ENTERPRISE BANK

2018 ANNUAL REPORT

Table of Contents

Dear Fellow Shareholders:

Enterprise Financial Services Group, Inc. has continued to focus on helping small business and operate in the small business niche. Helping small businesses to start, mature and survive economic distress has been very rewarding to the small business owners and the community.

The Board of Directors introduced a mission statement to guide our personnel in making prudent decisions. The mission statement reads, "To deliver superior ethical services and value to the clients, shareholders and staff". We are emphasizing how to apply this concept utilizing an unselfish – team-fiduciary mindset. We are beginning to see this activity develop the team culture that is the foundation for long term success.

The Bank has begun to grow again and the growth is accelerating into 2019. Credit quality continued to strengthen and margins have been protected during this growth period. The Board of Directors was pleased with the progress we made in 2018. We also recognize there is still much to do!

The Bank successfully raised capital and redeemed almost all of the debentures. We also declared our first dividend in 2019 as a result of our successful 2018 operating improvement. We will continue to improve profitability to fund dividend payments, fund growth and fund future preferred stock redemptions. We will balance these activities by applying the mission statement.

We encourage you to read the "Management Discussion and Analysis" contained in this Annual Report to gain a more thorough understanding of the 2018 operations.

As always we appreciate your investment, interest in our Bank operations and the ongoing support of Enterprise Financial Services Group, Inc..

Sincerely,

Chuck Leyh
Chairman of the Board

Doug Lockard
Vice Chairman of the Board

MANAGEMENT’S DISCUSSION AND ANALYSIS
For The Year Ended September 30, 2018

The following discussion provides additional information and analysis for the results of operations for Enterprise Financial Services Group, Inc. (the “Company”) and its wholly owned subsidiary, Enterprise Bank (the “Bank”), for the fiscal year ended September 30, 2018 (“2018”). This discussion also includes results of operations for the Bank’s wholly owned subsidiaries which include Enterprise Insurance Services, Inc., Enterprise Business Consultants, Inc., Kuzneski & Lockard, Inc. and Buildonus, Inc. This discussion is provided as a supplement to the financial statements and accompanying disclosures included in the Company’s 2018 Annual Report.

Peer group data used in preparing the accompanying charts was taken from the Bank’s Uniform Bank Performance Report (“UBPR”) as published quarterly by the Federal Deposit Insurance Corporation. The UBPR designated peer group includes all banks in the United States of America, located in a metropolitan area, with total assets between $100 and $300 million and two or fewer full service offices. Peer data is prepared on a calendar year basis. Therefore, when peer data is used in the charts the Bank’s data is also presented on a calendar year basis.

OVERALL PERFORMANCE SUMMARY

Management’s focus heading into 2018 was to resume prudent growth of the loan portfolio. After falling short of loan growth goals in 2017, the Bank added to its Relationship Manager (“RM”) team and refined business development processes to jump start growth in 2018. Projected growth, along with stable fixed operating costs, was expected to provide an increase in net interest income and bring the Bank’s efficiency ratios back in line with its peer group.

In 2018, the Bank was able to grow its loan portfolio by $10.4 million or approximately 4.5%. While this pace of growth did not meet Management’s aggressive 2018 budget goals, it represented solid year over year growth. Additionally, much of the growth occurred during the latter half of the fiscal year as the pace of new business increased. As a result, this left a solid pipeline of loan commitments to support continued growth into the early part 2019.

While loan growth and momentum was positive in 2018, the growth in earnings did not meet expectations. In 2018, net income increased $323,000, or 25%, to $1.6 million. However, a large portion of this increase, approximately $217,000, was due to a decrease in the provision for income tax. The decrease in the tax provision was the result of a reduction in the statutory federal income tax rate from 34% to 21% on January 1, 2018. The change in the Company’s tax rate was due to the enactment of the Federal Tax Cut and Jobs Act on December 22, 2017.

CHART #1
Net Income Before Tax
($ in thousands)

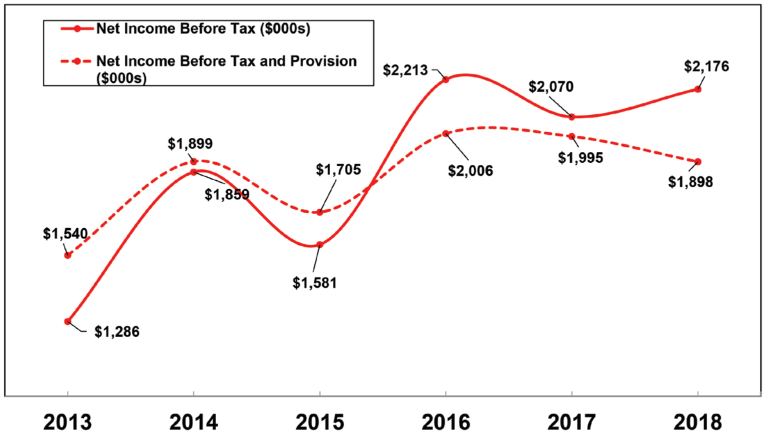


Chart #1 illustrates the Bank's annual pre-tax income from 2013 through 2018. In 2018, pre-tax income increased $106,000, or 5% over the prior year, to $2.18 million. Chart #1 also illustrates the Bank's annual income before tax and before loan loss provisions for the same periods. This eliminates the impact of negative loan loss provisions that have occurred over the past few years. Absent the impact of these provisions, pre-tax earnings decreased $97,000 or 4.8% in 2018.

There were several factors that lessened the impact of loan growth on bottom line earnings, which will be addressed in detail throughout this discussion. The largest factor was the rate of increase in the Bank's cost of funds. This contributed to an erosion of the Bank's net interest margin and counter balanced the benefit of growth in the loan portfolio. The cost of funds increase was due in large part to pricing strategies for the Bank's transactional deposit accounts that will be discussed in more detail later in this analysis. This pricing strategy, coupled with a rising interest rate environment, led to an annual increase in the Bank's cost of funds of approximately 37 basis points ("bps"). This increase outstripped an increase in the Bank's yield on earning assets, which was 15bps for the same period, and resulted in a narrowing of net interest margin.

While earnings growth fell below expectations, there were several other core operating results that remained positive in 2018. The Bank was able to grow the loan portfolio without compromising on its core underwriting principles or moving outside of its lending niche. In addition, non-performing assets including balances of non-performing loans and foreclosed real estate continued to fluctuate within management's tolerance levels. More importantly, costs associated with carrying these assets continued to be minimized. This includes net charge-offs on loans and the net cost of holding and liquidating foreclosed assets, which both remained within budgeted parameters.

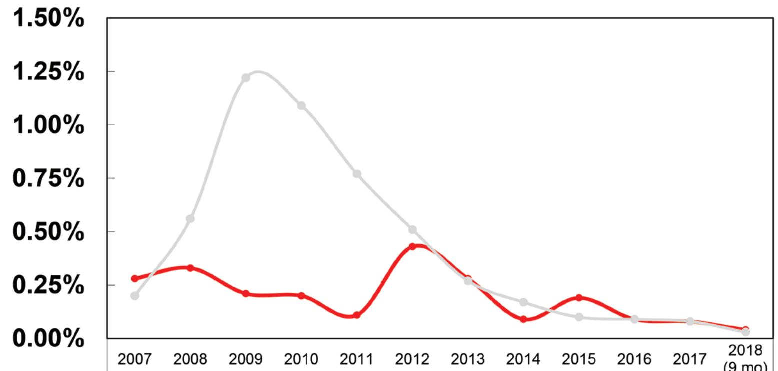
In 2018, Management emphasized the roll-out of its new mission statement throughout the organization. This mission is "To deliver superior, ethical service and value to the clients, shareholders and staff." The purpose of this mission is to join all facets of the organization together to work in a more collaborative and team oriented manner. It is Management's philosophy that all of the Bank's stakeholders, including clients, shareholders and staff, will benefit when the culture is strengthened and all parties are working together and for the benefit of the group as a whole.

CORE OPERATING PHILOSOPHY

Any analysis of the Bank's current and historical performance must start with an understanding of its core operating philosophy. Enterprise Bank was founded in 1998 by a group of small business entrepreneurs from Western Pennsylvania, who identified a void in the banking industry when it came to serving the small business niche. The Bank's focus from the beginning has been on providing funding and support services to small businesses that are in a start-up, growth, or distressed cycle. The Bank prioritizes standing behind its customers in their time of need when those customers exhibit a foundation of strong character and sound management practices.

The Bank's core operating philosophy of supporting the growth of small business in the community is not without added risk. The Bank works to mitigate the risk inherent in its loan portfolio by emphasizing the strength of supporting collateral over historical cash flow during the underwriting process. This is supplemented, when necessary, by the use of other risk mitigation tools such as government guaranteed lending programs. The Bank has historically been one of the largest SBA lenders in its local market. This emphasis, which is backed by strict attention to collateral valuation techniques and effective collateral liquidation strategies, has historically resulted in lower and less volatile loan loss rates then experienced by the Bank's peers who are operating in a more conventional lending environment.

CHART #2
NET CHARGE-OFF TO AVERAGE TOTAL LOANS
(NET CHARGE-OFF/AVG. TOTAL LOANS)
(CALENDAR YEAR)

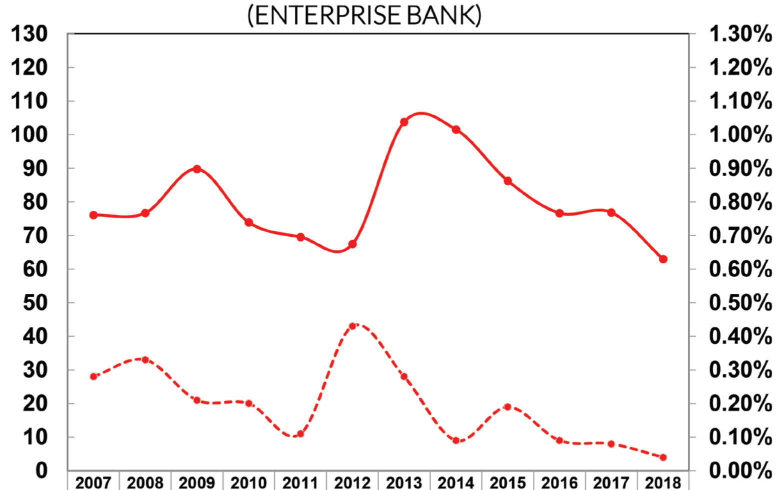


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (9 mo)
Bank	0.28%	0.33%	0.21%	0.20%	0.11%	0.43%	0.28%	0.09%	0.19%	0.09%	0.08%	0.04%
Peer	0.20%	0.56%	1.22%	1.09%	0.77%	0.51%	0.27%	0.17%	0.10%	0.09%	0.08%	0.03%

Chart #2 compares the Bank's historical loan loss rates to its peer group. This chart illustrates that historically the Bank has been at or below peer loss rates and has experienced substantially less volatility during this time period. This is highlighted by the period of the last financial crisis in 2008 through 2011. During this time peer banks were experiencing a dramatic spike in loss rates while Enterprise Bank's rates continued to fluctuate within a tolerable range.

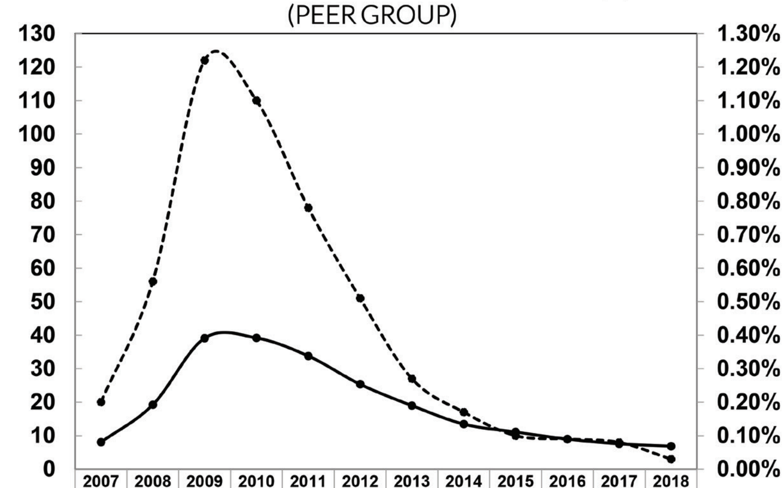
A widely accepted indicator of a Bank's strength is the Texas Ratio. This ratio is often used by analysts and bank examiners as a predictor of credit quality problems, potential losses and even bank failures. Chart #3 compares the Bank's Texas Ratio to its loss rates since 2007. Chart #4 similarly compares the peer groups Texas Ratio to its loss rates for the same period. These charts illustrate the relative differences historically between Enterprise Bank and its peers when comparing the Texas Ratio to actual loss rates. For the peer group, the average Texas Ratio peaked at around 39 in 2009-2010 with loss rates peaking at 1.22% in 2009 during the financial crisis. For the Bank, the Texas Ratio routinely fluctuates within a range of 60-100, well above peer, but the peak loss rate was 43bps in 2012. This illustrates the impact of the Bank's loss mitigation strategies on minimizing losses in the portfolio and is an important factor to consider when analyzing the bank's performance.

CHART #3
TEXAS RATIO TO HISTORICAL LOAN LOSS(%)
(ENTERPRISE BANK)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Texas Ratio	76.06	76.67	89.75	73.87	69.52	67.40	103.7	101.5	86.26	76.64	76.81	62.95
Loss Ratio	0.28%	0.33%	0.21%	0.20%	0.11%	0.43%	0.28%	0.09%	0.19%	0.09%	0.08%	0.04%

CHART #4
TEXAS RATIO TO HISTORICAL LOAN LOSS(%)
(PEER GROUP)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Texas Ratio	8.06	19.23	39.09	39.16	33.78	25.35	18.97	13.46	11.10	8.99	7.57	6.87
Loss Ratio	0.20%	0.56%	1.22%	1.10%	0.78%	0.51%	0.27%	0.17%	0.10%	0.09%	0.08%	0.03%

LOAN PORTFOLIO AND INTEREST INCOME

The Bank's loan portfolio grew $10.4 million in 2018 to $243.3 million. This was an increase of approximately 4.5%. Chart #5 shows year end loan portfolio balances since 2012 and Chart #6 plots the portfolio growth rates for this same period. While growth in 2018 was an improvement over the same period in 2017, it did not meet aggressive growth goals put forth in the 2018 budget or higher growth rates attained in past years. The 2018 results were delayed somewhat as the Bank hired and trained new RM staff to handle the increased volume. By the middle of the fiscal year growth had picked up substantially and the current pipeline of commitments supports this pace of growth continuing into the early part of fiscal 2019.

CHART #5
Loans Receivable ($ in millions)

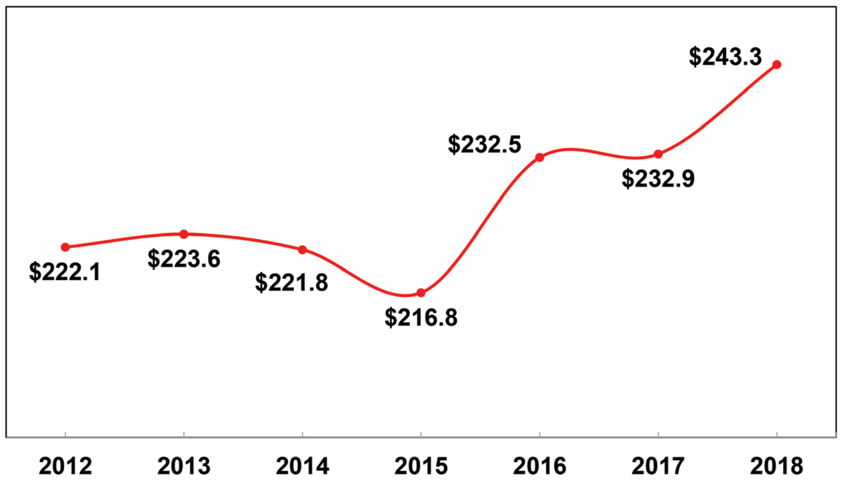
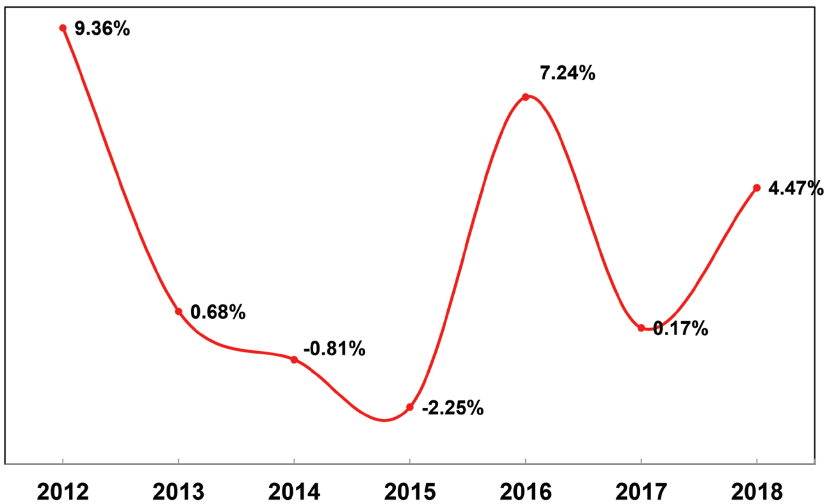


CHART #6
Loan Portfolio Growth Rate (%)



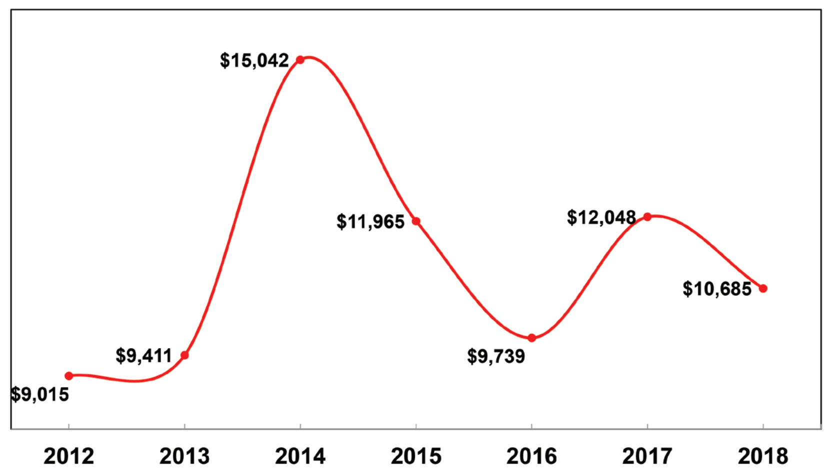
In 2018 total interest income increased $969,000, or 8% over 2017. In addition to the income generated by loan growth, the increase in total interest income was also driven by the Bank continuing to operate in a rising interest rate environment throughout 2018. The prime rate increased 100bps from September 30, 2017 to September 30, 2018. The five year Treasury rate, a key pricing metric for the Bank, increased by approximately the same amount. The yield curve remained relatively flat as compared to historical average for the duration of the year.

While Management had budgeted a higher rate of growth in 2018, we were generally pleased by the progress and results in this area for the year. Progress was made late in the year to pick up the pace of growth and this growth was achieved while maintaining core underwriting standards and continuing to focus on the Bank's niche market. Improvements to the Bank's sales culture that were implemented in 2017 began to pay dividends and also contributed to the growth in 2018.

NONACCRUAL LOANS AND REVENUE RECOGNITION

Given the Bank's niche of financing start-up and distressed businesses, Management expects that the Bank will carry a level of non-performing loans that is higher than its peer group. Chart #7 illustrates the Bank's level of nonaccrual loans since 2012. The balance of nonaccrual loans decreased $1.4 million, or 11%, in 2018. As illustrated in the chart, this balance falls within a normal range of fluctuation. These levels of non-performing loans have historically not correlated to material increases in overall loan loss levels (see Chart #2).

CHART #7
Nonaccrual Loans
($ in thousands)



In order to evaluate the impact that nonaccrual loans have on the Bank's earnings, it is important to have an understanding of the revenue recognition standard in GAAP. According to the general revenue recognition principles established by GAAP, revenue is recognizable when it is both earned and either realized or realizable. In order for revenue to be considered realizable a collectability threshold must be met. Management and its primary regulator have a difference of opinion when it comes to interpreting the appropriate collectability threshold for loans that are in a default status.

According to a staff paper jointly published by the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") in October, 2013, current guidance on the collectability threshold uses two terms: "reasonably assured" and "probable", with the terms being generally interchangeable.[1] The glossary provided in the GAAP codification includes two definitions of the term probable.[2] One definition cited is "that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved". A second definition is "the future event or events are likely to occur".

In Management's opinion these definitions are met when a loan in default meets the following three criteria: (1) The loan is well secured by collateral which is supported by a current valuation from a trusted source; (2) the collateral is in the process of liquidation; and (3) the liquidation is expected to be complete within a time frame that is considered reasonable given the type of collateral being liquidated.

The instructions furnished by the regulator for preparation of the Bank's regulatory financial reports provide general guidance on this same topic.[3] The instructions have historically been backed by a more stringent interpretation of the collectability threshold by the regulator. In general, for regulatory purposes, a loan is required to be placed on nonaccrual when it becomes greater than 90 days past due, unless the loan is considered well secured and in the process of collection. However, the regulators have a more stringent interpretation of what is considered "in the process of collection". In their opinion, in order for a loan to be considered in the process of collection it must generally be convertible to cash within 30 days.[4]

Because the Bank's primary source of collateral is commercial real estate, and the expected liquidation cycle runs well in excess of 30 days, this interpretation generally dictates that all loans carried in the Bank's portfolio, that are greater than 90 days past due, must be placed on nonaccrual. This is the case in many instances when the net fair market value of collateral pledged is significantly in excess of the Bank's recorded investment in the loan.

It is Management's opinion that the regulator's more stringent collectability threshold is unreasonable, and not in accordance with GAAP, given the business model of this institution. This interpretation results in a material amount of revenue recognition being deferred until the collateral liquidation process is complete. Once the liquidation process is complete, all previously unrecorded revenue is then recognized as a lump sum. It is Management's opinion that the more stringent regulatory approach does not properly match revenues to expenses and creates earnings volatility.

This difference in GAAP interpretation between Management and its regulator impacts two areas when accounting for loans in a default status. It impacts the decision process for when the Bank should stop accruing interest income and how cash payments received for interest on nonaccrual loans are recorded.

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[1] Staff Paper, Revenue Recognition – Collectability, October 28, 2013, IFRS/FASB
[2] FASB Accounting Standards Codification – Master Glossary
[3] Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)
[4] Bank Accounting Advisory Series, Office of the Comptroller of the Currency, August, 2017

The following table (Table 1) quantifies the amount of interest income being deferred by the Bank for each of these items:

TABLE 1: IMPACT REVENUE RECOGNITION: NONACCRUAL LOANS

	(A) Interest not accrued		(B) Cash Basis Payments Received	
Year ended:	Period Change	Aggregate	Period Change	Aggregate
September 30, 2012 (1)	$ 289,000	$ 289,000	$ -	$ -
September 30, 2013	86,000	375,000	3,000	3,000
September 30, 2014	(235,000)	140,000	280,000	283,000
September 30, 2015	123,000	263,000	647,000	930,000
September 30, 2016	(83,000)	180,000	(31,000)	899,000
September 30, 2017	14,000	194,000	(261,000)	638,000
September 30, 2018	(66,000)	128,000	(3,000)	635,000

(A) Interest not accrued, net of cash basis payments received, on loans that are well secured and in the process of collection, as defined by Management, in accordance with GAAP guidance. These amounts are not recorded to income in either the GAAP basis (shareholder) financial statements or the regulatory financial statements

(B) Cash basis payments for interest received on loans that are well secured and in the process of collection, as defined by Management, in accordance with GAAP guidance. These amounts have been recorded as interest income in the GAAP basis (shareholder) financial statements but have been applied to reduce the recorded investment in the associated loan for regulatory reporting purposes

(1) The September 30, 2012 period change includes any cumulative adjustments to prior periods

Column (A) in Table 1 represents the amount of accrual basis interest, both annually and cumulatively, that has not been recorded as income by the Bank. This amount represents loans that have been placed on nonaccrual status that, in Management's opinion, are well secured and in the process of collection but do not meet the threshold set forth in the regulatory guidance. The amounts shown in Column (A) are net of any cash payments for interest that have been received for this group of loans.

Management has made the determination that the year over year impact of this adjustment is not material to the financial statements as a whole and therefore currently follows regulatory guidance in determining when to place a loan on nonaccrual. As a result, the amounts indicated in column (A) represent interest income that has not been recorded to the shareholder or regulatory financial statements but, in Management's opinion, meets the GAAP threshold for revenue recognition.

In 2018 the Bank recorded net recoveries of $66,000 into interest income related to this issue. A cumulative amount of $128,000 of unrecorded interest income remained as of September 30, 2018. This represents the aggregate amount of unrecorded and uncollected interest for nonaccrual loans that, in Management's opinion, are well secured and in the process of liquidation. Over the past several years, as the overall loan portfolio has strengthened, the impact of this difference has been mitigated.

Column (B) in Table 1 represents the annual and cumulative amount of cash basis payments for interest that have been received for nonaccrual loans and recorded into interest income by the Bank. In Management's opinion, these cash payments are for loans that are well secured and in the process of collection and meet the collectability threshold as defined in GAAP. As explained, these payments do not meet the more stringent regulatory guidance for recognizing income on a cash basis.

In this instance, Management has concluded that the impact of the regulatory interpretation of this concept is material to the financial results of the Company and the financial statements as reported in accordance with GAAP. For this item, the shareholder financial statements are not adjusted to mirror the regulatory financial reports. The result is a cumulative difference between the financial statements as reported to shareholders and the regulatory financial statements as reported in the Bank's Call Reports.

To maintain transparency for the users of the financial statements the results of both methods, and a description of the differences, is presented in Note 24 Reconciliation of Financial Statements to Regulatory Reporting included with the financial statements in this Annual Report.

As illustrated in Table 1, for the year ended September 30, 2018 there was a net recovery of $3,000 recorded to the regulatory financial statements. Cumulatively, as of September 30, 2018, there was $635,000 of deferred income recognition, for regulatory reporting purposes, on cash payments received for loans that Management considers well secured and in the process of collection. These amounts have been recorded into income, on the Bank's shareholder financial statements, in the periods received.

Management's ability to make accurate judgements on these credits is driven primarily by the reliability of the appraisal process. The Bank has a solid track history of realizing at or near current appraised values upon final liquidation of its collateral. On average the Bank has realized approximately 97% of the most recent appraised value upon liquidation.

Through September 30, 2018, the Bank has not recognized any material losses in its shareholder financial statements as a result of income recorded for cash basis interest that later required a write-down of principal on the loan.

ALLOWANCE FOR LOAN LOSSES ("ALLL")

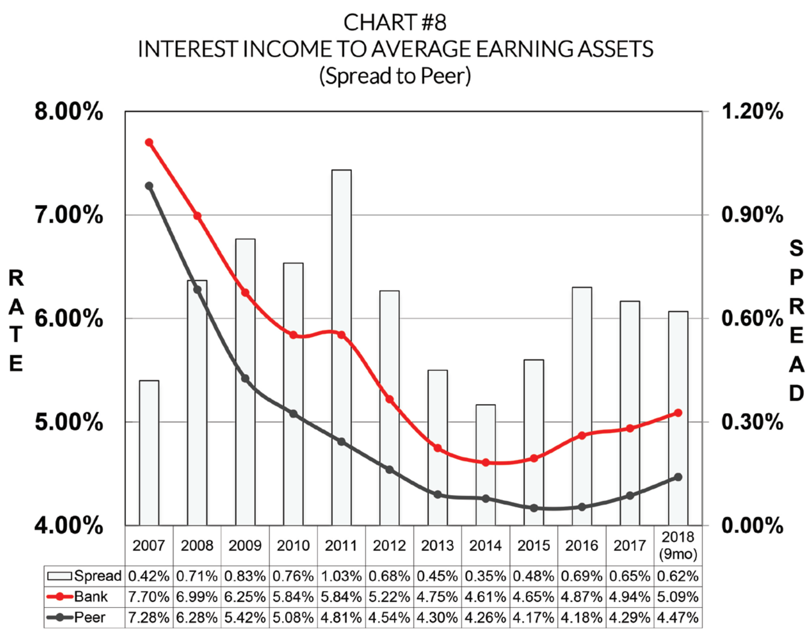
For the year ended September 30, 2018 the Bank recorded a negative loan loss provision in the amount of $278,000. This was a $203,000 increase over the negative provision of $75,000 recorded in the prior year.

At September 30, 2018 the Bank's ALLL had a balance of $896,000, this was a decrease of $362,000 from the prior year end. As of September

30, 2018, the Bank's ratio of ALLL to Total Loans was 37 bps, which is a 17 bps decrease from the prior year. In 2018 the Bank recorded net charge-offs of approximately $84,000 which was a decrease of approximately $107,000 versus the prior year. This continues a positive trend of net loan losses as illustrated in Chart #2.

The negative provision and decrease to the reserve is supported by the Bank's new ALLL methodology which was implemented in 2016. This methodology was subject to an independent review and validation in 2016 by one of the seven largest accounting firms in the U.S. The Bank's model mirrors its underwriting philosophy by prioritizing the real estate collateral backing the loans in the portfolio. The model pays close attention to changes in collateral values in terms of geographic location and property types in determining qualitative adjustments to the Bank's historical loss averages. The reduction in reserve levels and the resulting negative provision are supported by the strengthening of the portfolio in terms of stable real estate values and overall loan to value ratios.

INTEREST RATE PREMIUM



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 (9mo)
Spread	0.42%	0.71%	0.83%	0.76%	1.03%	0.68%	0.45%	0.35%	0.48%	0.69%	0.65%	0.62%
Bank	7.70%	6.99%	6.25%	5.84%	5.84%	5.22%	4.75%	4.61%	4.65%	4.87%	4.94%	5.09%
Peer	7.28%	6.28%	5.42%	5.08%	4.81%	4.54%	4.30%	4.26%	4.17%	4.18%	4.29%	4.47%

Given the Bank's lending niche of funding start-up and distressed small businesses, it is Management's expectation that non-performing asset balances will fluctuate within a reasonable range that is typically in excess of peer group levels. The Bank has demonstrated a long track history (see Chart #2) of efficiently working out these problem credits while minimizing the loss of principal.

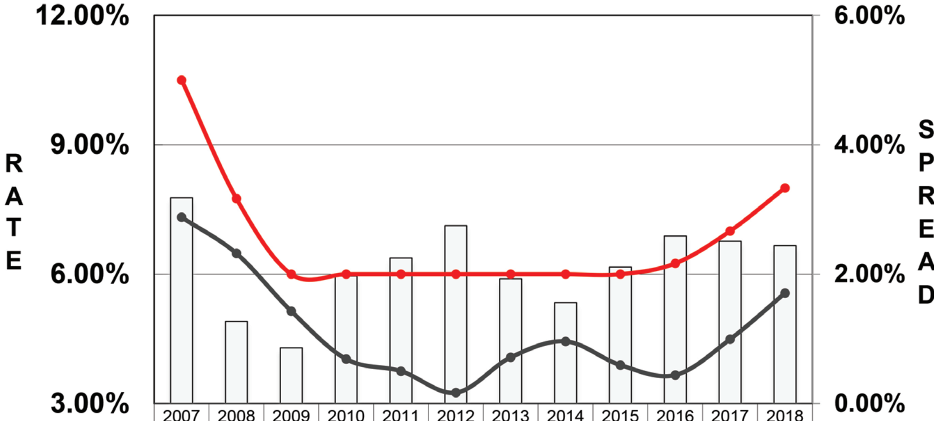
However, there are additional costs incurred by the Bank for collection or, when necessary, liquidation of collateral. The period of time necessary to collect, or liquidate, can oftentimes be extended which escalates the expense. Higher balances of nonaccrual loans create downward pressure on the yield of the overall portfolio and funding these loans creates a cost to carry the asset. Additional costs include legal expenses for collection as well as costs to preserve and protect the underlying collateral. Finally, with collateral liquidation being a primary strategy to mitigate the loss of principal, the Bank typically carries a larger portfolio of foreclosed real estate than peer banks. This results in elevated costs to hold and maintain the real estate and exposes the Bank to the risks of fluctuating fair market values.

In order to absorb these additional costs, while realizing an acceptable rate of return, it is important that the Bank realize a yield on its loan portfolio that is greater than that of a conventional risk portfolio. Chart #8 compares the Bank's overall yield on earning assets to its peer group since 2007. This chart illustrates the level of premium the Bank has earned historically on its asset portfolio as compared to peer.

Management quantifies the yield premium available in the marketplace versus conventional risk lending by monitoring two benchmark rates. The benchmark rate that most closely correlates to the level of risk in the Bank's loan portfolio is the maximum rate allowable by the Small Business Administration ("SBA") for loans of similar term.

For the Bank, that rate is Prime plus 275 basis points. The benchmark rate that most closely correlates to conventional risk lending for similar terms is the 5 year swap rate plus 250 basis points.

CHART #9
SBA MAX RATE(PRIME PLUS 275bps) TO
CONVENTIONAL RISK RATE(5 YEAR SWAP PLUS 250bps)
(RATES AS OF SEPTEMBER 30 FISCAL YEAR END DATE)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Spread	3.18%	1.27%	0.86%	1.97%	2.25%	2.75%	1.93%	1.56%	2.11%	2.59%	2.51%	2.44%
SBA Max Rate	10.50	7.75%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.25%	7.00%	8.00%
Conv. Rate	7.32%	6.48%	5.14%	4.03%	3.75%	3.25%	4.07%	4.44%	3.89%	3.66%	4.49%	5.56%

Chart #9 illustrates the historical trend of the two benchmarks and the spread between the two. As indicated in the chart, the prolonged low interest rate environment worked to compress the spread beginning in 2008 and specifically from 2013 through 2015. This compression squeezes the premium available in the marketplace and limits the Bank's ability to generate enough yield to absorb its additional collection and liquidation costs. This compression occurred during a period of time when the Bank was experiencing an elevated level of collection costs. The result was a lower earnings trend during those years.

The benchmark spread began to expand back towards historical levels at the beginning of this rising rate cycle in 2016. The expansion in the benchmark spread has correlated to an expansion in the Bank's spread to peer in yield on earning assets over the same period (see Chart #8).

FORECLOSED REAL ESTATE

Given the emphasis placed on real estate collateral as a risk mitigation tool, it is important that the Bank maintain effective and efficient liquidation processes. The Bank achieves this through the coordination of all areas of expertise within the Bank to assist with liquidation activities. This includes bringing together expertise in property management, real estate brokerage, construction, valuation, legal, accounting and the RM team. This team effort serves to minimize holding periods and maximize the realization upon sale versus appraised values. Continued refinement of liquidation processes and an overall strengthening in the local real estate market have worked in tandem over the past several years to minimize the size of the real estate portfolio and, as a result, the annual holding costs.

CHART #10
Foreclosed Real Estate
($ in thousands)

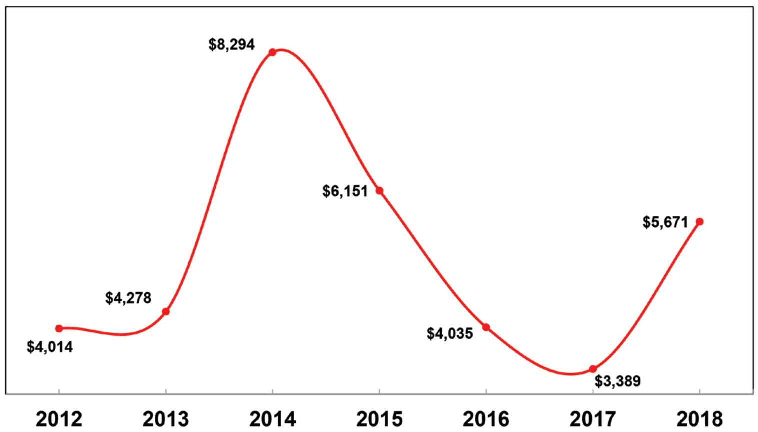


Chart #10 illustrates the Bank's historical balance of real estate owned since 2012. The portfolio increased $2.3 million, or 67%, in 2018. Although this is a significant percentage increase year over year, the balance remains below peak levels and continues to fluctuate within a tolerable range. Because the Bank emphasizes commercial real estate collateral, individual properties often can have large fair market values. The foreclosure or sale of a small number of properties in any given year can often lead to a large fluctuation in the overall portfolio balance. This was generally the case in 2018 as the Bank completed foreclosure on three large parcels with average fair values per parcel of approximately $1 million.

In 2018 the Bank realized aggregate net gains of $56,000 on the sale of real estate versus an aggregate loss of $4,000 in 2017. The continued absence of any material gains or losses on the sale of real estate is an indicator that sales prices have closely correlated to current appraised values and that discounting in order to reduce the size of the portfolio is not occurring. Since 2013 the Bank has realized approximately 97% of the current appraised values when selling foreclosed properties.

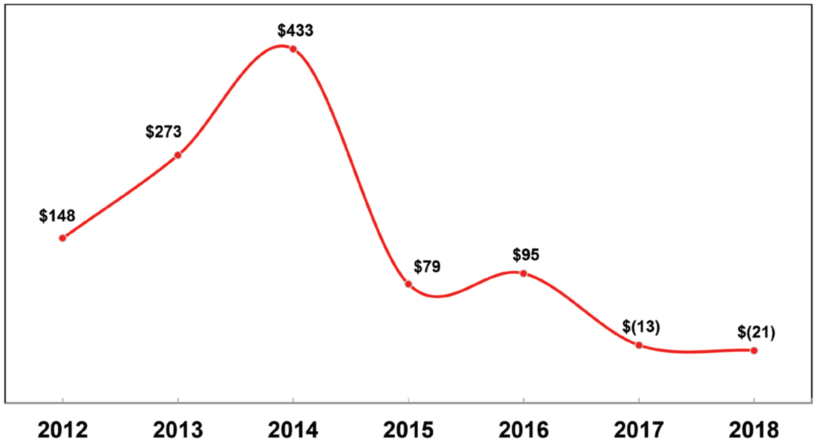
The fair market value of properties held in the real estate portfolio are evaluated on at least an annual basis and, if necessary, a valuation allowance is recorded through a charge to net income. In 2018 the Bank recorded aggregate valuation losses in the amount of $176,000 on an average portfolio balance of approximately $4.5 million. This was an increase of $63,000 versus the prior year.

The year over year increase in the amount of valuation losses recorded is due in large part to the 2017 recorded loss being minimized by changes to the vacant property reserve. The prior year's valuation losses were lower by approximately $92,000, due to a reduction in this reserve. Management established this reserve contingency, beginning in 2016, based upon a historical review of its real estate holding costs. This analysis was completed in conjunction with the development of the Bank's ALLL model. The study indicated a probability of minor casualty losses associated with theft and vandalism for properties that are vacant. Often the size of these losses are too small to warrant an insurance claim and therefore the expense to remediate is retained by the Bank. Therefore, a valuation allowance based on historical average losses was established. The reserve balance decreased in 2017 as a number of properties with unused allowances were sold out of the portfolio. Without the net impact of changes in the reserve, aggregate valuation losses would have decreased $22,000 year over year.

In 2018 the Bank continued to realize positive results with regard to the net cost of holding foreclosed properties. Chart #11 illustrates the historical trend in direct costs to hold and maintain foreclosed real estate. As illustrated in the chart, net rental income exceeded direct carrying costs by $21,000 in 2018. This was the second consecutive year where rental income exceeded holding costs on an aggregate basis.

It is important to note that this chart illustrates direct holding costs only. There is also a payroll cost component for managing and maintaining these properties that is included in Bank management and administrative wages. The personnel costs for managing and maintaining the real estate portfolio are generally fixed and have remained stable with no significant increases in 2018.

CHART #11
Foreclosed Real Estate
Direct Holding Costs/(Income)
($ in thousands)



LIQUIDITY AND FUNDING

Total cash and equivalents decreased $2.9 million to $21.5 million at September 30, 2018. The fluctuation in 2018 is considered normal based on the timing characteristics of the Bank's wholesale funding portfolio. The Bank's cash and equivalent balance typically fluctuates due to the timing of maturities and issuances of brokered certificates of deposit. Due to the sizes of these certificates this can cause large fluctuations at the end of any given period.

In addition to its cash and equivalent balances, the Bank maintains several off balance sheet sources of liquidity. This includes established and tested borrowing bases with the Federal Home Loan Bank ("FHLB") and the Federal Reserve Discount Window. As of September 30, 2018 the Bank had pledged a combined total of $183 million in collateral to support an aggregate borrowing capacity of $131 million.

The Bank's borrowing capacities are established primarily as contingency funding tools to use should an unexpected liquidity event occur. The Bank also utilizes a portion of its FHLB borrowing capacity as a tool for managing interest rate risk and to take advantage of favorable pricing for funds. The Bank participates in the FHLB's Community Lending Program ("CLP") which provides funding at reduced rates for loan originations that meet the program's guidelines. As of September 30, 2018 the Bank had total FHLB advances outstanding in the amount of $49.9 million, this is a decrease of $1.5 million versus the prior year.

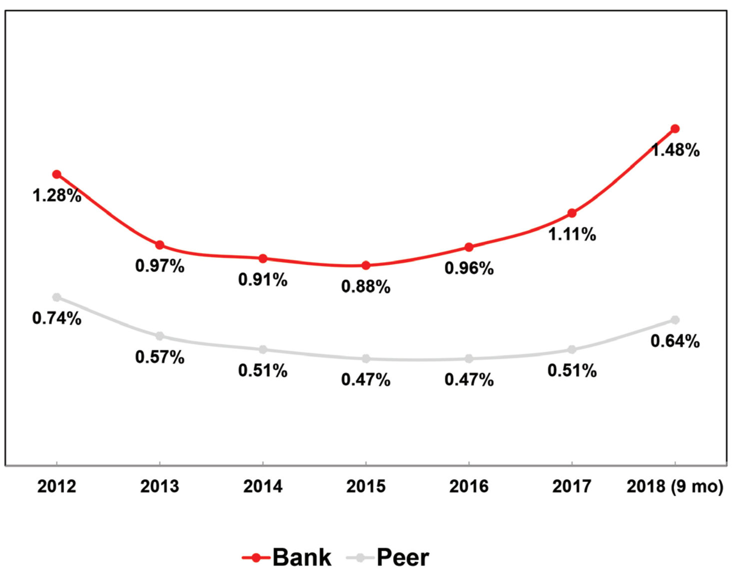
COST OF FUNDS

Total interest expense for the Bank increased $963,000 to $3.8 million in 2018. This increase outpaced similar increases in the Bank's yield on earning assets and served to limit the positive impact of loan growth in 2018. There were multiple factors that contributed to the increase in the Bank's cost of funds. This includes an increase in the size of the funding portfolio to support asset growth, a continuation of the rising interest rate environment and the impact of the rising rate environment on pricing strategies implemented in prior years.

In April, 2016, Management implemented a new pricing philosophy on its transactional deposit accounts. This philosophy was designed to counter the prevailing pricing strategies in the marketplace, where new depositors are given attractive teaser rates for an introductory period and loyal customers are relegated to lower rate tiers, unless they proactively monitor and change their accounts to new products.

Enterprise was founded on the concept of building a relationship and becoming a trusted advisor to its customers. Management wanted to carry that trust into its deposit products. The philosophy is to be transparent with pricing and to treat all customers equally. This resulted in the implementation of the Bank's Simplicity checking product which provided a stable rate of interest on transactional deposits tied to an established money market index. All customers receive the same rate of return which is competitive with, and often exceeds, the new money rates being offered by competing banks.

CHART #12
Interest Expense to Average Earning Assets (%)
(Calendar Year)



Management has been disappointed in the outcome since the change to this new pricing strategy. In order for this strategy to be effective it needs to generate deposit growth sufficient enough to allow the Bank to reduce its reliance on higher cost wholesale funding and at minimum offset the cost of the product. This is dependent on the Bank's RM, Marketing and Operations teams working in collaboration to attract new deposits from outside sources. Since the implementation of the program, total transaction deposits have increased approximately 9% (from September 30, 2015 through September 30, 2018). However, much of this growth correlates to the Bank's loan portfolio growth of approximately 12% during the same period and therefore has not materially decreased the Bank's usage of wholesale funding sources.

Chart #12 illustrates the Bank's Interest Expense to Average Earning Assets from 2012 to present. This charge highlights the Bank's rise in cost of funds versus peer since 2016 when the Simplicity product was implemented. Rate bearing transaction deposits reprice in the short term, which also introduces interest rate risk. Given the rising interest rate environment, this has led to a material increase in the Bank's cost of funds as the Simplicity accounts reprice upward along with the rise in short term interest rates. This has been the main contributor to the Bank's increase in cost of funds versus peer during this time.

WHOLESALE FUNDING

As in years past the Bank continues to utilize the brokered CD market as a primary wholesale funding source. There are several advantages to the Bank when using this source of funding. Interest rates are typically comparable to local market CD rates while the administrative costs associated with processing deposits is less than retail. Brokered CD deposits are well protected from early withdrawal in a rising interest rate environment. These features, along with the ability to dictate term, make brokered certificates a good tool for interest rate risk management.

While there are advantages to using this funding source, there are also risks that must be considered. To mitigate the risk, Management utilizes multiple brokers and underwriters to protect against interruption in the marketplace or with a particular issuer. In addition, Management ladders the maturities of its brokered certificates to protect against large blocks of maturities should an unforeseen liquidity event occur. The Bank also maintains a written liquidity policy that includes stress testing of various emergency liquidity scenarios. The Bank maintains several sources of contingent liquidity as secondary sources should an event occur.

Although this type of deposit portfolio carries higher costs of interest there is also a reduction in overhead that has to be considered. Because brokered CDs are issued as a single certificate, aggregating multiple depositors, it significantly reduces operational overhead for deposit processing as compared to traditional deposit accounts. In addition to the lower servicing costs, the Bank is not required to incur the fixed overhead costs associated with a large retail deposit operation. This significant savings in non-interest expense has to be considered when comparing the Bank's cost of funds to its peer group.

OVERHEAD AND EFFICIENCY

Total other operating expenses increased approximately $278,000, or 3%, to $9.5 million in 2018 from $9.2 million in 2017. While the core fixed operating overhead of the Bank remained stable, the increase in overall operating expenses can be attributed to a few specific factors.

First, the Bank took over full capacity of the Alpha building in Allison Park, PA during 2018. This will allow the Bank to consolidate the contents of its warehouse facility in Pittsburgh, PA into the Alpha Building and then dispose of the warehouse building. It also will create capacity for the expansion of the Bank's subsidiary lines of business. Although the Bank has owned this building for several years, a large portion of the space had been leased to outside tenants. The expansion into the remainder of the building had an impact on overall operating costs in 2018, as the leases to outside tenants were not renewed resulting in a loss of rental income that offset costs in prior years. In addition, the sale of the warehouse building was not completed by the end of 2018. These factors combined resulted in a net increase to occupancy costs of approximately $102,000 for fiscal 2018. A portion of this increase will be mitigated in the future once the warehouse facility is disposed.

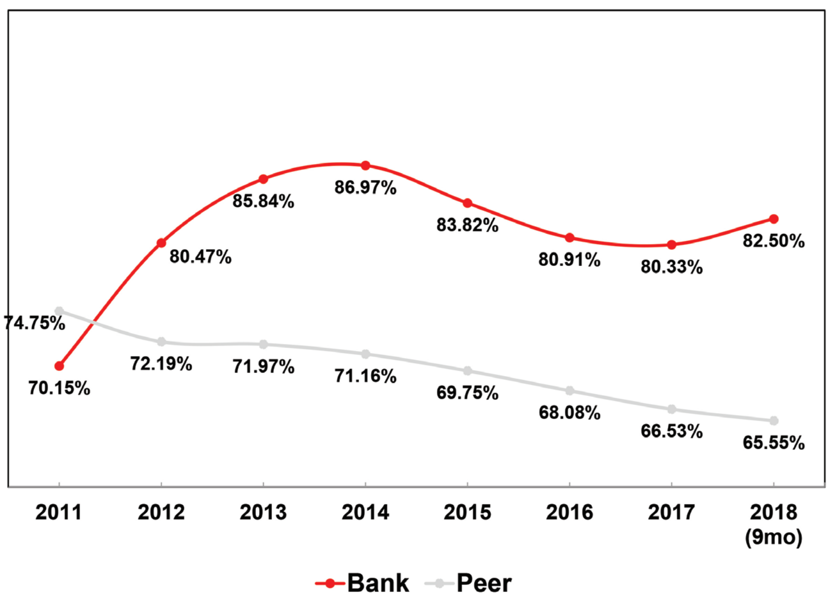
Second, the Bank made the decision to expand the product line of its insurance services subsidiary to include residential loan settlement services. As a result, investments were made in personnel, software and business development in preparation for growth of this product line. This resulted in an increase of approximately $114,000 to total other operating expenses for 2018. This was partially offset by a $67,000 increase in additional revenue generated by the subsidiary. The full benefits of this investment were not realized in 2018 as a large portion of the year was dedicated to getting the appropriate staff in place and implementing the new systems and software. Full business development efforts did not begin until late in the year once the new infrastructure was in place.

The last major contributor to the increase in other operating expense was an increase in the cost of relationship manager compensation in 2018. RM compensation is a variable expense based on a percentage of the profitability of the RM's branch within the Bank. This formula was established at the inception of the Bank in order to give the RM a vested interest in the performance of their portfolio. It was based on the principle that this would also provide the RM a vested interest in the success of their client base and therefore a financial incentive to support those businesses.

New RMs are provided a guaranteed minimum compensation level for a limited period of time to allow for them to build their portfolios. In order to build capacity for loan growth, the Bank carried three RMs at various stages of guaranteed compensation in 2018. Typically the Bank is carrying only one RM on guarantee. The additional guaranteed compensation, along with the RM's proportionate share of the negative loan loss provisions, resulted in additional RM compensation expense of approximately $115,000 for the year. The additional expense will be mitigated in future years once the new RMs are able to build their loan portfolios and generate net interest income to offset the additional costs.

Chart #13 compares the Bank's efficiency ratio to that of its peer group for the calendar years ended December 31, 2011 through December 31, 2017 and for the nine months ended September, 2018. This chart illustrates the impact of the Bank's facility expansion, along with other infrastructure improvements that were implemented in 2013, on its efficiency ratio.

CHART #13
Efficiency Ratio (%)
(Calendar Year)

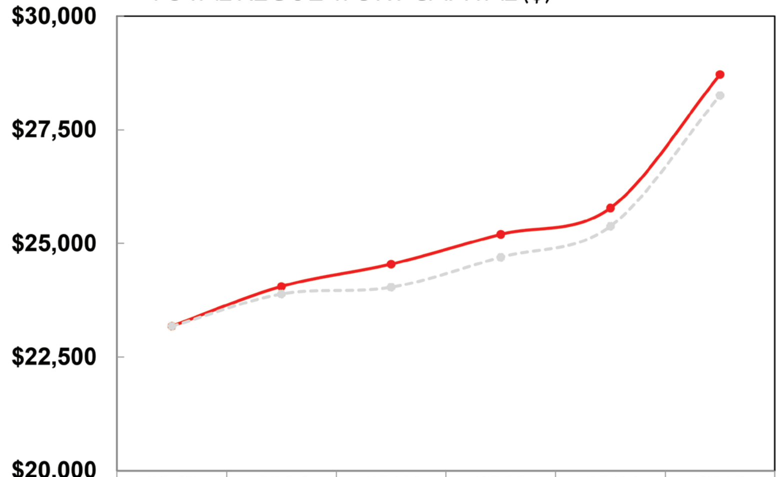


During this time, the Board made a decision to freeze asset growth in order to build capital and insure compliance with new Basel III capital regulations. These regulations were not released in final form until after the Bank had made firm commitments to expand capacity. This resulted in the Bank carrying excess fixed overhead costs until asset growth could be resumed.

While the Bank was able to grow the loan portfolio in 2018, the corresponding increases in the cost of funds discussed earlier resulted in flat year over year growth in net interest income. This coupled with the additional expenses associated with the items discussed above, including the building consolidation, investment in the insurance services subsidiary and the additional RM compensation resulted in an increase to the efficiency ratio in 2018. On a fiscal year basis, the Bank's efficiency ratio for the year ended September 30, 2018 was 82.85. Without the additional expense items the Bank's efficiency ratio would have been approximately 80.44 for the same period.

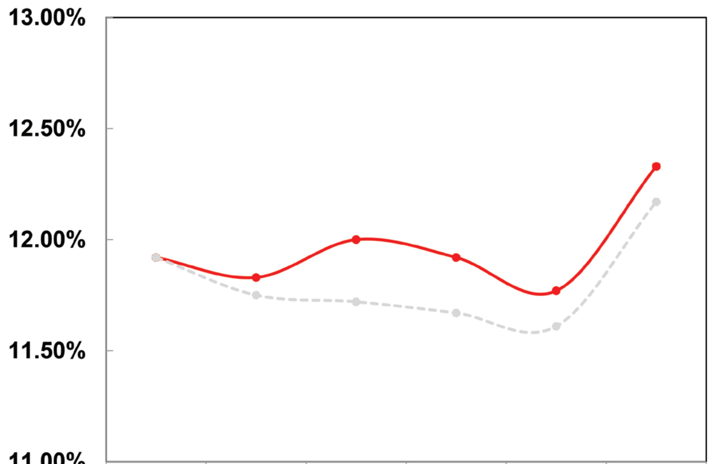
REGULATORY CAPITAL

CHART #14
TOTAL REGULATORY CAPITAL ($)



	2013	2014	2015	2016	2017	2018
GAAP	$23,180	$24,052	$24,543	$25,198	$25,779	$28,715
Regulatory	$23,178	$23,886	$24,035	$24,697	$25,377	$28,255

CHART #15
TOTAL RISK BASED CAPITAL (%)



	2013	2014	2015	2016	2017	2018
GAAP	11.92%	11.83%	12.00%	11.92%	11.77%	12.33%
Regulatory	11.92%	11.75%	11.72%	11.67%	11.61%	12.17%

Chart #14 illustrates the Bank's Total Regulatory Capital balances since 2013 and Chart #15 illustrates the Bank's Total Risk Based Capital ratio for the same periods. The charts indicate both Total Capital as reported in the Bank's shareholder financial statements and Total Capital as reported on the regulatory Call Reports. Please refer to Note 24 of the financial statements for additional detail of this difference.

Regulatory capital, as reported on the Bank's call report, increased $2.9 million in 2018 and the Bank's Total Risk Based Capital ratio increased 56bps. The increase in overall capital levels and the ratio was due primarily to the completion of a private stock offering in April, 2018.

The capital raised will provide capacity for continuing asset growth and it creates flexibility for future liquidations of the Company's Small Business Lending Fund preferred stock.

The stock offering resulted in the issuance of 248,536 shares of common stock at an issuance price of $16.00 per share. Net of the expenses to issue, the offering resulted in a total capital raise of approximately $3.9 million. $1.8 million of the capital raised was converted from existing junior subordinated debentures. The remaining $2.1 million was down-streamed as a capital contribution to the Bank. This contribution along with the current year's net income, net of dividends to the holding company, resulted in the increase to regulatory capital in 2018.

Given the Bank's usage of the brokered CD market it is imperative that the Bank maintain a well-capitalized regulatory classification. The Bank would lose access to this funding source if capital ratios drop below this classification. The Board has set internal requirements for regulatory capital that are above the well capitalized limit and are aligned with the institutions risk profile. The Board requirement provides a buffer to protect the Bank against falling below a well-capitalized status. As of September 30, 2018 the Bank's capital ratios are all in excess of the Board's internal requirements.

Crowe

Crowe LLP
Independant Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Enterprise Financial Services Group, Inc.
Allison Park, Pennsylvania

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Enterprise Financial Services Group, Inc., which comprise the consolidated statements of financial condition as of September 30, 2018 and 2017, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Financial Services Group, Inc. as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Crowe LLP

Cleveland, Ohio
April 15, 2019

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	September 30, 2018	September 30, 2017
Cash and due from banks	$ 998,380	$ 531,208
Cash on deposit with Federal Reserve Bank	20,083,377	20,046,543
Interest bearing deposits with banks	453,226	3,785,158
Cash and Cash Equivalents	21,534,983	24,362,909
Loans receivable	243,279,120	232,870,081
Allowance for loan losses	(896,235)	(1,258,177)
Net loans	242,382,885	231,611,904
Accrued interest receivable	754,655	642,944
Premises and equipment, net	8,747,423	9,289,798
Restricted investments in bank stock	2,136,600	2,195,800
Other assets (See Note 8)	9,954,231	6,429,327
Total Assets	**$285,510,777**	$ 274,532,682

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2018	September 30, 2017
LIABILITIES		
Non-interest bearing deposits	$ 2,331,543	$ 608,227
Interest bearing deposits	203,352,249	197,181,349
Total Deposits	205,683,792	197,789,576
Borrowings	50,115,000	53,470,000
Accrued interest payable	386,473	254,410
Accrued expenses and other liabilities	1,643,428	461,613
Total Liabilities	**257,828,693**	**251,975,599**
Commitments and contingencies (See Notes 6 and 17)		
STOCKHOLDERS' EQUITY		
Preferred stock, authorized 5,000,000 shares; 5,000 shares issued and outstanding at September 30, 2018 and 2017 with a liquidation value of $1,000 per share	5,000,000	5,000,000
Common stock, par value $.50; authorized 9,846,555 shares; 1,200,320 and 951,784 issued at September 30, 2018 and 2017, respectively	600,160	475,892
Additional paid-in capital	13,628,506	9,805,047
Retained earnings	8,993,120	7,815,846
Treasury stock, cost (65,800 shares at September 30, 2018 and 2017)	(568,429)	(568,429)
Total Enterprise Financial Services Group, Inc. Stockholders' Equity	27,653,357	22,528,356
Noncontrolling Interest	28,727	28,727
Total Stockholders' Equity	**27,682,084**	**22,557,083**
Total Liabilities and Stockholders' Equity	**$ 285,510,777**	**$ 274,532,682**

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended September 30, 2018	2017
INTEREST INCOME		
Interest and fees on loans	$ 12,662,466	$ 11,919,361
Interest on Federal Reserve balances	344,415	181,196
Other interest and dividend income	143,987	81,061
Total Interest Income	**13,150,868**	**12,181,618**
INTEREST EXPENSE		
Interest on deposits	2,764,120	2,045,556
Interest on borrowings	994,362	750,359
Total Interest Expense	**3,758,482**	**2,795,915**
Net Interest Income	**9,392,386**	9,385,703
PROVISION FOR LOAN LOSSES	**(277,908)**	**(75,134)**
Net Interest Income after Provision for Loan Losses	**9,670,294**	**9,460,837**
OTHER OPERATING INCOME		
Service charges on deposit accounts	350,296	373,341
Other fee revenue (See Note 12)	1,773,944	1,572,405
Gain (loss) on sale of foreclosed real estate	55,515	(4,067)
Loss on valuation of foreclosed real estate	(176,040)	(112,579)
Total Other Operating Income	**2,003,715**	**1,829,100**
OTHER OPERATING EXPENSES		
Salaries and employee benefits (See Note 13)	4,884,030	4,726,856
Occupancy	450,567	348,449
Furniture and office equipment	442,420	403,920
Data processing and computer equipment	653,921	605,766
FDIC insurance expense	395,371	423,695
Other (See Note 14)	2,672,002	2,710,934
Total Other Operating Expenses	**9,498,311**	**9,219,620**
Income Before Income Taxes	**2,175,698**	**2,070,317**

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended September 30,	
	2018	2017
INCOME TAX EXPENSE	548,424	765,621
Net Income	1,627,274	1,304,696
Preferred stock dividends	450,000	450,000
Net Income Attributable to Common Stockholders	$ 1,177,274	$ 854,696

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-Controlling Interest	Total Stockholders' Equity
BALANCE AT SEPTEMBER 30, 2016	**$ 5,000,000**	**$ 475,892**	**$ 9,805,047**	**$ 6,961,150**	**$ (568,429)**	**$ 28,727**	**$ 21,702,387**
Cash Dividends Paid on Preferred Stock ($90.00 per share)	-	-	-	(450,000)	-	-	(450,000)
Net income	-	-	-	1,304,696	-	-	1,304,696
BALANCE AT SEPTEMBER 30, 2017	**5,000,000**	**475,892**	**9,805,047**	**7,815,846**	**(568,429)**	**28,727**	**22,557,083**
Cash Dividends Paid on Preferred Stock ($90.00 per share)	-	-	-	(450,000)	-	-	(450,000)
Private Stock Offering (248,536 shares at $16.00 per share, net of expenses to issue)	-	**124,268**	**3,823,459**	-	-	-	**3,947,727**
Net income	-	-	-	1,627,274	-	-	**1,627,274**
BALANCE AT SEPTEMBER 30, 2018	**$ 5,000,000**	**$ 600,160**	**$13,628,506**	**$ 8,993,120**	**$ (568,429)**	**$ 28,727**	**$ 27,682,084**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$1,627,274**	$ 1,304,696
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**(277,908)**	(75,134)
(Gain) loss on sale of foreclosed real estate	**(55,515)**	4,067
Valuation loss on foreclosed real estate	**176,040**	112,579
Amortization of deferred loan fees and costs, net	**147,173**	135,634
Depreciation of premises and equipment	**699,186**	701,512
(Gain) loss on disposition of premises and equipment	**70,205**	(18,328)
Decrease in deferred tax asset	**18,100**	37,329
(Increase) decrease in accrued interest receivable	**(111,711)**	17,186
(Increase) decrease in other assets	**(1,240,202)**	(535,458)
Increase (decrease) in other liabilities	**1,174,518**	(90,665)
Increase in accrued interest payable	**132,063**	88,879
Net Cash Provided by Operating Activities	**2,359,223**	1,682,297
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments in bank stock	**(80,800)**	(1,184,900)
Sale of restricted investments in bank stock	**140,000**	400,000
Net increase in loans	**(13,326,403)**	(1,103,235)
Purchases of premises and equipment	**(227,016)**	(551,076)
Proceeds from the sale of premises and equipment	**-**	22,500
Additional investment in foreclosed real estate	**(118,765)**	(84,904)
Proceeds from the sale of foreclosed real estate	**388,892**	833,054
Net Cash Used by Investing Activities	**(13,224,092)**	(1,668,561)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**$ 7,894,216**	(15,650,390)
Dividends paid	**(450,000)**	(450,000)
Proceeds from private stock offering	**2,092,727**	-
Proceeds from borrowings	**2,000,000**	29,500,000
Repayment on borrowings	**(3,500,000)**	(10,000,000)
Net Cash Provided by Financing Activities	**8,036,943**	3,999,610
Net Increase in Cash and Cash Equivalents	**(2,827,926)**	3,413,346
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**24,362,909**	20,949,563
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 21,534,983**	$ 24,362,909
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 3,626,419**	$ 2,707,036
Income tax paid	**$ 340,542**	$ 930,300
NON-CASH INVESTING TRANSACTIONS		
Loans transferred to foreclosed real estate	**$ 3,557,218**	$ 453,268
Loans to facilitate sales of foreclosed real estate	**$ 871,061**	$ 98,697
NON-CASH FINANCING TRANSACTIONS		
Redemption of Junior Subordinated Debentures to Common Stock	**$ 1,855,000**	$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

General

The accompanying consolidated financial statements include the accounts of Enterprise Financial Services Group, Inc. (the "Company") and its wholly-owned subsidiary Enterprise Bank (the "Bank"). The accompanying statements also include the accounts of the Bank's wholly owned subsidiaries. The Bank's subsidiaries include Enterprise Insurance Services, Inc., Enterprise Business Consultants, Inc., Buildonus, Inc., and Kuzneski & Lockard, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation.

Enterprise Bank commenced operations as a state bank in October, 1998. The Bank operates from one location in Allison Park, Allegheny County, Pennsylvania. The primary source of revenue is from providing commercial loans to business customers located within Allegheny and its bi-contiguous counties. The Bank is subject to regulation by the Pennsylvania Department of Banking, the Federal Reserve Board and the Federal Deposit Insurance Corporation.

Enterprise Insurance Services, Inc. provides real estate title verification and insurance services. Enterprise Business Consultants, Inc. is a professional services firm that provides bookkeeping, marketing, advertising and web design services for its small business clients. Buildonus, Inc. provides light construction support to the Bank for its foreclosed properties. Buildonus, Inc. has also served in the past as a general contractor for the construction of the Kuzneski & Lockard, Inc. office facility in Indiana, Pennsylvania and for the expansion of the Bank's headquarters in Allison Park, Pennsylvania. Kuzneski & Lockard, Inc. is a full service real estate agency with headquarters in Indiana, Pennsylvania.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Bank has defined cash and cash equivalents as those amounts included in the statement of financial condition captioned, "Cash and due from banks", "Cash on deposit with Federal Reserve Bank", and "Interest bearing deposits with banks."

Loans Receivable

Loans that management has the intent and ability to hold for the forseeable future, or until maturity or payoff, generally are stated at the principal amount outstanding net of any deferred fee income or costs incurred to originate. Interest income is accrued on the unpaid principal balance and is credited to income as earned. Loan origination fees and certain direct origination costs have been deferred and are recognized as an adjustment to the effective yield of the related loan through interest income. The Bank is generally amortizing these amounts over the contractual life of the loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable (CONTINUED)

The accrual of interest is discontinued when the contractual payment has become 90 days past due unless the credit is well secured and in the process of collection. For interest that has been accrued but unpaid at the time a loan is placed on nonaccrual status a reversal is made to either interest income in the current year or charged against the allowance for loan losses depending on the period in which the interest was originally accrued. For loans that are on nonaccrual, with measured impairment, payments received are generally applied against principal. For loans that are on nonaccrual, with no measured impairment, a portion of payments received may be recognized as interest income on a cash basis. Generally, loans are restored to accrual status when the interest due is brought current, the loan has performed in accordance with the contractual terms for a reasonable period of time, and doubt about the ultimate collectability of the total contractual principal and interest has been alleviated.

Allowance for Loan Losses

The Allowance for Loan Losses is established through a provision for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The Allowance for Loan Losses is maintained at a level considered adequate to provide for losses inherent in the loan portfolio that are both probable and estimable on the financial statement date. Management's evaluation of the allowance is inherently subjective, as it requires material estimates that may be susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans.

When estimating the Allowance for Loan Losses, management considers historical loan loss statistics as well as a qualitative component. Qualitative factors include, but are not limited to, underwriting policies, economic data, loan mix, any change in key lending personnel, collateral valuation trends, credit concentrations, market competition and the regulatory environment. The estimated allowance is based on an accumulation of these various components which are calculated based on independent methodologies. All components represent an estimation performed by management based on certain observable data that management believes is the most reflective of the underlying credit losses being estimated. Changes in the amount of each component of the Allowance for Loan Losses are directionally consistent with changes in the observable data, taking into account the likelihood of a loss occurring based upon consideration of all components over time.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal and interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting contractual payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Most loans are considered collateral dependent in this type of loan portfolio. Impaired loans are charged-off when management believes that the ultimate collectability of a loan is not likely.

Troubled debt restructurings ("TDR") are individually evaluated for impairment and included in the separately identified impairment disclosures. TDRs are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a TDR is considered to be collateral dependent, then impairment is measured by comparing the recorded investment in the loan to the fair value of the collateral net of estimated costs of sale, with a reserve being recorded for any shortfall. For TDRs that subsequently default, the Company determines the amount of the allowance on that loan in accordance with the accounting policy for the allowance for loan losses on loans on loans individually identified as impaired.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Real Estate

Real Estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value net of estimated costs to sell on the date of foreclosure establishing a new carrying value. On the date of acquisition, any deficiency between the asset's net fair value and the basis of the underlying loan is charged to the Allowance for Loan Losses. If the asset's net fair value exceeds the Bank's basis in the underlying loan then a gain is recorded and classified as a gain on valuation of foreclosed real estate on the Consolidated Statement of Income. After foreclosure, properties are re-appraised on at least an annual basis. When re-appraised the property is adjusted to the lower of the carrying amount, which may include remodeling expenses, or the new fair value less estimated costs to sell. A write-down of the carrying value is recorded as a loss on the valuation of foreclosed real estate on the Consolidated Statements of Income.

The Bank recorded net valuation losses on foreclosed real estate of $176,040 and $112,579 for the years ended September 30, 2018 and 2017, respectively. The Bank recorded gains upon foreclosure of real estate of $8,424 for the year ended September 30, 2018. There were no gains recorded upon foreclosure of real estate for the year ended September 30, 2017.

The Bank held foreclosed real estate with an aggregate carrying value, net of valuation allowance, of $5,671,195 and $3,388,877 at September 30, 2018 and 2017, respectively, which is included in other assets.

The Bank had a recorded investment in loans of $483,353 and $6,941 at September 30, 2018 and 2017, respectively, secured by 1-4 family residential real estate and in the process of foreclosure.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from three to forty years. Charges for maintenance and repairs are expensed as incurred.

Income Taxes

The applicable federal income tax expense or benefit for the Company's wholly owned subsidiaries is properly allocated to each subsidiary based upon taxable income or loss calculated on a separate company basis. Each subsidiary is responsible for its own federal income tax liability and receives reimbursement for federal income tax benefits.

Deferred income tax assets and liabilities are determined based on the differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. These differences are measured at the enacted tax rates expected to be in effect when such amounts are realized or settled. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deposits

Interest expense on deposits is accrued and charged to expense daily and is paid or compounded in accordance with the terms of the accounts.

Advertising Costs

The Bank follows the policy of charging costs of advertising to expense as incurred. Total advertising expense for the years ended September 30, 2018 and 2017 was $84,296 and $93,594, respectively.

Concentration of Risk

The Bank maintains deposits in financial institutions that at times may exceed the federal deposit insurance limits for each account of $250,000. The Bank has not experienced any losses from these deposit relationships.

Revenue Recognition

The Bank's primary source of revenue is interest income from its commercial lending operations. Interest income is recognized on all interest-earning assets, including commercial loans, based on the constant effective yield of the financial instrument.

The Bank also earns non-interest income from various sources. The Bank recognizes fee income from lending operations including fees earned from the issuing of loan commitments, documentation, unfunded commitments under lines of credit, standby letters of credit and financing guarantees. All fee revenue from commercial loans and loan servicing is recognized based on contractual terms, as transactions occur or services are provided. Gains on the sale of loans, if any, are recognized upon cash settlement of the transactions.

The Bank also earns fee and service charge income on customer deposit accounts. Income from fees and service charges on deposits is recognized when the transaction or service is complete and the revenue is earned.

The Bank's wholly owned subsidiaries have varying sources of revenue and therefore each operates under its own revenue recognition policy.

The primary source of revenue for Enterprise Business Consultants, Inc. is fee income from providing professional services to its small business clients. Revenue is generally recognized in the period in which the services were provided. In some instances services are provided and invoiced on a completed project basis. Under these circumstances unbilled revenue is accrued as work in process with an offsetting unbilled work in process liability and recognition of revenue is deferred until project completion. Enterprise Business Consultants, Inc. oftentimes provides services to clients that are in a distressed situation and therefore collectability of fees is questionable. Under these circumstances fees for services are accrued as work in process with an offsetting unbilled work in process liability and recognition of revenue is deferred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Kuzneski & Lockard, Inc. is a full service real estate agency and its primary source of income is from commissions earned by acting as an agent between buyers and sellers of real estate. Commission revenues are recognized upon closing of the real estate sales transaction. Revenue is not accrued on any commissions that may be earned or received prior to final closing of the transaction whether the commissions are refundable or non-refundable. Other fee based income on services provided to clients that are not commission based are recognized in the period that services are rendered and earned.

Enterprise Insurance Services, Inc. provides title insurance and consulting services for the selection of property, business line and employee benefit insurance policies. The primary source of revenue is from commissions earned on the sale of policies. Commission revenue is recognized by the company upon finalization of the sale transaction. Revenue is not accrued on any non-refundable commissions which may be accumulated prior to completion of the sale.

Buildonus, Inc. provides maintenance and light construction services in support of the Bank's foreclosed properties. The subsidiary invoices the Bank for its cost of labor and materials as services are completed. Revenue for maintenance services is eliminated against the corresponding maintenance expense incurred an improvement to the foreclosed property.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note (see Note 22). Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 – CASH BALANCES WITH FEDERAL RESERVE BANKS

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.). Reserves are maintained in the form of vault cash or cash balances held with the Federal Reserve Bank. The Bank also, from time to time, maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing. The reserve requirement at September 30, 2018 and 2017 was $813,000 and $736,000, respectively. The Federal Reserve Bank paid interest on required reserve and excess balances during the years ended September 30, 2018 and 2017. The Bank had interest bearing balances with the Federal Reserve of $20,083,377 and $20,046,543 at September 30, 2018 and 2017, respectively. These balances are classified as Cash on deposit with Federal Reserve Bank on the Consolidated Statements of Financial Condition.

NOTE 3 – RESTRICTED INVESTMENTS IN BANK STOCK

Restricted investments in bank stock include equity securities of the Federal Home Loan Bank ("FHLB") and the Atlantic Community Bankers Bank ("ACBB") recorded at cost, at September 30, 2018 and 2017 as follows:

	2018	2017
Federal Home Loan Bank stock	**$ 2,106,600**	$ 2,165,800
Atlantic Community Bankers Bank stock	**30,000**	30,000
	$ 2,136,000	$ 2,195,800

As a member of the FHLB, the Bank is required to maintain a capital stock investment. The FHLB requires a minimum investment based upon the members borrowing balance, collateral pledged and participation in other FHLB programs.

FHLB stock does not have a readily determinable fair value and therefore is carried at cost. The investment is periodically evaluated for impairment based on an assessment of recoverability of the cost basis. Cash dividends received on FHLB and ACBB stock are included in other interest and dividend income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS RECEIVABLE

The composition of the Bank's loan portfolio at September 30, 2018 and 2017 is as follows:

	2018	2017
Real estate:		
Construction and land development	**$ 10,398,736**	$ 21,457,806
Mortgage:		
Residential	**15,402,801**	16,495,911
Commercial	**186,914,037**	164,572,520
Commercial and industrial loans	**29,939,812**	29,728,002
Consumer loans	**35,752**	46,575
Other	**8,785**	35,367
Total	**242,699,923**	**232,336,181**
Unamortized deferred loan fees and origination costs, net	**579,197**	533,900
	243,279,120	232,870,081
Less allowance for loan losses	**(896,235)**	(1,258,177)
Net loans	**$ 242,382,885**	**$ 231,611,904**

The Bank grants commercial loans, residential mortgages and consumer loans to customers generally located within Allegheny County and its bi-contiguous counties. Although the Bank has a diversified portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

As of September 30, 2018, the Bank has concentrations in loans to lessors of non-residential buildings (except mini-warehouses), hotels, and lessors of residential buildings and dwellings in the amounts of $41,405,209, $20,876,845 and $23,249,978, respectively.

Risk characteristics applicable to each material segment of the loan portfolio are described as follows:

Construction and Land Development: Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. Sources of repayment of these loans may include permanent loans, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are considered to be higher risk than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions and the availability of long-term financing. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

Residential Real Estate: Residential real estate loans are generally secured by owner-occupied 1-4 family residences. In most instances this collateral is pledged to secure a loan to a commercial borrower. When securing a commercial loan, repayment is generally derived from the cash flow of a borrower's principal business operation. Repayment of these loans oftentimes is dependent on the personal income and credit rating of the borrowers. Credit risk in these loans can be impacted by economic conditions within the Bank's market areas that might impact property values, performance of the borrower's business or personal income.

Commercial Real Estate: Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. Credit risk in these loans may be impacted by the creditworthiness of a borrower, property values and the local economies in the Bank's market areas.

Commercial: The commercial portfolio includes loans to commercial customers for use in financing working capital needs, equipment purchases and expansion. The loans in this category are repaid primarily from the cash flow of a borrower's principal business operation. Credit risk in these loans is driven by creditworthiness of a borrower and the economic conditions that impact the cash flow stability from business operations. Enterprise Bank puts a strong emphasis on tangible collateral and sometimes uses a government guarantee to mitigate its risk due to the Business Plan which includes an element of higher risk lending.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

The following is a detail of the Bank's loans, classified by delinquent status, at September 30, 2018 and 2017 along with the value of risk mitigation programs in place to limit the Bank's exposure to loss from these loans:

September 30, 2018		Days Past Due and Accruing			Past Due and		Total Loans
	Current	30-59	60-89	90+	Accruing Total	Nonaccrual	Receivable
Real Estate:							
Construction and land development	$ 10,398,736	$ -	$ -	$ -	$ -	$ -	$ 10,398,736
Mortgage:							
Residential	14,011,582	49,955	-	-	49,955	1,341,264	15,402,801
Commercial	175,844,283	3,854,793	168,689	-	4,023,482	7,046,272	186,914,037
Commercial and industrial loans	27,373,801	193,577	74,928	-	268,505	2,297,506	29,939,812
Consumer loans	35,752	-	-	-	-	-	35,752
Other	8,785	-	-	-	-	-	8,785
Total	**227,672,939**	**4,098,325**	**243,617**	-	**4,341,942**	**10,685,042**	**242,699,923**
Less government guaranteed portion	31,327,563	145,183	63,688	-	208,871	5,814,889	37,351,323
SBA 504 financing (1)	11,975,081	-	-	-	-	-	11,975,081
Net exposure	**$ 184,370,295**	**$ 3,953,142**	**$ 179,929**	**$ --**	**$ 4,133,071**	**$ 4,870,153**	**$ 193,373,519**

(1) SBA 504 loan structure typically carries loan to value ratio of ≤ 50%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

September 30, 2017		Days Past Due and Accruing			Past Due and		Total Loans
	Current	30-59	60-89	90+	Accruing Total	Nonaccrual	Receivable
Real Estate:							
Construction and land development	$ 21,457,806	$ -	$ -	$ -	$ -	$ -	$ 21,457,806
Mortgage:							
Residential	15,533,028	-	-	-	-	962,883	16,495,911
Commercial	153,296,865	1,435,619	94,624	-	1,530,243	9,745,412	164,572,520
Commercial and industrial loans	28,158,288	-	229,684	-	229,684	1,340,030	29,728,002
Consumer loans	46,575	-	-	-	-	-	46,575
Other	35,367	-	-	-	-	-	35,367
Total	**218,527,929**	**1,435,619**	**324,308**	-	**1,759,927**	**12,048,325**	**232,336,181**
Less government guaranteed portion	36,018,264	-	184,343	-	184,343	6,065,959	42,268,566
SBA 504 financing (1)	12,216,023	-	-	-	-	-	12,216,023
Net exposure	**$170,293,642**	**$ 1,435,619**	**$ 139,965**	**$ -**	**$ 1,575,584**	**$ 5,982,366**	**$ 177,851,592**

(1) SBA 504 loan structure typically carries loan to value ratio of $\leq$ 50%

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

Allowance for Loan Losses Components:

Components used to determine the allowance for loan losses include historical charge off experience and a qualitative component. Qualitative components include underwriting policies, economic data, key personnel, collateral valuation trends, credit concentrations, market competition, and the regulatory environment. The qualitative components of the allowance calculation are based on loss attributes that management believes exist within the total portfolio that are not captured in the historical charge-off experience component.

There were no significant changes to the observable data used by the Bank to measure these components during the years ended September 30, 2018 and 2017.

In determining the allowance for loan losses, once it is determined that it is probable that an individual loan is impaired, the Bank measures the amount of impairment for that loan using the expected future cash flows of the loan discounted at the loan's effective interest rate or, as a practical expedient, at the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Loans in the Bank's portfolio are predominantly collateral dependent.

Allowance for Loan Losses by Portfolio Segment

The Company's loan portfolio is divided into segments allowing management to monitor risk and performance. The real estate loan segment is further divided into three classes. Residential is primarily loans to commercial borrowers where the loan is secured by residential real estate. Commercial consists of loans to commercial borrowers secured primarily with commercial real estate. Commercial & Industrial consists of loans to finance activities of commercial borrowers where primary collateral is something other than real estate. Consumer loans are primarily home equity and installment loans. Other consists of overdraft credit.

The following tables summarize the primary segments of the loan portfolio and the related allowance for loan losses for each segment as of September 30, 2018 and 2017. Generally, loans that are internally risk rated between 1 and 5 are collectively evaluated for impairment and loans with a risk grade of 6 are individually evaluated for impairment.

The government guaranteed portion of a loan is generally risk graded as a 1 and collectively evaluated for impairment. However, for purposes of this table the entire balance of any government guaranteed loan that is risk rated a 6 is considered to be individually evaluated and the related allowance is the aggregate amount reserved for both the guaranteed and unguaranteed portion.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Loans with an internal risk rating between 1 and 5 that have been modified in a troubled debt restructuring are indicated separately in the table below.

September 30, 2018

	Real Estate Residential	Real Estate Commercial	Construction	Commercial & Industrial	Consumer	Other	Total
Loans							
Individually evaluated for impairment (all 6 rated loans)	$ 533,808	$ 7,489,076	$ -	$ 1,966,310	$ -	$ -	$ 9,989,194
Troubled debt restructured with risk rating of 1-5	1,254,143	8,897,775	-	1,494,506	-	-	11,646,424
Collectively evaluated for impairment (all other rated 1-5)	13,614,850	170,527,186	10,398,736	26,478,996	35,752	8,785	221,064,305
Total Loans	**$ 15,402,801**	**$186,914,037**	**$ 10,398,736**	**$ 29,939,812**	**$ 35,752**	**$ 8,785**	**$ 242,699,923**
Related Allowance							
Individually evaluated for impairment (all 6 rated loans)	$ 30,718	$ 74,925	$ -	$ 194,231	$ -	$ -	$ 299,874
Troubled debt restructured with risk rating of 1-5	22,019	-	-	121,290	-	-	143,309
Collectively evaluated for impairment (all other rated 1-5)	13,594	290,150	9,575	138,839	894	-	453,052
Total Allowance	**$ 66,331**	**$ 365,075**	**$ 9,575**	**$ 454,360**	**$ 894**	**$ -**	**$ 896,235**

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2017	Real Estate Residential	Real Estate Commercial	Construction	Commercial & Industrial	Consumer	Other	Total
Loans							
Individually evaluated for impairment (all 6 rated loans)	$ 105,925	$ 9,252,850	$ -	$ 1,303,414	$ -	$ -	$ 10,662,189
Troubled debt restructured with risk rating of 1-5	1,299,644	7,132,555	-	857,061	-	-	9,289,260
Collectively evaluated for impairment (all other rated 1-5)	15,090,342	148,187,115	21,457,806	27,567,527	46,575	35,367	212,384,732
Total Loans	**$ 16,495,911**	**$ 164,572,520**	**$ 21,457,806**	**$ 29,728,002**	**$ 46,575**	**$ 35,367**	**$ 232,336,181**
Related Allowance							
Individually evaluated for impairment (all 6 rated loans)	$ 22,362	$ 305,965	$ -	$ 152,476	$ -	$ -	$ 480,803
Troubled debt restructured with risk rating of 1-5	24,467	41,226	-	-	-	-	65,693
Collectively evaluated for impairment (all other rated 1-5)	55,676	526,303	58,506	70,972	224	-	711,681
Total Allowance	**$ 102,505**	**$ 873,494**	**$ 58,506**	**$ 223,448**	**$ 224**	**$ -**	**$ 1,258,177**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Transactions in the allowance for loan losses for the years ended September 30, 2018 and 2017 are summarized as follows:

September 30, 2018

	Residential Mortgage	Commercial Mortgage	Construction & Land Development	Commercial & Industrial	Consumer	Total
Allowance for credit losses:						
Beginning Balance	$ 102,505	$ 873,494	$ 58,506	$ 223,448	$ 224	$ 1,258,177
Provision charged to operating expense	(27,774)	(355,861)	(48,931)	153,988	670	(277,908)
Recoveries of previously charged off loans	2,018	99	-	96,506	-	98,623
Charge-offs	(10,418)	(152,657)	-	(19,582)	-	(182,657)
Ending Balance	**$ 66,331**	**$ 365,075**	**$ 9,575**	**$ 454,360**	**$ 894**	**$ 896,235**

September 30, 2017

	Residential Mortgage	Commercial Mortgage	Construction & Land Development	Commercial & Industrial	Consumer	Total
Allowance for loan losses:						
Beginning Balance	$ 219,959	$ 1,040,782	$ 62,871	$ 199,798	$ 403	$ 1,523,813
Provision charged to operating expense	(38,515)	(62,415)	(4,365)	30,340	(179)	(75,134)
Recoveries of previously charged off loans	3,405	3,837	-	3,139	-	10,381
Charge-offs	(82,344)	(108,710)	-	(9,829)	-	(200,883)
Ending Balance	**$ 102,505**	**$ 873,494**	**$ 58,506**	**$ 223,448**	**$ 224**	**$ 1,258,177**

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Internal Credit Risk Grades

The following summarizes the Bank's credit risk grades used as part of its credit risk valuation process for loans as presented in the previous tables:

Grade 1 (Excellent risk)

This category includes only credits of the highest quality. Risk of financial deterioration and/or ultimate loss is extremely low. This category typically includes lines of credit and loans fully secured with negotiable securities or bank time deposits, within Bank policy guidelines. This category may include credits to very strong net worth and cash flow borrowers with good collateral, proper guarantees, and a defined short to intermediate term repayment schedule. This category includes the government guaranteed portion of Small Business Administration loans. Collateral may include less than 50% advances against real estate. Credits contain no policy exceptions.

Grade 2 (Above average risk)

This category includes credits of a high quality with minor or no policy exceptions. The risk of serious financial deterioration and/or loss is very low. Typically this category includes credits secured with business assets providing a significant level of protection beyond the loan balance and may include personal real estate collateral when significant equity exists, is personally guaranteed and has a defined repayment agreement. Borrower consistently meets all reporting requirements.

Grade 3 (Satisfactory risk)

This category contains good quality credits. The risk of financial deterioration and/or ultimate loss is low. This category includes unsecured credits to very strong net worth and cash flow borrowers with excellent track records or credit ratings. Loans substantially comply with Bank policy with only minor exceptions. This category typically includes credits which may have been rated a "2" but for over advances on collateral or extended repayment terms. This category may include loans to new or acquired businesses which have good collateral, but lack of a track record. Commercial mortgages with advances less than 75% may be rated in this category. The borrower is generally prompt with reporting requirements, needing only occasional reminders to comply.

Grade 4 (Acceptable risk)

This category contains average quality credits. The risk is acceptable in its current form, but possibility of financial deterioration exists if adverse conditions occur. This rating may be indicative of factors such as less than favorable earnings trends, untested management abilities, limited secondary sources of repayment, higher than average leverage or marginal collateral. Generally, this category includes monitored business lines of credit and receivable purchase facilities. This category also includes credits which may have one major policy exception or a limited number of minor exceptions, such as advances on real estate in excess of that defined under the Grade 3 category, or having cash flow characteristics which are untested or of duration less than that of the loan. This category will include otherwise higher rated loans to borrowers who frequently fail to meet reporting requirements or incur occasional delinquency.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Grade 5 (Marginal risk and "Watch List")

This category contains credits of below average quality. One or two important negative factors exist which could result in serious financial deterioration leading to a risk of loss. Credit may still be protected by good collateral or guarantor support. This category usually includes loans which have been downgraded due to repeated delinquency, deterioration of financial condition, including collateral value and/or cash flow, repeated failure to meet reporting requirements or other factors, which, if not corrected, may result in further weakness.

Grade 6 (Classified)

This category contains credits of below average quality with several weaknesses. Weaknesses include significant financial deterioration in collateral value or the Bank's ability to liquidate collateral, financial statements which indicate unacceptable leverage, or cash flow insufficient to service debt.

The recorded investment in loans by credit risk grade at September 30, 2018 and 2017 are as follows:

September 30, 2018

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Real Estate:							
Construction and land development	$ -	$ 119,008	$ 8,131,681	$ 2,148,047	$ -	$ -	$ 10,398,736
Mortgage:							
Residential	1,315,027	1,349,486	9,748,515	2,312,860	547,245	129,668	15,402,801
Commercial	22,342,454	3,665,131	103,016,929	45,116,890	7,553,632	5.219,001	186,914,037
Commercial and industrial loans	13,803,391	1,536,678	8,694,534	4,565,359	894,820	445,030	29,939,812
Consumer loans	-	-	-	35,752	-	-	35,752
Other	8,785	-	-	-	-	-	8,785
Total	$37,469,657	$ 6,670,303	$129,591,659	$ 54,178,908	$ 8,995,697	$ 5,793,699	$242,699,923

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2017	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Real Estate:							
Construction and land development	$ 3,674,630	$ -	$ 15,505,248	$ 2,277,928	$ -	$ -	$21,457,806
Mortgage:							
Residential	1,141,431	1,684,263	9,350,968	3,609,946	606,843	102,460	16,495,911
Commercial	24,504,890	3,626,582	85,774,480	41,332,224	4,520,991	4,813,353	164,572,520
Commercial and industrial loans	13,106,643	1,389,518	9,104,843	4,960,879	855,180	310,939	29,728,002
Consumer loans	-	-	2,692	43,883	-	-	46,575
Other	35,367	-	-	-	-	-	35,367
Total	**$ 42,462,961**	**$ 6,700,363**	**$119,738,231**	**$ 52,224,860**	**$ 5,983,014**	**$ 5,226,752**	**$232,336,181**

Impaired Loans

Impaired loans generally correspond to loans with a rating of Grade 6 in the Credit Risk Grading summary with the exception of government guaranteed loans. The guaranteed principal portion of a Grade 6 loan that is backed by a government guarantee would be rated as Grade 1. The entire principal balance of these loan types is considered impaired in the tables below. Any government guaranteed loan with a Grade 6 that has no specific reserve but carries an immaterial reserve related to the collective evaluation of the guaranteed portion of the loan is categorized as impaired with no specific allowance in the tables below.

In addition to loans with a rating of Grade 6, loans with a rating of Grade 1 through 5 that have been modified in a troubled debt restructuring are also considered impaired and are included in these tables.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables summarize information for impaired loans by loan segment as of September 30, 2018 and 2017:

The tables in this section indicate the unpaid principal balances of impaired loans as this balance is materially the same as the Bank's recorded investment for these loans.

September 30, 2018

	Impaired Loans Credit Risk Grade 6 with Specific Allowance		Impaired Loans Grade 6 with no Specific Allowance	Troubled Debt Restructured With Risk Grade 1 through 5		Restructured with no Specific Allowance	Total Impaired Loans		
	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal Balance	Average Investment In Impaired Loans	Interest Income Recognized on Impaired Loans
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -	-	$ -
Mortgage									
Residential	533,808	30,718	-	830,184	22,019	423,959	1,787,951	1,345,359	40,047
Commercial	1,886,686	74,925	5,602,390	-	-	8,897,775	16,386,851	16,118,717	558,008
Commercial and industrial loans	1,885,987	194,231	80,323	659,500	121,290	835,006	3,460,816	2,855,984	113,613
Consumer loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	$ 4,306,481	$ 299,874	$ 5,682,713	$ 1 ,489,684	$ 143,309	$ 10,156,740	$ 21,635,618	$ 20,320,960,	$ 711,668

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The tables in this section indicate the unpaid principal balances of impaired loans as this balance is materially the same as the Bank's recorded investment for these loans.

September 30, 2017

	Impaired Loans Credit Risk Grade 6 with Specific Allowance		Impaired Loans Grade 6 with no Specific Allowance	Troubled Debt Restructured With Risk Grade 1 through 5		Restructured with no Specific Allowance	Total Impaired Loans		
	Unpaid Principal	**Related Allowance**	**Unpaid Principal**	Unpaid Principal	**Related Allowance**	**Unpaid Principal**	**Unpaid Principal Balance**	**Average Investment In Impaired Loans**	**Interest Income Recognized on Impaired Loans**
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
Mortgage									
Residential	94,364	22,362	11,561	866,104	24,467	433,540	1,405,569	2,152,790	83,873
Commercial	3,977,749	305,965	5,275,101	302,959	41,226	6,829,596	16,385,405	17,923,243	496,730
Commercial and industrial loans	1,194,038	152,476	109,376	-	-	857,061	2,160,475	2,401,344	126,485
Consumer loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	$ 5,266,151	$ 480,803	$ 5,396,038	$ 1 ,169,063	$ 65,693	$ 8,120,197	$ 19,951,449	$ 22,477,377	$ 707,088

Troubled Debt Restructuring ("TDR")

The Bank modifies loan terms for various reasons as a normal course of business. Modifications are classified as TDRs when the Bank has determined that the borrower is experiencing financial difficulties and the loan modification includes a concession by the Bank that would not otherwise be considered for a new borrower with similar collateral and credit risk characteristics.

Generally, loan modifications by the Bank that are considered TDRs are modifications in payment terms that allow the borrower to have or extend an interest payment only period. This interest only period is generally granted by the Bank to allow the borrower time to overcome a temporary downturn in the business cycle. If the financial difficulty experienced by the borrower is not temporary in nature, an interest only extension may be granted to give the borrower an opportunity to liquidate their collateral and repay the loan in full. This is beneficial to the Bank as it eliminates the time and expense associated with the loan workout and foreclosure process.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following summarizes loan modifications that are classified as TDRs for the years ended September 30, 2018 and 2017:

Troubled Debt Restructurings:

	Number of Contracts	Pre-Modification Outstanding Principal, Net	Post-Modification Outstanding Principal, Net
Year ended September 30, 2018			
Real Estate – Residential	-	$ -	$ -
Real Estate - Commercial	6	3,999,021	3,999,021
Commercial & Industrial	6	1,833,997	1,833,997
Total	12	$ 5,833,018	$ 5,833,018
Year ended September 30, 2017			
Real Estate – Residential	1	$ 74,123	$ 74,123
Real Estate – Commercial	7	3,752,419	3,752,419
Commercial & Industrial	10	1,951,004	1,951,004
Total	18	$ 5,777,546	$ 5,777,546

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following summarizes loan modifications that are classified as TDRs for the years ended September 30, 2018 and 2017:

September 30, 2018

	Number of Loans	Principal Balance at Modification
Grant or extend interest only period	9	$ 5,633,116
Maturity Extension	3	199,902
Totals	**12**	**$ 5,833,018**

September 30, 2017

	Number of Loans	Principal Balance at Modification
Grant or extend interest only period	5	$ 1,837,711
Interest rate change	7	1,735,644
Payment deferral – (One Month)	2	1,693,478
Maturity Extension	2	154,534
Other	2	356,179
Totals	**18**	**$ 5,777,546**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructurings That Subsequently Defaulted

	Year Ended September 30, 2018		Year Ended September 30, 2017	
	Number of Contracts	Outstanding Principal, Net	Number of Contracts	Outstanding Principal, Net
Real Estate – Commercial	-	$ -	1	$ 183,088
Commercial & Industrial	-	-	3	1,169,476
Total	-	$ -	4	$ 1,352,564

Troubled debt restructurings are considered to be in default if the loan was on full accrual status prior to the modification and then subsequently, within a twelve month period is transferred to a nonaccrual status.

Loans modified in a troubled debt restructuring are considered impaired loans for purposes of calculating the Allowance for Loan Losses. As of September 30, 2018 and 2017, included with the allowance for loan losses are reserves of $143,309 and $65,693, respectively, that are associated with loans that have been modified.

NOTE 6 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. Such financial instruments are recorded when they are funded. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At September 30, 2018 and 2017, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2018	2017
Commitments to grant loans	$ 11,427,828	$ 1,480,125
Unfunded commitments under lines of credit	47,440,919	42,433,544
Standby letters of credit	3,407,948	2,929,250

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK (CONTINUED)

Commitments to extend credit are agreements to lend to a client as long as 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. The commitments under lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the client.

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a client to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. The Bank generally holds collateral sufficient to support those commitments. There are no recourse provisions that would enable the Bank to recover any amounts from third parties.

NOTE 7 – PREMISES AND EQUIPMENT

The following summarizes major classifications of premises and equipment at September 30, 2018 and 2017:

	2018	2017
Land and improvements	**$ 1,628,198**	$ 1,628,198
Buildings and improvements	**6,926,883**	6,926,883
Furniture and equipment	**3,773,379**	3,700,499
Vehicles	**543,708**	614,752
Accumulated depreciation	**(4,124,745)**	(3,580,534)
	$ 8,747,423	$ 9,289,798

Depreciation expense of $699,186 and $701,512 was incurred by the company for the years ended September 30, 2018 and 2017, respectively and is included in other operating expense.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – OTHER ASSETS

The following summarizes other assets at September 30, 2018 and 2017:

	2018	2017
Foreclosed real estate	$ 5,671,195	$ 3,388,877
Other foreclosed assets	143,675	-
SBA guarantee receivable	1,322,110	1,131,176
Loan costs receivable	402,184	183,885
Deferred tax assets	75,293	93,393
Other receivables	1,142,708	241,010
Other prepaid expenses	838,160	1,058,649
Miscellaneous	358,906	332,337
	$ 9,954,231	$ 6,429,327

NOTE 9 – INTEREST BEARING DEPOSITS

Interest bearing deposits at September 30, 2018 and 2017 are further detailed as follows:

	2018	2017
NOW accounts	$ 37,929,044	$ 41,013,463
Savings accounts	42,075,495	35,302,333
Certificates and other time deposits	123,347,710	120,865,553
	$ 203,352,249	$ 197,181,349

The Bank utilizes the services of deposit brokers to obtain a portion of its total deposits. The Bank had total deposit balances of $107,923,000 and $103,199,000 at September 30, 2018 and 2017, respectively, that were obtained through the use of deposit brokers.

The Bank had $1,956,168 and $1,492,697 in outstanding certificates of deposit issued in denominations greater than $250,000 as of September 30, 2018 and 2017, respectively. Generally, deposits in excess of $250,000 are not federally insured.

NOTE 9 – INTEREST BEARING DEPOSITS (CONTINUED)

Certificates and other time deposits had the following maturities as of September 30:

2019	**$ 66,775,065**
2020	**12,046,467**
2021	**25,811,055**
2022	**9,530,358**
2023	**9,184,765**
	$ 123,347,710

NOTE 10 – BORROWINGS

Borrowings at September 30, 2018 and 2017 are as follows:

	2018	**2017**
Federal Home Loan Bank borrowings	**$ 49,920,000**	$ 51,420,000
Junior subordinated debentures	**195,000**	2,050,000
	$ 50,115,000	$ 53,470,000

Federal Reserve Bank Discount Window

On September 30, 2018, the Bank had overnight borrowing capacity at the Federal Reserve Bank discount window in the amount of $23,504,156. Loans receivable with a book value of $27,599,796 were pledged to the Federal Reserve Bank of Cleveland as eligible collateral at September 30, 2018. The Bank had no outstanding borrowings at September 30, 2018 and 2017. These funds are advanced when necessary to meet the Bank's short-term liquidity needs. The rate of interest on these borrowings is an adjustable rate equal to the Federal Reserve discount rate, which was 2.75% at September 30, 2018.

Federal Home Loan Bank

The bank has established a borrowing capacity at the Federal Home Loan Bank ("FHLB"). On September 30, 2018, the Bank had pledged qualifying loans in the amount of $155,802,000 in support of a maximum borrowing capacity of approximately $108,297,150.

Interest on advances is accrued daily and payable on the quarterly interest payment date. Principal payment on advances is due on the maturity date of the advance. Fixed rate advances are subject to a prepayment penalty if principal amounts are repaid prior to the maturity date.

NOTE 10 – BORROWINGS (CONTINUED)

Advances from FHLB at September 30, 2018 and 2017 consisted of the following:

Loan Type	Maturity Date	Interest Rate	**2018**	2017
Fixed Term	October 6, 2017	1.34%	$ -	$ 3,500,000
Fixed Term	November 8, 2018	1.86%	**2,000,000**	2,000,000
Fixed Term	November 4, 2019	1.30%	**3,000,000**	3,000,000
Fixed Term	March 4, 2020	1.78%	**4,400,000**	4,400,000
Fixed Term	August 13, 2020	1.88%	**4,300,000**	4,300,000
Fixed Term	November 17, 2020	2.11%	**2,000,000**	-
Fixed Term	December 10, 2020	1.81%	**2,300,000**	2,300,000
Fixed Term	February 10, 2021	1.41%	**5,920,000**	5,920,000
Fixed Term	July 27, 2021	1.52%	**3,000,000**	3,000,000
Fixed Term	August 10, 2021	1.51%	**2,500,000**	2,500,000
Fixed Term	September 9, 2021	1.48%	**2,500,000**	2,500,000
Fixed Term	April 11, 2022	2.19%	**1,000,000**	1,000,000
Fixed Term	May 16, 2022	2.21%	**6,000,000**	6,000,000
Fixed Term	June 8, 2022	2.10%	**5,000,000**	5,000,000
Fixed Term	July 5, 2022	2.27%	**6,000,000**	6,000,000
			$ 49,920,000	$ 51,420,000

Junior Subordinated Debentures

The Company had outstanding junior subordinated debt securities ("subordinated debentures") in the amount of $195,000 and $2,050,000 on September 30, 2018 and 2017, respectively.

Interest on the debentures is reset quarterly on the 15th of January, April, July and October at a rate equal to 3-Month Libor plus 4.25% (6.59% as of July 15, 2018, the last reset date). The subordinated debentures mature on December 15, 2037. Subject to regulatory approval the Company may redeem the debentures, in whole or in part, at its option on any interest payment date on or after December 15, 2017, at a redemption price equal to 100% of the principal amount of the debentures.

Subject to regulatory approval, the Company may also redeem the debentures prior to December 15, 2017, within 120 days following the occurrence of certain tax or bank regulatory events at a special redemption price that is greater than 100%.

In April, 2018 the Company redeemed debentures with a face amount of $1,855,000 and those individuals used the proceeds to purchase 115,936 shares of newly issued common stock at a price of $16.00 per share.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Enterprise Bank 401(k) Plan

The Bank has a defined contribution pension plan covering all employees. The Bank makes a contribution equal to 3% of wages for each eligible employee regardless of the employees own elective contributions to the plan. The Bank's contributions for the years ended September 30, 2018 and 2017 were $130,295 and $123,702, respectively. The Bank also has the right to make an additional discretionary contribution to the plan, which is determined by the Board of Directors. The Bank made no additional discretionary contribution to the plan for the years ended September 30, 2018 and 2017.

Employee Stock Ownership Plan

In April 2006, the Bank established the Enterprise Employee Stock Ownership Plan ("ESOP"), which covers substantially all full-time employees of the Bank.

The shares for the ESOP plan were purchased with the proceeds of a $1,650,000 Non-Revolving Promissory Note (the "Note") from Atlantic Community Bankers Bank, which matured April 18, 2016 and was repaid in full.

Compensation expense related to the ESOP totaled $215,000 and $165,000 for each of the years ended September 30, 2018 and 2017, respectively. Additional expenses incurred in relation to the ESOP plan include professional fees associated with the administration of the plan. Administrative costs of $10,063 and $11,924 were incurred in each of the years ended September 30, 2018 and 2017, respectively.

The fair value of allocated and unreleased shares held by the ESOP is determined by an annual valuation of the Company's common stock. This valuation is completed by an independent appraisal firm based on data available as of June 30 each year.

There were 136,363 shares held by the ESOP and allocated to beneficiary accounts at September 30, 2018 and 2017. There were no unallocated shares held by the ESOP during these periods. The fair value of the allocated shares was $2,222,717 at September 30, 2018. This valuation was based on the independent appraisal of the Company's shares completed as of June 30, 2018.

The Company is obligated, at the option of each beneficiary, to repurchase shares of the ESOP upon the beneficiary's termination or retirement. If the value of the beneficiary's account exceeds $25,000 at the time the beneficiary elects the option to repurchase, the benefit will be paid in five equal annual installments.

At September 30, 2018 there are 33,114 shares subject to the repurchase obligation with a fair value of $539,753. Total account balances subject to distribution request are $550,622 at September 30, 2018. Of this amount, $184,633 would be payable in the year of the beneficiary's request for distribution. The remainder would be payable in equal annual installments over the remaining five year period.

In addition, employees who meet minimum age and service requirements are subject to a diversification option whereby the employee has the right to sell, and the Bank has the obligation of purchase, a portion of their vested shares. At September 30, 2018 there were approximately 143 shares, with a fair value of $2,331, whereby the employee has elected to exercise their diversification option.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – OTHER FEE REVENUE

Detail of other fee revenue for the years ended September 30, 2018 and 2017 is as follows:

	2018	2017
Real estate subsidiary commission income	**$1,021,691**	$ 920,564
Real estate subsidiary property management and other fee income	**45,787**	45,438
Consulting subsidiary fee income	**208,753**	213,417
Rental income from foreclosed real estate	**262,521**	233,321
ATM fee and service charge income	**36,716**	33,359
Insurance services income	**184,464**	116,861
Other fee income	**14,012**	9,445
Total other fee revenue	**$1,773,944**	$ 1,572,405

NOTE 13 – SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits expense includes wages and cost of employee benefits plans paid to the employees of the Bank and its subsidiaries. Further detail of the expense for the year ended September 30, 2018 and 2017 is as follows:

	2018	2017
Wages		
Bank management and administrative	**$ 2,515,028**	$ 2,507,807
Enterprise Business Consultants	**678,411**	651,573
Kuzneski & Lockard	**145,862**	130,316
Enterprise Insurance Services	**128,585**	62,914
Relationship Manager compensation	**1,629,864**	1,535,716
ASC 310-20 salary deferral for loan origination activities	**(213,720)**	(161,470)
Total salaries and employee benefits	**$ 4,884,030**	$ 4,726,856

Relationship Manager ("RM") compensation is calculated on a formula basis as a percentage of net interest income after provision for loan losses earned by the RM's portfolio.

NOTE 14 – OTHER OPERATING EXPENSES

Further detail of other operating expenses for the years ended September 30, 2018 and 2017 is as follows:

	2018	2017
Business development	**$ 366,184**	$ 377,934
Foreclosed real estate expense	**242,160**	220,094
Real estate agency commissions	**627,059**	536,117
Legal and accounting services	**135,395**	306,336
Directors' fees	**181,904**	174,595
Telephone	**128,315**	115,388
Bank shares tax	**219,968**	207,735
Other loan and collection	**260,737**	310,861
Other – Bank operations	**362,579**	361,729
Other – Subsidiary operations	**147,701**	100,145
Total other operating expenses	**$ 2,672,002**	$ 2,710,934

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – INCOME TAXES

On December 22, 2017, H.R.1. commonly known as the Tax Cuts and Jobs Act (the "Act") was signed into law. Among other things, the Act reduces the corporate federal tax rate from 34% to 21% effective January 1, 2018. As a result the Company was required to re-measure, through income tax expense, the deferred tax assets and liabilities using the enacted rate at which they are expected to be recovered or settled. The re-measurement of the net deferred tax asset resulted in additional income tax expense of $86,233.

The components of net deferred tax assets and liabilities at September 30, 2018 and 2017 are as follows:

	2018	2017
Deferred tax assets:		
Allowance for loan losses	**$ 97,880**	$ 258,680
Deferred compensation	**21,408**	37,532
Other real estate owned	**182,051**	223,998
Nonaccrual interest	**26,874**	65,939
Subsidiary net-operating loss	**243,415**	286,722
Other	**20,981**	33,380
Total Deferred Tax Assets	**592,609**	906,251
Deferred tax liabilities:		
Premises and equipment	**(395,684)**	(631,332)
Deferred loan origination fees	**(121,632)**	(181,526)
Total Deferred Tax Liabilities	**(517,316)**	(812,858)
Net Deferred Tax Assets	**$ 75,293**	$ 93,393

The Company has determined that no valuation allowance was required for the deferred tax asset balance at September 30, 2018 and 2017, respectively, because it is more likely than not that these assets will be realized through future reversals of existing temporary differences and through future taxable income.

The tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate to income before income taxes. For 2018 the statutory rate is 24.28%. This is a blended rate of 34% for the first three months of the fiscal year and 21% for the remaining nine months after enactment of the Tax Cuts and Jobs act. For 2017 the statutory rate was 34% for entire year. The differences for the years ended September 30, 2018 and 2017 are as follows:

	2018	2017
Tax at statutory rate	**$ 528,259**	$ 703,908
Impact of change in statutory tax rate	**86,233**	-
Nondeductible and other expenses	**(66,068)**	61,731
	$ 548,424	$ 765,621

NOTE 15 – INCOME TAXES (CONTINUED)

The Bank's provision for income taxes for 2018 and 2017 consists of the following:

	2018	2017
Current federal tax expense	**$ 530,324**	$ 728,292
Impact of change in statutory tax rate	**86,233**	-
Deferred federal tax (benefit) expense	**(68,133)**	37,329
	$ 548,424	$ 765,621

The Bank utilizes a comprehensive model to recognize, measure, present and disclose in its financial statements uncertain tax positions that the Company has taken or expects to take on a tax return. At September 30, 2018 and 2017 there were no unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate. The Bank recognizes interest accrued and penalties (if any) related to unrecognized tax benefits in income tax expense. During the years ended September 30, 2018 and 2017, the Bank did not accrue any penalties or interest.

The Bank has evaluated its tax positions taken for all open tax years. Currently, the 2014 through current tax years are open and subject to examination by the Internal Revenue Service and the Commonwealth of Pennsylvania. Based on the evaluation of the Bank's tax positions and elections, management believes all tax positions taken and corporate elections will be upheld under examination.

NOTE 16 – PREFERRED STOCK

The Company is authorized to issue up to 5,000,000 shares of preferred stock with a par value of $.50 per share. There were 5,000 shares issued and outstanding with a liquidation value of $5,000,000, or $1,000 per share, on September 30, 2018 and 2017.

On August 25, 2011 the Company completed a transaction to participate in the U.S. Treasury ("Treasury") sponsored Small Business Lending Fund ("SBLF") program. The Treasury purchased 5,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock") resulting in proceeds of $5 million to the Bank.

As per the terms of the Securities Purchase Agreement the Bank was required to use a portion of the proceeds from this transaction to repurchase all preferred shares issued on June 12, 2009 as part of the Bank's participation in the Treasury's Capital Purchase Program ("CPP"). Proceeds of $4,200,000 were used to repurchase 4,200 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series 001 and 002 issued under the CPP.

The Series A Preferred Stock dividend rate is 9% per annum until the shares are redeemed.

As is typical with preferred stock, dividend payments for outstanding preferred shares must be current before dividends can be paid on junior shares, including common stock. Outstanding SBLF preferred shares are redeemable at their liquidation value, $5,000,000, plus accrued and unpaid dividends subject to the approval of the Bank's regulators.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – CONTINGENCIES AND COMMITMENTS

There are ongoing legal proceedings which arise in the normal course of business. In the opinion of management, these will not have a material effect on the financial position or results of operations of the Bank.

NOTE 18 – RELATED PARTY TRANSACTIONS

Some of the Bank's directors and principal officers and their related interests had transactions with the Bank in the ordinary course of business. All loans and commitments to extend loans were made on substantially the same terms, including collateral and interest rates, as those prevailing at the time for comparable transactions. In the opinion of management, these transactions do not involve more than normal risk of collectability or present other unfavorable features.

The aggregate amount of credit extended to these directors and principal officers was $2,177,628 and $1,886,997 (including unused lines of credit) at September 30, 2018 and 2017, respectively.

The following is an analysis of loans to these parties during the year ended September 30, 2018 and 2017:

	2018	2017
Balance at beginning of year	**$ 1,886,964**	$ 2,557,807
Repayments	**(209,369)**	(670,843)
Balance at end of year	**$ 1,677,595**	$ 1,886,964

The aggregate amount of deposits on account at the Bank for directors and principal officers and their related interests was $2,512,733 and $4,644,465 for the years ended September 30, 2018 and 2017 respectively.

NOTE 19 - DIVIDEND RESTRICTIONS

The amount of funds available for distributions of dividends may be limited for Pennsylvania banks by regulations promulgated by the Federal Deposit Insurance Corporation and the Pennsylvania Department of Banking, which relate to capital requirements and cumulative earnings. These limitations would not restrict the Bank from paying dividends at current levels.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 20 - CAPITAL REQUIREMENTS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative adjustments by regulators. Failure to meet capital requirements can initiate regulatory action.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer is being phased in at the rate of 0.625% per year from 0.0% in 2015 to 2.50% on January 1, 2019. The capital conservation buffer for 2018 was 1.875%. Management believes, as of September 30, 2018, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

As of September 30, 2018 and 2017, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital, and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the institutions category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
As of September 30, 2018:						
Total capital (to risk-weighted assets)	**$28,255**	**12.17 %**	**$18.580**	**≥ 8.00 %**	**$23,226**	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)	**27,466**	**11.83**	**13,935**	**≥ 6.00**	**18,580**	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	**27,466**	**11.83**	**10,452**	**≥ 4.50**	**15,097**	≥ 6.50
Tier 1 capital (to average assets)	**27,466**	**9.58**	**11,472**	**≥ 4.00**	**14,340**	≥ 5.00
As of September 30, 2017						
Total capital (to risk-weighted assets)	$25,377	11.61 %	$17,479	≥ 8.00 %	$21,849	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)	24,215	11.08	13,109	≥ 6.00	17,479	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	24,209	11.08	9,832	≥ 4.50	14,202	≥ 6.50
Tier 1 capital (to average assets)	24,215	8.77	11,040	≥ 4.00	13,800	≥ 5.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 – EARNINGS PER SHARE

The following table sets forth the composition of the weighted average common shares (denominator) and net income (numerator) used in the basic and diluted earnings per share calculation at September 30, 2018 and 2017:

	2018	2017
Weighted average common shares (Denominator)		
Weighted-average common shares outstanding	**1,068,902**	951,784
Average treasury shares	**(65,800)**	(65,800)
Weighted-average common shares used to calculate basic earnings per share (base, denominator)	**1,003,102**	885,984
Weighted-average common shares and common stock equivalents outstanding used to calculate diluted earnings per share (diluted, denominator)	**1,003,102**	885,984
Net Income (Numerator)		
Net income	**$ 1,627,274**	$ 1,304,696
Less: Preferred stock dividend	**(450,000)**	(450,000)
Net income available to common shareholders	**$ 1,177,274**	$ 854,696
Earnings Per Share		
Net income available to common shareholders, per share		
Basic	**$ 1.17**	$ 0.96
Diluted	**$ 1.17**	$ 0.96

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Nonrecurring Measurements

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018 and 2017

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Collateral-dependent impaired loans				
Residential real estate	$ 1,311,255	$ -	$ -	$ 1,311,255
Commercial real estate	$ 2,310,877	$ -	$ -	$ 2,310,877
Commercial and industrial	$ 2,310,289	$ -	$ -	$ 2,310,289
Total	$ 5,932,421	$ -	$ -	$ 5,932,421
Other real estate owned				
Residential real estate	$ 45,000	$ -	$ -	$ 45,000
Commercial real estate	$ 1,605,687	$ -	$ -	$ 1,605,687
Total	$ 1,650,687	$ -	$ -	$ 1,650,687

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Collateral-dependent impaired loans				
Residential real estate	$ 913,639	$ -	$ -	$ 913,639
Commercial real estate	$ 3,933,517	$ -	$ -	$ 3,933,517
Commercial and industrial	$ 1,150,939	$ -	$ -	$ 1,150,939
Total	$ 5,998,095	$ -	$ -	$ 5,998,095
Other real estate owned				
Residential real estate	$ 58,346	$ -	$ -	$ 58,346
Commercial real estate	$ 1,946,428	$ -	$ -	$ 1,946,428
Total	$ 2,004,774	$ -	$ -	$ 2,004,774

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheet, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Other Real Estate Owned

Other real estate owned (OREO) is carried at the lower of fair value, less estimated costs to sell, at the acquisition date or current estimated fair value, less estimated cost to sell. Estimated fair value of OREO is based on appraisals or evaluations. OREO is classified within Level 3 of the fair value hierarchy.

Appraisals of OREO are obtained when the real estate is acquired and subsequently on at least an annual basis. Appraisals are analyzed by management to detect apparent errors or inconsistencies. Appraisers are selected from the list of approved appraisers maintained by management.

Collateral-dependent Impaired Loans, Net of ALLL

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

The Bank considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral securing collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary according to Bank policy. Appraisals are analyzed by management to detect apparent errors or inconsistencies. Appraisers are selected from the list of approved appraisers maintained by management.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill at September 30, 2018 and 2017:

	Fair Value at September 30, 2018	Valuation Technique	Unobservable Inputs	Range
Other real estate owned				
Residential real estate	$ 45,000			
Commercial real estate	$ 1,605,687			
Total	**$ 1,650,687**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	5%- 10%
Collateral-dependent impaired loans				
Residential real estate	$ 1,311,255			
Commercial real estate	$ 2,310,877			
Commercial and industrial	$ 2,310,289			
Total	**$ 5,932,421**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	5% - 10%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

		Fair Value at September 30, 2017	Valuation Technique	Unobservable Inputs	Range
Other real estate owned					
Residential real estate	$	58,346			
Commercial real estate	$	1,946,428			
Total	**$**	**2,004,774**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	5% - 10%
Collateral-dependent impaired loans					
Residential real estate	$	913,639			
Commercial real estate	$	3,933,517			
Commercial and industrial	$	1,150,939			
Total	**$**	**5,998,095**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	5% - 10%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	2018		2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS				
Cash and due from banks	$ 998,380	$ 998,380	$ 531,208	$ 531,208
Cash on deposit with Federal Reserve Bank	20,083,377	20,083,377	20,046,543	20,046,543
Interest bearing deposits with banks	453,266	453,266	3,785,158	3,785,158
Net loans	242,382,885	229,069,102	231,611,904	218,799,686
Accrued interest receivable	754,655	754,655	642,944	642,944
Restricted investment in bank stock	2,136,600	N/A	2,195,800	N/A
Total financial assets	$ 266,809,163	$ 251,357,780	$ 258,813,557	$ 243,805,539
FINANCIAL LIABILITIES				
Non-interest bearing deposits	$ 2,331,543	$ 2,331,543	$ 608,227	$ 608,227
Savings, money market and NOW accts.	80,004,539	80,004,539	76,315,796	76,315,796
Certificates and other time deposits	123,347,710	121,067,726	120,865,553	119,720,795
Borrowings	50,115,000	48,587,708	53,470,000	53,135,377
Accrued interest payable	386,473	386,473	254,410	254,410
Total financial liabilities	$ 256,185,265	$ 252,377,989	$ 251,513,986	$ 250,034,605

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value estimates are made at a point-in-time, based on relevant market data and information about the instrument. The following methods and assumptions were used in estimating the fair value of financial instruments at September 30, 2018 and 2017.

a. **Cash and due from banks, Cash on deposit with Federal Reserve Bank, Interest bearing deposits with banks, Accrued interest receivable and Accrued interest payable**—the fair value approximates the carrying amount.

b. **Restricted investments in bank stock**— it is not practical to determine the fair value of restricted investments in bank stock due to restrictions placed on its transferability.

c. **Net Loans** – For loans, fair value is estimated by discounting estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

d. **Deposits**

Non-interest bearing, Savings, Money market and NOW accounts – The fair value of these accounts is the amount payable on demand, or the carrying amount at the reporting date.

Certificates and other time deposits – The fair value of fixed-maturity certificates of deposit are estimated by discounting future cash flows using rates currently offered for deposits of similar remaining maturities.

Borrowings – The fair value of borrowings is estimated as the present value of the remaining payments of the borrowings using the year-end Federal Home Loan Bank interest rate for like borrowings.

e. Off-balance sheet financial instruments – These financial instruments generally are not sold or traded, and estimated fair values are not readily available. However, the fair value of commitments to extend credit and standby letters of credit is estimated using the fees currently charged to enter into similar agreements. Commitments to extend credit issued by the Bank are generally short-term in nature and, if drawn upon, are issued under current market terms. At September 30, 2017 and 2014, there was no significant unrealized appreciation or depreciation on these financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 –RECONCILIATION OF FINANCIAL STATEMENTS TO REGULATORY REPORTING (UNAUDITED)

The Company's financial statements as illustrated in this report differ from the Company's financial statements as reported to its primary regulator for the same periods. Variance between the statements is the result of differences between Management and the Bank's regular in interpreting certain GAAP accounting standards.

The following outlines the primary areas where management's interpretation differs from that of its regulator:

1. Recording cash payments of interest for loans on nonaccrual status

Management's interpretation of GAAP is that a portion of cash payments received for interest on nonaccrual loans may be recorded as income when the Bank is "reasonably assured" of collecting all outstanding principal on the loan. FASB staff has provided written guidance interpreting the term "reasonably assured" for this standard as similar to the term "probable". Probable is defined as "the future event of events are likely to occur".

The Bank's regulator has provided more stringent guidance and interprets "reasonably assured" as existing only when no clear possibility of the loss of principal is present. Published regulatory guidance on this topic states, "When doubt exists as to the collectability of the remaining recorded investment in an asset on nonaccrual status, any payments received must be applied to reduce the recorded investment in the asset to the extent necessary to eliminate such doubt."

The regulatory guidance, in many instances, results in cash basis payments being applied as a reduction to the principal balance of the loan, rather than a portion being recorded to income, when management believes that the ultimate collectability of the full amount of principal is probable.

It is management's opinion that the more stringent regulatory interpretation of this standard does not accurately reflect the Bank's financial results given the Bank's collateral evaluation techniques, collection processes and loss history.

2. Accounting for loans originated to finance the sale of foreclosed real estate

Management's interpretation of GAAP is that loans originated for the sale of foreclosed real estate should be accounted for using the installment method of accounting when collection of the full amount of principal is "reasonably assured". FASB staff has provided written guidance interpreting the term "reasonably assured" for this standard as similar to the term "probable". Under the installment method, a portion of cash payments are recordable as interest income when received.

The Bank's regulator has provided more stringent guidance that interprets "reasonably assured" as existing only when no clear possibility of the loss of principal is present. Under this interpretation, when a possibility of loss exists, loans are accounted for using the cost recovery method. Under the cost recovery method, all cash payments are applied as a principal reduction when received.

It is management's opinion that the more stringent regulatory interpretation of this standard does not accurately reflect the Bank's financial results given the Bank's collateral evaluation techniques, collection processes and loss history.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 – RECONCILIATION OF FINANCIAL STATEMENTS TO REGULATORY REPORTING (UNAUDITED) (CONTINUED)

The following tables outline the differences between the Company's financial statements and regulatory reporting for the years ending September 30, 2018 and 2017:

Year ended September 30, 2018:

	As Reported Financial Statements	Year Ended September 30, 2018 As Reported Regulatory Reporting	Variance
Consolidated Statements of Financial Condition			
Loans receivable	$ 243,279,120	$ 242,644,380	$ (634,740)
Allowance for loan losses	(896,235)	(788,615)	107,620
Net Loans	242,382,885	241,855,765	(527,120)
Other assets	9,954,231	10,128,446	174,215
Total Assets	285,510,777	285,157,872	(352,905)
Retained earnings	8,993,120	8,639,215	(352,905)
Total Stockholders' Equity	27,682,084	27,329,179	(352,905)
Total Liabilities and Stockholders' Equity	285,510,777	285,157,872	(352,905)

	As Reported Financial Statements	Year Ended September 30, 2018 As Reported Regulatory Reporting	Variance
Consolidated Statements of Income			
Interest and fees on loans	$ 12,662,446	$ 12,667,440	$ 4,994
Total Interest Income	13,150,868	13,155,862	4,994
Provision for Loan Losses	(277,908)	(293,753)	(15,845)
Salaries and employee benefits **Other**	4,884,030	4,882,401	(1,629)
Total Other Operating Expenses	9,498,311	9,503,310	4,999
Income Before Income Tax Expense	2,175,698	2,191,538	15,840
Income tax expense	548,424	611,883	63,459
Net income	1,627,274	1,579,655	(47,619)
Net Income Attributable to Enterprise Financial Services Group, Inc.	1,627,274	1,579,655	(47,619)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 23 – RECONCILIATION OF FINANCIAL STATEMENTS TO REGULATORY REPORTING (UNAUDITED) (CONTINUED)

Year ended September 30, 2017:

	As Reported Financial Statements	Year Ended September 30, 2017 As Reported Regulatory Reporting	Variance
Consolidated Statements of Financial Condition			
Loans receivable	$ 232,870,081	$ 232,232,560	$ (637,521)
Allowance for loan losses	(1,258,177)	(1,161,987)	96,190
Net Loans	**231,611,904**	**231,070,573**	**(541,331)**
Other assets	6,429,327	6,665,373	236,046
Total Assets	**274,532,682**	**274,227,397**	**(305,285)**
Retained earnings	7,815,846	7,510,561	(305,285)
Total Stockholders' Equity	**22,557,083**	**22,251,798**	**(305,285)**
Total Liabilities and Stockholders' Equity	**274,532,682**	**274,227,397**	**(305,285)**

	As Reported Financial Statements	Year Ended, September 30, 2017 As Reported Regulatory Reporting	Variance
Consolidated Statements of Income			
Interest and fees on loans	$ 11,919,361	$ 12,185,773	$ 266,412
Total Interest Income	**12,181,618**	**12,448,030**	**266,412**
Provision for Loan Losses	**(75,134)**	**(175,605)**	**(100,471)**
Salaries and employee benefits **Other**	4,726,856	4,796,228	69,372
Total Other Operating Expenses	**9,219,620**	**9,288,992**	**69,372**
Income Before Income Tax Expense	**2,070,317**	**2,367,828**	**297,511**
Income tax expense	765,621	866,767	101,146
Net income	**1,304,696**	**1,501,061**	**196,365**
Net Income Attributable to Enterprise Financial Services Group, Inc.	**1,304,696**	**1,501,061**	**196,365**

NOTE 23 – RECONCILIATION OF FINANCIAL STATEMENTS TO REGULATORY REPORTING (UNAUDITED) (CONTINUED)

The following table outlines differences between the financial statements and regulatory reporting for capital levels and regulatory capital ratios:

	As Reported Financial Statements	As Reported Regulatory Reporting	Variance
As of September 30, 2018			
Total capital	$ 28,715	$ 28,255	$ (460)
Tier 1 capital	$ 27,819	$ 27,466	$ (353)
Common Equity Tier 1 Capital	$ 27,819	$ 27,466	$ (353)
Tier 1 capital (to average assets)	$ 27,819	$ 27,466	$ (353)
Total capital (to risk-weighted assets)	12.33%	12.17%	-0.16%
Tier 1 capital (to risk-weighted assets)	11.94%	11.83%	-0.12%
Common Equity Tier 1 Capital (to risk-weighted assets)	11.94%	11.83%	-0.12%
Tier 1 capital (to average assets)	9.69%	9.58%	-0.11%
As of September 30, 2017			
Total capital	$ 25,779	$ 25,377	$ (402)
Tier 1 capital	$ 24,521	$ 24,215	$ (306)
Common Equity Tier 1 Capital	$ 24,515	$ 24,209	$ (306)
Tier 1 capital (to average assets)	$ 24,521	$ 24,215	$ (306)
Total capital to (risk-weighted assets)	11.77%	11.61%	-0.16%
Tier 1 capital (to risk-weighted assets)	11.20%	11.08 %	-0.12%
Common Equity Tier 1 Capital (to risk-weighted assets)	11.19 %	11.08 %	-0.11%
Tier 1 capital (to average assets)	8.87%	8.77%	-0.10%

NOTE 24 – SUBSEQUENT EVENTS

The Company evaluated its September 30, 2018 financial statements for subsequent events through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued. The Company is not aware of any subsequent events which would require recognition or disclosure in the financial statements

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