

ANNUAL REPORT 2015

RESPECT ♦ COMMITMENT ♦ LOYALTY

Enterprise Bank NJ and Subsidiary

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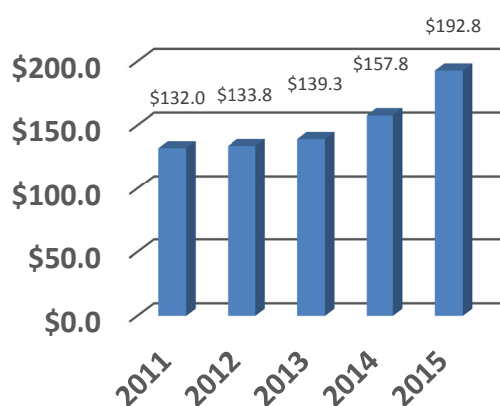
December 31, 2015 and 2014

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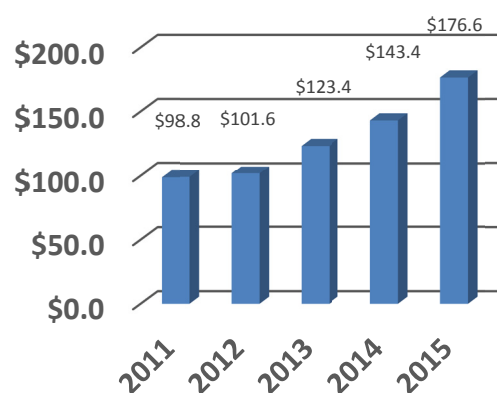
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FINANCIAL HIGHLIGHTS

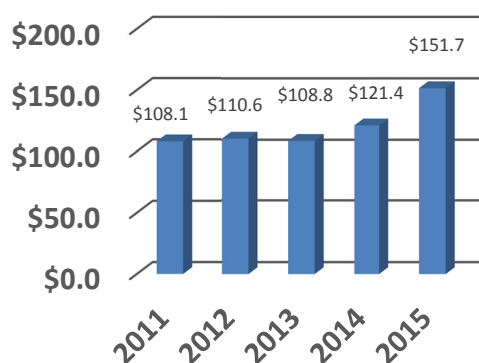
Assets (in millions)



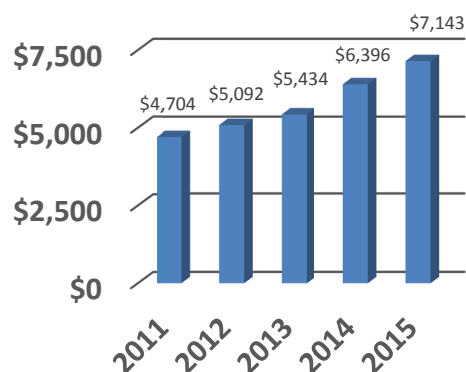
Loans (in millions)



Deposits (in millions)



Net Interest Income (in thousands)



See notes to consolidated financial statements.

TO THE SHAREHOLDERS OF ENTERPRISE BANK NJ

Dear Shareholders,

Enterprise Bank NJ is once again extremely pleased to report to you another year of record performance. Before we discuss the results for 2015, we would like to share some bittersweet changes at your company. N. Larry Paragano, our Chairman since the inception of the Bank has decided to retire. Larry has been an instrumental part of our company contributing greatly to our success and will be sincerely missed. Thankfully, Larry will continue to serve as a Board Member and remain a valuable part of our company. We are also pleased to let you know that, as his last official act as Chairman, Mr. Paragano recommended Salvatore Davino to be his successor and Chairman of the next stage of the Bank. Mr. Davino has also been with the Bank since its inception and we would like to take this opportunity to welcome Mr. Davino into his new role as Chairman. In addition, as you are aware, we converted from a Nationally Chartered bank in December of last year to a New Jersey Chartered Commercial Bank. We believe that in addition to providing some measurable cost savings, the conversion to a New Jersey State Charter will give us a greater ability to execute our strategy and fulfill our mission as a New Jersey-based community bank allowing us to become even more competitive in the markets we serve. Lastly, in a committed effort to support the continued growth of our company, the Directors of the bank contributed approximately \$2.0 million in additional capital at year-end. The additional capital will allow the bank to continue to grow the Bank's Commercial Real Estate portfolio, which to date has fueled our sound growth and profitability.

Now, and with great pleasure and on behalf of the Board of Directors, Management and Staff of Enterprise Bank NJ, we report another year of record earnings. For the year ended December 31, 2015, earnings were \$1,583,000, or \$0.55 per share compared to \$1,407,000, or \$0.49 per share, for the same period in 2014 – an increase of \$176,000 or 12.5%. Our book value per share increased from \$7.41 per share at December 31, 2014 to \$7.98 per share at December 31, 2015, based on 3,147,811 shares outstanding as of year-end. In addition, we continue to see strong growth in our commercial loan portfolio, which remains a good indication that the positive outlook we have spoken about for the last few years has gained momentum within our local markets and continues to provide solid business opportunities. Also, in keeping with our commitment to asset quality, nonperforming assets as a percentage of total assets has improved to 71 basis points as of year-end compared to 94 basis points for the same period in 2014.

As we look to 2016, we believe that the interest rate environment will not materially change and the competition for good lending opportunities will remain challenging. Nevertheless, we believe our commitment to providing value-added, relationship-driven services will continue to facilitate our sound growth. Furthermore, we are resolute in our commitment to asset quality and will not sacrifice credit quality to gain new business.

The following is a brief summary of our year-over-year highlights:

- Total assets increased 22.2% to \$192.8 million from \$157.8 million.
- Net loans increased 23.2% to \$176.6 million from \$143.4 million.
- Deposits increased 25.0% to \$151.7 million from \$121.4 million.
- Net interest income increased 11.7% from \$6,396,000 to \$7,143,000.
- Net interest margin remained consistent year over year decreasing slightly to 4.18% from 4.26%.

Additionally, Shareholders' Equity increased to \$25.1 million as of December 31, 2015 from \$21.4 million for the same period in 2014. The Bank's Capital Ratios remain strong:

- Tier 1 leveraged capital ratio – 13.28%
- Tier 1 risk based capital ratio – 14.57%
- Total risk based capital ratio – 15.80%
- Common equity tier 1 ratio – 14.57%

As we continue to emphasize year-over-year, we remain committed to our shareholders and customers. It is our mission to work to meet the needs of the communities we serve, while ensuring the sound growth of Enterprise Bank. We want to emphasize that we will work diligently to make loans that make sense for both the customer and the bank.

Our strategy remains simple, continue to build a strong bank by maintaining and cultivating relationships with a vigorous focus on delivering value for our shareholders. As always, we thank you for your investment and support in Enterprise Bank. We will continue to serve our communities, while embracing our core beliefs of RESPECT, COMMITMENT and LOYALTY in everything we do for our shareholders, our customers and our company.



Salvatore Davino
Chairman of Board



Donald J. Haake
President and Chief Executive Officer

Enterprise Bank NJ and Subsidiary

Consolidated Balance Sheet
December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and amounts due from depository institutions	\$ 1,512,542	\$ 1,804,970
Interest bearing deposits	3,971,223	1,180,942
Cash and cash equivalents	5,483,765	2,985,912
Securities available for sale, amortized cost of \$4,113,869 (2015) and \$5,110,771 (2014)	4,276,418	5,358,650
Securities held to maturity, fair value of \$1,292,605 (2015) and \$1,529,598 (2014)	1,272,967	1,493,172
Loans receivable, net of allowance for loans losses of \$2,081,476 (2015) and \$1,718,859 (2014)	176,623,902	143,350,067
Premises and equipment, net	345,924	249,758
Restricted equity securities	1,565,900	1,494,300
Interest receivable	624,492	498,806
Foreclosed assets	1,250,053	1,300,053
Deferred income tax assets, net	1,159,867	941,004
Other assets	204,728	172,558
Total assets	<u>\$ 192,808,016</u>	<u>\$ 157,844,280</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$ 22,255,484	\$ 17,128,065
Interest-bearing	129,477,316	104,230,967
Total deposits	151,732,800	121,359,032
Borrowings	15,400,000	14,500,000
Other liabilities	552,911	567,496
Total liabilities	<u>167,685,711</u>	<u>136,426,528</u>
Stockholders' Equity		
Preferred stock, no par value; 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$5 par value (2015), no par value (2014); 5,000,000 shares authorized; 3,147,811 (2015) and 2,889,894 (2014) shares issued and outstanding	15,739,055	-
Paid-in capital	7,670,000	21,236,421
Retained earnings	1,615,720	32,603
Accumulated other comprehensive income	97,530	148,728
Total stockholders' equity	<u>25,122,305</u>	<u>21,417,752</u>
Total liabilities and stockholders' equity	<u>\$ 192,808,016</u>	<u>\$ 157,844,280</u>

See notes to consolidated financial statements

Enterprise Bank NJ and Subsidiary

Consolidated Statement of Income Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Interest Income		
Loans	\$ 8,135,930	\$ 7,222,825
Securities	228,038	250,725
Other interest-earning assets	5,801	8,233
Total interest income	<u>8,369,769</u>	<u>7,481,783</u>
Interest Expense		
Deposits:		
Demand	203,168	150,335
Savings	71,303	62,077
Certificates of deposit	815,097	733,730
Borrowings	136,780	139,148
Total interest expense	<u>1,226,348</u>	<u>1,085,290</u>
Net interest income	7,143,421	6,396,493
Provision for Loan Losses	<u>362,617</u>	<u>232,211</u>
Net interest income after provision for loan losses	<u>6,780,804</u>	<u>6,164,282</u>
Non-Interest Income		
Fees and service charges	248,385	216,681
Loss on writedown of foreclosed assets	(50,000)	(60,000)
Other	1,347	2,452
Total non-interest income	<u>199,732</u>	<u>159,133</u>
Non-Interest Expenses		
Salaries and employee benefits	2,518,946	2,286,272
Occupancy, expense of premises	305,017	300,920
Equipment	591,705	543,844
FDIC insurance	114,000	90,000
Professional fees	259,530	214,629
Other	524,221	502,170
Total non-interest expenses	<u>4,313,419</u>	<u>3,937,835</u>
Income before income tax expense	2,667,117	2,385,580
Income Tax Expense	<u>1,084,000</u>	<u>978,680</u>
Net income	<u>\$ 1,583,117</u>	<u>\$ 1,406,900</u>
Net Income Per Common Share		
Basic	<u>\$ 0.55</u>	<u>\$ 0.49</u>
Diluted	<u>\$ 0.52</u>	<u>\$ 0.47</u>
Weighted Average Number of Shares Outstanding		
Basic	<u>2,892,014</u>	<u>2,890,095</u>
Diluted	<u>3,038,491</u>	<u>2,991,948</u>

See notes to consolidated financial statements

Enterprise Bank NJ and Subsidiary

Consolidated Statement of Comprehensive Income
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Net Income	<u>\$ 1,583,117</u>	<u>\$ 1,406,900</u>
Other Comprehensive Income (Loss)		
Change in unrealized gain (loss) on securities available for sale, net of tax \$34,132 (2015) and \$5,785 (2014)	<u>(51,198)</u>	<u>8,678</u>
Other comprehensive income (loss), net of tax	<u>(51,198)</u>	<u>8,678</u>
Comprehensive income	<u><u>\$ 1,531,919</u></u>	<u><u>\$ 1,415,578</u></u>

See notes to consolidated financial statements

Enterprise Bank NJ and Subsidiary

Consolidated Statement of Stockholders' Equity
Years Ended December 31, 2015 and 2014

	Preferred Stock	Common Stock	Paid-In Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2013	\$ -	\$ -	\$ 21,044,511	\$ (1,374,297)	\$ 140,050	\$ 19,810,264
Net income	-	-	-	1,406,900	-	1,406,900
Other comprehensive income	-	-	-	-	8,678	8,678
Stock-based compensation	-	-	191,910	-	-	191,910
Balance at December 31, 2014	-	-	21,236,421	32,603	148,728	21,417,752
Net income	-	-	-	1,583,117	-	1,583,117
Other comprehensive loss	-	-	-	-	(51,198)	(51,198)
Change in par value of common stock due to change in charter (see Note 1)	-	14,449,470	(14,449,470)	-	-	-
Common stock issued (257,917 shares)	-	1,289,585	717,009	-	-	2,006,594
Stock-based compensation	-	-	166,040	-	-	166,040
Balance at December 31, 2015	\$ -	\$ 15,739,055	\$ 7,670,000	\$ 1,615,720	\$ 97,530	\$ 25,122,305

Enterprise Bank NJ and Subsidiary

Consolidated Statement of Cash Flows Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Flows from Operating Activities		
Net income	\$ 1,583,117	\$ 1,406,900
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	144,058	146,337
Accretion of deferred loan fees, premiums and discounts, net	(129,254)	(77,976)
Provision for loan losses	362,617	232,211
Loss on writedown of foreclosed assets	50,000	60,000
Gain on disposal of premises and equipment	(33,000)	-
Stock-based compensation expense	166,040	191,910
Deferred income taxes	(184,731)	(100,350)
Increase in interest receivable	(125,686)	(100,188)
(Increase) decrease in other assets	(32,170)	45,344
Increase in interest payable	5,170	1,306
Increase (decrease) in other liabilities	(19,755)	189,314
	<u>1,786,406</u>	<u>1,994,808</u>
Net cash provided by operating activities		
Cash Flows from Investing Activities		
Proceeds from calls and repayments of securities available for sale	977,009	1,070,858
Proceeds from repayments of securities held to maturity	216,598	629,441
Net change in loans receivable	(33,483,698)	(20,560,108)
Insurance proceeds on foreclosed assets	-	55,947
Purchases of restricted equity securities	(296,600)	(772,050)
Redemption of restricted equity securities	225,000	561,100
Purchases of premises and equipment	(240,224)	(26,247)
Proceeds from disposal of premises and equipment	33,000	-
	<u>(32,568,915)</u>	<u>(19,041,059)</u>
Net cash used in investing activities		
Cash Flows from Financing Activities		
Net increase in deposits	30,373,768	12,239,014
Proceeds from issuance of common stock	2,006,594	-
Proceeds from long-term borrowings	4,400,000	6,500,000
Repayments of long-term borrowings	(3,500,000)	(2,000,000)
	<u>33,280,362</u>	<u>16,739,014</u>
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	2,497,853	(307,237)
Cash and Cash Equivalents, Beginning	<u>2,985,912</u>	<u>3,293,149</u>
Cash and Cash Equivalents, Ending	<u>\$ 5,483,765</u>	<u>\$ 2,985,912</u>
Supplementary Cash Flows Information		
Interest paid	<u>\$ 1,221,178</u>	<u>\$ 1,083,984</u>
Income taxes paid	<u>\$ 1,310,000</u>	<u>\$ 1,038,080</u>

See notes to consolidated financial statements

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

1. Organization

Enterprise Bank (“Enterprise”) was chartered in the State of New Jersey and commenced operations on August 19, 2002. During 2005, Enterprise filed an application with the Office of the Comptroller of the Currency (“OCC”) for a conversion to a national charter. On January 2, 2006, Enterprise Bank was approved for a national charter and was renamed Enterprise National Bank N.J. During 2015, Enterprise filed an application with the State of New Jersey to return to a State Chartered Commercial bank. On December 18, 2015, Enterprise Bank was approved by the State of New Jersey to operate as a State Chartered Commercial Bank and was renamed Enterprise Bank NJ (the “Bank”). The primary business of the Bank is to provide deposit and lending services for individuals, small to medium-sized businesses and professional practices in our market area.

490 Boulevard Realty (“490 Blvd”) was organized in 2010. The primary business of 490 Blvd, a 100% owned subsidiary of the Bank, is to hold and manage foreclosed real estate.

As a community bank, the Bank’s (which includes 490 Blvd described above) emphasis includes providing a broad range of financial products and services. The Bank offers the traditional range of retail and commercial banking services to its customers, including checking accounts, savings accounts, certificates of deposit, installment loans, commercial loans and automated teller services. Through our affiliation with various mortgage companies, a broad array of residential mortgage alternatives are available to our customers. The retail banking services offered by the Bank are designed to provide deposit and loan products that meet our customers’ needs.

By converting back to a State Charter Commercial Bank, the Bank is now subject to regulation, supervision and examination by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation beginning in 2016. Until December 18, 2015, the Bank was subject to Federal and OCC statutes applicable to banks chartered under the OCC banking laws. Accordingly, the Bank was subject to regulation, supervision and examination by the FDIC and the OCC until then. The Bank’s deposits remain insured by the Federal Deposit Insurance Corporation (the “FDIC”). In connection with the charter conversion, there was an amendment to the Bank’s Articles of Incorporation increasing the par value of a share of common stock from no par value to \$5 par value. As a result of the increase in par value, the common stock account was increased by \$14,449,470 and the paid-in capital account was decreased by the same amount in the accompanying Consolidated Statement of Stockholders’ Equity.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The consolidated financial statements include the accounts of the Bank and its wholly-owned subsidiary and have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). All intercompany accounts and transactions have been eliminated in consolidation.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and revenues and expenses for the period then ended. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change relate to the evaluation of other-than-temporary impairment of securities, the determination of the allowance for loan losses and the amount of deferred tax assets which are more-likely-than-not to be realized. Management believes that the other-than-temporary impairment of securities and the allowance for loan losses are adequate and that deferred taxes are properly recognized. While management uses available information to recognize losses on loans, future additions to the allowance for loan losses may be necessary based on changes in economic conditions in the market area. The assessment of the amount of deferred taxes more-likely-than-not to be realized is based upon projected future taxable income, which is subject to continual revisions for updated information.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

The Bank has evaluated subsequent events for recognition or disclosure through March 2, 2016, the date these consolidated financial statements were available to be issued, and there were no such items requiring either recognition or disclosure.

Cash and Cash Equivalents and Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and amounts due from depository institutions, interest-bearing deposits in other banks having original maturities of three months or less and federal funds sold. Generally, federal funds sold are sold for one-day periods.

Securities Available for Sale and Held to Maturity

Investments in debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held to maturity securities and reported at amortized cost. Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized holding gains and losses included in earnings. The Bank did not own any trading securities at December 31, 2015 or 2014. Debt and equity securities not classified as trading securities nor as held to maturity securities are classified as available for sale securities and reported at fair value, with unrealized holding gains or losses, net of applicable deferred income taxes, reported in the accumulated other comprehensive income component of stockholders' equity.

If the fair value of a security is less than its amortized cost, the security is deemed to be impaired. Management evaluates all securities with unrealized losses quarterly to determine if such impairments are “temporary” or “other-than-temporary” in accordance with ASC Topic 320, *Investments - Debt and Equity Securities*. Accordingly, temporary impairments are accounted for based upon the classification of the related securities as either available for sale or held to maturity. Temporary impairments on available for sale securities are recognized, on a tax-effected basis, through Other Comprehensive Income (“OCI”) with offsetting entries adjusting the carrying value of the securities and the balance of deferred taxes. Conversely, the carrying values of held to maturity securities are not adjusted for temporary impairments, although information concerning the amount and duration of temporary impairments on held to maturity securities is disclosed in the notes to the consolidated financial statements.

Other-than-temporary impairments are accounted for based upon several considerations. First, other-than-temporary impairments on debt securities that the Bank has decided to sell as of the close of a fiscal period, or will, more-likely-than-not, be required to sell prior to the full recovery of fair value to a level equal to or exceeding amortized cost, are recognized in earnings. If neither of these conditions regarding the likelihood of the sale of debt securities is applicable, then the other-than-temporary impairment is bifurcated into credit-related and noncredit-related components. A credit-related impairment generally represents the amount by which the present value of the cash flows that are expected to be collected on a debt security fall below its amortized cost. The noncredit-related component represents the remaining portion of the impairment not otherwise designated as credit-related. Credit-related, other-than-temporary impairments are recognized in earnings and noncredit-related, other-than-temporary impairments are recognized in OCI.

Premiums and discounts on all securities are amortized/accreted to maturity using the interest method. Interest and dividend income on securities, which includes amortization of premiums and accretion of discounts, is recognized in the consolidated financial statements when earned. Gains or losses on sales are recognized based on the specific identification method.

Loans Receivable

Loans are stated at unpaid principal balances outstanding adjusted for deferred loan fees and costs and reduced by the allowance for loan losses. Interest on loans is credited to operations based upon the principal amount outstanding. Loan fees and certain direct loan origination costs are deferred and the net fees and costs recognized in interest income over the lives of the respective loans as an adjustment to yield.

The accrual of interest on loans is generally discontinued when a loan becomes 90 days past due as to principal or interest or when other circumstances indicate that collection is questionable, unless the loan is well secured and in the process of collection. Income on non-accrual loans, including impaired loans, is recognized only in the period in which it is collected, and only if management determines that the loan principal is fully collectible. Loans are returned to an accrual status when a loan is brought current as to principal and interest and reasons indicating doubtful collection no longer exists.

Allowance for Loan Losses

The allowance for loan losses is increased through provisions charged to operations and by recoveries, if any, on previously charged-off loans and reduced by charge-offs on loans which are determined to be a loss in accordance with Bank policy.

The allowance for loan losses is maintained at a level considered adequate to absorb loan losses. Management of the Bank, in determining the allowance for loan losses, considers the risks inherent in its loan portfolio and changes in the nature and volume of its loan activities, along with the general economic and real estate market conditions. The Bank utilizes a two tier approach: (1) identification of impaired loans and establishment of specific loss allowances on such loans; and (2) establishment of general valuation allowances on the remainder of its loan portfolio. The Bank maintains a loan review system which allows for a periodic review of its loan portfolio and the early identification of potentially impaired loans.

Such a system takes into consideration, among other things, delinquency status, size of loans, types and value of collateral and financial condition of the borrowers. Specific loan loss allowances are established for identified loans based on a review of such information and/or appraisals of the underlying collateral. General loan loss allowances are based upon a combination of factors including, but not limited to, actual loan loss experience, composition of the loan portfolio, current economic conditions and management's judgment. Although management believes that adequate specific and general allowances for loan losses are established, actual losses are dependent upon future events and, as such, further additions to the level of specific and general loan loss allowances may be necessary.

Impaired loans are measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. A loan evaluated for impairment is deemed to be impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Conforming residential mortgage loans, home equity and second mortgages, and loans to individuals are excluded from the definition of impaired loans as they are characterized as smaller balance, homogeneous loans and are collectively evaluated. All loans identified as impaired are evaluated individually. The Bank does not aggregate such loans for evaluation purposes. Payments received on impaired loans are typically applied first to accrued interest receivable and then to principal on those loans where the Bank expects to collect all principal and interest due on the loan. If payment in full is in doubt, all payments are applied to reduce the principal balance.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

A loan is categorized as a troubled debt restructure (“TDR”) if a concession to contractual terms is granted to the borrower due to deterioration in the financial condition of the borrower. In situations where, for economic or legal reasons related to the borrower’s financial difficulties, management may grant a concession for other than an insignificant period of time to the borrower that would not otherwise be considered, the related loan is classified as a TDR. Management strives to identify borrowers in financial difficulty early and work with them to modify to more affordable terms before their loan reaches nonaccrual status. These modified terms may be rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. Generally, a nonaccrual loan that is restructured remains on nonaccrual until the obligation is brought current and has performed for a period of time to demonstrate that the borrower can meet the restructured terms. If the borrower’s ability to meet the revised payment schedule is uncertain, the loan remains classified as a nonaccrual loan. TDR’s are considered impaired loans for purposes of calculating the Bank’s allowance for loan loss until they are ultimately repaid in full or foreclosed and sold.

Concentration of Credit Risk

Financial instruments which potentially subject the Bank to concentrations of credit risk consist of cash and cash equivalents, investment and mortgage-backed securities and loans. Cash and cash equivalents include amounts placed with highly rated financial institutions. Securities include securities backed by the U.S. Government and other highly rated instruments. The Bank’s lending activity is primarily concentrated in loans collateralized by real estate in the State of New Jersey. As a result, credit risk is broadly dependent on the real estate market and general economic conditions in the state.

Premises and Equipment

Leasehold improvements and furniture, fixtures and equipment are carried at cost, less accumulated depreciation and amortization. Significant renovations and additions are charged to the premises and equipment account. Maintenance and repairs are charged to expense in the period incurred. Gains or losses on disposal of premises and equipment are included in other non-interest expenses. Depreciation and amortization charges are computed on the straight-line method over the following estimated useful lives:

	<u>Years</u>
Leasehold improvements	Shorter of useful life or term of lease
Furniture, fixtures and equipment	3 - 10

Restricted Equity Securities

Federal law requires a member institution of the Federal Reserve Bank (“FRB”) and the Federal Home Loan Bank (“FHLB”) systems to hold restricted stock of these institutions according to a predetermined formula. Atlantic Central Bankers Bank (“ACBB”) also requires members of their system to hold restricted stock of the Bank. The restricted stock is carried at cost. In 2016, Enterprise Bank NJ will be considered a nonmember institution of the FRB and therefore will redeem the stock previously required to be held.

Management evaluates the restricted equity securities for impairment. Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FRB, FHLB or ACBB as compared to the capital stock amounts and the length of time this decline has persisted, (2) commitments by the FRB, FHLB or ACBB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FRB, FHLB or ACBB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FRB, FHLB or ACBB. Management has concluded that these investments are not other-than-temporarily impaired at December 31, 2015 and 2014, respectively.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in non-interest expense. Costs to maintain the foreclosed assets are included in non-interest expenses. Any gain or loss realized upon the sale of foreclosed assets is included in non-interest income. During the years ending December 31, 2015 and 2014 there were losses on the writedowns of foreclosed assets of \$50,000 and \$60,000, respectively.

Interest-Rate Risk

The Bank is principally engaged in the business of attracting deposits from the general public and using these deposits, together with other funds, to make loans secured by real estate and to purchase securities. The potential for interest-rate risk exists as a result of the difference in duration of the Bank's interest-sensitive liabilities compared to its interest-sensitive assets. For this reason, management regularly monitors the maturity structure of the Bank's interest-earning assets and interest-bearing liabilities in order to measure its level of interest-rate risk and to plan for future volatility.

Stock-based Compensation

Stock compensation accounting guidance (FASB ASC Topic 718, *Compensation - Stock Compensation*) requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements, including stock options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the requisite service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options.

Advertising Costs

The Bank follows the policy of charging the costs of advertising to expense as incurred. During the years ended December 31, 2015 and 2014, the Bank recorded \$13,000 and \$10,899, respectively, of advertising expense.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated statement of financial condition when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturities.

Income Taxes

The Bank and 490 Blvd file consolidated Federal income tax returns. Federal income taxes are allocated to each entity based on their respective contributions to the taxable income of the consolidated income tax returns. Separate state income tax returns are filed by the Bank and 490 Blvd on an unconsolidated basis.

Federal and state income taxes have been provided on the basis of reported income or loss. The amounts reflected on the tax returns differ from these provisions due principally to temporary differences in the reporting of certain items for financial reporting and income tax reporting purposes. The tax effect of these temporary differences is accounted for as deferred taxes applicable to future periods. Deferred income tax expense or benefit is determined by recognizing deferred tax assets and liabilities for the estimated future tax consequences attributable to differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date. The realization of deferred tax assets is assessed and a valuation allowance provided for the full amount which is not more-likely-than-not to be realized.

We account for uncertainty in income taxes recognized in the financial statements in accordance with ASC Topic 740, *Income Taxes*, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. As a result of our evaluation, no significant income tax uncertainties have been identified. Our policy is to recognize interest and penalties on unrecognized tax benefits in income taxes expense in the consolidated statement of income. We did not recognize any interest and penalties for the years ended December 31, 2015 and 2014.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

Employee Benefit Plan

The Bank has a 401(k) Plan (the "Plan") for employees. All employees are eligible to participate on the first day of the month following the date of employment. The employees may contribute up to the maximum percentage allowable by law of their compensation to the Plan. Bank contributions to the Plan are discretionary. The Bank's contributions to the Plan for each of the years ended December 31, 2015 and 2014 were \$36,772 and \$0-, respectively.

Net Income per Common Share

Basic net income per common share was computed by dividing net income for the year by the weighted average number of shares of common stock outstanding adjusted for unvested restricted stock awards. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock, such as unvested restricted stock awards and outstanding stock options, were exercised or converted into common stock of the Bank. Diluted net income per common share is calculated by adjusting the weighted average number of shares of common stock outstanding to include the effect of contracts or securities exercisable or which could be converted into common stock, if dilutive, using the treasury stock method. For the year ended December 31, 2015, the average number of options that were anti-dilutive totaled 160,925. For the year ended December 31, 2014, the average number of options that were anti-dilutive totaled 163,425.

	<u>2015</u>	<u>2014</u>
Net income	\$ 1,583,117	\$ 1,406,900
Basic weighted average of common shares outstanding	2,892,014	2,890,095
Effect of dilutive securities, Stock options	<u>146,477</u>	<u>101,853</u>
Diluted weighted average of common shares outstanding	<u>3,038,491</u>	<u>2,991,948</u>
Net income per common share:		
Basic	<u>\$ 0.55</u>	<u>\$ 0.49</u>
Diluted	<u>\$ 0.52</u>	<u>\$ 0.47</u>

Other Comprehensive Income (Loss)

Accounting principles generally require that recognized revenues, expenses, gains and losses be included in net income. Although certain changes of assets and liabilities, such as unrealized gains and losses on securities available-for-sale, are reported as a separate component of the equity section of the Consolidated Balance Sheet, such items, along with net income, are components of comprehensive income (loss).

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

The components of other comprehensive income (loss) both before tax and net of tax are as follows:

	Years Ended December 31:					
	2015			2014		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
Other comprehensive income (loss)						
Unrealized holding gains (losses) on securities available for sale (A)	\$ (85,330)	\$ (34,132)	\$ (51,198)	\$ 14,463	\$ 5,785	\$ 8,678
Total other comprehensive income (loss)	<u>\$ (85,330)</u>	<u>\$ (34,132)</u>	<u>\$ (51,198)</u>	<u>\$ 14,463</u>	<u>\$ 5,785</u>	<u>\$ 8,678</u>

(A) Tax effect of unrealized holding gains (losses) are included as a part of deferred tax assets.

3. Related Party Transactions

The Bank entered into a lease agreement on January 13, 2005 with a company owned by a Director of the Bank. The rental property is being used for the retail branch in Edison. The lease was for a ten-year term and was renewed for an additional five-year term. Rental expense for the years ended December 31, 2015 and 2014 was \$101,000 and \$98,000, respectively. The Bank also entered into lease agreement on September 1, 2010 with a company partly owned by a Director of the Bank. The rental property is being used for the retail branch in Bloomfield. The lease is for a ten-year term. Rental expense for the years ended December 31, 2015 and 2014 was \$68,000 and \$64,000, respectively.

The Bank grants loans to its officers and directors and to their associates. Such loans totaled approximately \$5,552,000 and \$5,428,000 for December 31, 2015 and 2014, respectively, and were subject to the same terms offered to unrelated borrowers. During the year ended December 31, 2015, new loans totaled approximately \$2,650,000, advances on existing credits totaled approximately \$1,162,000 and repayments totaled approximately \$2,177,000. In addition, one director resigned in 2015 and the balance of the loans is no longer classified as a related party totaled \$1,511,000.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

4. Securities Available for Sale

The amortized cost and fair value of securities available-for-sale with gross unrealized gains and losses are as follows at December 31, 2015 and 2014:

	2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$ 116,241	\$ 3,868	\$ -	\$ 120,109
Mortgage backed securities	3,997,628	159,668	(987)	4,156,309
	<u>\$ 4,113,869</u>	<u>\$ 163,536</u>	<u>\$ (987)</u>	<u>\$ 4,276,418</u>
	2014			
Collateralized mortgage obligations	\$ 149,143	\$ 4,770	\$ (1,676)	\$ 152,237
Mortgage backed securities	4,961,628	246,232	(1,447)	5,206,413
	<u>\$ 5,110,771</u>	<u>\$ 251,002</u>	<u>\$ (3,123)</u>	<u>\$ 5,358,650</u>

The amortized cost and carrying value of debt securities available for sale at December 31, 2015, by contractual maturity, are shown below. Expected maturities on debt securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year	\$ -	\$ -
Due after one year through five years	10,205	10,307
Due after five years through ten years	73,150	80,640
Due after ten years	4,030,513	4,185,471
Total	<u>\$ 4,113,869</u>	<u>\$ 4,276,418</u>

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

There were no sales of securities available for sale during the years ended December 31, 2015 and 2014.

At December 31, 2015 and 2014, securities available for sale with aggregate carrying values of approximately \$89,000 and \$89,000, respectively, were pledged to the State of New Jersey to secure possible public funds on deposit. See Note 10 for securities pledged to secure borrowings.

The age of gross unrealized losses at December 31, 2015 and 2014 and the fair value of related securities available for sale are as follows:

		2015					
		Less than 12 Months		12 Months or More		Total	
		Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale:							
Collateralized mortgage obligations		\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities		-	-	118,953	(987)	118,953	(987)
		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 118,953</u>	<u>\$ (987)</u>	<u>\$ 118,953</u>	<u>\$ (987)</u>
		2014					
Available for sale:							
Collateralized mortgage obligations		\$ -	\$ -	\$ 52,427	\$ (1,676)	\$ 52,427	\$ (1,676)
Mortgage-backed securities		83,327	(392)	119,532	(1,055)	202,859	(1,447)
		<u>\$ 83,327</u>	<u>\$ (392)</u>	<u>\$ 171,959</u>	<u>\$ (2,731)</u>	<u>\$ 255,286</u>	<u>\$ (3,123)</u>

Management does not believe that any individual unrealized loss at December 31, 2015 (which related to three mortgage-backed securities) represents other-than-temporary impairment. Management believes that all unrealized losses are due to changes in interest rates rather than any credit related issues on the securities. Management has not decided to sell these securities and has concluded that it is unlikely they would be required to sell these securities prior to the anticipated recovery of the unrealized losses.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

5. Securities Held to Maturity

The carrying value of securities held to maturity with gross unrealized gains and losses are as follows at December 31, 2015 and 2014:

	2015			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity:				
U.S. government agencies	\$ 496,785	\$ -	\$ (2,805)	\$ 493,980
Collateralized mortgage obligations	13,080	420	(246)	13,254
Mortgage-backed securities	763,102	24,056	(1,787)	785,371
	<u>\$ 1,272,967</u>	<u>\$ 24,476</u>	<u>\$ (4,838)</u>	<u>\$ 1,292,605</u>
	2014			
Held to maturity:				
U.S. government agencies	\$ 494,557	\$ 1,214	\$ -	\$ 495,771
Collateralized mortgage obligations	25,102	612	(264)	25,450
Mortgage-backed securities	973,513	36,410	(1,546)	1,008,377
	<u>\$ 1,493,172</u>	<u>\$ 38,236</u>	<u>\$ (1,810)</u>	<u>\$ 1,529,598</u>

The carrying value and estimated fair value of debt securities held to maturity at December 31, 2015, by contractual maturity, are shown below. Expected maturities on debt securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year	\$ 2,334	\$ 2,334
Due after one year through five years	48,187	50,699
Due after five years through ten years	21,097	23,015
Due after ten years	1,201,349	1,216,557
Total	<u>\$ 1,272,967</u>	<u>\$ 1,292,605</u>

There were no sales of securities held to maturity during the years ended December 31, 2015 and 2014. At December 31, 2015 and 2014, securities held to maturity with aggregate carrying values of approximately \$4,000 and \$4,000, respectively, were pledged to the State of New Jersey to secure possible public funds on deposit. See Note 10 for securities pledged to secure borrowings.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

6. Loans Receivable and Allowance for Loan Losses

Loans receivable consist of the following at December 31, 2015 and 2014:

	December 31,	
	2015	2014
Commercial real estate mortgage:		
Commercial - owner occupied and investment	\$ 106,746,073	\$ 95,639,013
Multi-family	22,963,162	20,536,333
Construction	28,885,648	11,990,236
	<u>\$ 158,594,883</u>	<u>\$ 128,165,582</u>
Commercial and industrial:		
Secured by real estate	\$ 10,208,969	\$ 5,444,549
Secured by non-real estate	8,209,454	8,845,280
	<u>\$ 18,418,423</u>	<u>\$ 14,289,829</u>
Consumer:		
One-to-four family mortgage	\$ 39,889	\$ 51,430
Lines of credit	1,801,471	2,594,958
Personal unsecured	78,772	154,214
Deposit overdrafts	1,960	554
	<u>\$ 1,922,092</u>	<u>\$ 2,801,156</u>
Total loans	\$ 178,935,398	\$ 145,256,567
Allowance for loan losses	(2,081,476)	(1,718,859)
Deferred fees, net	<u>(230,020)</u>	<u>(187,641)</u>
	<u>\$ 176,623,902</u>	<u>\$ 143,350,067</u>

At December 31, 2015 and 2014, loans serviced by the Bank for the benefit of others, which consist of participation interests in loans originated by the Bank, totaled approximately \$13,602,000 and \$15,860,000.

Management segregates the loan portfolio into loan types and analyzes the risk level for each loan type when determining its allowance for loan losses. The loan types are as follows:

Commercial Real Estate Mortgage

Construction - are loans to finance the construction of either one-to four-family owner occupied homes or commercial real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion, the ability to find a buyer for the property, and the ability to complete construction on time and within budget.

Owner Occupied - are loans secured by first lien collateral on commercial real estate where the borrower owns and occupies the collateral. These loans can be affected by economic conditions and the value of underlying properties. Central New Jersey has not been impacted as severely as other parts of the country by fluctuating real estate prices. Furthermore, the Bank has conservative underwriting standards and does not have any sub-prime loans in its loan portfolio.

Investment - are loans secured by first lien collateral on real estate where the collateral is an investment property not occupied by the owner. These loans can be affected by economic conditions and the value of underlying properties. Central New Jersey has not been impacted as severely as other parts of the country by fluctuating real estate prices. Furthermore, the Bank has conservative underwriting standards and does not have any sub-prime loans in its loan portfolio.

Multi-Family - are loans used to finance the purchase of multi-family properties that can range from a small 5 unit building to buildings with hundreds of units. These loans can be affected by economic conditions and the value of underlying properties. Central New Jersey has not been impacted as severely as other parts of the country by fluctuating real estate prices. Furthermore, the Bank has conservative underwriting standards and does not have any sub-prime loans in its loan portfolio

Commercial and Industrial

Secured by Real Estate - includes business installment loans, lines of credit, and other commercial loans secured by real estate. Most of our commercial loans have variable interest rates tied to the prime rate, and are for terms generally not in excess of 5 years. Commercial loans can involve relatively large loan balances to single borrowers or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation and income stream of the borrower. Such risks can be significantly affected by economic conditions.

Secured by Non-Real Estate - includes business installment loans, lines of credit, and other commercial loans secured by non-real estate collateral or unsecured. Most of our commercial loans have variable interest rates tied to the prime rate, and are for terms generally not in excess of 5 years. Whenever possible, we collateralize these loans with a lien on business assets and equipment and require the personal guarantees from principals of the borrower. Commercial loans generally involve a higher degree of credit risk because the collateral underlying the loans may be in the form of intangible assets and/or inventory subject to market obsolescence. Commercial loans can also involve relatively large loan balances to single borrowers or groups of related borrowers, with the repayment of such loans typically dependent on the successful operation and income stream of the borrower. Such risks can be significantly affected by economic conditions.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following table summarizes the activity in the allowance for loan losses for the years ended December 31, 2015 and 2014:

	Commercial Real Estate Loans				Commercial and Industrial			Total
	Construction	Owner Occupied	Investment	Multi-Family	Secured by Real Estate	Secured by Non-Real Estate	Consumer	
December 31, 2013	\$ 310,786	\$ 388,164	\$ 495,105	\$ 149,509	\$ 58,844	\$ 64,323	\$ 22,025	\$ 1,488,756
Charge-offs	-	-	-	-	-	-	(2,108)	(2,108)
Recoveries	-	-	-	-	-	-	-	-
Provision	1,898	(36,790)	194,967	27,103	(6,659)	48,217	3,475	232,211
December 31, 2014	312,684	351,374	690,072	176,612	52,185	112,540	23,392	1,718,859
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Provision	141,298	(57,755)	264,939	(10,292)	42,944	(10,402)	(8,115)	362,617
December 31, 2015	<u>\$ 453,982</u>	<u>\$ 293,619</u>	<u>\$ 955,011</u>	<u>\$ 166,320</u>	<u>\$ 95,129</u>	<u>\$ 102,138</u>	<u>\$ 15,277</u>	<u>\$ 2,081,476</u>

The allowance for loan losses is a valuation account that reflects the Bank's evaluation of the losses inherent in its loan portfolio. In order to determine the adequacy of the allowance for loan losses, the Bank estimates losses by loan type using historical loss factors, as well as other environmental factors, such as trends in loan volume and loan type, loan concentrations, changes in the experience, ability and depth of the lending management, and national and local economic conditions. The Bank also reviews all loans on which the collectability of principal may not be reasonably assured, by reviewing payment status, financial conditions and estimated value of loan collateral.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will not be able to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered in determining impairment include payment status, collateral value and the probability of collecting scheduled payments when due. Impairment is measured on a loan-by-loan basis for commercial real estate loans and commercial loans.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The following is a summary of information pertaining to impaired loans by loan type as of December 31, 2015 and 2014:

	2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded: Commercial and industrial - secured by non-real estate	\$ 115,067	\$ 115,067	\$ -
Total	<u>\$ 115,067</u>	<u>\$ 115,067</u>	<u>\$ -</u>
	2014		
With no related allowance recorded: Commercial and industrial - secured by non-real estate	\$ 122,332	\$ 122,332	\$ -
Total	<u>\$ 122,332</u>	<u>\$ 122,332</u>	<u>\$ -</u>

The following table presents the average recorded investment in impaired loans and income recorded thereon for the years ended December 31, 2015 and 2014:

	2015	
	Average Recorded Investment	Income Recorded
Commercial and industrial - secured by non-real estate	\$ 118,700	\$ -
Total	<u>\$ 118,700</u>	<u>\$ -</u>
	2014	
Commercial and industrial - secured by non-real estate	\$ 156,405	\$ -
Total	<u>\$ 156,405</u>	<u>\$ -</u>

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The following tables provide an analysis of past due loans as of December 31, 2015 and 2014:

	2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable >90 Days and Accruing
Commercial real estate:							
Construction Owner occupied	\$ -	\$ -	\$ -	\$ -	\$ 28,885,648	\$ 28,885,648	\$ -
Investment Multi-family	-	1,880,095	-	1,880,095	78,581,077	80,461,172	-
	-	575,215	-	575,215	22,387,947	22,963,162	-
Commercial and Industrial:							
Secured by real estate	-	-	-	-	10,208,969	10,208,969	-
Secured by non-real estate	-	-	115,067	115,067	8,094,387	8,209,454	-
Consumer	-	-	39,889	39,889	1,882,203	1,922,092	39,889
Total	\$ -	\$ 2,455,310	\$ 154,956	\$ 2,610,266	\$ 176,325,132	\$ 178,935,398	\$ 39,889
	2014						
Commercial real estate:							
Construction Owner occupied	\$ -	\$ -	\$ -	\$ -	\$ 11,990,236	\$ 11,990,236	\$ -
Investment Multi-family	-	240,906	-	240,906	30,313,366	30,554,272	-
	-	-	-	-	65,084,741	65,084,741	-
	-	-	-	-	20,536,333	20,536,333	-
Commercial and Industrial:							
Secured by real estate	-	-	-	-	5,444,549	5,444,549	-
Secured by non-real estate	-	-	122,332	122,332	8,722,948	8,845,280	-
Consumer	-	-	-	-	2,801,156	2,801,156	-
Total	\$ -	\$ 240,906	\$ 122,332	\$ 363,238	\$ 144,893,329	\$ 145,256,567	\$ -

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The following table is a summary of nonaccrual loans by type:

	<u>2015</u>	<u>2014</u>
Commercial and industrial - non-real estate	\$ 115,067	\$ 122,332
Total	<u>\$ 115,067</u>	<u>\$ 122,332</u>

Had these loans been performing in accordance with their original terms, the interest income recognized for the years ended December 31, 2015 and 2014 would have been approximately \$7,000 and \$8,400, respectively.

The Bank's policies provide for the classification of loans as follows:

- Pass/Performing
- Special Mention - does not currently expose the Bank to a sufficient degree of risk but does possess credit deficiencies or potential weaknesses deserving the Bank's close attention;
- Substandard - has one or more defined weaknesses and is characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected;
- Doubtful - has all the weaknesses inherent in substandard loans with the additional characteristic that the weaknesses present make collection or liquidation in full on the basis of currently existing facts, conditions and values questionable, and there is a high possibility of loss; and
- Loss - loan is considered uncollectible and continuance as a loan of the institution is not warranted.

Bank management and the Director's Loan Committee are responsible for establishing and monitoring risk ratings and making changes as deemed appropriate. In addition, the Bank has retained the services of a loan review firm to perform an independent 3rd party review of the asset quality of the loan portfolio twice a year.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

The following table summarizes the internal loan grades applied to the loan portfolio as of December 31, 2015 and 2014:

	2015				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial real estate:					
Construction	\$ 28,885,648	\$ -	\$ -	\$ -	\$ 28,885,648
Owner occupied	24,544,859	1,275,231	464,811	-	26,284,901
Investment	80,265,696	-	195,476	-	80,461,172
Multi-family	22,963,162	-	-	-	22,963,162
Commercial and Industrial:					
Secured by real estate	9,998,093	210,876	-	-	10,208,969
Secured by non-real estate	7,951,318	143,069	115,067	-	8,209,454
Consumer	1,922,092	-	-	-	1,922,092
Total	\$ 176,530,868	\$ 1,629,176	\$ 775,354	\$ -	\$ 178,935,398
	2014				
Commercial real estate:					
Construction	\$ 11,990,236	\$ -	\$ -	\$ -	\$ 11,990,236
Owner occupied	29,601,123	216,069	737,080	-	30,554,272
Investment	64,880,781	-	203,960	-	65,084,741
Multi-family	20,337,942	-	198,391	-	20,536,333
Commercial and Industrial:					
Secured by real estate	5,444,549	-	-	-	5,444,549
Secured by non-real estate	8,722,948	-	122,332	-	8,845,280
Consumer	2,801,156	-	-	-	2,801,156
Total	\$ 143,778,735	\$ 216,069	\$ 1,261,763	\$ -	\$ 145,256,567

Troubled debt restructuring loans outstanding at December 31, 2015 and 2014 were \$115,067 and \$122,332, respectively, and these loan totals for both years are on nonaccrual. There were no troubled debt restructurings made during the years ended December 31, 2015 and 2014, respectively, nor were there any defaults on pre-existing troubled debt restructurings during the years ended December 31, 2015 and 2014, respectively.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

7. Premises and Equipment, Net

Premises and equipment, net, consists of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 957,907	\$ 957,907
Accumulated depreciation	<u>(874,069)</u>	<u>(803,058)</u>
	83,836	154,849
Furniture, fixtures and equipment	999,263	825,299
Accumulated depreciation	<u>(737,175)</u>	<u>(730,390)</u>
	<u>262,088</u>	<u>94,909</u>
Total	<u>\$ 345,924</u>	<u>\$ 249,758</u>

Rental expenses related to the occupancy of premises, including our portion of common area expenses, totaled approximately \$220,000 and \$214,000 for the years ended December 31, 2015 and 2014, respectively. The minimum obligation under non-cancelable lease agreements are as follows:

Years ending December 31:	
2016	\$ 157,271
2017	157,271
2018	157,271
2019	157,271
2020	<u>117,953</u>
Total	<u>\$ 747,037</u>

The lease related to our Kenilworth Office has expired and is currently in negotiations for renewal. As of December 31, 2015, the lease for the office space is on a month to month rental.

8. Interest Receivable

Interest receivable consists of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Loans	\$ 570,726	\$ 480,818
Securities	53,766	17,988
Interest earning deposits	<u>-</u>	<u>-</u>
Total	<u>\$ 624,492</u>	<u>\$ 498,806</u>

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

9. Deposits

Deposits consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Demand:		
Non-interest bearing	\$ 22,255,484	\$ 17,128,065
Interest checking	2,797,165	3,458,990
Money market	<u>29,444,409</u>	<u>22,858,538</u>
	54,497,058	43,445,593
Savings	19,688,908	17,917,873
Certificates of deposit	<u>77,546,834</u>	<u>59,995,566</u>
	<u>97,235,742</u>	<u>77,913,439</u>
Total	<u>\$ 151,732,800</u>	<u>\$ 121,359,032</u>

At December 31, 2015 and 2014, certificates of deposit of \$100,000 or more totaled approximately \$37,995,000 and \$32,449,000, respectively. At December 31, 2015 and 2014, certificates of deposit of \$250,000 or more totaled approximately \$10,640,000 and \$6,508,000, respectively. Deposits in excess of \$250,000 are generally not insured by the FDIC.

The scheduled maturities of certificates of deposit were as follows at December 31, 2015:

One year or less	\$ 48,185,633
After one year to two years	22,700,253
After two years to three years	4,732,932
After three years to four years	1,459,600
After four years to five years	<u>468,416</u>
Total	<u>\$ 77,546,834</u>

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

10. Borrowings

Borrowings consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Federal Home Loan Bank of New York 0.42% advance matured January 12, 2015	\$ -	\$ 1,000,000
Federal Home Loan Bank of New York 0.48% advance matured June 30, 2015	-	1,000,000
Federal Home Loan Bank of New York 0.47% advance matured July 10, 2015	-	1,500,000
Federal Home Loan Bank of New York 0.46% advance maturing February 19, 2016	2,000,000	2,000,000
Federal Home Loan Bank of New York 0.48% advance maturing June 29, 2016	850,000	-
Federal Home Loan Bank of New York 0.48% advance maturing June 29, 2016	1,075,000	-
Federal Home Loan Bank of New York 1.05% advance maturing August 1, 2016	3,000,000	3,000,000
Federal Home Loan Bank of New York 0.99% advance maturing December 2, 2016	2,000,000	2,000,000
Federal Home Loan Bank of New York 1.05% advance maturing June 19, 2017	3,000,000	3,000,000
Federal Home Loan Bank of New York 1.25% advance maturing June 30, 2017	1,000,000	1,000,000
Federal Home Loan Bank of New York 0.93% advance maturing August 31, 2017	1,275,000	-
Federal Home Loan Bank of New York 1.30% advance maturing March 9, 2018	1,200,000	-
Total	<u>\$ 15,400,000</u>	<u>\$ 14,500,000</u>

At December 31, 2015 and 2014, securities (available for sale and held to maturity) with aggregate carrying value of approximately \$- were pledged to secure the above Federal Home Loan Bank Advances. The advances at December 31, 2015 and 2014 were secured by a blanket assignment of qualifying mortgage loans.

11. Stock Compensation Plans

Stock Options:

At the annual meeting held on June 22, 2006, stockholders of the Bank approved the Enterprise National Bank N.J. 2006 Employee Stock Option and 2006 Director Stock Option Plans. The plans authorize the award of up to 450,000 and 225,000 shares, respectively, as stock options to employees and non-employee directors. At the annual meeting held May 7, 2009 stockholders approved an amendment to increase authorized awards to non-employee directors to 450,000 shares.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements December 31, 2015 and 2014

During the years ended December 31, 2015 and 2014, there were no employee stock options granted and 5,100 and 12,000 employee stock options forfeited, respectively. At December 31, 2015 and 2014, 170,125 and 165,025 shares, respectively, remain available under the plans for future option grants to employees.

During the years ended December 31, 2015 and 2014, there were no director stock options granted. At December 31, 2015 and 2014, 170,000 shares remain available under the plans for future option grants to non-employee directors.

The options granted generally vest over a five-year service period, with 20% of the award vesting on each anniversary of the date of the grant, with the exception of options granted in 2007 which vest over a seven-year period.

Management estimated the fair values of option grants using the Black-Scholes option-pricing model. Management based expectations about future volatility on the average volatility of the Bank's stock price over multiple years. Management estimated the expected life of the options as the mid-point between the vesting date and the end of the contractual term. The risk-free interest rate for periods within the contractual life of the options was based on the U.S. Treasury yield curve in effect at the time of grant. The expected dividend yield was based on the Bank's history and expectations of dividend payouts.

Management recognizes compensation expense for the fair values of the options, which have graded vesting, on a straight-line basis over the requisite service period of the options. During the years ended December 31, 2015 and 2014, the Bank recorded \$100,040 and \$123,910, respectively, of compensation expense for stock options.

The following is a summary of the status of the Bank's stock option plans as of December 31, 2015 and 2014 and stock option activity and related information during the years ended December 31, 2015 and 2014:

	<u>Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at December 31, 2013	576,175	\$ 5.12		
Granted	-	-		
Exercised	(2,000)	4.50		
Forfeited	(12,000)	4.40		
Outstanding at December 31, 2014	562,175	5.14	6.49 years	\$ 404,763
Granted	-			
Exercised	-			
Forfeited	(5,100)	5.67		
Outstanding at December 31, 2015	557,075	\$ 5.14	4.66 years	\$ 1,038,843
Exercisable at December 31, 2015	468,925	\$ 5.25	3.39 years	\$ 822,529

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

As of December 31, 2015, expected future compensation expense attributed to non-vested options outstanding is \$206,000 over a weighted average period of 1.6 years.

Restricted Stock Awards:

The Bank grants shares of restricted stock under individual agreements with employees and are not part of a formal restricted stock plan. The restricted stock awards vest over a 5 year service period, with 20% of the awards vesting on each anniversary of the date of grant. Management recognizes compensation expense for the fair value of the restricted stock awards on a straight-line basis over the requisite service period. There were no awards granted during the year ended December 31, 2015. During the years ended December 31, 2015 and 2014, the Bank recognized \$66,000 and \$68,000, respectively, in compensation expense for the restricted stock awards.

The following is a summary of the status of the Bank's non-vested stock awards as of December 31, 2015 and 2014, and changes during the years ended December 31, 2015 and 2014:

	<u>Restricted Stock Awards</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested at December 31, 2013	62,500	\$ 4.36
Forfeited	(5,500)	4.43
Vested	<u>(16,800)</u>	<u>4.28</u>
Non-vested at December 31, 2014	40,200	4.38
Vested	<u>(15,800)</u>	<u>4.39</u>
Non-vested at December 31, 2015	<u>24,400</u>	<u>\$ 4.44</u>

As of December 31, 2015, expected future compensation expense attributed to the above non-vested restricted stock awards outstanding is approximately \$108,000 over a weighted average period of 2.6 years.

12. Regulatory Capital

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

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

The final rules implementing BASEL Committee on Banking Supervisor's Capital Guidance for U.S. banks (BASEL III rules) became effective for the Bank on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule and fully phased in by January 1, 2019. The net unrealized gain or losses on available-for-sale securities is not included in computing regulatory capital amounts and ratios for December 31, 2014 are calculated using BASEL I rules.

Quantitative measures, established by regulation to ensure capital adequacy, require the Bank to maintain minimum amounts and ratios of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), Common Equity Tier 1 capital (as defined in regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average total assets (as defined).

As of December 31, 2015, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following tables present a reconciliation of capital per GAAP and regulatory capital and information as to the Bank's capital levels as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
	(In Thousands)	
GAAP capital	\$ 25,122	\$ 21,418
Disallowed deferred income tax assets	-	-
Unrealized gain on securities available for sale	<u>(98)</u>	<u>(149)</u>
Tier 1 and tangible capital	25,024	21,269
Allowance for loan losses and contingent liability on loan commitments, as limited	<u>2,115</u>	<u>1,690</u>
Total regulatory capital	<u>\$ 27,139</u>	<u>\$ 22,959</u>

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

	2015					
	Actual		For Capital Adequacy Purposes		To be Well Capitalized under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(In Thousands)					
CET1 (to risk-weighted assets)	\$ 25,024	14.57 %	\$ 7,728	≥4.5 %	\$ 11,163	≥6.5 %
Total capital (to risk-weighted assets)	27,139	15.80	13,739	≥8.0	13,514	≥10.0
Tier 1 capital (to risk-weighted assets)	25,024	14.57	6,869	≥6.0	8,108	≥8.0
Tier 1 capital (to average assets)	25,024	13.28	7,540	≥4.0	8,205	≥5.0
	2014					
Total capital (to risk-weighted assets)	\$ 22,959	16.99 %	\$ ≥10,811	≥8.0 %	\$ ≥13,514	≥10.0 %
Tier 1 capital (to risk-weighted assets)	21,269	15.74	≥ 5,405	≥4.0	≥ 8,108	≥ 6.0
Tier 1 capital (to average assets)	21,269	12.96	≥ 6,564	≥4.0	≥ 8,205	≥ 5.0

13. Dividends Restrictions

The decision to pay, as well as the timing and amount of any dividends to be paid by the Bank will be determined by the board of directors, giving consideration to the Bank's earnings, capital needs, financial condition and other relevant factors. Under the New Jersey Banking Act of 1948, as amended, the Bank may declare and pay dividends only if, after payment of the dividend, the capital stock of the Bank will be unimpaired and either the Bank will have a surplus of not less than 50% of its capital stock or the payment of the dividend will not reduce the Bank's surplus. The FDIC prohibits the payment of cash dividends if, as a result, the Bank will be undercapitalized. The Bank is in compliance with all regulatory capital requirements related to cash dividends.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

14. Income Taxes

The components of income tax expense are summarized as follows:

	<u>2015</u>	<u>2014</u>
Current income tax expense:		
Federal	\$ 986,020	\$ 826,210
State	282,711	252,820
	<u>1,268,731</u>	<u>1,079,030</u>
Deferred income tax (benefit):		
Federal	(145,665)	(69,752)
State	(39,066)	(30,598)
	<u>(184,731)</u>	<u>(100,350)</u>
Total	<u>\$ 1,084,000</u>	<u>\$ 978,680</u>

The following table presents reconciliation between the reported income tax and the income tax which would be computed by applying the normal federal income tax rate of 34% to income before income tax:

	<u>2015</u>	<u>2014</u>
Federal income tax at statutory rate	\$ 906,820	\$ 811,098
Increase in income taxes resulting from:		
State income tax, net of federal income tax effect	160,806	146,667
Stock-based compensation	(125)	13,941
Other items, net	16,499	6,974
Effective income tax	<u>\$ 1,084,000</u>	<u>\$ 978,680</u>

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
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The tax effects of existing temporary difference that give rise to significant portions of the deferred income tax assets (liabilities) are as follows:

	<u>2015</u>	<u>2014</u>
Deferred income tax assets:		
Allowance for loan losses	\$ 831,341	\$ 686,512
Premises and equipment	132,572	157,989
Stock-based compensation	210,349	185,223
Other	50,624	10,792
	<u>1,224,886</u>	<u>1,040,516</u>
Deferred income tax liabilities:		
Uncollected interest	-	(361)
Unrealized gain on available for sale securities	(65,019)	(99,151)
	<u>(65,019)</u>	<u>(99,512)</u>
Net deferred income tax assets	<u>\$ 1,159,867</u>	<u>\$ 941,004</u>

In assessing the ability to realize deferred tax assets, management considers whether it is more-likely-than-not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences are deductible and carry forwards are available. At December 31, 2015, the Bank has no net operating loss carryforward for federal or state income tax purposes.

15. Commitments and Contingencies

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments primarily include commitments to extend credit. The Bank's exposure to credit loss, in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

At December 31, 2015, outstanding loan related commitments were as follows:

To originate loans	\$ 4,181,150
Unused lines of credit	5,225,596
Standby letter of credit	322,886
Undisbursed funds on construction loans	<u>14,668,195</u>
	<u>\$ 24,397,827</u>

Commitments to extend credit are agreements to lend to a customer as long as there are no violations of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but primarily includes residential real estate properties.

The Bank also has, in the normal course of business, commitments for services and supplies. Management does not anticipate losses on any of these transactions.

The Bank, from time-to-time, may be a party to litigation which arises primarily in the ordinary course of business. In the opinion of management, the ultimate disposition of such litigation should not have a material effect on the consolidated financial statements. As of December 31, 2015, the Bank was not a party to any litigation.

16. Fair Value Measurement and Fair Values of Financial Instruments

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end.

Current fair value guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values at December 31, 2015 and 2014:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the consolidated statement of financial condition for cash and cash equivalents approximate those assets' fair values. Fair values for fixed-rate time certificates of deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificate to a schedule of aggregated expected monthly maturities on time deposits. The Bank generally purchases amounts below the insured limit, limiting the amount of credit risk on these time deposits. The carrying amounts reported in the consolidated statement of financial condition for interest-bearing demand accounts approximate those assets' fair values.

Securities Available for Sale (Carried at Fair Value) and Held to Maturity (Carried at Amortized Cost)

The fair value of securities available for sale and held to maturity are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities, which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3).

Loans Receivable (Carried at Cost)

The fair values of loans, except for certain impaired loans, are estimated using discounted cash flow analyses, using market rates at the consolidated statement of financial condition date that reflect the credit and interest rate- risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those for which the Bank has measured and recorded impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements.

Restricted Equity Securities (Carried at Cost)

The carrying value of restricted equity securities approximates fair value given the limited marketability of such securities.

Interest Receivable and Payable (Carried at Cost)

The carrying amount of interest receivable and interest payable approximate its fair value.

Deposits (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by third party.

Off-Balance-Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Bank's off-balance-sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. The fair value of these commitments was deemed immaterial and is not presented in the accompanying table.

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

The estimated fair values of the Bank's financial instruments were as follows at December 31, 2015 and 2014:

		2015				
		Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)				
Financial assets:						
Cash and cash equivalents	\$	5,484	\$ 5,484	\$ 5,484	\$ -	\$ -
Securities available for sale		4,276	4,276	-	4,276	-
Securities held to maturity		1,273	1,293	-	1,293	-
Loans receivable, gross		178,935	179,361	-	-	179,361
Restricted equity securities		1,566	1,566	-	1,566	-
Interest receivable		624	624	-	624	-
Financial liabilities:						
Deposits		151,733	152,318	-	74,186	78,132
Borrowings		15,400	15,370	-	15,370	-
Interest payable		54	54	-	54	-
		2014				
		Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)				
Financial assets:						
Cash and cash equivalents	\$	2,986	\$ 2,986	\$ 2,986	\$ -	\$ -
Securities available for sale		5,359	5,359	-	5,359	-
Securities held to maturity		1,493	1,530	-	1,530	-
Loans receivable, gross		145,257	147,103	-	-	147,103
Restricted equity securities		1,494	1,494	-	1,494	-
Interest receivable		499	499	-	499	-
Financial liabilities:						
Deposits		121,359	121,917	-	61,363	60,554
Borrowings		14,500	14,486	-	14,486	-
Interest payable		49	49	-	49	-

Independent Auditors' Report

Stockholders and Board of Directors
Enterprise Bank NJ and Subsidiary

We have audited the accompanying consolidated financial statements of Enterprise Bank NJ and Subsidiary, which comprise the consolidated balance sheet as of December 31, 2015 and 2014 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Bank NJ and Subsidiary as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Clark, New Jersey
March 2, 2016

Enterprise Bank NJ and Subsidiary

Notes to Consolidated Financial Statements
December 31, 2015 and 2014

OFFICERS

Donald J. Haake

President and Chief Executive Officer

David J. Onderko

*Senior Vice President, Chief Financial Officer
and Chief Operating Officer*

H. John Young

Senior Vice President and Chief Credit Officer

Robert A. Gaccione, Jr.

Senior Vice President and Market Executive

Douglas Da Rocha

Vice President and Market Executive

Karen E. Terry

Vice President and AML Officer

Susan M. De Vizio

Vice President and Operations Manager

Rosa C. Ozuna

Vice President of Loan Operations

Ken Diaz

Vice President of Commercial Lending

Sandra De Sousa

Vice President and Controller

Maria Pinho

Assistant Vice President and Branch Manager

Ibraam Beshara

Assistant Vice President and Branch Manager

Theresa Serafin

Assistant Vice President and Branch Manager

Andreia Nobre

Assistant Vice President and Branch Manager

Diana Quinones

Assistant Cashier and Assistant Branch Manager

Kamini Vyas

Assistant Cashier and Assistant

DIRECTORS

Salvatore A. Davino, Chairman

President, Fidelity Management

Monroe Markovitz, Esq., Vice Chairman

President, Monroe Markovitz, P.A.

Donald J. Haake, President and CEO

Enterprise Bank NJ

**N. Larry Paragano, Director and
Chairman Emeritus**

President, Paragano Enterprises

Howard J. Burger, Esq.

Howard Burger and Associates

Robert A. Gaccione, Sr., Esq.

Managing Partner, Gaccione, Pomaco & Malanga

Robert V. Gamba

Chairman, Prismatic Development Corporation

Michael P. Locascio

President, Milo Associates

Michael F. Lombardi, Esq.

Lombardi & Lombardi, PA

Michael J. Ruane, Jr.

MJR Properties LLC

Anthony Torsiello

CEO, The Torsiello Organization

STOCKHOLDER INFORMATION

Stockholder Inquiries

Analysts and investors seeking financial information about Enterprise Bank NJ should contact Donald J. Haake, President and CEO

Annual Disclosure Statement

This Annual Report to the stockholders shall serve as the Bank's "Annual Disclosure Statement". This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Company.

Independent Public Accountants

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Clark, New Jersey 07066

Transfer Agent

Computershare
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