 million and other interest-earning asset income of \$1.4 million.

Net Interest Margin

Net interest margin was 3.46% for the three months ended September 30, 2023, compared to 3.61% for the three months ended September 30, 2022.

Net interest margin has been impacted by significant increases in market interest rates as the Federal Reserve Bank increased the federal funds rate by 525 basis points from March 2022 through September 2023.

Net interest margin compared to the prior year quarter was impacted by the following factors:

- Average interest-earning deposits with banks decreased \$114.8 million, or 31%, while the yield increased 308 basis points.
- Average debt securities at book value decreased \$136.8 million, or 14%, while the tax-equivalent yield increased 10 basis points.

- Average loan balances increased \$286.9 million, or 9%, and the tax-equivalent yield increased 69 basis points.
- Average total deposits decreased \$8.6 million, while the yield increased 110 basis points.

The decrease in margin over the comparable periods was due primarily to an increase in the cost of deposits that exceeded the increase in loan yields. The cost of deposits increased from higher market interest rates and from a change in mix as deposits migrated from lower cost checking accounts into higher cost money market and certificate of deposit accounts. In addition, the Company experienced strong loan growth compared to the prior year period, mostly funded from interest-earning deposits with banks, sales of debt securities and debt security pay-downs and maturities.

Interest-rate risk is reviewed in detail in Item 3, "Quantitative and Qualitative Disclosures About Market Risk," below.

Rate / Volume Analysis

The following table sets forth, on a tax-equivalent basis, the extent to which changes in interest rates and changes in the average balances of interest-earning assets and interest-bearing liabilities have affected interest income and expense during the three months ended September 30, 2023, compared to the three months ended September 30, 2022. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) volume (change in average portfolio balance multiplied by prior period average rate); and (2) interest-rate (change in average interest-rate multiplied by prior period average balance). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on absolute value to the changes due to volume and the changes due to rate.

| (Dollars in thousands) | Net Change | Increase (decrease) due to | |
|--|---------------|----------------------------|------------|
| | | Volume | Rate |
| Interest income | | | |
| Loans and loans held for sale (tax-equivalent) | \$ 9,222 | \$ 3,432 | \$ 5,790 |
| Investment securities (tax-equivalent) | (515) | (736) | 221 |
| Other interest-earning assets ⁽¹⁾ | 1,400 | (792) | 2,192 |
| Total interest-earning assets (tax-equivalent) | 10,107 | 1,904 | 8,203 |
| Interest expense | | | |
| Interest checking, savings and money market | 8,140 | 16 | 8,124 |
| Certificates of deposit | 3,288 | 680 | 2,608 |
| Borrowed funds | 16 | 11 | 5 |
| Subordinated debt | 16 | 4 | 12 |
| Total interest-bearing funding | 11,460 | 711 | 10,749 |
| Change in net interest income (tax-equivalent) | \$ (1,353) | \$ 1,193 | \$ (2,546) |

(1) Income on other interest-earning assets includes interest on deposits and fed funds sold, and dividends on FHLB stock.

The following table presents the Company's average balance sheet, net interest income and average rates for the three months ended September 30, 2023 and 2022:

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

| (Dollars in thousands) | Three months ended September 30, 2023 | | | Three months ended September 30, 2022 | | |
|---|---------------------------------------|-------------------------|------------------------------|---------------------------------------|-------------------------|------------------------------|
| | Average Balance | Interest ⁽¹⁾ | Average Yield ⁽¹⁾ | Average Balance | Interest ⁽¹⁾ | Average Yield ⁽¹⁾ |
| Assets: | | | | | | |
| Loans and loans held for sale ⁽²⁾ (tax-equivalent) | \$ 3,372,754 | \$ 44,644 | 5.25 % | \$ 3,085,896 | \$ 35,422 | 4.56 % |
| Investment securities ⁽³⁾ (tax-equivalent) | 820,156 | 4,444 | 2.17 % | 954,385 | 4,959 | 2.08 % |
| Other interest-earning assets ⁽⁴⁾ | 260,475 | 3,468 | 5.28 % | 375,213 | 2,068 | 2.19 % |
| Total interest-earning assets (tax-equivalent) | 4,453,385 | 52,556 | 4.69 % | 4,415,494 | 42,449 | 3.82 % |
| Other assets | 82,190 | | | 101,095 | | |
| Total assets | <u>\$ 4,535,575</u> | | | <u>\$ 4,516,589</u> | | |
| Liabilities and stockholders' equity: | | | | | | |
| Interest checking, savings and money market | \$ 2,481,814 | 9,185 | 1.47 % | \$ 2,444,705 | 1,045 | 0.17 % |
| CDs | 430,376 | 3,704 | 3.41 % | 221,827 | 415 | 0.74 % |
| Borrowed funds | 4,938 | 28 | 2.30 % | 2,940 | 13 | 1.77 % |
| Subordinated debt ⁽⁵⁾ | 59,372 | 866 | 5.84 % | 59,052 | 850 | 5.76 % |
| Total interest-bearing funding | 2,976,500 | 13,783 | 1.84 % | 2,728,524 | 2,323 | 0.34 % |
| Non-interest checking | 1,195,658 | — | | 1,449,909 | — | — % |
| Total deposits, borrowed funds and subordinated debt | 4,172,158 | 13,783 | 1.31 % | 4,178,433 | 2,323 | 0.22 % |
| Other liabilities | 56,414 | | | 50,034 | | |
| Total liabilities | 4,228,572 | | | 4,228,467 | | |
| Stockholders' equity | 307,003 | | | 288,122 | | |
| Total liabilities and stockholders' equity | <u>\$ 4,535,575</u> | | | <u>\$ 4,516,589</u> | | |
| Net interest income and margin: | | | | | | |
| Net interest-rate spread (tax-equivalent) | | | 2.85 % | | | 3.48 % |
| Net interest income (tax-equivalent) | | 38,773 | | | 40,126 | |
| Net interest margin (tax-equivalent) | | | 3.46 % | | | 3.61 % |
| Less tax-equivalent adjustment | | 271 | | | 347 | |
| Net interest income | | <u>\$ 38,502</u> | | | <u>\$ 39,779</u> | |
| Net interest margin | | | 3.43 % | | | 3.58 % |

(1) Average yields and interest income are presented on a tax-equivalent basis, calculated using a U.S. federal income tax rate of 21% in both 2023 and 2022, based on tax-equivalent adjustments associated with tax exempt loans and investments interest income.

(2) Average loans and loans held for sale are presented at amortized cost and include non-accrual loans.

(3) Average investments are presented at average amortized cost.

(4) Average other interest-earning assets include interest-earning deposits with banks, federal funds sold and FHLB stock.

(5) The subordinated debt is net of average deferred debt issuance costs.

Provision for Credit Losses

The provision for credit losses for the three months ended September 30, 2023, amounted to \$1.8 million, compared to \$1.0 million for the three months ended September 30, 2022.

- The provision expense for the third quarter of 2023 resulted primarily from an increase in reserves for individually evaluated loans and, to a lesser extent, growth in the Company's loan portfolio and off-balance sheet commitments, partially offset by a decrease in the forecasted probability of a recession within our ACL model relative to the prior quarter.
- The ACL to loans outstanding was 1.70% at September 30, 2023 compared to 1.65% at September 30, 2022.

The provision for credit losses is a significant factor in the Company's operating results. For further discussion regarding the provision for credit losses and management's assessment of the adequacy of the ACL, see "Asset Quality" and "ACL for Loans" under "Financial Condition" in this Item 2, below.

Non-Interest Income

Non-interest income for the three months ended September 30, 2023, amounted to \$4.5 million, a decrease of \$39 thousand, or 1%, compared to the three months ended September 30, 2022. There were no individually significant changes in non-interest income during the period when compared to the prior year period.

Non-Interest Expense

Non-interest expense for the three months ended September 30, 2023, amounted to \$28.3 million, an increase of \$775 thousand, or 3%, compared to the three months ended September 30, 2022. The increase was due primarily to increases in salary and employee benefits of \$244 thousand, occupancy expenses of \$230 thousand and deposit insurance premiums of \$263 thousand.

Income Taxes

The effective tax rate for the three months ended September 30, 2023, was 25.0%, compared to 24.1% for the three months ended September 30, 2022. The increase resulted primarily from an increase in state taxes including a transfer of funds from the Bank's investment subsidiary corporations.

Results of Operations for the nine months ended September 30, 2023 and September 30, 2022

Unless otherwise indicated, the reported results are for the nine months ended September 30, 2023 with the "prior year period," being the nine months ended September 30, 2022. Average yields are presented on an annualized tax-equivalent basis.

Net Income

Net income for the nine months ended September 30, 2023, amounted to \$30.2 million, a decrease of \$259 thousand, or 1%, compared to the nine months ended September 30, 2022. The components of the decrease in net income over the comparable periods are discussed below.

Net Interest Income

Net interest income for the nine months ended September 30, 2023, amounted to \$116.6 million, an increase of \$6.9 million, or 6%, compared to the nine months ended September 30, 2022. The increase in net interest income during the current period was due largely to increases in loan interest income of \$27.7 million and other interest-earning asset income of \$5.0 million, partially offset by an increase in deposit interest expense of \$25.8 million.

Net Interest Margin

Net interest margin was 3.59% for the nine months ended September 30, 2023, compared to 3.45% for the nine months ended September 30, 2022.

Net interest margin has been impacted by significant increases in market interest rates as the Federal Reserve Bank increased the federal funds rate by 525 basis points from March 2022 through September 2023.

Net interest margin compared to the prior year was impacted by the following factors:

- Average interest-earning deposits with banks decreased \$119.2 million, or 37%, while the yield increased 383 basis points.

- Average debt securities at book value decreased \$68.3 million, or 7%, while the tax-equivalent yield increased 18 basis points.
- Average loan balances increased \$275.0 million, or 9%, and the tax-equivalent yield increased 76 basis points.
- Average total deposits increased \$49.3 million, or 1%, and the yield increased 85 basis points.

The increase in net interest margin over the comparable period was due primarily to an increase in loan yield and volume and an increase in the yield earned on interest-earning deposits with banks. The increase in yield on loans was slightly exceeded by an increase in the cost of deposits. The cost of deposits has increased from higher interest rates and from a change in mix as deposits have migrated from lower cost checking accounts into higher cost money market and certificate of deposit accounts. The strong loan growth in the current year was mostly funded from interest-earning deposits with banks and to a lesser extent from sales, pay-downs and maturities of debt securities and deposit growth.

Interest-rate risk is reviewed in detail in Item 3, "Quantitative and Qualitative Disclosures About Market Risk," below.

Rate / Volume Analysis

The following table sets forth, on a tax-equivalent basis, the extent to which changes in interest rates and changes in the average balances of interest-earning assets and interest-bearing liabilities have affected interest income and expense during the nine months ended September 30, 2023, compared to the nine months ended September 30, 2022. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (i) volume (change in average portfolio balance multiplied by prior year average rate); and (ii) interest rate (change in average interest rate multiplied by prior year average balance). Changes attributable to the combined impact of volume and rate have been allocated proportionately based on absolute value to the changes due to volume and the changes due to rate.

| | | Increase (decrease) due to | |
|--|---------------|----------------------------|-----------|
| (Dollars in thousands) | Net Change | Volume | Rate |
| Interest income | | | |
| Loans and loans held for sale (tax-equivalent) | \$ 27,766 | \$ 9,250 | \$ 18,516 |
| Investment securities (tax-equivalent) | 141 | (1,081) | 1,222 |
| Other interest-earning assets ⁽¹⁾ | 4,951 | (1,293) | 6,244 |
| Total interest-earning assets (tax-equivalent) | 32,858 | 6,876 | 25,982 |
| Interest expense | | | |
| Interest checking, savings and money market | 18,289 | 21 | 18,268 |
| CDs | 7,547 | 1,269 | 6,278 |
| Borrowed funds | 31 | 12 | 19 |
| Subordinated debt | 115 | 11 | 104 |
| Total interest-bearing funding | 25,982 | 1,313 | 24,669 |
| Change in net interest income (tax-equivalent) | \$ 6,876 | \$ 5,563 | \$ 1,313 |

(1) Income on other interest-earning assets includes interest on deposits with banks, federal funds sold, and dividends on FHLB stock.

The following table presents the Company's average balance sheet, net interest income and average rates for the nine months ended September 30, 2023 and 2022:

AVERAGE BALANCES, INTEREST AND AVERAGE YIELDS

| (Dollars in thousands) | Nine months ended September 30, 2023 | | | Nine months ended September 30, 2022 | | |
|---|--------------------------------------|-------------------------|------------------------------|--------------------------------------|-------------------------|------------------------------|
| | Average Balance | Interest ⁽¹⁾ | Average Yield ⁽¹⁾ | Average Balance | Interest ⁽¹⁾ | Average Yield ⁽¹⁾ |
| Assets: | | | | | | |
| Loans and loans held for sale ⁽²⁾ (tax-equivalent) | \$ 3,281,357 | \$ 126,253 | 5.14 % | \$ 3,006,403 | \$ 98,486 | 4.38 % |
| Investment securities ⁽³⁾ (tax-equivalent) | 891,405 | 14,933 | 2.23 % | 956,921 | 14,792 | 2.06 % |
| Other interest-earning assets ⁽⁴⁾ | 205,276 | 7,593 | 4.95 % | 324,292 | 2,642 | 1.09 % |
| Total interest-earning assets (tax-equivalent) | 4,378,038 | 148,779 | 4.54 % | 4,287,616 | 115,920 | 3.61 % |
| Other assets | 87,210 | | | 123,364 | | |
| Total assets | <u>\$ 4,465,248</u> | | | <u>\$ 4,410,980</u> | | |
| Liabilities and stockholders' equity: | | | | | | |
| Interest checking, savings and money market | \$ 2,396,395 | 20,170 | 1.13 % | \$ 2,371,033 | 1,880 | 0.11 % |
| CDs | 387,382 | 8,398 | 2.90 % | 207,835 | 851 | 0.55 % |
| Borrowed funds | 4,253 | 70 | 2.22 % | 3,383 | 39 | 1.55 % |
| Subordinated debt ⁽⁵⁾ | 59,293 | 2,600 | 5.85 % | 59,022 | 2,485 | 5.61 % |
| Total interest-bearing funding | 2,847,323 | 31,238 | 1.47 % | 2,641,273 | 5,255 | 0.27 % |
| Non-interest checking | 1,260,397 | — | — % | 1,416,050 | — | — % |
| Total deposits, borrowed funds and subordinated debt | 4,107,720 | 31,238 | 1.02 % | 4,057,323 | 5,255 | 0.17 % |
| Other liabilities | 53,407 | | | 50,045 | | |
| Total liabilities | 4,161,127 | | | 4,107,368 | | |
| Stockholders' equity | 304,121 | | | 303,612 | | |
| Total liabilities and stockholders' equity | <u>\$ 4,465,248</u> | | | <u>\$ 4,410,980</u> | | |
| Net interest income and margin: | | | | | | |
| Net interest-rate spread (tax-equivalent) | | | 3.07 % | | | 3.34 % |
| Net interest income (tax-equivalent) | | 117,541 | | | 110,665 | |
| Net interest margin (tax-equivalent) | | | 3.59 % | | | 3.45 % |
| Less tax-equivalent adjustment | | 975 | | | 1,032 | |
| Net interest income | | <u>\$ 116,566</u> | | | <u>\$ 109,633</u> | |
| Net interest margin | | | 3.56 % | | | 3.42 % |

(1) Average yields and interest income are presented on a tax-equivalent basis, calculated using a U.S. federal income tax rate of 21% in both 2023 and 2022, based on tax-equivalent adjustments associated with tax exempt loans and investments interest income.

(2) Average loans and loans held for sale are presented at amortized cost and include non-accrual loans.

(3) Average investments are presented at average amortized cost.

(4) Average other interest-earning assets include interest-earning deposits with banks, federal funds sold and FHLB stock.

(5) The subordinated debt is net of average deferred debt issuance costs.

Provision for Credit Losses

The provision for credit losses for the nine months ended September 30, 2023, amounted to \$6.8 million, an increase of \$2.8 million, compared to the nine months ended September 30, 2022.

- The provision expense for 2023 resulted primarily from an increase in reserves for individually evaluated loans and, to a lesser extent, growth in the Company's loan portfolio and off-balance sheet commitments, partially offset by a decrease in the forecasted probability of a recession within our ACL model relative to the prior year.
- The ACL to loans outstanding was 1.70% at September 30, 2023 compared to 1.65% at September 30, 2022.

The provision for credit losses is a significant factor in the Company's operating results. For further discussion regarding the provision for credit losses and management's assessment of the adequacy of the ACL for loans, see "Asset Quality" and "ACL for Loans" under "Financial Condition" in this Item 2, below.

Non-Interest Income

Non-interest income for the nine months ended September 30, 2023, amounted to \$12.1 million, a decrease of \$2.2 million, or 15%, compared to the nine months ended September 30, 2022.

- The decrease resulted primarily from a decrease in gains on sales of debt securities of \$3.5 million, partially offset by a decrease in losses on equity securities of \$680 thousand.
- Excluding the items above, non-interest income increased \$610 thousand, or 4%, due primarily to increases in deposit and interchange fees of \$483 thousand.

Non-Interest Expense

Non-interest expense for the nine months ended September 30, 2023, amounted to \$82.0 million, an increase of \$1.8 million, or 2%, compared to the nine months ended September 30, 2022.

- Non-interest expense for the nine months ended September 30, 2023 included \$3.6 million in Employee Retention Credits ("ERC"), which were recorded as a reduction to salary and benefits expense. Excluding the ERC, non-interest expense increased \$5.5 million, or 7%, due primarily to an increase in salaries and benefits, excluding ERC, of \$4.0 million, or 7%.
- Non-interest expense was also impacted by increases in occupancy and equipment expenses of \$457 thousand and deposit insurance premiums of \$631 thousand.

Income Taxes

The effective tax rate for the nine months ended September 30, 2023, was 24.4%, compared to 23.6% for the nine months ended September 30, 2022. The increase in the effective tax rate for the current year compared to the prior year resulted primarily from an increase in state taxes including a transfers of funds from the Bank's investment subsidiary corporations.

Financial Condition

Total assets amounted to \$4.48 billion at September 30, 2023, compared to \$4.44 billion at December 31, 2022, representing an increase of \$44.0 million, or 1%. The balance sheet composition and changes since December 31, 2022, are discussed below.

Cash and cash equivalents

Cash and cash equivalents at September 30, 2023 decreased \$42.2 million since December 31, 2022. The decrease was due primarily to the funding of loan growth, partially offset by the proceeds from sales, pay-downs and maturities of debt securities and deposit growth. At September 30, 2023, cash and cash equivalents amounted to 5% of total assets compared to 6% at December 31, 2022.

Investments

At September 30, 2023, the fair value of the investment securities portfolio amounted to \$678.9 million, a decrease of \$141.4 million, or 17%, since December 31, 2022. The investment securities portfolio at fair value represented 15% and 18% of total assets at September 30, 2023 and December 31, 2022, respectively. The decrease was attributable principally to sales of debt securities and, to a lesser extent, principal pay downs, calls and maturities. The Company's sale of debt securities during the nine months ended September 30, 2023 were made in order to improve the Company's balance sheet positioning and enhance future earnings. As of September 30, 2023 and December 31, 2022, the Company's investment securities portfolio was

comprised primarily of debt securities, classified as available-for-sale, with a small portion of the portfolio invested in equity securities.

During the nine months ended September 30, 2023, the Company purchased no debt securities, had principal pay-downs, calls and maturities totaling \$46.3 million, and sold debt securities with an amortized cost of approximately \$87.2 million realizing net losses on sales of \$2.4 million.

Net unrealized losses on the debt securities portfolio amounted to \$133.2 million at September 30, 2023, compared to \$124.1 million at December 31, 2022. The Company attributes the change in net unrealized losses compared to December 31, 2022 to changes in market interest rates during the period.

The mix of investment securities remained relatively unchanged at September 30, 2023 compared to December 31, 2022. The effective duration of the debt securities portfolio at September 30, 2023 was approximately 5.1 years compared to 5.0 years at December 31, 2022.

Loans

As of September 30, 2023, total loans increased \$223.5 million, or 7%, compared to December 31, 2022. Although the commercial to retail loan mix has remained unchanged from December 31, 2022 to September 30, 2023, there have been some minor changes within the commercial loan segments including a slight increase in commercial construction loans and slight decreases in commercial real estate and commercial and industrial loans, relative to total loans. At both September 30, 2023 and December 31, 2022, total commercial loans amounted to 87% of total loans.

The following table sets forth the loan balances by loan portfolio segment at the dates indicated and the percentage of each segment to total loans:

| (Dollars in thousands) | September 30, 2023 | | December 31, 2022 | | September 30, 2022 | |
|---------------------------------|--------------------|---------|-------------------|---------|--------------------|---------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Commercial real estate | \$ 2,032,458 | 60 % | \$ 1,921,410 | 61 % | \$ 1,886,365 | 61 % |
| Commercial and industrial | 425,334 | 12 % | 414,490 | 13 % | 413,347 | 13 % |
| Commercial construction | 501,179 | 15 % | 424,049 | 13 % | 396,027 | 13 % |
| SBA paycheck protection program | — | — % | — | — % | 2,725 | — % |
| Total commercial loans | 2,958,971 | 87 % | 2,759,949 | 87 % | 2,698,464 | 87 % |
| Residential mortgages | 362,514 | 11 % | 332,632 | 10 % | 321,663 | 10 % |
| Home equity | 74,433 | 2 % | 79,807 | 3 % | 80,882 | 3 % |
| Consumer | 8,096 | — % | 8,130 | — % | 8,360 | — % |
| Total retail loans | 445,043 | 13 % | 420,569 | 13 % | 410,905 | 13 % |
| Total loans | 3,404,014 | 100 % | 3,180,518 | 100 % | 3,109,369 | 100 % |
| Allowance for credit losses | (57,905) | | (52,640) | | (51,211) | |
| Net loans | \$ 3,346,109 | | \$ 3,127,878 | | \$ 3,058,158 | |

Despite higher market rates, loan growth has remained solid. The commercial real estate and commercial construction segments have had the most growth driven primarily by customer demand, business development efforts and the continued shortage of housing in our market areas.

As of September 30, 2023, and compared to December 31, 2022,

- Commercial real estate loans increased \$111.0 million, or 6%.
- Commercial and industrial loans increased by \$10.8 million, or 3%.
- Commercial construction loans increased by \$77.1 million, or 18%.
- Total retail loans increased by \$24.5 million, or 6%.

At September 30, 2023, commercial loan balances participated out to various banks amounted to \$68.2 million, compared to \$59.1 million at December 31, 2022. These commercial loan balances participated out to other institutions are not carried as

assets on the Company's financial statements. Commercial loans originated by other banks in which the Company is a participating institution are carried at the pro-rata share of ownership and amounted to \$114.9 million and \$94.8 million at September 30, 2023 and December 31, 2022, respectively. See Note 3, "Loans," to the Company's unaudited consolidated interim financial statements contained in Item 1 of this Form 10-Q, above, for information on loans serviced for others and loans pledged as collateral.

Asset Quality

The following table sets forth information regarding the Company's loan portfolio asset quality at the dates indicated:

| (Dollars in thousands) | September 30, 2023 | | December 31, 2022 | | September 30, 2022 | |
|---|--------------------|-----------|-------------------|-----------|--------------------|-----------|
| Adversely classified loans | \$ | 49,886 | \$ | 46,996 | \$ | 48,706 |
| Performing adversely classified loans | \$ | 38,261 | \$ | 40,876 | \$ | 42,992 |
| Non-accrual loan summary: | | | | | | |
| Commercial real estate | \$ | 5,503 | \$ | 3,355 | \$ | 3,255 |
| Commercial and industrial | | 4,355 | | 730 | | 675 |
| Commercial construction | | — | | 294 | | — |
| Residential mortgages | | 1,536 | | 1,532 | | 1,567 |
| Home equity | | 262 | | 211 | | 220 |
| Consumer | | — | | — | | — |
| Total non-performing loans | | 11,656 | | 6,122 | | 5,717 |
| Total loans | \$ | 3,404,014 | \$ | 3,180,518 | \$ | 3,109,369 |
| Delinquent loans 60-89 days past due and still accruing | \$ | — | \$ | 1,307 | \$ | 72 |
| Loans 60-89 days past due and still accruing to total loans | | — | % | 0.04 | % | — |
| Non-performing loans to total loans | | 0.34 | % | 0.19 | % | 0.18 |
| Non-performing assets to total assets | | 0.26 | % | 0.14 | % | 0.13 |
| Allowance for credit losses for loans | \$ | 57,905 | \$ | 52,640 | \$ | 51,211 |
| Allowance for credit losses for loans to non-performing loans | | 496.78 | % | 859.85 | % | 895.77 |
| Allowance for credit losses for loans to total loans | | 1.70 | % | 1.66 | % | 1.65 |

The increase in non-accrual loans from December 31, 2022 to September 30, 2023 was attributable primarily to one commercial loan relationship with a net book value of \$4.8 million. The relationship consists of a \$1.4 million commercial real estate loan and a \$3.4 million commercial and industrial loan. At September 30, 2023, the relationship was individually evaluated and had a specific reserve of \$2.6 million.

The Company had no OREO at September 30, 2023, December 31, 2022 or September 30, 2022, and therefore non-performing loans were the only component of non-performing assets.

ACL for Loans

Although there have been no material changes to the Company's ACL for loans methodology, underwriting practices, or credit risk management system used to estimate credit loss exposure since December 31, 2022, during the quarter ended September 30, 2023, the Company made a minor modification to its ACL estimation process as described in Note 4 to the 2022 Annual Report on Form 10-K under the heading "loans collectively evaluated." The Company streamlined its allowance estimation process to collectively evaluate all non-impaired loans as one cohort segmented by loan type. Previously, the Company separately evaluated non-classified loans and adversely classified loans. The change did not have a material impact on the ACL for loans at September 30, 2023.

See Note 4, "ACL for Loans," to the Company's unaudited consolidated interim financial statements, contained in Item 1 in this Form 10-Q, above, for further information regarding credit quality and the ACL under the current expected credit loss ("CECL") methodology.

While management uses available information and judgment to estimate credit losses on loans, future additions to the ACL may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's ACL for loans. Such agencies may require the Company to recognize additions to the ACL for loans based on judgments different from those of management.

ACL for loans activity

The following table presents changes in the provision for credit losses on loans and unfunded commitments during the nine-month periods indicated:

| (Dollars in thousands) | Nine months ended | |
|--------------------------------------|-----------------------|-----------------------|
| | September 30, 2023 | September 30, 2022 |
| Provision for credit losses on loans | \$ 5,355 | \$ 3,580 |
| Provision for unfunded commitments | 1,401 | 359 |
| Total provision for credit losses | <u>\$ 6,756</u> | <u>\$ 3,939</u> |

The following table summarizes the activity in the ACL for loans for the periods indicated:

| (Dollars in thousands) | Nine months ended September 30, | |
|---|---------------------------------|------------------|
| | 2023 | 2022 |
| Balance at beginning of year | \$ 52,640 | \$ 47,704 |
| Provision for credit losses for loans | 5,355 | 3,580 |
| Recoveries on charged-off loans: | | |
| Commercial real estate | — | — |
| Commercial and industrial | 298 | 139 |
| Commercial construction | — | — |
| Residential mortgages | — | — |
| Home equity | 8 | 9 |
| Consumer | 13 | 14 |
| Total recovered | <u>319</u> | <u>162</u> |
| Charged-off loans | | |
| Commercial real estate | — | — |
| Commercial and industrial | 383 | 192 |
| Commercial construction | — | — |
| Residential mortgages | — | — |
| Home equity | — | — |
| Consumer | 26 | 43 |
| Total charged-off | <u>409</u> | <u>235</u> |
| Net loans charged-off | <u>90</u> | <u>73</u> |
| Ending balance | <u>\$ 57,905</u> | <u>\$ 51,211</u> |
| Annualized net loans charged-off to average loans outstanding | <u>— %</u> | <u>— %</u> |

See Note 4, "ACL for Loans," to the Company's unaudited consolidated interim financial statements, contained in Item 1 in this Form 10-Q, above, for further information regarding the ACL for loans and credit quality.

Reserve for unfunded commitments

The reserve for unfunded commitments is classified within "Other liabilities" on the Company's Consolidated Balance Sheets. The estimate of credit loss incorporates assumptions for both the likelihood and amount of funding over the estimated life of the non-cancellable commitments, including adjustments for current conditions and reasonable and supportable forecasts. Management periodically reviews and updates its assumptions for estimated funding rates.

The Company's reserve for unfunded commitments amounted to \$5.7 million as of September 30, 2023 and \$4.3 million at December 31, 2022. The provision for unfunded commitments for the three months ended September 30, 2023 amounted to \$758 thousand compared to \$440 thousand for the three months ended September 30, 2022. The provision for unfunded commitments for the nine months ended September 30, 2023 amounted to \$1.4 million compared to \$359 thousand for the nine months ended September 30, 2022. The increase in the provision for unfunded commitments resulted primarily from growth in the Company's off-balance sheet commercial construction commitments.

Based on the foregoing, management believes that the Company's ACL for loans and reserve for unfunded commitments is adequate as of September 30, 2023.

Deposits

As of September 30, 2023, total deposits increased \$24.6 million, or 1%, since December 31, 2022. Checking account balances decreased \$181.8 million, or 9%, money market and savings account balances increased \$16.1 million, or 1%, and certificates of deposit ("CDs") account balances increased \$190.3 million, or 66%, as customers sought higher yielding deposit products in the rising market rate environment.

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

| (Dollars in thousands) | September 30, 2023 | | December 31, 2022 | | September 30, 2022 | |
|---------------------------|---------------------|--------------|---------------------|--------------|---------------------|--------------|
| | Amount | Percent | Amount | Percent | Amount | Percent |
| Checking | \$ 1,858,549 | 46 % | \$ 2,040,303 | 51 % | \$ 2,160,578 | 52 % |
| Money markets and savings | 1,724,399 | 42 % | 1,708,311 | 42 % | 1,747,421 | 42 % |
| CDs | 477,455 | 12 % | 287,192 | 7 % | 230,039 | 6 % |
| Deposits | <u>\$ 4,060,403</u> | <u>100 %</u> | <u>\$ 4,035,806</u> | <u>100 %</u> | <u>\$ 4,138,038</u> | <u>100 %</u> |

Total customer deposits include reciprocal balances from checking, money market deposits and CDs received from participating banks in nationwide deposit networks as a result of our customers electing to participate in Company offered programs which allow for third-party enhanced FDIC insurance. Under this enhanced deposit insurance program, the equivalent of the customers' original deposited funds are reciprocated back through the network to the Company and are carried within the appropriate category under deposits. The Company's balances in these reciprocal enhanced insurance products were \$815.0 million and \$589.7 million, at September 30, 2023 and December 31, 2022, respectively. The increase in balance reflects primarily an increase in customer demand for enhanced insurance products following the March 2023 bank failures.

As of September 30, 2023, uninsured deposits amounted to 35% of total deposits. Additional capacity to utilize these enhanced FDIC insured products exceeds the Company's total deposits balance at September 30, 2023. Additional capacity to utilize these third-party enhanced FDIC insured products exceeds the Company's total deposits balance.

Borrowed Funds

The Company had borrowed funds outstanding of \$4.3 million at both September 30, 2023 and December 31, 2022, which were comprised of FHLB advances related to specific lending projects under the FHLB's community development and affordable housing programs as well as a small portion of borrowed funds from a New Hampshire Business Finance Authority borrowing under a New Hampshire community development program linked to a commercial loan.

See also "Liquidity," below, for additional information on borrowing capacity.

Subordinated Debt

The Company had outstanding subordinated debt, net of deferred issuance costs, of \$59.4 million at September 30, 2023, compared to \$59.2 million at December 31, 2022.

See also Note 7, "Borrowed Funds and Subordinated Debt," to the Company's unaudited consolidated interim financial statements contained in Item 1 in this Form 10-Q, above, for further information regarding the Company's subordinated debt.

Shareholders' Equity

Total shareholders' equity amounted to \$299.7 million at September 30, 2023, compared to \$282.3 million at December 31, 2022, an increase of \$17.4 million, or 6%. The increase was due primarily to an increase in retained earnings, partially offset by an increase in the accumulated other comprehensive loss, which resulted from a decrease in the fair value of debt securities.

For the nine months ended September 30, 2023 and September 30, 2022, the Company declared cash dividends of \$8.4 million and \$7.4 million, respectively, and shareholders utilized the dividend reinvestment portion of the Company's dividend reinvestment and direct stock purchase plan to purchase aggregate shares of the Company's common stock amounting to 37,145 shares and 30,821 shares, totaling \$1.1 million for each respective period.

On October 17, 2023, the Company announced a quarterly dividend of \$0.23 per share to be paid on December 1, 2023 to shareholders of record as of November 10, 2023.

Derivatives and Hedging

Derivatives designated as hedging instruments

In September of 2023, the Company entered into a pay fixed, receive float, interest rate swap agreement with a notional value of \$50.0 million and a term of two years. Under this interest rate swap agreement, the Company pays a fixed interest rate of 4.93% and receives the Secured Overnight Financing Rate.

In June of 2023, the Company entered into two pay fixed, receive float, interest rate swap agreements with a combined notional value of \$50.0 million and both have a term of two years. Under these interest rate swap agreements, the Company pays a weighted average fixed interest rate of 4.43% and receives the Secured Overnight Financing Rate.

The notional value of interest rate swap agreements designated as fair value hedges amounted to \$100.0 million at September 30, 2023. The fair value of these interest rate swap agreements, carried on the Company's Consolidated Balance Sheets as assets, was \$393 thousand at September 30, 2023.

Derivatives not subject to hedge accounting

The notional value of back-to-back interest-rate swaps with customers and counterparties amounted to \$7.6 million at September 30, 2023 and \$7.8 million at December 31, 2022. The fair value of assets and corresponding liabilities associated with these swaps and carried on the Company's Consolidated Balance Sheets was \$968 thousand at September 30, 2023 compared to \$782 thousand at December 31, 2022.

Risk Participation Agreements

The notional value of RPAs sold amounted to \$46.9 million at September 30, 2023 and \$24.7 million at December 31, 2022. The fair value of RPAs, carried on the Company's Consolidated Balance Sheets as a liability, was \$37 thousand at September 30, 2023 and \$73 thousand at December 31, 2022.

For further information on the Company's derivatives and hedging activities see Note 8, "Derivatives and Hedging Activities," to the Company's unaudited consolidated interim financial statements contained in Item 1 above in this Form 10-Q.

Liquidity

Liquidity is the ability to meet cash needs arising from, among other things, fluctuations in loans, investments, deposits and borrowings. Liquidity management is the coordination of activities so that cash needs are anticipated and met readily and efficiently. The Company's liquidity is maintained by projecting cash needs, balancing maturing assets with maturing liabilities, monitoring various liquidity ratios, monitoring deposit flows, maintaining cash flow within the investment portfolio, and maintaining wholesale funding resources.

At September 30, 2023, the Bank had the capacity to borrow additional funds from the FHLB and FRB of up to approximately \$815.0 million and \$335.0 million, respectively.

Management believes that the Company has adequate liquidity to meet its obligations. However, if general economic conditions, potential recession in the United States and our market areas, continuation of recent uncertainty in the banking industry, changes in market interest rates, the persistence of the current inflationary environment in the United States and our

market areas, increased competition for deposits and related changes in deposit customer behavior, or other events, cause these sources of external funding to become restricted or are eliminated, the Company may not be able to raise adequate funds or may incur substantially higher funding costs or operating restrictions in order to raise the necessary funds to support the Company's operations and growth.

Capital Resources

The principal cash requirement of the Company is the payment of interest on subordinated debt and the payment of dividends on our common stock. The Company's Board of Directors may approve cash dividends on a quarterly basis after careful analysis and consideration of various factors, including our capital position, economic conditions, growth rates, earnings performance and projections as well as strategic initiatives and related regulatory capital requirements.

The Company's primary source of cash is dividends paid by the Bank, which are limited to the Bank's net income for the current year plus its retained net income for the prior two years.

The Company's total capital and tier 1 capital to risk weighted assets amounted to 13.45% and 10.61%, respectively, at September 30, 2023, compared to 13.49% and 10.56%, respectively, at December 31, 2022.

Tier 1 capital to average assets amounted to 8.59% at September 30, 2023, compared to 8.10% at December 31, 2022. The increase was driven primarily by the increase in retained earnings noted above and a decrease in average assets.

For further information about the Company's capital, see Note 9 "Regulatory Capital Requirements," to the Company's unaudited consolidated interim financial statements contained in Item 1 of this Form 10-Q, above.

Wealth Management

Wealth assets under management and wealth assets under administration are not carried as assets on the Company's consolidated balance sheets. The Company provides a wide range of wealth management and wealth services, including investment management, brokerage, annuities, trust, and 401(k) administration.

Wealth assets under management and wealth assets under administration amounted to \$984.6 million and \$211.0 million, respectively, at September 30, 2023, representing increases of \$93.2 million, or 10%, and \$12.5 million, or 6%, respectively, compared to December 31, 2022. The increase in assets under management resulted from an increase in market values as well as assets attracted through new and expanded client relationships.

Item 3 - Quantitative and Qualitative Disclosures About Market Risk

Interest Margin Sensitivity Analysis

Refer to Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the Company's 2022 Annual Report on Form 10-K for further information on the Company's net interest income and net interest margin sensitivity under different interest rate and yield curve scenarios as well as different asset and liability mix scenarios.

The table below summarizes the results from and compares the percent change in net interest income to the rates unchanged scenario, assuming a static balance sheet, for a 24-month period at September 30, 2023 and December 31, 2022.

- In the 200 and 400 basis point increasing interest rate scenarios, net interest income was projected to decrease in the first 24 months compared to an increase at December 31, 2022 primarily due to a shift in deposit composition from non-interest-bearing account balances into interest-bearing account balances that have a higher level of interest rate sensitivity.
- In the 200 basis point decreasing interest rate scenario, the percent decrease in net interest income was lower compared to the results at December 31, 2022. At September 30, 2023, deposit yields increased above the lower levels experienced at December 31, 2022 when deposit yields were closer to zero. As deposit yields increase, it allows for a higher level of rate declines in the 200 basis point declining rate scenario, which improved net interest income sensitivity results.

| (Dollars in thousands, except for percentage data) | September 30, 2023 | December 31, 2022 |
|--|-----------------------|----------------------|
| | Percentage Change | Percentage Change |
| Changes in interest rates | | |
| Rates rise 400 basis points | (0.73) % | 1.20 % |
| Rates rise 200 basis points | (0.62) % | 0.45 % |
| Rates unchanged | — % | — % |
| Rates decline 200 basis points | (1.57) % | (5.34) % |

The results in the table above are subject to various assumptions as reported in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" of the Company's 2022 Annual Report on Form 10-K. Refer to heading "Results of Operations" contained within Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q for further discussion of margin.

Item 4 - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

The Company carried out an evaluation as of the end of the period covered by this Form 10-Q under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective as of September 30, 2023.

Changes in Internal Control over Financial Reporting

There have been no significant changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (i.e., the three months ended September 30, 2023) that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

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

Item 1A - Risk Factors

Except as provided in the risk factor below, management believes that there have been no material changes in the Company's risk factors as reported in the 2022 Annual Report on Form 10-K. However, if the United States or the markets in which we operate encounter sustained economic stress or recession, many of the risk factors identified in the Company's 2022 Annual Report on Form 10-K could become heightened and such effects could have a material adverse impact on the Company in a number of ways related to key risk areas including Economic & Financial Markets, Liquidity, Credit and Collateral, Capital and Operations, among others.

Recent bank failures, the resulting media coverage, and the related negative impact on customer confidence in the safety and soundness of the banking industry may adversely affect our business, earnings and financial condition.

When other financial institutions experience severe financial difficulties it could result in an adverse impact on the regional banking industry, generally, and the business environment in which the Company operates. The failures of a number of banks in

2023 have resulted in significant market volatility among publicly traded bank holding companies which has caused uncertainty in the investor community and bank customers, generally. This uncertainty may negatively impact customer confidence in the safety and soundness of regional banks and, as a result, the Company's customers may choose to withdraw some or all of their deposited funds, and seek higher yielding alternatives, which could have a materially adverse impact on our liquidity, cost of funding, loan funding capacity, net interest margin, capital and results of operations. In addition, this uncertainty and concern has been, and may be in the future, compounded by advances in technology that increase the speed at which deposits can be moved, as well as the speed and reach of media attention, including social media, and its ability to disseminate concerns or rumors, in each case potentially exacerbating liquidity concerns.

Management continues to monitor the ongoing events concerning the March 2023 bank failures, potential bank failures and volatility within the financial services industry generally, together with any responsive measures that may be taken by the banking regulators in an attempt to mitigate or manage potential turmoil in the financial services industry.

Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds

The following table represents information with respect to repurchases of common stock made by the Company during the three months ended September 30, 2023:

| | Total number of shares repurchased ⁽¹⁾ | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs Announced | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|-----------|---|------------------------------|--|--|
| July | 1,625 | \$ 30.30 | — | — |
| August | — | — | — | — |
| September | — | — | — | — |

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

Item 3 - Defaults upon Senior Securities

Not Applicable.

Item 4 - Mine Safety Disclosures

Not Applicable.

Item 5 - Other Information

During the three months ended September 30, 2023, none of the directors or officers of the Company adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408 of Regulation S-K.

Item 6 - Exhibits

EXHIBIT INDEX

Exhibit No. Description

- 3.1.1 [Amended and Restated Articles of Organization of the Company, as amended as of June 4, 2013 incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed June 10, 2013 \(File No. 001-33912\).](#)
- 3.1.2 [Articles of Amendment to the Restated Articles of Organization of the Company, as amended as of May 16, 2017 incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed May 18, 2017 \(File No. 001-33912\).](#)
- 3.1.3 [Articles of Amendment to the Amended and Restated Articles of Organization of the Company, as amended as of January 5, 2018, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed January 11, 2018 \(File No. 001-33912\).](#)
- 3.2 [Second Amended and Restated Bylaws of the Company, as amended as of January 19, 2021, incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on January 22, 2021 \(File No. 001-33912\).](#)
- 31.1* [Certification of Principal Executive Officer under Securities Exchange Act Rule 13a-14\(a\).](#)
- 31.2* [Certification of Principal Financial Officer under Securities Exchange Act Rule 13a-14\(a\).](#)
- 32* [Certification of Principal Executive Officer and Principal Financial Officer under 18 U.S.C. § 1350 Furnished Pursuant to Securities Exchange Act Rule 13a-14\(b\).](#)
- 101* The following materials from Enterprise Bancorp, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 were formatted in Inline XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets as of September 30, 2023 and December 31, 2022; (ii) Consolidated Statements of Income for the three and nine months ended September 30, 2023 and 2022; (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2023 and 2022; (iv) Consolidated Statements of Changes in Equity for the three and nine months ended September 30, 2023 and 2022; (v) Consolidated Statements of Cash Flows for the nine months ended September 30, 2023 and 2022; and (vi) Notes to Unaudited Consolidated Interim Financial Statements.
- 104* The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 has been formatted in Inline XBRL and contained in Exhibit 101.

*Filed herewith

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENTERPRISE BANCORP, INC.

DATE: November 7, 2023

By: /s/ Joseph R. Lussier

Joseph R. Lussier

Executive Vice President, Treasurer
and Chief Financial Officer

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
UNDER SECURITIES EXCHANGE ACT RULE 13a-14(a)**

I, John P. Clancy, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Enterprise Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

/s/ John P. Clancy, Jr.

John P. Clancy, Jr.

Chief Executive Officer (Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
UNDER SECURITIES EXCHANGE ACT RULE 13a-14(a)**

I, Joseph R. Lussier, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Enterprise Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2023

/s/ Joseph R. Lussier

Joseph R. Lussier

Executive Vice President, Chief Financial Officer and Treasurer,
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER
UNDER 18 U.S.C. § 1350 FURNISHED PURSUANT TO SECURITIES EXCHANGE ACT RULE 13a-14(b)**

In connection with the Quarterly Report of Enterprise Bancorp, Inc. (the "Company") on Form 10-Q for the period ended on September 30, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in his respective capacities indicated below, hereby certifies, pursuant to 18 U.S.C. § 1350, as enacted by Section 906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge and belief, (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 7, 2023

/s/ John P. Clancy, Jr.

John P. Clancy, Jr.

Chief Executive Officer (Principal Executive Officer)

/s/ Joseph R. Lussier

Joseph R. Lussier

Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to Enterprise Bancorp, Inc. and will be retained by Enterprise Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.