FORM 10KSB40

Annual and transition reports of small business issuers [Section 13 or 15(d), S-B Item 405]

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
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FILER

ENTERPRISE BANCORP INC /MA/

CIK:**1018399**| State of Incorp.:**MA** | Fiscal Year End: **1231**
Type: **10KSB40** | Act: **34** | File No.: **000-21021** | Film No.: **99573801**
SIC: **6022** State commercial banks

Business Address
222 MERRIMACK ST
LOWELL MA 01852
5084599000

U.S. Securities and Exchange Commission
Washington, D.C. 20549
Form 10-KSB

[X] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [Fee Required]
For the fiscal year ended December 31, 1998

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [No Fee Required]
For the transition period from _____________ to _______________

Commission file number 0-21021

Enterprise Bancorp, Inc.
(Name of small business issuer in its charter)

Massachusetts	04-3308902
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

222 Merrimack Street, Lowell, Massachusetts, 01852

(Address of principal executive offices) (Zip code)

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

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

Title of each class	Name of each exchange on which registered
None	

Securities registered under Section 12(g) of the Exchange Act:
Common Stock, $.01 par value per share
(Title of Class)

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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. [X]

State issuer's revenues for its most recent fiscal year. $28,636,000

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within the past 60 days. $29,699,516 as of February 28, 1999

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date: February 28, 1999, Common Stock - Par Value $0.01: 3,169,634 shares outstanding

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the issuer's proxy statement for its annual meeting of stockholders to be held on May 4, 1999 are incorporated by reference in Part III of this Form 10-KSB.

Transitional Small Business Disclosure Format (check one): Yes .... No X

ENTERPRISE BANCORP, INC.
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains certain "forward-looking statements" including statements concerning plans, objectives, future events or performance and assumptions and other statements which are other than statements of historical fact. Enterprise Bancorp, Inc. (the "company") wishes to caution readers that the following important factors, among others, may have affected and could in the future affect the company's results and could cause the company's results for subsequent periods to differ materially from those expressed in any forward-looking statement made herein: (i) the effect of changes in laws and regulations, including federal and state banking laws and regulations, with which the company or its subsidiaries must comply, and the associated costs of compliance with such laws and regulations either currently or in the future as applicable; (ii) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies as well as by the Financial Accounting Standards Board, or of changes in the company's organization, compensation and benefit plans; (iii) the effect on the company's competitive position within its market area of the increasing competition from larger regional and out-of-state banking organizations as well as non-bank providers of various financial services; (iv) the effect of unforeseen changes in interest rates; (v) the effect of changes in the business cycle and downturns in the local, regional or national economies; and (vi) the potential for the company to materially underestimate the cost to be incurred and/or the time required in connection with systems preparation for year 2000 compliance.

PART I

Item 1. Description of Business

THE COMPANY

General

Enterprise Bancorp, Inc. (the "company") is a Massachusetts corporation, which was organized on February 29, 1996, at the direction of Enterprise Bank and Trust Company, a Massachusetts trust company (the "bank"), for the purpose of becoming the holding company for the bank. On July 26, 1996, the bank became the wholly owned subsidiary of the company and the former shareholders of the bank became shareholders of the company. The business and operations of the company are subject to the regulatory oversight of the Board of Governors of the Federal Reserve System. To the extent that this report contains information as of a date or for a period prior to July 26, 1996, such information pertains to the bank. The company had no material assets or operations prior to completion of the holding company reorganization on July 26, 1996.

Substantially all of the company's operations are conducted through the bank. The bank is a Massachusetts trust company which commenced banking operations on January 3, 1989. The bank's deposit accounts are insured by the Bank Insurance Fund of the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum amount provided by law. The FDIC and the Massachusetts Commissioner of Banks (the "Commissioner") have regulatory authority over the bank.

The company's headquarters and the bank's main office are located at 222 Merrimack Street in Lowell, Massachusetts. Additional branch offices are located in the Massachusetts cities and towns of Billerica, Chelmsford, Dracut, Leominster and Tewksbury. The bank has purchased land in Westford, Massachusetts and intends to build a branch facility scheduled to open by the fourth quarter of 1999. The bank's deposit gathering and lending activities are conducted primarily in the city of Lowell and the surrounding Massachusetts towns of Billerica, Chelmsford, Dracut, Tewksbury, Tyngsboro, and Westford and in the cities of Leominster and Fitchburg. The bank offers a range of commercial, consumer and trust services with a goal of satisfying the needs of consumers, small and medium-sized businesses and professionals.

Lending

The bank specializes in lending to small and medium-sized businesses, corporations, partnerships, non-profits, professionals and individuals. Loans made by the bank to businesses include commercial mortgage loans, loans guaranteed by the Small Business Association (SBA), construction loans, revolving lines of credit, working capital loans, equipment financing, asset-based lending, letters of credit and loans under various programs issued in conjunction with the Massachusetts Development Finance Agency and other agencies. The bank also originates equipment lease financing for businesses. Loans made by the bank to individuals include residential mortgage loans, home equity loans, residential construction loans, unsecured and secured personal lines of credit and mortgage loans on investment and vacation properties.

At December 31, 1998, the bank had gross loans outstanding of $216.2 million, which represented approximately 60% of the company's total assets. The interest rates charged on these loans vary with the degree of risk, maturity and amount, and are further subject to competitive pressures, market rates, the availability of funds, and legal and regulatory requirements.

At December 31, 1998, the bank's statutory lending limit, based on 20% of capital, to any single borrower was approximately $5.2 million, subject to certain exceptions provided under applicable law. At December 31, 1998, the bank had no outstanding lending relationships or commitments in excess of the legal lending limit.

The following table sets forth the loan balances for certain loan categories at the dates indicated and the percentage of each category to total gross loans.
<TABLE>
<CAPTION>

	December 31,									
	1998		1997		1996		1995		1994	
($ in thousands)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Comm'l real estate	$ 80,207	37.1%	$ 66,836	36.8%	$ 52,378	36.1%	$ 42,514	36.0%	$ 40,267	34.9%
Commercial	55,570	25.7%	42,202	23.2%	38,202	26.3%	28,353	24.0%	25,980	22.5%
Residential mortgages	44,680	20.7%	42,648	23.5%	35,918	24.7%	32,872	27.8%	33,748	29.3%
Home equity	13,436	6.2%	12,203	6.7%	8,255	5.7%	5,250	4.4%	5,877	5.1%
Construction	16,637	7.7%	13,149	7.2%	6,474	4.4%	5,844	4.9%	5,930	5.1%
Other	5,682	2.6%	4,657	2.6%	4,043	2.8%	3,379	2.9%	3,543	3.1%
Gross loans	216,212	100.0%	181,695	100.0%	145,270	100.0%	118,212	100.0%	115,345	100.0%
Less: Deferred fees	1,000		1,111		950		549		555	
Allowance for loan losses	5,234		4,290		3,895		4,107		4,341	
Net loans	$ 209,978		$ 176,294		$ 140,425		$ 113,556		$ 110,449	

</TABLE>

Commercial, Commercial Real Estate and Construction Loans

The following table sets forth scheduled maturities of commercial, construction and commercial real estate loans in the bank's portfolio at December 31, 1998. Loans having no stated maturity (i.e., payable on demand) are reported as due in one year or less. The following table also sets forth the dollar amount of loans which are scheduled to mature after one year which have fixed or adjustable rates.
<TABLE>
<CAPTION>

($ in thousands)	Commercial	Construction	Commercial Real Estate
<S>	<C>	<C>	<C>
Amounts due:			
One year or less	$ 6,184	$ 9,321	$ 677
After one year through five years	19,453	1,383	5,016
Beyond five years	29,933	5,933	74,514
	$55,570	$16,637	$80,207

	=======	=======	=======
Interest rate terms on amounts due after one year:			
Fixed	$ 8,749	$ 1,104	$10,450
Adjustable	40,637	6,212	69,080

</TABLE>

Scheduled contractual maturities will not reflect the actual maturities of loans. The average maturity of loans will be shorter than their contractual terms principally due to prepayments.

Commercial loans include working capital loans, equipment financing (including equipment leases), standby letters of credit, term loans and revolving lines of credit. Construction loans include construction loans to both individuals and businesses. Included in commercial loans are loans under various Small Business Administration programs amounting to $4.6 million, $5.0 million, and $3.9 million as of December 31, 1998, 1997 and 1996, respectively.

Commercial, commercial real estate and construction loans secured by apartment buildings, office facilities, shopping malls, raw land or other commercial property, were $152.4 million at December 31, 1998, representing an increase of $30.2 million, or 24.7%, from the previous year. This compares to an increase of $25.1 million or 25.9% from 1996 to 1997. The growth in 1998 is a reflection of the bank's continued aggressive customer-call efforts, additional lenders hired during 1997 and 1998, an increase in marketing and advertising and increased penetration in the markets surrounding the bank's newer branches.

Commercial real estate lending may entail significant additional risks compared to residential mortgage lending. Loan size is typically larger and payment experience on such loans can be more easily influenced by adverse conditions in the real estate market or in the economy in general. Construction financing involves a higher degree of risk than long term financing on improved occupied real estate. Property values at completion of construction or development can be influenced by underestimation of the construction costs that are actually expended to complete the project. Thus, the bank may be required to advance funds beyond the original commitment in order to finish the development. If projected cash flows to be derived from the loan collateral or the values of the collateral prove to be inaccurate, for example because of unprojected additional costs or slow unit sales, the collateral may have a value which is insufficient to assure full repayment. Funds for construction projects are disbursed as pre-specified stages of construction are completed.

The bank has an independent loan review function that assesses the compliance of loan originations with the bank's internal policies and underwriting guidelines and monitors ongoing quality of the loan portfolio. The bank also contracts with an external loan review company to review loans in the loan portfolio, on a pre-determined schedule, based on the type, size, rating, and overall risk of the loan. In addition, a loan review committee, consisting of senior lending officers and loan review personnel, meets on a periodic basis to discuss loans on the bank's internal "watch list" and classified loan report. The overdue loan review committee, consisting of seven members of the board of directors (two of which are officers of the bank), also meets quarterly to review and assess all loan delinquencies.

Residential Loans

The bank makes conventional mortgage loans on single family residential properties with original loan-to-value ratios generally up to 95% of the appraised value of the property securing the loan. These residential properties serve as the primary homes of the borrowers. The bank also originates loans on one to four family dwellings and loans for the construction of owner-occupied residential housing, with original loan-to-value ratios generally up to 80% of the property's appraised value.

Residential mortgage loans made by the bank have traditionally been long-term loans made for periods of up to 30 years at either fixed or adjustable rates of interest. Depending on the current interest rate environment, management projections of future interest rates and a review of the asset/liability position of the bank, management may elect to sell or hold for the bank's portfolio residential loan production. The bank generally sells fixed rate residential mortgage loans with maturities greater than 15 years and puts variable rate loans into the bank's portfolio. The bank may retain or sell the servicing when selling the loans. The decision to hold or sell new loan production is made in conjunction with the overall asset/liability management program of the bank. Long-term fixed rate residential mortgage loans are generally originated using underwriting standards and standard documentation allowing their sale in the secondary market. All loans sold are currently sold without recourse.

Residential mortgage loans were $44.7 million at December 31, 1998, representing an increase of $2.0 million, or 4.8%, from the previous year. This compares to an increase of $6.7 million, or 18.7%, in 1997, from the previous year. The slower growth in 1998 slowed from the previous year due to an increase in refinancing and the sale of more loan production to the secondary market.

Home Equity Loans

Home equity loans are originated for the bank's portfolio for single family residential properties with maximum original loan-to-value ratios generally up to 80% of the appraised value of the property securing the loan. Home equity loans generally have fixed interest rates for a period of one year and subsequently adjust monthly based on changes in the prime rate.

Home equity loans were $13.4 million at December 31, 1998, representing an increase of $1.2 million, or 10.1%, from the previous year. This compares to an increase of $3.9 million, or 47.8%, in 1997 compared to the previous year. The slower growth in 1998 is attributable to an increased level of refinancing of existing mortgages and equity loans due to low interest rates available to borrowers during the year.

Other Loans

The category "Other Loans" consists of secured or unsecured personal loans, credit cards and overdraft protection lines extended to individual customers.

Other loans were $5.7 million at December 31, 1998, representing an increase of $1.0 million or 22.0%, from the previous year. This compares to an increase of $.6 million, or 15.2%, in 1997 compared to the previous year. The growth in 1998 is a result of the increased penetration in the markets surrounding the newer branches and the general increase in relationships in more established markets.

Risk Elements

Non-performing assets consist of non-accruing loans, loans past due greater than 90 days and still accruing and other real estate owned ("OREO"). Loans on which the accrual of interest has been discontinued, including some impaired loans, are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal, or generally when a loan becomes contractually past due by 60 days or a mortgage loan becomes contractually past due by 90 days with respect to interest or principal. In certain instances, loans that have become 90 days past due may remain on accrual status if the value of the collateral securing the loan is sufficient to cover principal and interest and the loan is in the process of collection or if the principal and interest is guaranteed by the federal government or an agency thereof. OREO consists of real estate acquired through foreclosure proceedings and real estate acquired through acceptance of a deed in lieu of foreclosure. Non-performing loans include both non-accrual loans and loans past due 90 days or more but still accruing. Loans for which management considers it probable that not all contractual principal and interest will be collected are designated as impaired loans.

Restructured loans are those where interest rates and/or principal payments have been restructured to defer or reduce payments as a result of financial difficulties of the borrower. Total restructured loans outstanding as of December 31, 1998 and 1997 were $979,000 and $838,000, respectively. Accruing restructured loans as of December 31, 1998 and 1997 were $538,000 and $260,000, respectively.

Additional information regarding these risk elements is contained in Item 6, Management Discussion and Analysis, and Item 7, Financial Statements, contained in this report and "Allowance for Loan Losses and OREO Activity" below.

Allowance for Loan Losses and OREO Activity

The following table summarizes the activity in the allowance for loan losses for the periods indicated:
<TABLE>
<CAPTION>

	Years Ended December 31,				
($ in thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Average loans outstanding	$ 200,491	$ 162,594	$ 128,572	$ 118,248	$ 98,033
Balance at beginning of year	$ 4,290	$ 3,895	$ 4,107	$ 4,341	$ 4,133
Charged-off loans:					
Commercial	87	165	60	87	--
Commercial real estate	--	125	112	265	7
Construction	--	--	--	--	--
Residential mortgage	--	--	--	33	--

Home equity	--	--	55	--	41
Other	53	11	17	20	8
Total charged-off	140	301	244	405	56
Recoveries on loans previously charged-off:					
Commercial	6	52	2	24	54
Commercial real estate	--	155	21	39	--
Construction	--	--	--	1	185
Residential mortgage	6	2	1	100	5
Home equity	7	40	4	3	1
Other	35	127	4	4	19
Total recoveries	54	376	32	171	264
Net loans charged-off (recovered)	86	(75)	212	234	(208)
Provision charged to income	1,030	320	--	--	--
Balance at December 31	$ 5,234	$ 4,290	$ 3,895	$ 4,107	$ 4,341
Net loans charged-off (recovered) to average loans	.04%	(.05%)	.16%	.20%	(.21%)
Net loans charged-off (recovered) to allowance for loan losses	1.64%	(1.75%)	5.44%	5.70%	(4.79%)
Allowance for loan losses to ending gross loans	2.42%	2.36%	2.68%	3.47%	3.76%
Allowance for loan losses to non-performing loans	384.85%	384.06%	165.25%	202.02%	231.64%
Recoveries to charge-offs	38.57%	124.92%	13.11%	42.22%	471.43%

</TABLE>

The following table represents the allocation of the bank's allowance for loan losses and the percentage of loans in each category to total loans for the periods ending as indicated:

<TABLE>
<CAPTION>

	December 31,									
	1998		1997		1996		1995		1994	
($ in thousands)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Comm'l real estate	$ 2,591	37.1%	$ 2,161	36.8%	$ 2,171	36.1%	$ 2,371	36.0%	$ 2,411	34.9%
Commercial	1,111	25.7%	844	23.2%	723	26.3%	908	24.0%	1,067	22.5%
Construction	665	7.7%	338	7.2%	209	4.4%	143	4.9%	187	5.1%
Residential mortgage	568	20.7%	525	23.5%	372	24.7%	364	27.8%	365	29.3%
Consumer	194	8.8%	167	9.3%	244	8.5%	162	7.3%	138	8.2%
Unallocated	105		255		176		159		173	
Total	$ 5,234	100.0%	$ 4,290	100.0%	$ 3,895	100.0%	$ 4,107	100.0%	$ 4,341	100.0%

</TABLE>

The allocation of the allowance for loan losses above reflects management's judgment of the relative risks of the various categories of the bank's loan portfolio. This allocation should not be considered an indication of the future amounts or types of possible loan charge-offs.

The following table sets forth information regarding non-performing assets, restructured loans and delinquent loans 30-89 days past due as to interest or principal, held by the bank at the dates indicated:

<TABLE>
<CAPTION>

	December 31,				
($ in thousands)	1998	1997	1996	1995	1994
<S>	<C>	<C>	<C>	<C>	<C>
Non-accrual loans*	$1,263	$1,043	$2,237	$2,021	$1,871
Accruing loans > 90 days past due	97	74	120	12	3
Total non-performing loans	1,360	1,117	2,357	2,033	1,874
Other real estate owned	304	393	83	417	390
Total non-performing assets	$1,664	$1,510	$2,440	$2,450	$2,264

Restructured loans	$ 538	$ 260	$ --	$ --	$ 742
Delinquent loans 30-89 days past due	1,473	2,074	2,280	2,356	534
Non-performing loans : Gross loans	.63%	.61%	1.62%	1.72%	1.62%
Non-performing assets : Total assets	.46%	.47%	0.86%	1.09%	1.32%
Delinquent loans 30-89 days past due :					
Gross loans	.68%	1.14%	1.57%	1.99%	0.46%

<FN>

* Impaired loans included in non-accrual loans as of December 31, 1998 and 1997 were $.5 million and $.9 million, respectively.

</FN>
</TABLE>

Non-accrual loans increased slightly by $0.2 million, to $1.3 million at December 31, 1998, as compared to the prior year. The increase was primarily attributable to an increase in non-accruing commercial loans guaranteed by the SBA. The level of non-performing assets is largely a function of economic conditions and the overall banking environment, as well as the strength of the bank's loan underwriting. Adverse changes in the local, regional and national economic conditions could result in an increase to non-performing assets in the future, despite prudent loan underwriting.

Investment Activities

The investment activity of the bank is an integral part of the overall asset/liability management program of the bank. The investment function provides readily available funds to support loan growth as well as to meet withdrawals and maturities of deposits and attempts to provide maximum return consistent with liquidity constraints and general prudence, including diversity and safety of investments. The securities in which the bank may invest are subject to regulation and are limited to securities which are considered "investment grade" securities. In addition, the bank has an internal investment policy which restricts investments to the following categories: U.S. treasury securities, U.S. government agencies, U.S. agency mortgage-backed securities("MBSs") and collateralized mortgage obligations ("CMOs"), Federal Home Loan Bank of Boston ("FHLB") stock, federal funds, and state, county, and municipal securities ("Municipals"), all of which must be considered investment grade by a recognized rating service. The effect of changes in interest rates and the resulting impact on a MBSs' principal repayment speed and the effect on yield and market value are considered when purchasing MBSs. The credit rating of each security or obligation in the portfolio is closely monitored and reviewed at least annually by the bank's investment committee. See note 2 to the consolidated financial statements in Item 7 for further information.

At December 31, 1998, 1997, and 1996 all investment securities were classified as available for sale and were carried at fair market value. The net unrealized gains at December 31, 1998, net of tax effects, are shown as a separate component of stockholders' equity in the amount of $1.0 million. The following table summarizes the fair market value of investments at the dates indicated:

	December 31,		
($ in thousands)	1998	1997	1996
U.S. treasuries and agencies	$ 36,178	$ 82,831	$ 92,185
CMOs and MBSs	45,912	12,464	11,760
Municipals	29,608	14,630	12,490
FHLB stock	2,961	2,961	2,961
Total investments available-for-sale	$114,659	$112,886	$119,396

The contractual maturity distribution, as of December 31, 1998, of the total bonds and obligations above with the weighted average yield for each category is as follows:

<TABLE>
<CAPTION>

	Under 1 Year		1 - 3 Years		3 - 5 Years		5 - 10 Years		Over 10 Years	
($ in thousands)	Balance	Yield	Balance	Yield	Balance	Yield	Balance	Yield	Balance	Yield
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. treasuries and agencies	$ 4,975	5.90%	$10,468	6.65%	$ 7,082	6.56%	$11,649	6.84%	$ 2,004	6.99%
CMOs and MBSs	--	--%	--	--%	--	--%	13,400	6.35%	32,512	6.18%
Municipals*	1,328	6.89%	4,337	7.39%	2,672	7.54%	15,553	6.83%	5,718	7.05%

$ 6,303	6.11%	$14,805	6.87%	$ 9,754	6.83%	$40,602	6.67%	$40,234	6.34%
=======		=======		=======		=======		=======	

<FN>
* Municipal security yields and total yields are shown on a tax equivalent basis.
</FN>
</TABLE>

Scheduled contractual maturities do not reflect the actual expected maturities of the investments. CMOs and MBSs are shown at their final maturity. However, due to prepayments and normal amortization the actual cash flows will be faster than presented above. Similarly, included in the U.S. treasuries and agencies category is $20.7 million in securities which can be "called" before maturity. Actual maturity of these callable securities could be shorter in a falling interest rate environment. Management considers these factors when evaluating the net interest margin in the bank's asset/liability management program.

The reduction in U.S. treasuries and agencies from $82.8 million at December 31, 1997 to $36.2 million at December 31, 1998 was largely attributed to securities with a book value of $33.7 million being called and sales of U.S. treasuries with a book value of $21.1 million to take advantage of opportunities in the investment market. Proceeds from these transactions were primarily used to purchase municipal securities with maturities from 8-18 years and CMOs with varying weighted average lives.

See "Interest Margin Sensitivity Analysis" below for additional information regarding the bank's callable bonds and CMOs.

Interest Margin Sensitivity Analysis

The company's primary market risk is interest rate risk, specifically, changes in the interest rate environment. The bank's investment committee is responsible for establishing policy guidelines on acceptable exposure to interest rate risk and liquidity. The investment committee is comprised of certain members of the Board of Directors and certain members of senior management. The primary objectives of the company's asset/liability policy is to monitor, evaluate and control the bank's interest rate risk, as a whole, within certain tolerance levels while ensuring adequate liquidity and adequate capital. The investment committee establishes and monitors guidelines for the net interest margin sensitivity, equity to capital ratios, liquidity ratio, Federal Home Loan Bank borrowing capacity and loan to deposit ratio. The asset/liability strategies are reviewed continually by management and presented and discussed with the investment committee on at least a quarterly basis. The asset/liability strategies are revised based on changes in interest rate levels, general economic conditions, competition in the marketplace, the current position of the bank, anticipated growth of the bank and other factors.

One of the principal factors in maintaining planned levels of net interest income is the ability to design effective strategies to cope with the impact on future net interest income because of changes in interest rates. The balancing of the changes in interest income from interest earning assets and the interest expense of interest bearing liabilities is done through the asset/liability management program. The bank's simulation model analyzes various interest rate scenarios. Varying future interest rate environments affects prepayment speeds, reinvestment rates, maturities of investments due to call provisions, changes in interest rates on various asset and liability accounts based on different indices, and other factors which vary under the different scenarios. The investment committee periodically reviews guidelines or restrictions contained in the asset/liability policy and adjusts them accordingly. The bank's current asset/liability policy is designed to limit the impact on net interest income to 10% in the 24 month period following the date of the analysis, in a rising and falling rate shock analysis of 100 and 200 basis points.

The following table summarizes the projected net interest income for a 24-month period from the company's interest bearing assets and liabilities as of December 31, 1998, resulting from a 200 basis point upward shift in the prime rate, 200 basis point downward shift in the prime rate and no change in the prime rate scenarios from the bank's asset/liability simulation model. Other rates (i.e., deposit, loan, and investment rates) have been changed accordingly.

It should be noted that the interest rate scenarios used do not necessarily reflect management's view of the "most likely" change in interest rates over the next 24 months. Furthermore, since a static balance sheet is assumed, the results do not reflect the anticipated future net interest income of the company.
<TABLE>
<CAPTION>

	December 31, 1998		
	Rates Rise 200 BP	Rates Unchanged	Rates Fall 200 BP
($ in thousands)	----------	----------	----------
<S>	<C>	<C>	<C>

Interest Earning Assets:			
Variable rate loans	$31,631	$27,459	$23,287
Fixed rate loans	9,014	8,763	7,953
Callable securities	2,748	2,609	2,533
Fixed maturity treasury and agency securities	1,330	1,315	1,310
Other investment securities	9,801	9,197	8,650
Federal funds sold	774	657	626
Total interest income	55,298	50,000	44,359
Interest Earning Liabilities:			
Time deposits	16,200	12,965	10,808
NOW, money market, savings	5,572	4,632	3,692
Short term borrowings	1,262	983	808
Total interest expense	23,034	18,580	15,308
Net interest income	$32,264	$31,420	$29,051

</TABLE>

As of December 31, 1998, analysis indicated that the sensitivity of the net interest margin was in compliance with policy. Management estimates that, in a falling rate environment, there would be a reduction of the net interest income due to slower reductions in rates paid on deposits and increased cash flows from the company's loan and investment portfolio, which would be reinvested at lower marginal rates as rates fall, assuming a static balance sheet. Management estimates that net interest income will increase less significantly in a rising rate environment, assuming a static balance sheet, due to increased loan income being offset by the effect of the extension of the duration of the investment portfolio and rising cost of funds.

The results and conclusions reached from the December 31, 1998 simulation are similar to the results of the December 31, 1997 simulation. As shown in the following table, the 24 month net interest margin projection from the December 31, 1997 model, reflects a decline when interest rates fall and an increase when rates rise.

	December 31, 1997		
($ in thousands)	Rates Rise 200 BP	Rates Unchanged	Rates Fall 200 BP
Interest earning assets	$51,936	$47,000	$42,409
Interest earning liabilities	21,550	17,630	14,698
Net interest income	$30,386	$29,370	$27,711

Maturity information of the company's loan portfolio, investment portfolio, certificates of deposit, and short-term borrowings is contained above under the caption "Investment Activities" and in Part II, Item 7 in Notes 7 and 8 to the company's financial statements. Management uses this information in the simulation model along with other information about the bank's assets and liabilities. Management makes certain prepayment assumptions, based on an analysis of market consensus and management projections, regarding how the factors discussed above will affect the assets and liabilities of the bank as rates change. One of the more significant changes in the anticipated maturity of assets occurs in the investment portfolio, specifically the reaction of CMOs and callable securities as rates change.

The following table reflects management's estimates of when principal, shown at amortized cost, of CMOs and callable securities, held in the bank's portfolio as of December 31, 1998, will be repaid and the securities' weighted average interest rates under three scenarios: interest rates up 200 basis points (BP), down 200 basis points and no change. The difference in total yields in each scenario is caused principally by accelerating or decelerating the amortization/accretion on discounts and premiums on CMOs due to changing prepayment speeds.

<TABLE>
<CAPTION>

	Up 200 BP		No Change		Down 200 BP	
($ in thousands)	Amortized Cost	Yield Rate	Amortized Cost	Yield Rate	Amortized Cost	Yield Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
0 - 12 Months	$ 4,971	6.08%	$12,103	6.12%	$21,600	5.87%
13 - 24 Months	8,262	6.28%	15,707	6.32%	26,971	6.04%
25 - 36 Months	6,114	6.09%	15,214	6.48%	12,357	6.52%

37 - 48 Months	9,405	6.44%	5,216	5.95%	2,780	5.69%
Over 48 Months	37,070	6.53%	17,582	6.70%	2,114	5.69%
Total	$65,822	6.41%	$65,822	6.39%	$65,822	6.05%

</TABLE>

Management also assesses sensitivity of the change in the net value of assets and liabilities (MVPE) under different scenarios. As interest rates rise, the value of interest-bearing assets generally declines while the value of interest-bearing liabilities increases. Management monitors the MVPE on at least an annual basis. Although management does consider the effect on the MVPE when making asset/liability strategy decisions, the primary focus is on managing the effect on the net interest margin under changing rate environments.

Source of Funds

Deposits

Deposits have traditionally been the principal source of the bank's funds. The bank offers a broad selection of deposit products to the general public, including NOW accounts, savings accounts, money market accounts, individual retirement accounts (IRA) and certificates of deposit. The bank also offers commercial checking, money market, sweep, Keogh retirement and business IRA accounts and repurchase agreements to its commercial business customers. The bank does not currently use brokered deposits. The bank has offered premium rates on specially designated products from time to time in order to promote new branches and to attract customers and longer term deposits.

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

The table below shows the comparison of the bank's average deposits and average rates paid for the periods indicated. The annualized average rate on total deposits reflects both interest bearing and non-interest bearing deposits.

<TABLE>
<CAPTION>

	December 31,								
	1998			1997			1996		
	Average Balance	Average Rate	% of Deposits	Average Balance	Average Rate	% of Deposits	Average Balance	Average Rate	% of Deposits
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Demand	$ 54,161	--	18.25%	$ 45,371	--	17.16%	$ 34,884	--	15.86%
Savings	22,218	2.23%	7.49%	19,237	2.23%	7.27%	17,037	2.22%	7.75%
NOW	58,062	1.89%	19.57%	53,782	2.14%	20.34%	43,929	2.09%	19.97%
Money market	30,490	2.60%	10.28%	31,422	2.76%	11.88%	24,402	2.56%	11.09%
	110,770	2.16%	37.34%	104,441	2.35%	39.49%	85,368	2.25%	38.81%
Time deposits	131,773	5.38%	44.41%	114,656	5.46%	43.35%	99,696	5.63%	45.33%
Total	$296,704	3.19%	100.00%	$264,468	3.29%	100.00%	$219,948	3.42%	100.00%

</TABLE>

See note 7 to the consolidated financial statements in Item 7 for further information.

Borrowings

The bank is a member of the Federal Home Loan Bank of Boston (FHLB). This membership enables the bank to borrow funds from the FHLB. The bank utilizes borrowings from the FHLB to fund short term liquidity needs. This facility is an integral component of the bank's asset/liability management program. At December 31, 1998, the bank had the additional capacity to borrow up to approximately $55.1 million from the FHLB, with actual outstanding balances of $.5 million at a rate of 5.94%.

The bank also borrows funds from customers secured by the bank's investment securities. These repurchase agreements represent a cost competitive funding source for the bank. These instruments are either term agreements or overnight borrowings, as a part of the bank's commercial sweep accounts. Interest rates on the bank's commercial sweep accounts are dependent on changes in the U.S. treasury market. Interest rates paid by the bank on the term repurchase agreements are based on market conditions and the bank's need for additional funds at the time of the transaction. As of December 31, 1998 the bank had $11.6 million in repurchase agreements outstanding with a weighted average interest rate of 2.70%.

See note 8 to the consolidated financial statements in Item 7 for further information.

Trust

The bank provides a range of investment management services to individuals, family groups, trusts, foundations and retirement plans. These services include management of equity, fixed income, balanced and strategic cash management portfolios. Portfolios are managed based on the investment objectives of each client. At December 31, 1998, the bank had $195.4 million in assets under management.

Competition

The bank faces strong competition to attract deposits and to generate loans. Several major commercial banks are headquartered in neighboring Boston, and numerous other commercial banks, savings banks, cooperative banks, credit unions and savings and loan associations have one or more offices in Greater Lowell and in the Leominster/Fitchburg, Massachusetts area. The major commercial banks have several competitive advantages over the bank, including the ability to make larger loans to a single borrower than is possible for the bank. The greater financial resources of these banks also allows them to offer a broad range of automated banking services, to maintain numerous branch offices and to mount extensive advertising and promotional campaigns. Competition for loans and deposits also comes from other businesses which provide financial services, including consumer finance companies, factors, mortgage brokers, insurance companies, securities brokerage firms, money market mutual funds and private lenders. Advances in and the increased use of technology, such as internet banking and PC banking, are expected to have a significant impact on the future competitive landscape of financial institutions.

As a general matter, regulation of the banking industry continues to undergo significant changes, including changes in the products and services banks are permitted to offer, the nature and degree of banks' involvement, directly or indirectly through affiliates, in non-banking activities, and other contemplated legislative and regulatory proposals that could, if adopted, alter the structure, regulation and competitive relationships of financial institutions. To the extent that changes in banking regulations may further increase competition, any such changes could result in the bank paying increased interest rates to obtain deposits while receiving lower interest rates on its loans. Under such circumstances, the bank's net interest margin would decline. In addition, any increase in the extent of regulation imposed upon the banking industry generally could result in the bank incurring additional operating costs which could impede profitability.

Notwithstanding the substantial competition with which the bank is faced, management believes that the bank has established a market niche in Greater Lowell and the Leominster/Fitchburg area which has been enhanced in recent years by the acquisition of other independent banks by major bank holding companies, and the resultant consolidation of competitors' banking operations and services within the bank's market area. Additionally, management actively pursues opportunities in new technologies that will serve the bank's market niche, in order to have a competitive mix and pricing of its products.

The bank's officers and directors have substantial business and personal ties in the cities and towns in which the bank operates. The bank believes that it has established a market niche by providing its customers, particularly consumers, smaller and privately held businesses and professionals, with prompt and personal service based on management's familiarity and understanding of such customers' banking needs. The bank's past and continuing emphasis is to provide highly responsive personal and professional service.

Supervision and Regulation

General

Bank holding companies and banks are subject to extensive government regulation through federal and state statutes and related regulations, which is subject to changes that can significantly affect the way in which financial service organizations conduct business. Both legislation enacted in recent years and regulatory initiatives undertaken by various governmental agencies have substantially increased the level of competition among commercial banks, thrift institutions and non-banking financial service companies, including brokerage firms, investment banks, insurance companies and mutual funds. In addition, the enactment of the federal Riegle-Neal Interstate Banking and Branching Efficiency

Act of 1994 has affected the banking industry by, among other things, enabling banks and bank holding companies to expand the geographic area in which they may provide banking services. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory and regulatory provisions. Any changes in applicable law or regulation may have a material effect on the business and prospects of the bank and the company.

See note 9 to the consolidated financial statements in Item 7 for further information regarding regulatory capital requirements for both the company and the bank.

Regulation of the Holding Company

The company is a registered bank holding company under the federal Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). It is subject to the supervision and examination of the Board of Governors of the Federal Reserve System (Federal Reserve Board) and files reports with the Federal Reserve Board as required under the Bank Holding Company Act. Under applicable Massachusetts law, the company is also subject to the supervisory jurisdiction of the Commissioner.

The Bank Holding Company Act requires prior approval by the Federal Reserve Board of the acquisition by the company of substantially all the assets or more than five percent of the voting stock of any bank. The Bank Holding Company Act also authorizes the Federal Reserve Board to determine (by order or by regulation) what activities are so closely related to banking as to be a proper incident of banking, and thus, whether the company, either directly or indirectly through non-bank subsidiaries, can engage in such activities. The Bank Holding Company Act prohibits the company and the bank from engaging in certain tie-in arrangements in connection with any extension of credit, sale of property or furnishing of services. There are also restrictions on extensions of credit and other transactions between the bank, on the one hand, and the company, or other affiliates of the bank, on the other hand.

Regulation of the Bank

As a trust company organized under Chapter 172 of the Massachusetts General Laws, the deposits of which are insured by the FDIC, the bank is subject to regulation, supervision and examination by the Commissioner and the FDIC.

The regulations of these agencies govern many aspects of the bank's business, permitted investments, the opening and closing of branches, the amount of loans which can be made to a single borrower, mergers, appointment and conduct of officers and directors, capital levels and terms of deposits. The Federal Reserve Board also requires the bank to maintain minimum reserves on its deposits. Federal and state regulators can impose sanctions on the bank and its management if the bank engages in unsafe or unsound practices or otherwise fails to comply with regulatory standards. Various other federal and state laws and regulations, such as truth-in-lending statutes, the Equal Credit Opportunity Act, the Real Estate Settlement Procedures Act and the Community Reinvestment Act, also govern the bank's activities.

Under Massachusetts law, the company's board of directors is generally empowered to pay dividends on the company's capital stock out of its net profits to the extent that the board of directors considers such payment advisable. Massachusetts banking law also imposes various specific restrictions upon the payment of dividends by the bank, including the requirement that the bank's capital and surplus must equal at least 10% of its deposit liability or a sufficient amount must be transferred from net profits to surplus prior to payment of such dividend. The Federal Deposit Insurance Act of 1991 ("FDICIA") also prohibits a bank from paying any dividends on its capital stock in the event that the bank is in default on the payment of any assessment to the FDIC or if the payment of any such dividend would otherwise cause the bank to become undercapitalized.

Capital Resources

Capital planning by the company and the bank considers current needs and anticipated future growth. Other than the sale of common stock in 1988 and 1989, the primary source of additional capital has been retention of earnings since the bank commenced operations.

See note 9 to the consolidated financial statements in Item 7 for further information regarding regulatory capital requirements for both the company and the bank.

The Company

The Federal Reserve Board has adopted capital adequacy guidelines that generally require bank holding companies to maintain total capital equal to 8% of total risk-weighted assets, with at least one-half of that amount consisting of core or Tier 1 capital. Tier 1 capital for the company consists of common stockholders' equity. Total capital for the company consists of Tier 1 capital and supplementary or Tier 2 capital. Supplementary capital for the company includes a portion of the general allowance for loan losses. Assets are adjusted under the risk-based capital guidelines to take into account different levels of credit risk, with the categories ranging from 0% (requiring no additional capital) for assets such as cash, to 100% for the bulk of assets that, by their nature in the ordinary course of business, pose a direct credit risk to a bank holding company, including commercial real estate loans, commercial business loans and consumer loans.

In addition to the risk-based capital requirements, the Federal Reserve Board requires bank holding companies to maintain a minimum "leverage" ratio of Tier 1 capital to total assets of 3%, with most bank holding companies required to maintain at least a 4% ratio.

The Bank

The bank is subject to separate capital adequacy requirements of the FDIC, which are substantially similar to the requirements of the Federal Reserve Board applicable to the company. Under the FDIC requirements, the minimum total capital requirement is 8% of assets and certain off-balance sheet items, weighted by risk. For example, cash and government securities are placed in a 0% risk category, most home mortgage loans are placed in a 50% risk category and commercial loans are placed in a 100% risk category. At least 4% of the total 8% ratio must consist of Tier 1 capital (primarily common equity including retained earnings) and the remainder may consist of subordinated debt, cumulative preferred stock and a limited amount of loan loss reserves.

Under the applicable FDIC capital requirements, the bank is also required to maintain a minimum leverage ratio. The ratio is determined by dividing Tier 1 capital by quarterly average total assets, less intangible assets and other adjustments. FDIC rules require a minimum of 3% for the highest rated banks. Banks experiencing high growth rates are expected to maintain capital positions well above minimum levels.

Depository institutions, such as the bank, are also subject to the prompt corrective action framework for capital adequacy established by the Federal Deposit Insurance Company Improvement Act ("FDICIA"). Under FDICIA, the federal banking regulators are required to take prompt supervisory and regulatory actions against undercapitalized depository institutions. FDICIA establishes five capital categories: "well capitalized", "adequately capitalized", "undercapitalized", "significantly undercapitalized", and "critically capitalized". A "well capitalized" institution has a total capital to total risk-weighted assets ratio of at least ten percent, a Tier 1 capital to total risk-weighted assets ratio of at least six percent, a leverage ratio of at least five percent and is not subject to any written order, agreement or directive; an "adequately capitalized" institution has a total capital to total risk-weighted assets ratio of at least eight percent, a Tier 1 capital to total risk-weighted assets ratio of at least four percent, and a leverage ratio of at least four percent (three percent if given the highest regulatory rating and not experiencing significant growth), but does not qualify as "well capitalized". An "undercapitalized" institution fails to meet one of the three minimum capital requirements. A "significantly undercapitalized" institution has a total capital to total risk-weighted assets ratio of less than six percent, a Tier 1 capital to total risk-weighted assets ratio of less than three percent, and a leverage ratio of less than three percent. A "critically capitalized" institution has a ratio of tangible equity to assets of two percent or less. Under certain circumstances, a "well capitalized", "adequately capitalized" or "undercapitalized" institution may be required to comply with supervisory actions as if the institution was in the next lowest category.

Failure to meet applicable minimum capital requirements, including a depository institution being classified as less than "adequately capitalized" within FDICIA's prompt corrective action framework, may subject a bank holding company or its subsidiary depository institution(s) to various enforcement actions, including substantial restrictions on operations and activities, dividend limitations, issuance of a directive to increase capital and, for a depository institution, termination of deposit insurance and the appointment of a conservator or receiver.

Patents, Trademarks, etc.

The company holds no patents, registered trademarks, licenses (other than licenses required to be obtained from appropriate banking regulatory agencies), franchises or concessions which are material to its business.

Employees

As of December 31, 1998, the bank employed 143 persons (132 full-time and 11 part-time), including 52 officers. None of the bank's employees are presently represented by a union or covered by a collective bargaining agreement.

Management believes its employee relations to be excellent.

Impact of Inflation and Changing Prices

A bank's asset and liability structure is substantially different from that of an industrial company in that virtually all assets and liabilities of a bank are monetary in nature. Management believes the impact of inflation on financial results depends upon the bank's ability to react to changes in interest rates and by such reaction, reduce the inflationary impact on performance. Interest rates do not necessarily move in the same direction, or at the same magnitude, as the prices of other goods and services. As discussed previously, management seeks to manage the relationship between interest-sensitive assets and liabilities in order to protect against wide net interest income fluctuations, including those resulting from inflation.

Various information shown elsewhere in this annual report will assist in the understanding of how well the bank is positioned to react to changing interest rates and inflationary trends. In particular, the Interest Margin Sensitivity Analysis contained in Item 1 and other maturity and repricing information of the bank's assets and liabilities in this report contain additional information.

Item 2. Description of Property

The company's and the bank's main office is located at 222 Merrimack Street, Lowell, Massachusetts. The building provides 12,366 square feet of interior space and has private customer parking along with public parking facilities in close proximity.

The bank leases space at 170 Merrimack Street, Lowell, Massachusetts. The building provides 3,408 square feet of interior space that is under renovation to house the commercial lending department.

The bank leases 6,495 square feet of space at 21-27 Palmer Street, Lowell, Massachusetts that is occupied by the mortgage center and loan operations.

The bank leases 9,236 square feet of space at 129 Middle Street, Lowell, Massachusetts, which contains the bank's training facility, credit department, accounting department and space being improved for the customer service center and executive offices.

In April, 1993, the bank purchased the branch building at 185 Littleton Road, Chelmsford, Massachusetts. The first floor of the building contains 3,552 square feet of space with a full basement and a canopy area of 945 square feet. The facility was purchased at a cost of approximately 20% of what it would have cost to build a similar facility.

In March, 1995, the bank purchased a branch building at 674 Boston Road, Billerica, Massachusetts. The building previously served as a bank branch and contains 3,700 square feet of above-grade space and is constructed on a cement slab. The building was purchased for approximately 40% of its replacement value.

The bank leases space at 2-6 Central Street, Leominster, Massachusetts. The branch office provides 3,960 square feet of interior space and has seven private customer parking spaces. The bank has the option to purchase the premises on the last day of the basic term or at any time during any extended term at the price of $550,000 as adjusted for increases in the producer's price index.

The bank leases space at 910 Andover Street, Tewksbury, Massachusetts. The branch office provides 4,800 square feet of interior space and has ample parking that is shared with other tenants of the building.

The bank leases space at 1168 Lakeview Avenue, Dracut, Massachusetts. The branch office provides 4,922 square feet of interior space and has ample parking that is shared with other tenants of the building.

On January 13, 1999 the bank purchased 237 Littleton Road, Westford, Massachusetts. The existing building will be razed and a new branch facility will be built. The new branch will have 5,200 square feet of finished interior space, plus 2,800 square feet of storage in the basement and 21 parking spaces. The branch is expected to be open by the fourth quarter of 1999.

Item 3. Legal Proceedings

The company is involved in various routine legal proceedings incidental to its business. Management does not believe resolution of any present litigation will have a material effect on the financial condition of the company.

Various other legal claims may arise from time to time against the company or the bank in the course of business, none of which are expected to have a material adverse effect on the financial condition of either the company or the bank.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the quarter ended December 31, 1998.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Market for Common Stock

There is no active trading market for the company's common stock. Although there are periodically private trades of the company's common stock, the company cannot state with certainty the sales price at which such transactions occur. The following table sets forth sales volume and price information, to the best of management's knowledge, for the common stock of the company for the periods indicated. All information included under this item has been restated to reflect a 2:1 stock split (effected by a stock dividend) effective January 4, 1999.

Fiscal year	Trading Volume	Share Price High	Share Price Low
1998:			
1st Quarter	650	$ 10.00	$ 10.00
2nd Quarter	6,280	12.50	11.50
3rd Quarter	1,102	12.50	12.50
4th Quarter	1,400	12.50	12.50
1997:			
1st Quarter	4,150	$ 8.50	$ 8.50
2nd Quarter	2,000	8.50	8.50
3rd Quarter	3,550	8.50	8.50
4th Quarter	--	--	--

Based on a value of $14.00 per share, which represents the most recent trade on February 5, 1999, the aggregate market value on December 31, 1998, of the company's common stock was $44,347,576.

The number of shares outstanding of the company's common stock and number of shareholders of record as of December 31, 1998, were 3,167,684 and 577, respectively.

Dividends

The company declared and paid annual cash dividends of $.1750 per share and $.1625 per share in 1998 and 1997, respectively. Although the company intends to continue to pay an annual dividend, the amount and timing of any declaration and payment of dividends by the board of directors will depend on a number of factors, including capital requirements, regulatory limitations, the company's operating results and financial condition, anticipated growth of the company and general economic conditions. As the principal asset of the company, the bank currently provides the only source of cash for the payment of dividends by the company. Under Massachusetts law, trust companies such as the bank may pay dividends only out of "net profits" and only to the extent that such payments will not impair the bank's capital stock and surplus account. These restrictions on the ability of the bank to pay dividends to the company may restrict the ability of the company to pay dividends to the holders of its common stock.

Although Massachusetts law does not define what constitutes "net profits", it is generally assumed that the term includes a bank's undivided profits account (retained earnings) and does not include its surplus account (additional paid-in capital). At December 31, 1998, the bank's undivided profits account had a balance of $15.8 million and its surplus account had a balance of $8.6 million.

Item 6. Management Discussion and Analysis

Management's discussion and analysis should be read in conjunction with the company's consolidated financial statements and notes thereto contained in Item 7, and other financial and statistical information contained in this annual report. In addition, prevailing economic conditions, as well as government policies and regulations concerning, among other things, monetary and fiscal affairs, could significantly affect the operations of the company.

COMPARISON OF YEARS ENDED DECEMBER 31, 1998 AND 1997

Financial Condition

Total Assets

Total assets increased $37.9 million, or 11.7%, to $360.5 million at December 31, 1998 from $322.6 million at December 31, 1997. The increase, funded by deposit growth, was primarily from an increase in gross loans of $34.5 million, or 19.0%.

Loans

Total gross loans were $216.2 million, or 60% of total assets, at December 31, 1998, compared with $181.7 million, or 56.3% of total assets, at December 31, 1997. The increase was attributable to favorable economic conditions in the region, continued customer-call efforts, as well as increased marketing and advertising, and increased penetration in newer markets. During 1998, commercial real estate loans increased $13.4 million, or 20.0%, other loans secured by real estate increased by $5.5 million, or 9.9%, commercial loans increased by $13.4 million, or 31.7%, home equity loans increased $1.2 million, or 10.1%, and consumer loans increased $1.0 million, or 22.0%.

Asset Quality

The non-performing asset balance increased slightly to $1.7 million, at December 31, 1998, from $1.5 million from the previous year and has increased slightly as a percentage of gross loans. Delinquencies in the 30-89 day category have improved from 1.14% of gross loans at December 31, 1997 to .68% at December 31, 1998. Delinquencies in the 30-89 day category decreased from $2.1 million at December 31, 1997 to $1.5 million at December 31, 1998. Non-performing assets continue to be at very low levels due to management's continued efforts to work out existing problem assets and limited additions to this category, prudent underwriting standards and a strong economy.

The balance of other real estate owned ("OREO") at December 31, 1998 of $.3 million consisted of commercial real estate properties and represents a decrease of $.1 million compared to the prior year. See also Note 6 to the consolidated financial statements contained in Item 7.

The bank uses an asset classification system which classifies loans depending on risk of loss characteristics. The most severe classifications are "substandard" and "doubtful". At December 31, 1998, the bank classified $1.7 million and $0 as substandard and doubtful loans, respectively. Included in the substandard category is $820,000 in non-performing loans. The balance of substandard loans are performing but possess potential weaknesses and, as a result, could become non-performing loans in the future.

Allowance for Loan Losses

Inherent in the lending process is the risk of loss. While the bank endeavors to minimize this risk, management recognizes that loan losses will occur and that the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio, which in turn depends on a wide variety of factors, including current and expected economic conditions, the financial condition of borrowers, the ability of borrowers to adapt to changing conditions or circumstances affecting their business, the continuity of borrowers' management teams and the credit management process.

The allowance for loan losses is maintained through the provision for loan losses, which is a charge to earnings. The adequacy of the provision and the resulting allowance for loan losses is determined after a continuing review of the loan portfolio, including identification and review of individual problem situations that may affect the borrower's ability to repay, review of overall portfolio quality through an analysis of current charge-offs, delinquency and non-performing loan data, review of regulatory authority examinations and evaluations of loans, review of reports prepared by an independent loan review firm hired by the bank, comparisons to peer group ratios, an assessment of current and expected economic conditions, and review of changes in the size and character of the loan portfolio. Through this process, the allowance level is intended to reflect identified loss potential and perceived risk in the portfolio.

The bank regularly monitors the real estate market and the bank's asset quality to determine the adequacy of its allowance for loan losses through ongoing credit reviews by members of senior management, the overdue loan review committee, the executive committee and the board of directors.

The bank determines the adequacy of its allowance for loan losses by assigning loans to risk categories based on the type of loan and its classification. Each category is assessed for risk of loss based on historical experience and management's evaluation of the loans making up the category, including the level of loans on non-accrual and other delinquency factors including general economic conditions. The bank adjusts its analysis periodically to reflect changes in historical loss experience and the state of the current economy. The bank also determines the adequacy of its allowance for loan losses by comparison to peer group ratios. Otherwise, in conducting its analysis, the bank applies consistent criteria to the facts and circumstances then existing, as understood by the bank.

The ratio of the reserve to total gross loans outstanding was 2.42% at December 31, 1998 versus 2.36% at December 31, 1997. At year-end 1998, the allowance for loan losses represented 384.85% of non-performing loans compared to 384.06% at December 31, 1997. The provision for loan losses increased from $320,000 in 1997 to $1,030,000 in 1998. The increase was primarily a result of the strong loan growth over the past three years of $34.5 million, $36.4 million and $27.1 million in 1998, 1997 and 1996, respectively. During this time there has not been an increase in problem assets or any detected weaknesses in the bank's underwriting process. However, management does recognize the increase in risk and the need for additional reserves as loan balances and exposure to individual borrowers increase. While the bank believes that its allowance for loan losses is adequate to cover losses in its loan portfolio, there are uncertainties regarding the future of the national, New England, Greater Lowell and Leominster economies and real estate markets. The loan portfolio, particularly the real estate portion, could be negatively impacted by adverse changes in general economic conditions as well as in the local and regional real estate markets. As a result, there is no assurance that the level of non-accrual loans, restructured loans and real estate acquired by foreclosure, or similar proceedings, will not increase.

The classification of a loan or other asset as non-performing does not necessarily indicate that loan principal and interest will be ultimately uncollectable. However, management recognizes the greater risk characteristics of these assets and therefore considers the potential risk of loss on assets included in this category in evaluating the adequacy of the allowance for loan losses.

Based on the foregoing, as well as management's judgment as to the risks inherent in the loan portfolio, the bank's allowance for loan losses is deemed adequate to absorb all reasonably anticipated losses from specifically known and other credit risks associated with the portfolio as of December 31, 1998.

Investments

Investments (including federal funds sold) totaled $120.9 million, or 33.5% of total assets, at December 31, 1998, compared to $116.7 million, or 36.2% of total assets, at December 31, 1997. As of December 31, 1998, the net unrealized gain in the investment portfolio was $1.6 million compared to a net unrealized gain of $1.1 million at December 31, 1997. The net unrealized gain/loss in the portfolio fluctuates as interest rates rise and fall. Due to the fixed rate nature of the bank's investment portfolio, as rates rise the value of the portfolio declines, and as rates fall the value of the portfolio rises.

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 easily and efficiently. Liquidity policies are set and monitored by the bank's investment and asset/liability committee. The bank's liquidity is maintained by projecting cash needs, balancing maturing assets with maturing liabilities, monitoring various liquidity ratios, monitoring deposit flows, maintaining liquidity within the investment portfolio and maintaining borrowing ability at the Federal Home Loan Bank.

The bank's liability management objectives are to maintain liquidity, provide and enhance access to a diverse and stable source of funds, provide competitively priced and attractive products to customers, conduct funding at a low cost relative to current market conditions and engage in sound balance sheet management strategies. Funds gathered are used to support current asset levels and to take advantage of selected leverage opportunities. The bank funds earning assets with deposits, short-term borrowings and stockholders' equity. The bank does not currently have any brokered deposits. The bank has the ability to borrow funds from the Federal Home Loan Bank of Boston. Management believes that the bank has adequate liquidity to meet its commitments.

The company's primary source of funds is dividends from the bank.

Deposits and Borrowings

Deposits, including escrow deposits, increased $34.5 million, or 12.2%, to $318.4 million, at December 31, 1998, from $283.9 million, at December 31, 1997. The increase was largely due to branch expansion and increased penetration in existing markets due to enhancement of the bank's sales culture. Also contributing to the increase was a favorable customer response to a new IRA product.

Total borrowings consisting of securities sold under agreements to repurchase

(repurchase agreements) and FHLB borrowings decreased by $.4 million, or 3.1%, from December 31, 1997 to December 31, 1998. The decrease was attributable to a decrease in FHLB borrowings of $1.0 million offset by an increase in repurchase agreements of $.6 million. Management will take advantage of opportunities from time to time to fund asset growth with borrowings, but on a long-term basis, the bank's objective is to replace a portion of its borrowings with lower cost core deposits.

Capital Adequacy

The company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can result in certain mandatory, and possible additional discretionary, supervisory actions by regulators, which, if undertaken, could have a material adverse effect on the company's consolidated financial statements. At December 31, 1998 the capital levels of both the company and the bank complied with all applicable minimum capital requirements of the Federal Reserve Board and the FDIC, respectively, and both qualified as "well-capitalized" under applicable Federal Reserve Board and FDIC regulations. For additional information regarding the capital requirements applicable to the company and the bank and their respective capital levels at December 31, 1998, see note 9, "Stockholders' Equity", to the consolidated financial statements contained in Item 7.

Results of Operations

The company's results of operations depend primarily on the results of operations of the bank. The bank's results of operations depend primarily on the bank's net interest income, the difference between income earned on its loan and investment portfolios and the interest paid on its deposits and borrowed funds, and the size of the provision for loan losses. Net interest income is primarily affected in the short-term by the level of earning assets as a percentage of total assets, the level of interest-bearing and non-interest-bearing deposits, yields earned on assets, rates paid on liabilities, the level of non-accrual loans and changes in interest rates. The provision for loan losses is primarily affected by individual problem loan situations, overall loan portfolio quality, the level of net charge-offs, regulatory examinations, an assessment of current and expected economic conditions, and changes in the character and size of the loan portfolio. Earnings are also affected by the bank's non-interest income, which consists primarily of deposit account fees, trust fees, and gains and losses on sales of securities and loans, and the bank's level of non-interest expense and income taxes.

General

The company had net income in 1998 of $3.5 million, or $1.11 per share and $1.06 per share on a basic and fully diluted basis, respectively, compared with net income in 1997 of $2.9 million, or $.93 per share and $.91 per share on a basic and fully diluted basis, respectively. (All per share amounts have been restated to give effect to a 2:1 stock split effective January 4, 1999.) The increase in net income of $.6 million, or 20%, was primarily a result of an increase in net interest income of $1.9 million as the result of an increase in loans and an increase in gains on sales of investments and loans of $.5 million and $.2 million, respectively. These increases were partially offset by an increase in the provision for loan losses of $.7 million and increases in non-interest expenses of $1.8 million. The increase in non-interest expense was primarily due to the increased costs associated with operating the Dracut branch for the first full year, the increased overhead associated with the overall growth of the bank, and various strategic initiatives.

Net Interest Income

The table on the following page presents the bank's average balance sheet, net interest income and average rates for the years ended December 31, 1998, 1997 and 1996.

The following table sets forth, among other things, 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 years ended December 31, 1998 and 1997. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume (change in average portfolio balance multiplied by prior year average rate); (2) changes in interest rates (change in average interest rate multiplied by prior year average balance); and (3) changes in rate and volume (the remaining difference).
<TABLE>
<CAPTION>

December 31,

($ in thousands)	1998 vs. 1997 Volume	Rate	Rate/ Volume	Total	1997 vs. 1996 Volume	Rate	Rate/ Volume	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Interest Income								
Loans	$ 3,635	$ (342)	$ (80)	$ 3,213	$ 3,299	$ (133)	$ (35)	$ 3,131
Investments	(1,043)	(107)	(127)	(1,277)	709	143	(21)	831
Federal funds	478	(4)	(13)	461	8	(4)	(1)	3
Total	3,070	(453)	(220)	2,397	4,016	6	(57)	3,965
Interest Expense								
Savings/NOW/MM	149	(197)	(12)	(60)	429	83	19	531
Time deposits	934	(91)	(14)	829	842	(172)	(26)	644
Other borrowings	(161)	(165)	33	(293)	175	(4)	(1)	170
Total	922	(453)	7	476	1,446	(93)	(8)	1,345
Change in net interest income	$ 2,148	$ -	$ (227)	$ 1,921	$ 2,570	$ 99	$ (49)	$ 2,620

</TABLE>

<TABLE>
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AVERAGE BALANCES, INTEREST AND AVERAGE INTEREST RATES

($ in thousands)	Year Ended December 31, 1998 Average Balance	Interest	Average Interest Rate(4)	Year Ended December 31, 1997 Average Balance	Interest	Average Interest Rate(4)	Year Ended December 31, 1996 Average Balance	Interest	Average Interest Rate(4)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Assets:									
Loans (1)(2)	$200,491	$18,810	9.38%	$162,594	$15,597	9.59%	$128,572	$12,466	9.70%
Investment securities (4)	105,435	6,307	6.45	121,401	7,584	6.54	110,338	6,753	6.41
Federal funds sold	11,484	602	5.24	2,615	141	5.39	2,476	138	5.57
Total interest earnings assets	317,410	25,719	8.26%	286,610	23,322	8.26%	241,386	19,357	8.15%
Other assets (3)	21,626			19,987			14,367		
Total assets	$339,036			$306,597			$255,753		
Liabilities and stockholders' equity:									
Savings, NOW and money market	$110,770	$ 2,392	2.16%	$104,441	$ 2,452	2.35%	$ 85,368	$ 1,921	2.25%
Time deposits	131,773	7,084	5.38	114,656	6,255	5.46	99,696	5,611	5.63
Short-term borrowings	14,683	522	3.56	18,290	815	4.46	14,392	645	4.48
Total interest-bearing deposits and borrowings	257,226	9,998	3.89%	237,387	9,522	4.01%	199,456	8,177	4.10%
Non-interest bearing deposits	54,161			45,371			34,884		
Other liabilities	2,578			2,069			1,766		
Total liabilities	313,965			284,827			236,106		
Stockholders' equity	25,071			21,770			19,647		
Total liabilities and stockholders' equity	$339,036			$306,597			$255,753		

Net interest rate spread	4.37%	4.25%	4.05%
Net interest income	$15,721	$13,800	$11,180
	=======	=======	=======
Net yield on average earning assets	5.11%	4.94%	4.76%

<FN>

(1) Average loans include non-accrual loans.

(2) Average loans are net of average deferred loan fees.

(3) Other assets include cash and due from banks, accrued interest receivable, allowance for loan losses, real estate acquired by foreclosure, deferred income taxes and other miscellaneous assets.

(4) Average balances are presented at average amortized cost and average interest rates are presented on a tax-equivalent basis.

</FN>

</TABLE>

The bank manages its earning assets by fully using available capital resources within what management believes are prudent credit and leverage parameters. Loans, investment securities, and federal funds sold comprise the bank's earning assets.

Interest income on loans increased in the year ended December 31, 1998 to $18.8 million from $15.6 million for the year ended December 31, 1997. The increase was primarily due to an increase in the average gross loan balance from $162.6 million in fiscal 1997 to $200.5 million in fiscal 1998. Partially offsetting the increase was a decrease in the average interest rate earned on loans from 9.59% in fiscal 1997 to 9.38% in fiscal 1998. The decrease in the interest rate earned was attributed primarily to a decrease in the prime rate.

Interest income on investments decreased for the year ended December 31, 1998 to $6.3 million from $7.6 million for the year ended December 31, 1997. The decrease was primarily due to a decrease in the average investment portfolio balance from $121.4 million in fiscal 1997 to $105.4 million in fiscal 1998. Also contributing to the decrease was a decrease in the average interest rate earned on investments from 6.54% in fiscal 1997 to 6.45% in 1998, both on a tax equivalent basis. The decline in interest rate was attributable to lower interest rates received on reinvestment of the proceeds from sales of securities and proceeds from securities called by issuing agencies.

Interest expense on savings, NOW and money market accounts remained consistent at $2.4 million for the years ended December 31, 1998 and December 31, 1997. An increase in average balance from $104.4 million in fiscal 1997 to $110.8 million in fiscal 1998 was offset by a decline in interest rate paid from 2.35% in fiscal 1997 to 2.16% in fiscal 1998. The decline in rate was due to a change in mix and decline in interest rates that are indexed to changes in U.S. treasury rates.

Interest expense on time deposits increased to $7.1 million for the year ended December 31, 1998 compared to $6.3 million for the year ended December 31, 1997. The increase was due to an increase in the average balance from $114.7 million in fiscal 1997 to $131.8 million in fiscal 1998. The increase in balance was partially offset by a decline in the average interest rate paid from 5.46% in fiscal 1997 to 5.38% in fiscal 1998. The decline in the interest rate paid on time deposits was due to both the run-off of higher rate time deposits and the decline in rates offered by the bank, in response to changes in the market. Management will, from time to time, offer special programs with interest rates slightly higher than market on certificates of deposit to generate market share and penetration at the newer branches.

Interest expense on short-term borrowings, including borrowings from the Federal Home Loan Bank and repurchase agreements, decreased to $.5 million in fiscal 1998 from $.8 million in fiscal 1997. The decrease was due to both a decrease in the average balance and interest rate paid. The decline in rate was primarily due to a change in mix, specifically a reduction in FHLB advances and an increase in repurchase agreements, which bear a lower rate of interest.

The net interest rate spread and net yield on average earning assets both increased to 4.37% and 5.11%, respectively, for the year ended December 31, 1998, from 4.25% and 4.94%, respectively, for the year ended December 31, 1997. The increase in these rates was due to an increase in the loan to deposit ratio and a decline in the bank's cost of funds.

Provision for Loan Losses

The provision for loan losses amounted to $1,030,000 and $320,000 for the years ended December 31, 1998 and 1997, respectively. Loans, before the allowance for loan losses, have increased from $180.6 million, at December 31, 1997 to $215.2 million, at December 31, 1998, or an increase of 19.2%. Although there has not been an increase in problem assets or any change in the bank's underwriting practices, management recognizes the increased risk and the need for additional reserves as the loan balances increase. Additionally the allowance for loan loss:gross loan ratio has declined from 2.68% at December 31, 1996 to 2.36% and 2.42% at December 31, 1997 and 1998, respectively. The provision reflects real estate values and economic conditions in New England and in Greater Lowell, in particular, the level of non-accrual loans, levels of charge-offs and recoveries, levels of outstanding loans, known and inherent risks in the nature of the loan portfolio and management's assessment of current risk. The provision for loan losses for the year ended 1998, reflects both reserves for new origination and related decline in reserve coverage and management's assessment of appropriateness of reserves on existing balances. The provision for loan losses is a significant factor in the bank's operating results.

Non-Interest Income

Non-interest income, exclusive of net gains or losses on sales of securities, increased by $512,000 to $2,441,000 for the year ended December 31, 1998, compared to $1,929,000 for the year ended December 31, 1997. This increase was a result of increases in gains on sales of loans and trust fees.

Deposit fees remained relatively consistent at $905,000 and $900,000 in fiscal 1998 and 1997, respectively, due to the concentration of deposit growth in accounts not generating deposit fee income, such as checking accounts, which generate earnings credits towards fees, or time deposits.

Trust fees increased by $297,000, or 41.8%, due to an increase in trust assets under management.

Gains on sales of loans increased by $194,000 from fiscal 1997 to fiscal 1998, as a result of increased loan origination volume caused by low interest rates and a resulting high amount of refinance activity.

Other income increased slightly by $16,000 from fiscal 1997 to fiscal 1998. Increases in check printing and wire fees were partially offset by a reduction in loan servicing income.

Gains (Losses) on Sales of Securities

Net gains from the sales of investment securities totaled $476,000 in 1998 versus net losses of $37,000 in 1997. The net gain resulted from sales of securities based on management's decision to take advantage of certain investment opportunities and asset/liability repositioning and gains on certain securities purchased at a discount, which were called by the issuer.

Non-Interest Expense

Salaries and benefits expense totaled $7,327,000 for the year ended December 31, 1998, compared with $6,421,000 in 1997, an increase of $906,000, or 14.1%. This increase was primarily the result of the addition of staff, a full year's expense for the Dracut branch, an increase in employee bonuses and annual salary increases.

Occupancy expense was $2,196,000 for the year ended December 31, 1998, compared with $1,769,000 in 1997, an increase of $427,000 or 24.1% due to the operation for a full year of the Dracut branch, which was opened in November of 1997, the leasing, in September of 1997, of additional space for the bank's training center and credit department, expansion of the mortgage center in 1998 and enhancements to the bank's computer systems.

Audit, legal and other professional expenses increased by $280,000, or 60.3%, in 1998 primarily as a result of expenses associated with the implementation of certain tax strategies discussed below.

Advertising and public relations expenses increased to $499,000 for the year ended December 31, 1998 from $435,000 in 1997. The increase was primarily due to increased advertising for the Dracut branch and expenses associated with the bank's tenth anniversary.

Office and data processing supplies expense decreased by $21,000, or 5.8%, in the year ended December 31, 1998, primarily due to various cost saving initiatives.

Trust professional and custodial expenses increased by $62,000, or 27.2%, due to an increase in trust assets under management, as well as additional services being provided by the trust department.

The company's effective tax rate for the year ended December 31, 1998 was 29.4% compared to 36.1% for the year ended December 31, 1997. The reduction in rate is a result of the implementation of certain tax strategies. Professional fees associated with these strategies were fully absorbed in 1998. These expenses offset any tax benefit obtained in 1998. However, absent any change in tax laws, these strategies are expected to have a positive effect on the company's net income beginning in 1999.

Year 2000 Compliance

The company is currently in the process of determining, testing and remediating the impact of the so-called "millenium" or "Y2K" problem (i.e., that many existing computer chips and programs use only two digits to identify the year in a date field and if such programs are not corrected many computer applications or computer chip dependent operations could fail or create erroneous results by or beginning in the year 2000). While most view the project as a data processing or computer concern, every department and function of the company is affected and must be included in the company's analysis and compliance process. The remediation efforts discussed below relate to both information technology systems (i.e. computer systems, phone systems, telecommunications, etc.) and non-information technology systems (i.e. alarm systems, security system, elevators, electrical systems, etc.).

The company primarily utilizes internal resources to manage the Y2K remediation process and test, update, and/or replace all software information systems for Y2K modifications. The company has formed a "Year 2000 Steering Committee" consisting of various members of senior management and all department managers. The Year 2000 Steering Committee's purpose is to evaluate risks, formulate timetables and allocate resources to ensure timely and effective completion of Y2K testing and remediation. The company also has a technology committee, consisting of certain members of the Board of Directors and management, which oversees the Year 2000 Steering Committee and is responsible for ensuring proper reporting of results to the full Board of Directors. One full time information system specialist is solely devoted to Y2K issues. Many other employees are also actively involved including each department manager, members of their staff and the entire information systems department. The company also utilizes external resources (information systems consultants, auditors, speakers, accountants, etc.) as deemed necessary by the various committees and management.

Management has completed its assessment of Y2K issues, developed a plan, begun testing its various software information systems and arranged for the required resources, based on anticipated needs, to complete the necessary remediation. Management has completed the changes to and testing of internal mission critical information systems for the Y2K project and expects to complete the changes and testing required for mission critical systems associated with service providers by June 30, 1999, which is the timeframe established by the Federal Financial Institutions Examination Council ("FFIEC"). Mission critical systems are those critical to daily operations and failure of which would result in definite disruption to business. Testing of the company's non-mission critical applications will continue into 1999 and will be completed prior to any anticipated impact on its operating systems. Contingency plans are also being developed for each function so that the company is adequately prepared in the event of a system failure, despite remediation efforts. A sub-committee of the Y2K Steering Committee has been formed to facilitate preparation of contingency plans. These contingency plans will be completed prior to June 30, 1999, in accordance with FFIEC guidelines. Additionally, the bank has formed a coalition with surrounding financial institutions to periodically meet and discuss contingency plans and pool resources to deal with potential disruptions. (i.e. failure of security systems, failure of electrical grids, cash needs, etc.)

Included in other non-interest expenses are charges incurred in connection with the preparation, testing, modification or replacement of software and hardware in connection with the process of rendering the company's computer systems Y2K compliant. Excluding internal salary and benefit costs, approximately $10,000 in costs associated with Y2K remediation efforts were expended through December 31, 1998. Management expects that the majority of the costs that will be incurred (as disclosed below) will be to replace or upgrade existing hardware and software which will be capitalized and amortized in accordance with the company's existing accounting policy, while miscellaneous consulting, salary, maintenance and modification costs will be expensed as incurred. Anticipated future costs, excluding internal salary and benefit costs, associated with Y2K compliance are estimated at $75,000, which includes upgrades of security systems, modifications to the automated teller machines, consulting costs and changes to the telecommunications network. Other than the one dedicated information system specialist the company does not separately track the portion of its salary and benefit costs allocable to the Y2K project. It is not anticipated that material incremental costs will be incurred in any single period.

The cost of the project and the date on which the company plans to complete the Y2K modifications are based on management's best estimates, which were derived utilizing numerous assumptions of future events including the continued availability of certain resources, third party availability and other factors. However, there can be no guarantee that these estimates will be achieved and actual results could differ materially from those plans. Specific factors that might cause such material differences include, but are not limited to, the availability and cost of personnel trained in this area, employee turnover, non-compliance of the company's vendors or service providers and similar uncertainties. The company is working closely with all of its vendors and service providers to determine the extent to which the company is vulnerable to those third parties' failure to remediate their own Y2K issues.

Management recognizes the potential risk of Y2K on the bank's customers. The bank has approached the credit risk component of Y2K through education of all lending officers, education of customers, analysis of the bank's loan portfolio, and consideration of Y2K in the underwriting of loans. All lending officers were required to undergo internal training to learn the potential risks of Y2K. The bank sponsored numerous seminars for bank customers during the year and distributed literature regarding Y2K to all customers. An analysis of the bank's commercial loan portfolio was performed to determine potential exposure to the bank. Increases in the allowance for loan loss, solely as a result of Y2K, were not deemed necessary. Any new commercial loans require an assessment of the customer's Y2K compliance as part of preliminary underwriting. The need for additional provisions to the bank's allowance for loan losses resulting from borrowers' Y2K compliance problems will be considered, on an ongoing basis, based on management's assessment of the potential exposure of its customer base to such problems.

The internal and external risks associated with Y2K are numerous. The company is addressing the Y2K issue in accordance with regulatory guidelines promulgated by the FFIEC. However, there can be no guarantee that the systems of the company, bank customers or other associated companies (i.e. electric company, telephone company, printing companies, office supply companies, etc.) will be timely remediated. There can be no guarantee that the systems of third party vendors on which the company's systems rely will be timely remediated. The failure of the company or a critical third party vendor to timely remediate Y2K issues might cause, among other things, systems malfunctions, incorrect or incomplete transaction processing or the inability to reconcile accounting books and records.

The company's operations and/or financial condition could possibly be negatively impacted to the extent the company, customers or entities affiliated with the company are unsuccessful in timely and properly addressing their respective Y2K compliance responsibilities.

Proposed Accounting Rule Changes

In June 1998, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in its balance sheet and measure those instruments at fair market value. Under this statement, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The company does not currently have any instruments that are covered by this statement. This statement is not expected to have a material effect on the company's consolidated financial statements.

Item 7. Financial Statements

Index to Consolidated Financial Statements

Independent Auditors' Report

The Board of Directors
Enterprise Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Enterprise Bancorp, Inc. and subsidiary (the "Company") as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Bancorp, Inc. and subsidiary at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with generally accepted accounting principles.

/s/ KPMG Peat Marwick LLP

January 7, 1999
Boston, Massachusetts

<TABLE>
<CAPTION>

ENTERPRISE BANCORP, INC.

Consolidated Balance Sheets

December 31, 1998 and 1997

($ in thousands)	1998	1997
<S>	<C>	<C>
Assets		
Cash and cash equivalents:		
Cash and due from banks (Note 14)	$ 19,668	19,779
Daily federal funds sold	6,255	3,775
Total cash and cash equivalents	25,923	23,554
Investment securities at fair value (Notes 2 and 8)	114,659	112,886
Loans, less allowance for loan losses of $5,234 in 1998 and $4,290 in 1997 (Notes 3 and 8)	209,978	176,294
Premises and equipment (Note 4)	4,272	4,079
Accrued interest receivable (Note 5)	2,424	2,971
Deferred income taxes, net (Note 12)	1,787	1,581
Prepaid expenses and other assets	863	645
Income taxes receivable	271	220
Real estate acquired by foreclosure (Note 6)	304	393
Total assets	$360,481	322,623
Liabilities and Stockholders' Equity		
Deposits (Note 7)	$317,666	283,249
Short-term borrowings (Notes 2 and 8)	12,085	12,467
Escrow deposits of borrowers	687	612
Accrued expenses and other liabilities	2,222	1,884
Accrued interest payable	623	566
Total liabilities	333,283	298,778

Commitments and contingencies (Notes 4, 8, 13 and 14)

Stockholders' equity (Notes 1, 9 and 10):		
Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares issued	--	--
Common stock $.01 par value; 5,000,000 shares authorized; 3,167,684 and 3,160,434 shares issued and outstanding at December 31, 1998 and December 31, 1997, respectively	32	32
Additional paid-in capital	15,560	15,515
Retained earnings	10,610	7,663
Accumulated other comprehensive income	996	635
Total stockholders' equity	27,198	23,845
Total liabilities and stockholders' equity	$360,481	322,623

<FN>
See accompanying notes to consolidated financial statements.
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ENTERPRISE BANCORP, INC.
Consolidated Statements of Income
Years Ended December 31, 1998, 1997 and 1996

($ in thousands, except per share data)	1998	1997	1996
<S>	<C>	<C>	<C>
Interest and dividend income:			
Loans	$ 18,810	15,597	12,466
Investment securities	6,307	7,584	6,753
Federal funds sold	602	141	138
Total interest income	25,719	23,322	19,357
Interest expense:			
Deposits	9,476	8,707	7,532
Borrowed funds	522	815	645
Total interest expense	9,998	9,522	8,177
Net interest income	15,721	13,800	11,180
Provision for loan losses (Note 3)	1,030	320	--
Net interest income after provision for loan losses	14,691	13,480	11,180
Non-interest income:			
Trust fees	1,007	710	631
Deposit service fees	905	900	708
Net gains (losses) on sales of investment securities (Note 2)	476	(37)	2
Gains on sales of loans	229	35	68
Other income	300	284	311
Total non-interest income	2,917	1,892	1,720
Non-interest expense:			
Salaries and employee benefits (Note 11)	7,327	6,421	5,219
Occupancy expenses (Note 4 and 13)	2,196	1,769	1,503
Audit, legal and other professional fees	744	464	282
Advertising and public relations	499	435	482
Office and data processing supplies	342	363	283
Trust professional and custodial expenses	290	228	223
Other operating expenses	1,253	1,135	1,049
Total non-interest expense	12,651	10,815	9,041
Income before income taxes	4,957	4,557	3,859
Income tax expense (Note 12)	1,456	1,645	1,447

Net income	$ 3,501	2,912	2,412
Basic earnings per share	$ 1.11	.93	.77
Diluted earnings per share	$ 1.06	.91	.76
Basic weighted average common shares outstanding	3,165,134	3,152,924	3,152,046
Diluted weighted average common shares outstanding	3,299,432	3,224,054	3,193,728

<FN>
See accompanying notes to consolidated financial statements.
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ENTERPRISE BANCORP, INC.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 1998, 1997 and 1996

($ in thousands)	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings
<S>	<C>	<C>	<C>	<C>
Balance at December 31, 1995	3,151,784	$ 3,152	$ 12,337	$ 3,324
Comprehensive Income				
Net income				2,412
Unrealized gains on securities, net of reclassification				
Total comprehensive income				
Common stock dividend declared ($.15 per share)				(473)
Stock options exercised before reorganization (Note 10)	250	--	1	
Exchange of Enterprise Bank and Trust stock for Enterprise Bancorp, Inc. stock (Note 1)	(3,152,034)	(3,152)	(12,338)	
Issuance of $.01 par Enterprise Bancorp, Inc. stock (Note 1)	3,152,034	32	15,459	
Stock options exercised after reorganization (Note 10)	350	--	2	
Balance at December 31, 1996	3,152,384	32	15,461	5,263
Comprehensive income				
Net income				2,912
Unrealized gains on securities, net of reclassification				
Total comprehensive income				
Common stock dividend declared ($.1625 per share)				(512)
Stock options exercised (Note 10)	8,050	--	54	
Balance at December 31, 1997	3,160,434	32	15,515	7,663
Comprehensive income				
Net Income				3,501
Unrealized gains on securities, net of reclassification				
Total comprehensive income				
Common stock dividend declared ($.175 per share)				(554)
Stock options exercised (Note 10)	7,250	--	45	
Balance at December 31, 1998	3,167,684	$ 32	$15,560	$10,610

<CAPTION>

	Comprehensive Income Period	Comprehensive Income Accumulated	Total Stockholders' Equity
<S>	<C>	<C>	<C>

Balance at December 31, 1995		$ 152	$ 18,966
Comprehensive Income			
Net income	$ 2,412		2,412
Unrealized gains on securities, net of reclassification	(260)	(260)	(260)
Total comprehensive income	$ 2,152		
Common stock dividend declared ($.15 per share)			(473)
Stock options exercised before reorganization (Note 10)			1
Exchange of Enterprise Bank and Trust stock for Enterprise Bancorp, Inc. stock (Note 1)			(15,491)
Issuance of $.01 par Enterprise Bancorp, Inc. stock (Note 1)			15,491
Stock options exercised after reorganization (Note 10)			2
Balance at December 31, 1996		(108)	20,648
Comprehensive income			
Net income	2,912		2,912
Unrealized gains on securities, net of reclassification	743	743	743
Total comprehensive income	$ 3,655		
Common stock dividend declared ($.1625 per share)			(512)
Stock options exercised (Note 10)			54
Balance at December 31, 1997		635	23,845
Comprehensive income			
Net Income	3,501		3,501
Unrealized gains on securities, net of reclassification	361	361	361
Total comprehensive income	$3,862		
Common stock dividend declared ($.175 per share)			(554)
Stock options exercised (Note 10)			45
Balance at December 31, 1998		$ 996	$ 27,198

<CAPTION>

Disclosure of reclassification amount:	1998	1997	1996
<S>	<C>	<C>	<C>
Gross unrealized gains arising during the period	$ 994	$ 1,217	$ (449)
Less: tax effect	(321)	(496)	190
Unrealized holding gains, net of tax	673	721	(259)
Less: reclassification adjustment for gains/(losses) included in net income (net of $164, ($15), and $1 tax, respectively)	312	(22)	1
Unrealized gains on securities, net of reclassification	$ 361	$ 743	$ (260)

<FN>
See accompanying notes to consolidated financial statements.
</FN>
</TABLE>

<TABLE>
<CAPTION>

ENTERPRISE BANCORP, INC.

Consolidated Statements of Cash Flows

Years Ended December 31, 1998, 1997 and 1996

($ in thousands)	1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			

Net income	$ 3,501	2,912	2,412
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	1,030	320	--
Depreciation and amortization	1,134	945	874
Net (gains) losses on sale of investments	(476)	37	(2)
Gain on sale of loans	(229)	(35)	(68)
Loss on sale of real estate	14	23	--
Decrease in loans held for sale, net of gain	229	109	1,849
Decrease (increase) in accrued interest receivable	547	(271)	(877)
Increase in prepaid expenses and other assets	(218)	(154)	(200)
(Benefit) provision for deferred income taxes	(363)	(208)	47
Increase in accrued expenses and other liabilities	338	599	84
Increase (decrease) in accrued interest payable	57	60	(43)
Increase in income taxes receivable	(51)	(80)	(314)
Net cash provided by operating activities	5,513	4,257	3,762
Cash flows from investing activities:			
Proceeds from sales of investment securities	21,252	9,269	5,920
Proceeds from maturities, calls and paydowns of investment securities	40,388	13,901	9,237
Purchase of investment securities	(62,476)	(15,505)	(56,306)
Proceeds from sales of real estate acquired by foreclosure	173	200	28
Net increase in loans	(34,812)	(36,696)	(28,344)
Additions to premises and equipment, net	(1,270)	(1,573)	(1,681)
Purchase of real estate owned as a result of foreclosure/workout activities	--	(100)	--
Net cash used in investing activities	(36,745)	(30,504)	(71,146)
Cash flows from financing activities:			
Net increase in deposits	34,417	39,820	47,412
Net (decrease) increase in short-term borrowings	(382)	(4,270)	9,756
Net increase in escrow deposits of borrowers	75	201	33
Cash dividends paid	(554)	(512)	(473)
Net proceeds from exercise of stock options	45	54	2
Net cash provided by financing activities	33,601	35,293	56,730
Net increase (decrease) in cash and cash equivalents	2,369	9,046	(10,654)
Cash and cash equivalents at beginning of year	23,554	14,508	25,162
Cash and cash equivalents at end of year	$ 25,923	23,554	14,508

<CAPTION>
See accompanying notes to consolidated financial statements.

(continued)

ENTERPRISE BANCORP, INC.

Consolidated Statements of Cash Flows
(Continued)

Years Ended December 31, 1998, 1997 and 1996

<S>	1998 <C>	1997 <C>	1996 <C>
Supplemental financial data:			
Cash paid for:			
Interest on deposits and short-term borrowings	$9,941	9,480	8,233
Income taxes	1,996	1,933	1,714
Transfers from real estate acquired by foreclosure to loans	--	--	312

Transfers from loans to real estate acquired by foreclosure	98	433	5

<FN>
See accompanying notes to consolidated financial statements.
</FN>
</TABLE>

ENTERPRISE BANCORP, INC.

Notes to Consolidated Financial Statements

Years Ended December 31, 1998, 1997 and 1996

(1) Summary of Significant Accounting Policies

(a) Holding Company Formation - Agreement and Plan of Reorganization

Enterprise Bancorp, Inc. (the "company") was organized on February 29, 1996 at the direction of Enterprise Bank and Trust Company (the "bank") for the purpose of becoming the holding company of the bank. The company entered into an Agreement and Plan of Reorganization with the bank dated as of February 29, 1996 (the "Plan of Reorganization"). On July 26, 1996, pursuant to the Plan of Reorganization, the company acquired all of the outstanding common stock, $1.00 par value, of the bank in a share-for-share exchange for common stock of the company (the "Reorganization"). Upon the effectiveness of the Reorganization, the bank became the wholly owned subsidiary of the company and the former shareholders of the bank became the shareholders of the company.

At the time of its organization the company's Articles of Organization provided for 500,000 shares of common stock, $.01 par value, and 10,000 shares of preferred stock, $.01 par value. On July 17, 1996, the Articles of Organization of the company were amended to increase the company's authorized capital to 1,000,000 shares of preferred stock, $.01 par value, and 5,000,000 shares of common stock, $.01 par value.

(b) Basis of Presentation

The consolidated financial statements of Enterprise Bancorp, Inc. include the accounts of the company and its wholly owned subsidiary, the bank, Enterprise Bank and Trust Company. The bank has two wholly owned subsidiaries Enterprise Securities Corporation, Inc., which was incorporated on March 1, 1991 to hold certain investment securities, and ERT Holdings, Inc. ERT Holdings' sole purpose is to serve as the vehicle for the bank's indirect ownership of Enterprise Realty Trust, Inc. Enterprise Realty Trust invests in commercial and residential mortgage loans originated by the bank. All significant intercompany accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the company conform to generally accepted accounting principles and to prevailing practices within the banking industry.

The business and operations of the company are subject to the regulatory oversight of the Board of Governors of the Federal Reserve System. The Massachusetts Commissioner of Banks also retains supervisory jurisdiction over the company. To the extent that the accompanying financial statements contain information as of a date or for a period prior to July 26, 1996, such information pertains to the bank. The company had no material assets or operations prior to completion of the Reorganization on July 26, 1996.

Enterprise Bank and Trust Company is a Massachusetts trust company which commenced banking operations on January 3, 1989. The bank's main office is located at 222 Merrimack Street in Lowell, Massachusetts. The bank began offering trust services in June of 1992. Branch offices were opened in Chelmsford, Massachusetts in June of 1993, Leominster, Massachusetts in May of 1995, Billerica, Massachusetts in June of 1995, Tewksbury, Massachusetts in October of 1996 and Dracut, Massachusetts in November of 1997. The bank's deposit-gathering and lending activities are conducted primarily in Lowell and the surrounding Massachusetts cities and towns of Andover, Billerica, Chelmsford, Dracut, Tewksbury, Tyngsboro, Westford, Leominster and Fitchburg. The bank offers a range of commercial and consumer services with a goal of satisfying the needs of consumers, small and medium-sized businesses and professionals.

The bank's deposit accounts are insured by the Bank Insurance Fund of the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum amount provided by law. The FDIC and the Massachusetts Commissioner of Banks (the "Commissioner") have regulatory authority over the bank.

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported values of assets and liabilities at the balance sheet date and income and expenses for the years. Actual results, particularly regarding the estimate of the allowance for loan losses may differ significantly from these estimates.

(c) Investment Securities

Investment securities that are intended to be held for indefinite periods of time but which may not be held to maturity or on a long-term basis are considered to be "available for sale" and are carried at fair value. Net unrealized gains and losses on investments available for sale, net of applicable income taxes, are reflected as a component of stockholders' equity. Included as available for sale are securities that are purchased in connection with the company's asset/liability risk management strategy and that may be sold in response to changes in interest rates, resultant prepayment risk and other related factors. In instances where the company has the positive intent to hold to maturity, investment securities will be classified as held to maturity and carried at amortized cost. At December 31, 1998 and 1997, all of the company's investment securities were classified as available for sale and carried at fair value.

Investment securities' discounts are accreted and premiums are amortized over the period of estimated principal repayment using methods which approximate the interest method.

Gains or losses on the sale of investment securities are recognized at the time of sale on a specific identification basis.

(d) Loans

The company grants single family and multi-family residential loans, commercial real estate loans, commercial loans and a variety of consumer loans. In addition, the company grants loans for the construction of residential homes, multi-family properties, commercial real estate properties and for land development. Most loans granted by the company are collateralized by real estate or equipment and/or are guaranteed by the borrower. The ability and willingness of the single family residential and consumer borrowers to honor their repayment commitments is generally dependent on the level of overall economic activity and real estate values within the borrowers' geographic areas. The ability and willingness of commercial real estate, commercial and construction loan borrowers to honor their repayment commitments is generally dependent on the health of the real estate sector in the borrowers' geographic areas and the general economy.

Loans are reported at the principal amount outstanding, net of deferred origination fees and costs. Loan origination fees received are offset with direct loan origination costs and are deferred and amortized over the life of the related loans using the level-yield method or are recognized in income when the related loans are sold or paid off.

Loans on which the accrual of interest has been discontinued are designated as non-accrual loans. Accrual of interest on loans is discontinued either when reasonable doubt exists as to the full and timely collection of interest or principal, or generally when a loan becomes contractually past due by 60 days or a mortgage loan becomes contractually past due by 90 days with respect to interest or principal. When a loan is placed on non-accrual status, all interest previously accrued but not collected is reversed against current period interest income. Interest accruals are resumed on such loans only when payments are brought current and when, in the judgment of management, the collectability of both principal and interest is reasonably assured. Payments received on loans in a non-accrual status are generally applied to principal.

Loans held for sale are carried at the lower of aggregate amortized cost or market value, giving consideration to commitments to originate additional loans and commitments to sell loans. When loans are sold, a gain or loss is recognized to the extent that the sales proceeds exceed or are less than the carrying value of the loans. Gains and losses are determined using the specific identification method.

(e) Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to operations. Loan losses are charged against the allowance when management believes that the collectability of the loan principal is unlikely. Recoveries on loans previously charged-off are credited to the allowance.

The determination of the adequacy of the allowance is based upon management's assessment of risk elements in the portfolio, factors affecting loan quality, and assumptions about the economic environment in which the bank operates. The process includes identification and analysis of loss potential in various portfolio segments utilizing a credit risk grading process and specific reviews and evaluations of significant individual problem loans. In addition, management reviews overall portfolio quality through an analysis of current levels and trends in charge-offs, delinquency and non-performing loan data, peer group data, forecasts of economic conditions and the overall banking environment. These reviews are dependent upon estimates, appraisals, and judgments, which can change quickly because of changing economic conditions and the management's perception as to how these conditions affect the debtors' economic prospects.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the company's allowance for loan losses. Such agencies may require the company to recognize additions to the allowance based on judgments different from those of management.

(Continued)

Impaired loans are individually significant commercial and commercial real estate loans for which it is probable that the company will not be able to collect all amounts due in accordance with contractual terms. Impaired loans are accounted for, except those loans that are accounted for at fair value or at lower of cost or fair value, at the present value of the expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loans. Impaired loans exclude large groups of smaller-balance homogeneous loans that are collectively evaluated for impairment, loans that are measured at fair value and leases and debt securities as defined in SFAS No. 115. Management considers the payment status, net worth and earnings potential of the borrower, and the value and cash flow of the collateral as factors to determine if a loan will be paid in accordance with its contractual terms. Management does not set any minimum delay of payments as a factor in reviewing for impaired classification. Impaired loans are charged-off when management believes that the collectability of the loan's principal is remote.

(f) Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the related asset categories as follows:

Leasehold improvements	10 years
Computer software and equipment	3 to 5 years

Furniture, fixtures and equipment	3 to 5 years

(g) Real Estate Acquired by Foreclosure

Real estate acquired by foreclosure is comprised of properties acquired through foreclosure proceedings or acceptance of a deed in lieu of foreclosure. Real estate formally acquired in settlement of loans is initially recorded at the lower of the carrying value of the loan or the fair value of the property constructively or actually received less estimated selling costs. Loan losses arising from the acquisition of such properties are charged against the allowance for loan losses. Operating expenses and any subsequent provisions to reduce the carrying value to net fair value are charged to real estate operations in the current period. Gains and losses upon disposition are reflected in earnings as realized.

(h) Income Taxes

The company uses the asset and liability method of accounting for income taxes. Under this method deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities will be adjusted accordingly through the provision for income taxes.

(i) Stock Options

The company measures compensation cost for stock-based compensation plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, no compensation cost is recorded if, at the grant date, the exercise price of the options is equal to the fair market value of the company's common stock.

(Continued)

(j) Trust Assets

Securities and other property held in a fiduciary or agency capacity are not included in the consolidated balance sheets because they are not assets of the company. Trust assets under management at December 31, 1998 and 1997 totaled $195.4 million and $165.7 million, respectively. Income from trust activities is reported on an accrual basis.

(k) Earnings Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the effect on weighted average shares outstanding of the number of additional shares outstanding if dilutive stock options were converted into common stock using the treasury stock method. The increase in average shares outstanding, using the treasury stock method, for the diluted earnings per share calculation were 134,298, 71,130 and 41,682 for the years ended December 31, 1998, 1997 and 1996, respectively.

(l) Other Accounting Rule Changes

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income". SFAS 130 establishes standards of reporting and displaying comprehensive income, which is defined as all changes to equity except investments and distributions to shareholders. Net income is a component of comprehensive income, with all other components referred to in the aggregate as other comprehensive income. This statement is effective for the 1998 financial statements.

Also in June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", which establishes standards for reporting information about operating segments. An operating segment is defined as a component of a business for which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and evaluate performance. This statement requires a company to disclose certain income statement and balance sheet information by operating segment, as well as provide a reconciliation of operating segment information to the company's consolidated balances. This statement is effective for 1998 financial statements. The company reports as one operating segment.

In June 1998, the Financial Accounting Standards Board (FASB) issued Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities". This statement establishes accounting and reporting standards for derivative instruments including certain derivative instruments embedded in other contracts, (collectively referred to as derivatives) and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in its balance sheet and measure those instruments at fair market value. Under this statement, an entity that elects to apply hedge accounting is required to establish at the inception of the hedge the method it will use for assessing the effectiveness of the hedging derivative and the measurement approach for determining the ineffective aspect of the hedge. This statement is effective for all fiscal quarters of fiscal years beginning after June 15, 1999. The company does not currently have any instruments that are covered by this statement. This statement is not expected to have a material effect on the company's consolidated financial statements.

(m) Stock Dividend

On January 4, 1999, the company effected a 2:1 stock split through the payment of a stock dividend. All share and per share data has been adjusted to reflect the stock split.

(Continued)

(2) Investment Securities

The amortized cost and estimated fair values of investment securities at December 31, are summarized as follows:

<TABLE>
<CAPTION>

	1998			
($ in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<S>	<C>	<C>	<C>	<C>
U.S. agency obligations	$ 28,277	609	32	28,854
U.S. treasury obligations	7,010	314	--	7,324
U.S. agency mortgage-backed securities	45,856	137	81	45,912
Municipal obligations	28,970	639	1	29,608
Total bonds and obligations	110,113	1,699	114	111,698
Federal Home Loan Bank stock, at cost	2,961	--	--	2,961
Total investment securities	$113,074	1,699	114	114,659

<CAPTION>

	1997			
($ in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value
<S>	<C>	<C>	<C>	<C>
U.S. agency obligations	$ 53,998	616	117	54,497
U.S. treasury obligations	28,100	242	8	28,334
U.S. agency mortgage-backed securities	12,416	126	78	12,464
Municipal obligations	14,344	287	1	14,630
Total bonds and obligations	108,858	1,271	204	109,925
Federal Home Loan Bank stock, at cost	2,961	--	--	2,961
Total investment securities	$111,819	1,271	204	112,886

</TABLE>

Included in U.S. agency securities are investments that can be called prior to final maturity with fair values of $20,735,000 and $43,495,000, at December 31, 1998 and 1997, respectively. Included in U.S. agency mortgage-backed securities are collateralized mortgage-backed obligations with fair values of $45,581,000 and $12,003,000 at December 31, 1998 and 1997, respectively.

At December 31, 1998, securities with a fair value of $15,269,000 were pledged as collateral for short-term borrowings (Note 8) and securities with a fair value of $1,025,000 were pledged as collateral for treasury, tax and loan deposits. At December 31, 1997, securities with a fair value of $13,024,000 were pledged as collateral for short-term borrowings (Note 8) and securities with a fair value of $1,570,000 were pledged as collateral for treasury, tax and loan deposits.

(Continued)

The contractual maturity distribution of total bonds and obligations at December 31, 1998 is as follows:

<TABLE>
<CAPTION>

($ in thousands)	Amortized Cost	Percent	Fair Value	Percent
<S>	<C>	<C>	<C>	<C>
Within one year	$ 6,312	5.73%	$ 6,303	5.64%
After one but within three years	14,245	12.94	14,805	13.26
After three but within five years	9,588	8.71	9,754	8.73
After five but within ten years	39,788	36.13	40,602	36.35
After ten years	40,180	36.49	40,234	36.02
	$ 110,113	100.00%	$111,698	100.00%

</TABLE>

Mortgage-backed securities are shown at their final maturity but are expected to have shorter average lives due to principal prepayments. U.S. agency obligations are shown at their final maturity but are expected to have shorter average lives because issuers of certain bonds reserve the right to call or prepay the obligations without call or prepayment penalties and certain U.S. agency lives may be shorter based on mortgage prepayment rates.

Sales and calls of investment securities for the years ended December 31, 1998, 1997, and 1996 are summarized as follows:

($ in thousands)	1998	1997	1996
Book value of securities sold or called	$52,072	19,725	11,059
Gross realized gains on sales/calls	476	16	50
Gross realized losses on sales/calls	--	(53)	(48)
Total proceeds from sales or calls of investment securities	$52,548	19,688	11,061

(3) Loans and Loans Held for Sale

Major classifications of loans and loans held for sale at December 31, are as follows:

($ in thousands)	1998	1997
Real estate:		
Commercial	$ 80,207	66,836
Construction	16,637	13,149
Residential	44,680	42,648
Total real estate	141,524	122,633
Commercial	55,570	42,202
Home equity	13,436	12,203
Consumer	5,682	4,657
Total loans	216,212	181,695
Deferred loan origination fees	(1,000)	(1,111)
Allowance for loan losses	(5,234)	(4,290)
Net loans and loans held for sale	$ 209,978	176,294

========= =========

(Continued)

Directors, officers, principal stockholders and their associates are credit customers of the company in the normal course of business. All loans and commitments included in such transactions are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons and do not involve more than a normal risk of collectability or present other unfavorable features. As of December 31, 1998, and 1997, the outstanding loan balances to directors and officers of the company and their associates was $5,097,000 and $2,315,000, respectively. Unadvanced portions of lines of credit available to directors and officers were $1,734,000 and $1,422,000, as of December 31, 1998 and 1997, respectively. During 1998, new loans and net increases in loan balances on lines of credit under existing commitments of $2,944,000 were made and principal paydowns of $161,000 were received. All loans to these related parties are current.

Non-accrual loans at December 31, are summarized as follows:

($ in thousands)	1998	1997
Real estate	$ 350	360
Commercial	754	400
Consumer, including home equity	159	283
Total non-accrual	$1,263	1,043

There were no commitments to lend additional funds to those borrowers whose loans were classified as non-accrual at December 31, 1998, 1997 and 1996. The reduction in interest income for the years ended December 31, associated with non-accruing loans is summarized as follows:

($ in thousands)	1998	1997	1996
Income in accordance with original loan terms	$239	427	428
Income recognized	108	185	122
Reduction in interest income	$131	242	306

At December 31, 1998 and 1997, total impaired loans were $1,112,000 and $1,567,000, respectively. In the opinion of management, there were no impaired loans requiring an allocated reserve at December 31, 1998. Impaired loans with a book value of $295,000 required allocated reserves of $50,000, at December 31, 1997. All of the $1,112,000 of impaired loans have been measured using the fair value of the collateral method. During the years ended December 31, 1998 and 1997, the average recorded value of impaired loans was $1,185,000 and $1,823,000, respectively. Included in the reduction in interest income in the table above is $76,000 and $105,000 of interest income that was not recognized on loans that were deemed impaired as of December 31, 1998 and 1997, respectively. All payments received on non-accrual loans deemed to be impaired loans are applied to principal. The company is not committed to lend additional funds on any loans that are considered impaired.

(Continued)

Changes in the allowance for loan losses for the years ended December 31, are summarized as follows:

($ in thousands)	1998	1997	1996
Balance at beginning of year	$ 4,290	3,895	4,107
Provision charged to operations	1,030	320	--
Loan recoveries	54	376	32
Loans charged-off	(140)	(301)	(244)
Balance at end of year	$ 5,234	4,290	3,895

At December 31, 1998, 1997 and 1996, the bank was servicing mortgage loans sold to investors amounting to $26,491,000, $27,307,000, and $29,427,000, respectively.

(4) Premises and Equipment

Premises and equipment at December 31, are summarized as follows:

($ in thousands)	1998	1997
Land	$ 285	270
Buildings and leasehold improvements	4,216	3,676
Computer software and equipment	3,567	3,061
Furniture, fixtures and equipment	1,910	1,701
	9,978	8,708
Less accumulated depreciation and amortization	(5,706)	(4,629)
	$ 4,272	4,079

The company is obligated under various non-cancelable operating leases some of which provide for periodic adjustments. At December 31, 1998 minimum lease payments for these operating leases were as follows:

($ in thousands)	
Payable in:	
1999	$ 490
2000	214
2001	91
2002	18
Thereafter	--
Total minimum lease payments	$ 813

Total rent expense for the years ended December 31, 1998, 1997 and 1996 amounted to $403,000, $292,000 and $240,000, respectively.

(Continued)

(5) Accrued Interest Receivable

Accrued interest receivable consists of the following at December 31:

($ in thousands)	1998	1997
Investments	$ 1,062	1,756
Loans and loans held for sale	1,362	1,215
	$ 2,424	2,971

(6) Real Estate Acquired by Foreclosure

Real estate acquired by foreclosure is comprised of commercial real estate properties of $304,000 and $393,000 at December 31, 1998 and 1997, respectively. An analysis of real estate acquired by foreclosure for the years ended December 31, is as follows:

($ in thousands)	1998	1997

Balance at beginning of year	$ 393	83
Acquisitions as a result of foreclosures	98	533
Sales proceeds and principal repayments, net of loss on sale	(187)	(223)
Balance at end of year	$ 304	393

(7) Deposits

Deposits at December 31, are summarized as follows:

($ in thousands)	1998	1997
Demand	$ 59,618	51,411
Savings	23,914	19,909
NOW	62,911	66,634
Money market	27,602	29,943
Time deposits less than $100,000	92,652	73,907
Time deposits of $100,000 or more	50,969	41,445
	$317,666	283,249

Interest expense on time deposits with balances of $100,000 or more amounted to $2,538,000 in 1998, $2,097,000 in 1997, and $1,560,000 in 1996.

The following table shows the scheduled maturities of time deposits with balances less than $100,000 and greater than $100,000 at December 31, 1998:

($ in thousands)	Less than $100,000	Greater than $100,000	Total
Due in less than three months	$27,331	30,334	57,665
Due in over three through twelve months	43,366	16,142	59,508
Due in twelve months through thirty months	21,955	4,493	26,448
	$92,652	50,969	143,621

(Continued)

(8) Short-Term Borrowings

Borrowed funds at December 31, are summarized as follows:

<TABLE>
<CAPTION>

	1998		1997		1996	
($ in thousands)	Amount	Average Rate	Amount	Average Rate	Amount	Average Rate
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Securities sold under agreements to repurchase, due on demand	$ 11,615	2.70%	$ 11,047	3.35%	$ 11,824	3.81%
Federal Home Loan Bank of Boston borrowings	470	5.94%	1,420	7.05%	4,913	7.32%
	$ 12,085	2.83%	$ 12,467	3.77%	$ 16,737	4.84%

</TABLE>

Securities sold under agreement to repurchase averaged $12,673,000, $13,864,000, and $7,855,000 during 1998, 1997 and 1996, respectively. Maximum amounts outstanding at any month end during 1998, 1997, and 1996 were $16,426,000, $19,398,000, and $11,824,000, respectively. The average cost of repurchase agreements was 3.19%, 4.07%, and 3.54% during fiscal 1998, 1997, and 1996, respectively.

The bank became a member of the Federal Home Loan Bank of Boston ("FHLB") in March 1994. FHLB borrowings averaged $2,011,000, $4,426,000, and $6,537,000 during 1998, 1997, and 1996, respectively. Maximum amounts outstanding at any month end during 1998, 1997, and 1996 were $7,836,000 $10,372,000, and $13,043,000, respectively. The average cost of FHLB borrowings was 5.88%, 5.68%, and 5.62% during fiscal 1998, 1997, and 1996, respectively. Borrowings from the FHLB are secured by FHLB stock, 1-4 family owner occupied residential loans and the bank's investment portfolio not otherwise pledged.

As a member of the FHLB, the bank has access to a pre-approved overnight line of credit for up to 5% of its total assets and the capacity to borrow an amount up to the value of its qualified collateral, as defined by the FHLB. At December 31, 1998, the bank had the additional capacity to borrow up to approximately $55.1 million from the FHLB.

(9) Stockholders' Equity

Holders of common stock are entitled to one vote per share, and are entitled to receive dividends if and when declared by the board of directors. Dividend and liquidation rights of the common stock may be subject to the rights of any outstanding Preferred Stock.

Applicable regulatory requirements require the company to maintain Tier 1 capital (which in the case of the company is composed of common equity) equal to 4.00% of assets (leverage capital ratio), total capital equal to 8.00% of risk-weighted assets (total capital ratio) and Tier 1 capital equal to 4.00% of risk-weighted assets (Tier 1 capital ratio). Total capital includes Tier 1 capital plus Tier 2 capital (which in the case of the company is composed of the general valuation allowance up to 1.25% of risk-weighted assets). The company met all regulatory capital requirements at December 31, 1998.

(Continued)

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

Quantitative measures established by regulation to ensure capital adequacy require the company to maintain the minimum capital amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined). Management believes, as of December 31, 1998, that the company meets all capital adequacy requirements to which it is subject.

As of December 31, 1998, both the company and the bank qualify as "well capitalized" under applicable Federal Reserve Board and FDIC regulations. To be categorized as well capitalized, the company and the bank must maintain minimum total, Tier 1 and, in the case of the bank, leverage capital ratios as set forth in the table below.

The company's actual capital amounts and ratios are presented in the table below. The bank's capital amounts and ratios do not differ materially from the amounts and ratios presented.

<TABLE>
<CAPTION>

	Actual		Minimum Capital For Capital Adequacy Purposes		Minimum Capital To Be Well Capitalized	
($ in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio

<S>	<C>	<C>	<C>	<C>	<C>	<C>
As of December 31, 1998:						
Total Capital (to risk weighted assets)	$ 28,990	12.55%	$ 18,482	8.0%	$ 23,102	10.0%
Tier 1 Capital (to risk weighted assets)	26,072	11.29%	9,241	4.0%	13,861	6.0%
Tier 1 Capital* (to average assets)	26,072	7.31%	14,273	4.0%	17,842	5.0%
As of December 31, 1997:						
Total Capital (to risk weighted assets)	$ 25,686	13.23%	$ 15,536	8.0%	$ 19,420	10.0%
Tier 1 Capital (to risk weighted assets)	23,183	11.94%	7,768	4.0%	11,652	6.0%
Tier 1 Capital* (to average assets)	23,183	7.21%	12,868	4.0%	16,086	5.0%

<FN>

* For the bank to qualify as "well capitalized", it must also maintain a leverage capital ratio (Tier 1 capital to average assets) of at least 5%. This requirement does not apply to the company and is reflected in the table merely for informational purposes with respect to the bank.

</FN>
</TABLE>

Neither the company nor the bank may declare or pay dividends on its stock if the effect thereof would cause stockholders' equity to be reduced below applicable regulatory capital requirements or if such declaration and payment would otherwise violate regulatory requirements.

(Continued)

(10) Stock Option Plans

The board of directors of the bank adopted a 1988 Stock Option Plan (the "1988 plan"), which was approved by the shareholders of the bank in 1989. The 1988 plan permits the board of directors to grant both incentive and non-qualified stock options to officers and full-time employees for the purchase of up to 307,804 shares of common stock. The 1988 plan was assumed by and became effective under the company after the completion of the Reorganization discussed in Note 1.

The board of directors of the company adopted a 1998 stock incentive plan (the "1998 plan"), which was approved by the shareholders of the company in 1998. The 1998 plan permits the board of directors to grant incentive and non-qualified options (as well as shares of restricted stock and stock appreciation rights) to officers and other employees, directors and consultants for the purchase of up to 157,620 shares of common stock.

Under the terms of the 1988 plan and 1998 plan, incentive stock options may not be granted at less than 100% of the fair market value of the shares on the date of grant and may not have a term of more than ten years. Any shares of common stock reserved for issuance pursuant to options granted under the plans which are returned to the company unexercised shall remain available for issuance under the plans. For participants owning 10% or more of the company's outstanding common stock, such options may not be granted at less than 110% of the fair market value of the shares on the date of grant.

All options granted thus far are generally exercisable at the rate of 25% a year. All options granted prior to 1998, expire 10 years from the date of the grant. All options granted in 1998 expire 7 years from the date of grant. All options granted thus far are categorized as incentive stock options. Stock option transactions are summarized as follows:

<TABLE>
<CAPTION>

	1998	1997	1996
	Wtd. Avg.	Wtd. Avg.	Wtd. Avg.

	Shares	Exercise Price	Shares	Exercise Price	Shares	Exercise Price
Outstanding at beginning of year	296,750	$ 6.55	255,300	$ 6.07	204,100	$ 5.83
Granted	90,500	12.50	50,900	9.00	52,600	7.00
Exercised	(7,250)	6.28	(8,050)	6.72	(600)	5.67
Forfeited	(450)	9.00	(1,400)	6.79	(800)	6.00
Outstanding at end of year	379,550	7.97	296,750	6.55	255,300	6.07
Exercisable at end of year	216,010	6.07	185,950	5.76	163,124	5.61
Shares reserved for future grants	67,120		204		49,704	

</TABLE>

A summary of options outstanding and exercisable by exercise price as of December 31, 1998 follows:

	Outstanding		Exercisable
Exercise Price	# Shares	Wtd. Avg. Remaining Life	# Shares
$ 5.50	142,200	1.51	142,200
$ 6.00	4,400	5.35	4,400
$ 6.75	42,800	6.52	32,024
$ 7.00	49,950	7.51	24,952
$ 9.00	49,700	8.50	12,434
$12.50	90,500	6.90	-
	9,550	5.11	216,010

(Continued)

The company applies APB Opinion No. 25 in accounting for stock options and, accordingly, no compensation expense has been recognized in the financial statements. Had the company determined compensation expense based on the fair value at the grant date for its stock options under SFAS 123, the company's net income would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

($ in thousands, except per share data)	1998	1997	1996
Net income as reported	$ 3,501	2,912	2,412
Pro forma net income	3,364	2,840	2,371
Basic earnings per share as reported	1.11	.93	.77
Pro forma basic earnings per share	1.06	.90	.75
Fully diluted earnings per share as reported	1.06	.91	.76
Pro forma fully diluted earnings per share	1.02	.88	.75

</TABLE>

Pro forma net income reflects only options granted since 1995. Therefore, the full impact of calculating the compensation expense for stock options under SFAS 123 is not reflected in the pro forma net income amounts abovesince options granted prior to January 1, 1995 are not considered. The per share weighted average fair value of stock options issued in 1998, 1997 and 1996, was determined to be $4.00, $2.88, and $2.24, respectively. The fair value of the options was determined to be 32% of the market value of the stock at the date of grant. The value was based on consultation with compensation consultants hired by the company and subsequent validation by management using a binomial distribution model in 1998. The assumptions used in the model for risk-free interest rate, expected volatility and expected life in years were 4.65%, 15%, and 8 years, respectively.

(11) Employee Benefit Plans

401(k) Defined Contribution Plan

The company has a 401(k) defined-contribution employee benefit plan. The

401(k) plan allows eligible employees to contribute a base percentage, plus a supplemental percentage, of their pre-tax earnings to the plan. A portion of the base percentage, as determined by the board of directors, is matched by the company. No company contributions are made for supplemental contributions made by participants. The percentage matched for the 1998, 1997 and 1996 calendar years was 85%, 84% and 50%, respectively, up to the first 6% contributed by the employee. The increase from 50% in 1996 to 84% and 85% in 1997 and 1998, respectively, was a result of an additional match due to favorable performance in the Employee Bonus Program as discussed below. The company's expense for the 401(k) plan match for the years ended December 31, 1998, 1997 and 1996 was $227,000, $186,000, and $87,000, respectively.

All employees, at least 21 years of age, are immediately eligible to participate. Vesting for the bank's 401(k) plan contribution is based on years of service with participants becoming 20% vested after 3 years of service, increasing pro-rata to 100% vesting after 7 years of service. Amounts not distributable to an employee following termination of employment are returned to the bank.

(Continued)

Employee Bonus Program

The company implemented a bonus program, which includes all employees, beginning in 1995. Bonuses are paid to the employees based on the accomplishment of certain goals and objectives that are determined at the beginning of the fiscal year and approved by the compensation committee of the board of directors. The goals and objectives include certain ratios such as return on assets, return on equity, net interest margin, non-interest expense and income to assets, non-accrual loans to total loans and the overall growth of the bank's loan and deposit balances. Participants are paid a share of the bonus pool, based on a pre-determined allocation depending in which group the employee falls into including: vice presidents and above, officers, and non-officer employees. In 1998, 1997 and 1996, gross payments charged to salaries and benefits expense under the plan were $896,000, $589,000, and $402,000, respectively. In addition to the $896,000 increase in gross salaries, the bank also increased the employer contribution to the 401(k) plan by $95,000, or an additional 35% of employee contributions up to the first 6% contributed by the employee. The $95,000 increase on employer match on the company's 401(k) plan is also included in salaries and benefits for 1998.

The company established a supplemental cash bonus plan for certain executive officers. The goals, objectives and pay-out schedule of this plan were approved by the compensation committee. The plan provides for payment of cash bonuses based on the achievement of a bonus pay-out to all employees in the employee bonus program discussed in the previous paragraph and the achievement of certain earnings per share goals. In 1998 and 1997, $147,000 and $70,000, respectively, was charged to salaries and benefits under this plan.

Split-Dollar Plan

The company adopted a Split-Dollar Plan for the company's chief executive officer in 1996. This plan provides for the company to fund the purchase of a cash value life insurance policy owned by the executive. The company accounts for the premiums paid as an interest free loan. Annual premiums are paid by the company until the executive retires. At the time of retirement of the executive, annuity payments are made to the executive. The aggregate amount of the premiums funded is returned to the company at the time of the executive's death. Annual premiums of $144,000 are due until 2004 under the current plan. The amount charged to expense for these benefits was $2,000 and $31,000, in 1998 and 1997, respectively.

(12) Income Taxes

The components of income tax expense for the years ended December 31 were calculated using the liability method as follows:

<TABLE>
<CAPTION>

($ in thousands)	1998	1997	1996

<S>

Current tax expense:			
Federal	$ 1,791	1,389	1,033
State	28	464	367
Total current tax expense	1,819	1,853	1,400
Deferred tax expense (benefit):			
Federal	(369)	(155)	35
State	6	(53)	12
Total deferred tax expense (benefit)	(363)	(208)	47
Total income tax expense	$ 1,456	1,645	1,447

</TABLE>

(Continued)

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate (34%) as follows:

<TABLE>
<CAPTION>

($ in thousands)	1998 Amount	1998 %	1997 Amount	1997 %	1996 Amount	1996 %
Computed income tax expense at statutory rate	$ 1,685	34.0%	$ 1,549	34.0%	$ 1,312	34.0%
State income taxes, net of federal tax benefit	22	.4%	271	5.9%	250	6.5%
Municipal bond interest	(303)	(6.1%)	(215)	(4.7%)	(195)	(5.1%)
Other	52	1.1%	40	.9%	80	2.1%
Income tax expense	$ 1,456	29.4%	$ 1,645	36.1%	$ 1,447	37.5%

</TABLE>

At December 31, 1998 and December 31, 1997, the tax effects of each type of income and expense item that give rise to deferred taxes are:

<TABLE>
<CAPTION>

($ in thousands)	1998	1997
Deferred tax asset:		
Allowance for loan losses	$ 1,810	1,611
Depreciation	405	316
Other	161	86
Total	2,376	2,013
Deferred tax liability:		
Net unrealized gain on investment securities	589	432
Net deferred tax asset	$ 1,787	1,581

</TABLE>

At December 31, 1998, the net Federal deferred tax asset of $1,330,000 is supported by recoverable income taxes of approximately $4,251,000. Management believes that existing net deductible temporary differences which give rise to the net deferred tax asset will reverse during periods in which the company generates net taxable income. There was no valuation allowance for the deferred tax asset at December 31, 1998 and 1997. Management believes that the net deferred income tax asset at December 31, 1998 is an amount that will more likely than not be realized.

(13) Related Party Transactions

The company's offices in Lowell, Massachusetts, are leased from realty trusts, the beneficiaries of which include various bank officers and directors. The maximum remaining term of the leases including options is for 20 years.

Total amounts paid to the realty trusts for the years ended December 31, 1998, 1997 and 1996, were $297,000, $230,000, and $170,000, respectively.

(14) Commitments, Contingencies and Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The company is 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 include commitments to originate loans, standby letters of credit and unadvanced lines of credit.

(Continued)

The instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the company has in the particular classes of financial instruments.

The company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for loan commitments and standby letters of credit is represented by the contractual amounts of those instruments. The company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Financial instruments with off-balance sheet credit risk at December 31, 1998 and 1997, are as follows:

($ in thousands)	1998	1997
Commitments to originate loans	$ 21,165	15,577
Standby letters of credit	3,557	3,267
Unadvanced portions of consumer loans (including credit card loans)	4,985	4,502
Unadvanced portions of construction loans	7,969	7,204
Unadvanced portions of home equity loans	11,377	10,046
Unadvanced portions of commercial lines of credit	31,696	24,345

Commitments to originate loans are agreements to lend to a customer provided there is no violation 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 some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the company upon extension of credit, is based on management's credit evaluation of the borrower. Collateral held varies, but may include security interests in mortgages, accounts receivable, inventory, property, plant and equipment and income-producing properties.

Standby letters of credit are conditional commitments issued by the company to guarantee the performance by a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The company originates residential mortgage loans under agreements to sell such loans, generally with servicing released. At December 31, 1998 and 1997, the company had commitments to sell loans totaling $1,071,000 and $0, respectively.

The company manages its loan portfolio to avoid concentration by industry or loan size to minimize its credit risk exposure. Commercial loans may be collateralized by the assets underlying the borrower's business such as accounts receivable, equipment, inventory and real property. Residential mortgage and home equity loans are secured by the real property financed. Consumer loans such as installment loans are generally secured by the personal property financed. Credit card loans are generally unsecured. Commercial real estate loans are generally secured by the underlying real property and rental agreements.

The bank is required to maintain in reserve certain amounts of vault cash and/or deposits with the Federal Reserve Bank of Boston. The amount of this reserve requirement, included in "Cash and Due from Banks," was approximately $1,300,000 at December 31, 1998, and approximately $5,887,000 at December 31, 1997.

(Continued)

The company is involved in various legal proceedings incidental to its business. After review with legal counsel, management does not believe resolution of any present litigation will have a material adverse effect on the financial condition or results of operations of the company.

(15) Fair Values of Financial Instruments

The following methods and assumptions were used by the company in estimating fair values of its financial instruments:

The respective carrying values of certain financial instruments approximated their fair value as they were short-term in nature or payable on demand. These include cash and due from banks, daily federal funds sold, accrued interest receivable, repurchase agreements, accrued interest payable and non-certificate deposit accounts.

Investments: Fair values for investments were based on quoted market prices, where available. If quoted market prices were not available, fair values were based on quoted market prices of comparable instruments. The carrying amount of FHLB stock reported approximates fair value. If the FHLB stock is redeemed, the company will receive an amount equal to the par value of the stock.

Loans: The fair values of loans, was determined using discounted cash flow analysis, using interest rates currently being offered by the company. The incremental credit risk for non-accrual loans was considered in the determination of the fair value of the loans.

The fair values of the unused portion of lines of credit and letters of credit were based on fees currently charged to enter into similar agreements and were estimated to be the fees charged. Commitments to originate non-mortgage loans were short-term and were at current market rates and estimated to have no fair value.

Financial liabilities: The fair values of time deposits were estimated using discounted cash flow analysis using rates offered by the bank on December 31, 1998 for similar instruments.

Limitations: The estimates of fair value of financial instruments were based on information available at December 31, 1998 and 1997 and are not indicative of the fair market value of those instruments at the date this report is published. These estimates do not reflect any premium or discount that could result from offering for sale at one time the bank's entire holdings of a particular financial instrument. Because no active market exists for a portion of the bank's financial instruments, fair value estimates were based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates were based on existing on and off-balance sheet financial instruments without an attempt to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments, including premises and equipment and foreclosed real estate.

(Continued)

In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of the estimates. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the company.

($ in thousands)	1998 Carrying Amount	1998 Fair Value	1997 Carrying Amount	1997 Fair Value
Financial assets:				
Cash and cash equivalents	$ 25,923	25,923	23,554	23,554
Investment securities	114,659	114,659	112,886	112,886
Loans, net	209,978	215,559	176,294	180,280
Accrued interest receivable	2,424	2,424	2,971	2,971
Financial liabilities:				
Non-interest bearing demand deposits	59,618	59,618	51,411	51,411
Savings, NOW and money market	114,427	114,427	116,486	116,486
Time deposits	143,621	144,085	115,352	115,653
Short-term borrowings	12,085	12,085	12,467	12,467
Escrow deposit of borrowers	687	687	612	612
Accrued interest payable	623	623	566	566

(16) Parent Company Only Financial Statements

Balance Sheets

($ in thousands)	December 31, 1998	December 31, 1997
Assets		
Cash and due from subsidiary	$ 149	106
Investment in subsidiary	27,049	23,739
Total assets	$ 27,198	23,845
Liabilities and Stockholders' Equity		
Preferred stock, par value $.01 per share, 1,000,000 shares authorized. No shares issued	$ -	-
Common stock, par value $.01 per share, 5,000,000 shares authorized; 3,167,684 and 3,160,434 shares issued and outstanding at December 31, 1998 and 1997, respectively	32	32
Additional paid-in capital	15,560	15,515
Retained earnings	10,610	7,663
Net unrealized gain on investment securities available for sale, net	996	635
Total liabilities and stockholder's equity	$ 27,198	23,845

(Continued)

<TABLE>
<CAPTION>

Statements of Income

($ in thousands)	For the years ended December 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Undistributed equity in net income of subsidiary	$ 2,949	2,400	2,412
Dividends received from subsidiary	552	512	-
Net income	$ 3,501	2,912	2,412

</TABLE>

<TABLE>
<CAPTION>

Statements of Cash Flows

($ in thousands)	For the years ended December 31, 1998	1997	1996
<S>	<C>	<C>	<C>
Cash flows from operating activities:			
Net income	$ 3,501	2,912	2,412
Undistributed equity in net income of subsidiary	(2,949)	(2,400)	(2,412)
Net cash provided by operating activities	552	512	-
Cash flows from financing activities:			
Net proceeds from exercise of stock options	45	54	2
Initial capitalization of holding company from the bank	-	-	50
Cash dividends paid	(554)	(512)	-
Net cash (used in) provided by financing activities	(509)	(458)	52
Net increase in cash and cash equivalents	43	54	52
Cash and cash equivalents, beginning of period	106	52	-
Cash and cash equivalents, end of period	$ 149	106	52

</TABLE>

Cash and cash equivalents includes cash and due from subsidiary.

(Continued)

(17) Shareholders Rights Plan

On January, 13, 1998, the company's Board of Directors declared a dividend of one Preferred Share Purchase Right (a "Right") for each outstanding share of common stock, pursuant to a Rights Agreement dated January 13, 1998 between the company and the bank as rights agent. The distribution was payable to stockholders of record as of the close of business on January 20, 1998. Each Right entitles the holder thereof to purchase under certain circumstances one-two hundredth of a share of a new Series A Junior Participating Preferred Stock, par value $0.01 per share, or, in certain circumstances, to receive cash, property, shares of common stock or other securities of the company, at a purchase price of $37.50 per one-two hundredth of a preferred share, subject to adjustment.

The Rights are not exercisable and remain attached to the shares of common stock until the earlier of (i) 10 business days (or such later date as the company's Board of Directors may determine) following public announcement by the company that a person or group of affiliated or associated persons, with certain exceptions (an "Acquiring Person"), has acquired, or has obtained the right to acquire, beneficial ownership of 10% or more of the outstanding shares of common stock (the date of such announcement being the "Stock Acquisition Date") or (ii) 10 business days (or such later date as the company's Board of Directors may determine) following the commencement of a tender offer or exchange offer that would result in a person becoming an Acquiring Person.

In the event that a person becomes an Acquiring Person (except persuant to a tender or exchange offer for all outstanding shares of common stock at a price and on terms which a majority of the company's Outside Directors (as defined in the Rights Agreement) determines to be fair to and otherwise in the best interest of the company and its shareholders (a "fair offer")), each holder of a Right (other than the Acquiring Person) will thereafter have the right to receive, upon exercise of such Right, shares of common stock (or in certain circumstances, cash, property or other securities of the company) having a current market price equal to two times the exercise price of the Right. In the event that, at any time on or after a Stock Acquisition Date, (i) the company takes part in a merger or other business combination transaction (other than certain mergers that follow a fair offer) and the company is not the surviving entity or (ii) the company takes part in a merger or other business combination transaction in which the shares of common stock are changed or exchanged (other than certain mergers that follow a fair offer) or (iii) 50% or more of the company's assets or earning power are sold or transferred, each holder of a Right (other than an Acquiring Person) shall thereafter have the right to receive, upon exercise, a number of shares of common stock of the acquiring company having a current market price equal to two times the exercise price of the Right. At any time until 10 business days following a Stock Acquisition Date, the company may redeem the Rights in whole, but not in part, at a price of $0.005 per Right. The Rights will expire at the close of business of January 13, 2008 unless earlier redeemed or exchanged by the company. The Rights have no voting or dividend privileges and, until they become exercisable, have no dilutive effect on the earnings of the company. Any future holders of shares of Series A Junior Participating Preferred Stock would be entitled to preferred rights with respect to dividends, voting and liquidation.

Item 8. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure
None

Part III

Item 9. Directors, Executive Officers, Promoters and Control Persons

(a) Certain information regarding directors and executive officers and identification of significant employees of the company in response to this item is incorporated herein by reference from the discussion under the captions "Information Regarding Executive Officers and Other Significant Employees" and "Proposal One Election of Class of Directors" of the proxy statement for the company's annual meeting of stockholders to be held May 4, 1999, which it expects to file with the Securities and Exchange Commission within 120 days of the end of the fiscal year covered by this report.

Directors of the Company

George L. Duncan
Chairman and Chief Executive Officer of the Company and the Bank

Richard W. Main
President of the Company; President, Chief Operating Officer and
Chief Lending Officer of the Bank

Walter L. Armstrong
Executive Vice President of the Bank

Kenneth S. Ansin
President and Chief Executive Officer, L.B. Evans Company;
President and Chief Executive Officer of Ansewn Shoe Company
Business Development Officer of the Bank

Gerald G. Bousquet, M.D.
Physician; director and partner in several health care facilities

Kathleen M. Bradley
Former owner, Westford Sports Center, Inc.

John R. Clementi
President, Plastican, Inc., a plastic shipping container manufacturer

James F. Conway, III
Chairman, Chief Executive Officer and President
Courier Corporation, a commercial printing company

Nancy L. Donahue
Chair of the Board of Trustees, Merrimack Repertory Theatre

Lucy A. Flynn
Senior Vice President, Wang Global, a computer service company

Eric W. Hanson
Chairman and President, D.J. Reardon Company, Inc., a beer distributorship

John P. Harrington
Senior Vice President and Director, Colonial Gas Company

Arnold S. Lerner
Partner in WLLH Radio (Lowell) and in several other radio stations; Director, Courier Corporation, a commercial printing company

Charles P. Sarantos
Chairman, C&I Electrical Supply Co., Inc.

Michael A. Spinelli
Owner, Merrimac Travel and Action Six Travel Network

Additional Executive Officers of the Company

<TABLE>
<CAPTION>

Name	Position
<S>	<C>
John P. Clancy, Jr.	Treasurer of the Company; Senior Vice President, Chief Financial Officer, Treasurer and Chief Investment Officer of the Bank
Robert R. Gilman	Executive Vice President, Administration, and Commercial Lender of the Bank
Stephen J. Irish	Senior Vice President, Chief Information Officer and Chief Operations Officer of the Bank

</TABLE>

Items 10, 11 and 12.

The information required in Items 10, 11 and 12 of this part is incorporated herein by reference to the company's definitive proxy statement for its annual meeting of stockholders to be held May 4, 1999, which it expects to file with the Securities and Exchange Commission within 120 days of the end of the fiscal year covered by this report.

Item 13. Exhibits List and Reports on Form 8-K

Exhibit #	Exhibit Description
3.1a	Articles of Incorporation of the company dated February 29, 1996, filed as an exhibit to the company's registration statement on Form 8-A filed on July 16, 1996 relating to its

common stock.

3.1b Amendment to Articles of Incorporation of the company dated July 17, 1996 incorporated by reference to the form thereof filed as an exhibit to the company's registration statement of Form 8-A filed on July 16, 1996 relating to its common stock.

3.2a Bylaws of the company filed as an exhibit to the company's registration statement on Form 8-A filed on July 16, 1996 relating to its common stock.

3.2b Amended and Restated Bylaws of the company filed as an exhibit to the company's 10-QSB for the quarter ended June 30, 1997.

4.1 Rights Agreement dated as of January 13, 1998 between Enterprise Bancorp, Inc. and Enterprise Bank and Trust Company, as Rights Agent, filed as an exhibit to the company's registration statement on Form 8-A filed on January 14, 1998.

4.2 Terms of Series A Junior Participating Preferred Stock, included as Exhibit A to Rights Agreement, as filed with Form 8-A registration statement on January 14, 1998.

4.3 Summary of Rights to Purchase Shares of Series A Junior Participating Preferred Stock, included as Exhibit B to Rights Agreement, as filed with Form 8-A registration statement on January 14, 1998.

4.4 Form of Rights Certificate, included as Exhibit C to Rights Agreement, as filed with Form 8-A registration statement on January 14, 1998.

10.1 Lease agreement dated July 22, 1988, between the bank and First Holding Trust relating to the premises at 222 Merrimack Street, Lowell, Massachusetts filed with the company's 10-QSB for the quarter ended June 30, 1996.

10.2 Amendment to lease dated December 28, 1990, between the bank and First Holding Trust for and relating to the premises at 222 Merrimack Street, Lowell, Massachusetts filed with the company's 10-QSB for the quarter ended June 30, 1996.

10.3 Amendment to lease dated August 15, 1991, between the bank and First Holding Trust for 851 square feet relating to the premises at 222 Merrimack Street, Lowell, Massachusetts filed with the company's 10-QSB for the quarter ended June 30, 1996.

10.4 Lease agreement dated May 26, 1992, between the bank and Shawmut Bank, N.A., for 1,458 square feet relating to the premises at 170 Merrimack Street, Lowell, Massachusetts filed with the company's 10-QSB for the quarter ended June 30, 1996.

10.5 Lease agreement dated March 14, 1995, between the bank and North Central Investment Limited Partnership for 3,960 square feet related to the premises at 2-6 Central Street, Leominster, Massachusetts filed with the company's 10-QSB for the quarter ended June 30, 1996.

10.6 Amended employment agreement between the bank and George L. Duncan dated December 13, 1995 filed with the company's 10-QSB for the quarter ended June 30, 1997.

10.7 Employment agreement between the bank and Richard W. Main dated December 13, 1995 filed with the company's 10-QSB for the quarter ended June 30, 1996.

10.8 Lease agreement dated June 20, 1996, between the bank and Kevin C. Sullivan and Margaret A. Sullivan for 4,800 square feet related to the premises at 910 Andover Street, Tewksbury, Massachusetts filed with the company's 10-KSB for the year ended December 31, 1996.

10.9 Amendment to employment agreement between the bank and George L. Duncan dated December 4, 1996 filed with the company's 10-KSB for the year ended December 31, 1996.

10.10	Amendment to employment agreement between the bank and Richard W. Main dated December 4, 1996 filed with the company's 10-KSB for the year ended December 31, 1996.
10.11	Split Dollar Agreement for George L. Duncan filed with the company's 10-KSB for the year ended December 31, 1996.
10.12	Lease agreement dated April 7, 1993 between the bank and Merrimack Realty Trust for 4,375 square feet relating to premises at 27 Palmer Street, Lowell, Massachusetts filed with the company's 10-KSB for the year ended December 31, 1997.
10.13	Lease agreement dated September 1, 1997, between the bank and Merrimack Realty Trust to premises at 129 Middle Street, Lowell, Massachusetts filed with the company's 10-KSB for the year ended December 31, 1997.
10.14	Lease agreement dated May 2, 1997 between the bank and First Lakeview Avenue Limited Partnership to premises at 1168 Lakeview Avenue, Dracut, Massachusetts filed with the company's 10-KSB for the year ended December 31, 1997.
10.15	Enterprise Bancorp, Inc. 1988 Stock Option Plan filed with the company's 10-KSB for the year ended December 31, 1997.
10.16	Enterprise Bancorp, Inc. 1998 Stock Incentive Plan filed as an exhibit to the company's definitive proxy statement for the annual meeting of stockholders held May 5, 1998.
21.0	Subsidiaries of the Registrant.

(b) Reports on Form 8-K

None.

ENTERPRISE BANCORP, INC.
SIGNATURES

In accordance with Section 15(d) of the Exchange Act, the registrant has caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 15, 1999 /s/ John P. Clancy, Jr.
John P. Clancy, Jr.
Treasurer

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities on the dates indicated.

<TABLE>

<S>	<C>	<C>
/s/ George L. Duncan George L. Duncan	Chairman, Chief Executive Officer and Director	March 15, 1999
/s/ Richard W. Main Richard W. Main	President, Chief Operating Officer and Director	March 15, 1999
/s/ John P. Clancy, Jr. John. P. Clancy Jr.	Treasurer (Principal Financial Officer)	March 15, 1999
/s/ Todd A. Klibansky Todd A. Klibansky	Vice President/Controller (Principal Accounting Officer)	March 15, 1999
/s/ Kenneth S. Ansin Kenneth S. Ansin	Director	March 15, 1999
/s/ Walter L. Armstrong Walter L. Armstrong	Director	March 15, 1999
/s/ Gerald G. Bousquet, M.D. Gerald G. Bousquet, M.D.	Director	March 15, 1999
/s/ Kathleen M. Bradley Kathleen M. Bradley	Director	March 15, 1999
/s/ John R. Clementi John R. Clementi	Director	March 15, 1999

/s/ James F. Conway, III James F. Conway, III	Director	March 15, 1999
/s/ Nancy L. Donahue Nancy L. Donahue	Director	March 15, 1999
/s/ Lucy A. Flynn Lucy A. Flynn	Director	March 15, 1999
/s/ Eric W. Hanson Eric W. Hanson	Director	March 15, 1999
/s/ John P. Harrington John P. Harrington	Director	March 15, 1999
/s/ Arnold S. Lerner Arnold S. Lerner	Director, Vice Chairman and Clerk	March 15, 1999
/s/ Charles P. Sarantos Charles P. Sarantos	Director	March 15, 1999
/s/ Michael A. Spinelli Michael A. Spinelli	Director	March 15, 1999

</TABLE>

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Exhibit 21.0

Subsidiaries of Registrant

Subsidiary	State of Incorporation	Business Name
<S>	<C>	<C>
Enterprise Bank and Trust Company	Massachusetts	same
Enterprise Securities Corporation, Inc.	Massachusetts	same
ERT Holdings, Inc.	Massachusetts	same
Enterprise Realty Trust, Inc.	Massachusetts	same

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         This schedule contains summary financial information extracted from the
audited  financial  statements of Enterprise  Bancorp,  Inc. at and for the year
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