2017 Annual Report

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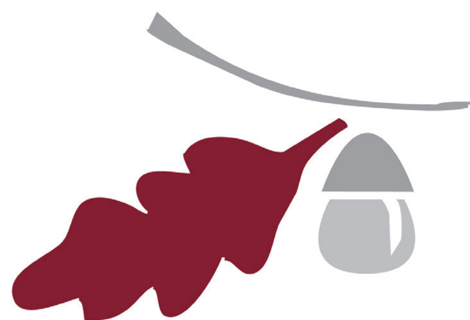


Dear Fellow Shareholders,

Enterprise Financial Services Group, Inc. has focused on helping small businesses and continued to operate in the small business niche, primarily start-up business and small business in distress. The major goal for our Bank has been to grow into the new infrastructure since 2016. We accomplished that goal last year but did not this year. Growth was flat in 2017 and so were earnings!

The Board of Directors and Management has refocused the staff towards accomplishing this goal in 2018. We will also begin to offer conventional business loans in 2018. We are developing a new internet based small business loan platform which is to be implemented in 2018. It is imperative that new loan growth is accelerated in 2018 without sacrificing quality if we are to continue to grow into our new infrastructure.

The Bank has decided to initiate a stock offering in 2018 to redeem some existing preferred stock and existing debentures. Reducing the costs of those equity funding sources will assist us in resuming the payment of common stock dividends. The stock offering is limited to existing Pennsylvania shareholders so that the cost of the stock offering is reduced as compared to our original broad stock offering conducted in our start-up phase.

The Board of Directors wanted to define an operating culture that would guide our future activity. Accordingly, we created and now utilize the following mission statement: "To deliver superior ethical services and value to the clients, shareholders & staff".

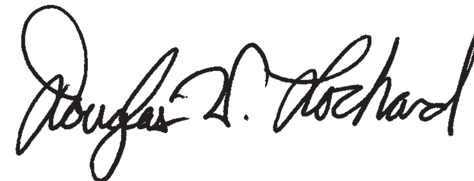
We encourage you to read the "Management Discussion and Analysis" contained in this annual report to gain a more thorough understanding of the 2017 operations.

As always we appreciate your investment, interest in our Bank, 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

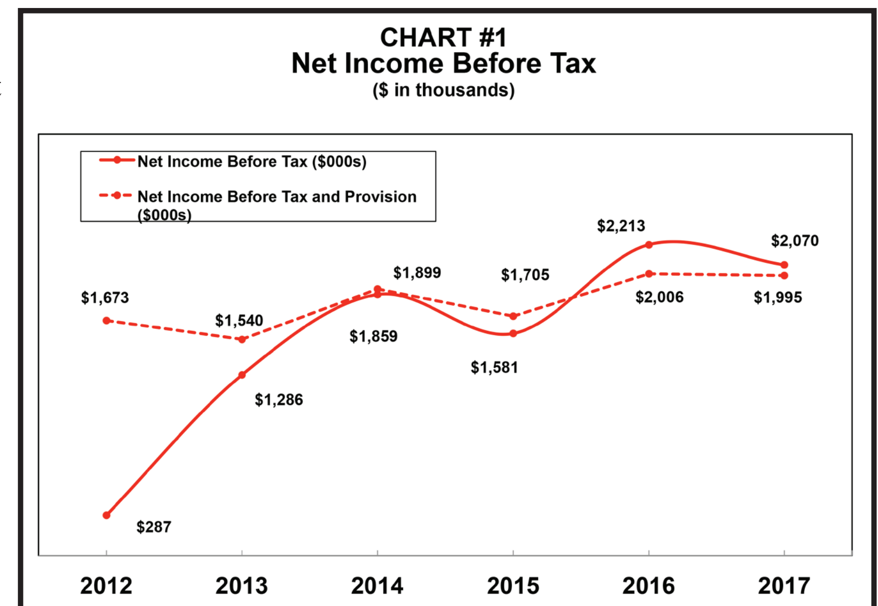
For The Year Ended September 30, 2017

The following discussion provides additional information and analysis for the results of operations of Enterprise Financial Services Group, Inc. (the "Company") and its wholly owned subsidiary, Enterprise Bank (the "Bank"), for the fiscal year ended September 30, 2017 ("2017"). This discussion also includes results of operations for the Bank's wholly owned subsidiaries, 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 2017 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

The Bank's priority entering 2017 was to continued growth in the loan portfolio in order to utilize the additional capacity and infrastructure built in prior years. It was anticipated that additional net interest income generated by this growth would drop to the bottom line as core operating costs would remain fixed. This would drive an increase in earnings and efficiency ratios would decrease to fall in line with the Bank's peer group. The Bank was unable to meet the loan growth goals in 2017 that were set by Management. Flat year over year loan growth, coupled with a small net increase in fixed overhead costs as a result of enhancements to IT operations, resulted in a decline in year over year earnings. Chart #1 illustrates the Bank's annual pre-tax income since 2012. In 2017, pre-tax income decreased $143,000, or 6%, to $2.07 million versus $2.21 million for the same period in 2016. This chart also illustrates earnings exclusive of loan loss provisions. Absent the impact of loss provisions, earnings in 2017 decreased approximately $11,000 or less than 1%.



The Bank faced several challenges in 2017 that impacted its ability to sustain the rate of loan growth experienced in 2016 and meet the goals set by Management. A stronger economy and increased competition in the marketplace served to limit the number of loans available that fit the Bank's niche of start-up and turnaround businesses while also meeting underwriting standards. While growth in the loan portfolio was a priority, Management held firm to its underwriting philosophies and risk tolerances that have served to historically limit loss volatility.

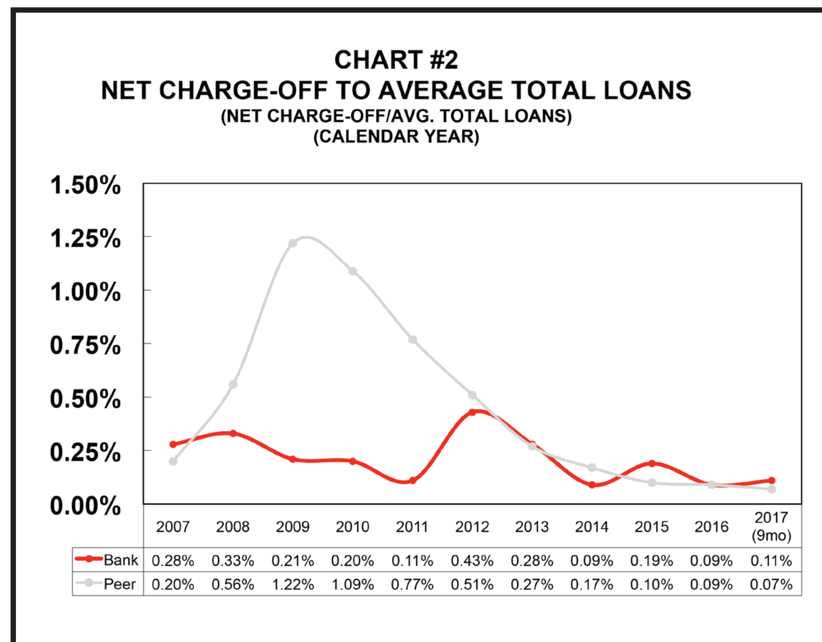
While asset growth and earnings performance in 2017 were disappointing, several other core operating results remained strong. Balances of non-performing

loans continued to fluctuate within a reasonable range and the Bank's loan work out processes continued to hold loss experience to within targeted parameters. The balance of foreclosed real estate continued to decline which resulted in a decrease in valuation losses and costs to carry.

CORE OPERATING PHILOSOPHY

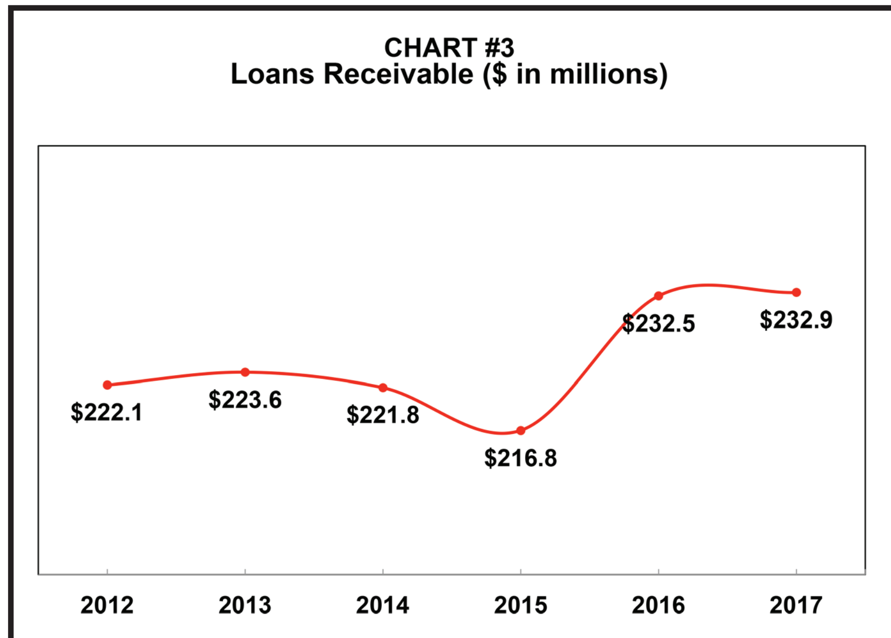
When analyzing the Bank's financial performance it is important to understand its core operating philosophy. Enterprise Bank was founded in 1998, by a group of small business entrepreneurs, to carry out a business plan which supports economic growth by providing financing to small businesses in the communities it serves. The Bank's unique focus is on funding companies that are in a start-up phase as well as businesses that are experiencing some form of temporary distress but have a foundation of strong character and historical performance on which to rebuild.

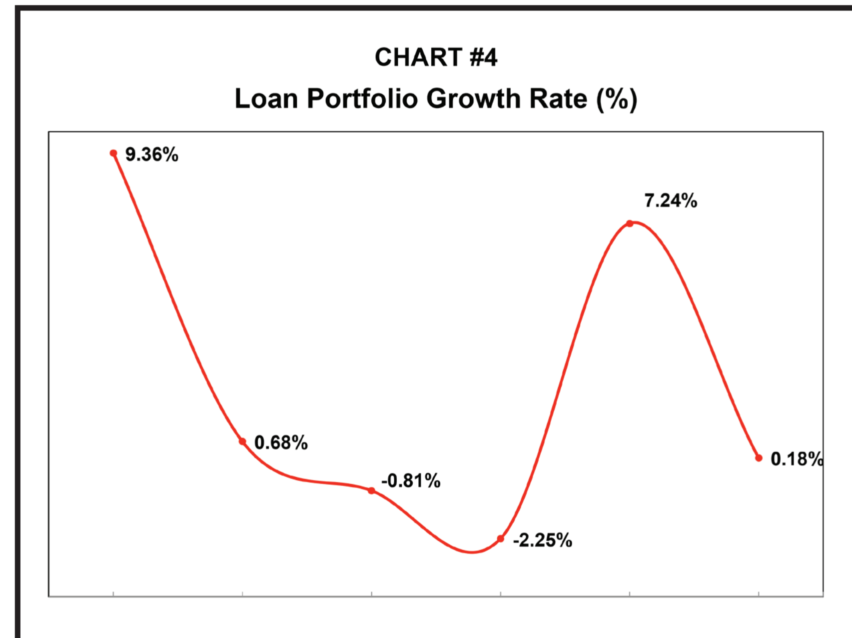
The Bank mitigates the risks associated with its lending niche by emphasizing collateral over cash flow during the underwriting process. This is supplemented, when necessary, by other risk mitigation tools such as government guaranteed lending programs. This process, combined with strict attention to collateral valuation and the implementation of effective and efficient collateral liquidation strategies, has resulted in a lower and less volatile loan loss history as compared to other banks of similar size that carry a conventional risk loan portfolio. The Bank's lower loss volatility as compared to peer is illustrated in Chart #2. This chart compares the Bank's loan loss history to that of its designated peer group since 2007. The chart illustrates that while the Bank focuses on borrowers with a higher risk profile, its underwriting processes have supported a lower and less volatile historical rate of loss. This is highlighted during the period of the financial crisis in 2008 through 2011. During this period, while peer banks were experiencing a spike in loan losses, the Bank's loss experience remained within its historical range.



LOAN PORTFOLIO AND INTEREST INCOME

With the Bank's capital ratios reaching levels sufficient to meet the fully phased in Basel III regulatory requirements, as well as Board mandated buffers, the long term plan was for the Bank to resume loan growth in 2016 and moving forward. Chart #3 compares balances in the Bank's loan portfolio since 2012. Chart #4 illustrates the Bank's loan portfolio growth rates for the same period. As illustrated in the charts, the Bank was successful in growing the portfolio in 2016, but returned to a flat rate of growth in 2017.





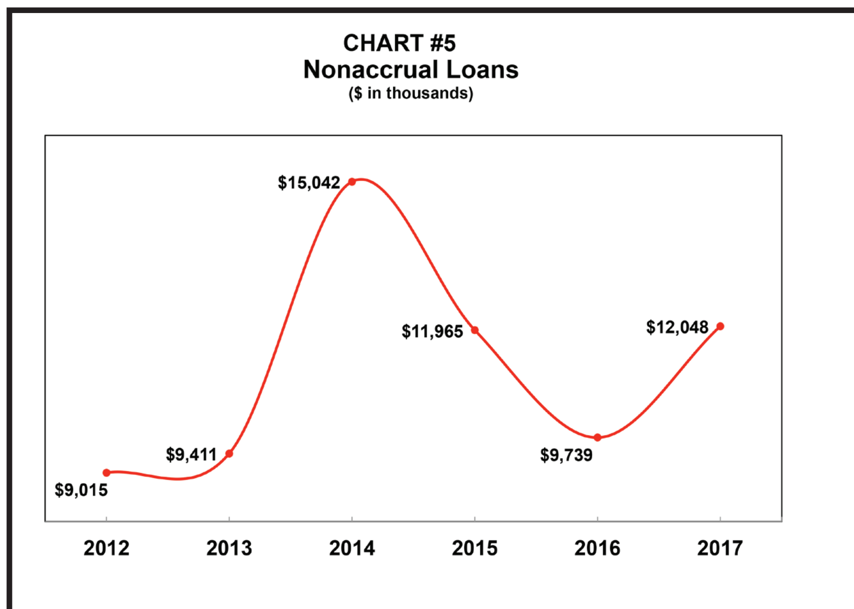
In 2017, total interest income increased $275,000, or 2.3%, over 2016. The growth in interest income in 2017 was driven primarily by a rising interest rate environment. The prime rate increased 75bps from September 30, 2016 to September 30, 2017. The five year U.S. Treasury, another key indicator of the Bank's loan pricing levels, increased approximately the same amount. Increases in interest income as a result of the increasing rate environment were generally offset by corresponding increases in the cost of funds. This was the result of Management's long standing policy of managing the balance sheet to minimize interest rate risk exposure.

The increase in interest income attributable to growth in the loan portfolio was minimal because the portfolio grew by only 0.18% year over year from a balance of $232.5 million at September 30, 2016 to a balance of $232.9 million at September 30, 2017. Management attributes the shortfall in loan growth to increased competition in the Bank's primary marketplace limiting the number of available credits that fit within the Bank's risk profile. Management prioritized its core underwriting principles, which have served historically to mitigate the risk of loss, over growth goals when necessary.

While recognizing that the Bank was operating in a difficult competitive environment, Management was also disappointed with its own performance for generating loan growth. As such, in the latter half of the fiscal year the Bank expanded its sales force, increased training and refined business development processes in order to facilitate future growth. As business development costs for the Bank are variable, after an initial cost guarantee period, it is not anticipated that this expansion will have a long term impact on fixed operating costs. Relationship Manager ("RM") expenses are variable based on a compensation formula tied to net interest income, net of loan loss reserves. All business development expenses incurred by the RM to build their loan portfolio are deducted 100% from RM compensation in this formula.

NONACCRUAL LOANS AND REVENUE RECOGNITION

Given the Bank's niche of financing start-up and distressed businesses, it is expected that the Bank will carry a level of non-performing loans that is higher than the peer group. Chart #5 illustrates the Bank's level of nonaccrual loans since 2012. The balance of nonaccrual loans increased $2.3 million, or 24%, in 2017. As illustrated in the chart, this increase falls within a normal range of fluctuation that historically has not correlated to an increase in overall loan loss levels (see Chart #2).



In order to evaluate the impact that the elevated level of nonaccrual loans has 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".

[1] Staff Paper, Revenue Recognition – Collectability, October 28, 2013, IFRS/FASB
[2] FASB Accounting Standards Codification – Master Glossary

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.

[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

(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 a 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 that, in Management's opinion, meets the GAAP threshold for revenue recognition.

In 2017 the Bank did not record $14,000, net, into interest income related to this issue. A cumulative amount of $194,000 of unrecorded interest income remained as of September 30, 2017. 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.

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 to 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 concluded that the impact of the regulatory interpretation of this concept was 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, 2017 there was a net recovery of $261,000 recorded to the regulatory financial statements. This difference was due primarily to a loan to finance the sale of OREO, originated in 2014 and placed on cost recovery status for regulatory accounting purposes, having met the standard in 2017 to be converted to the full accrual method. As a result, the deferred interest balance was recognized into income upon conversion in 2017. This was another example of the stricter collectability threshold requiring the deferral of cash payments for interest income and the related volatility this creates when reversed.

Cumulatively, as of September 30, 2017, there was $638,000 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 judgments 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 in excess of 98% of the most recent appraised value upon liquidation. There has not been a material variance in the realization rates whether the Bank or the borrower liquidates the collateral.

Through September 30, 2017, 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, 2017 the Bank recorded a negative provision for loan losses in the amount of $75,000. This is a $132,000 difference compared to the negative provision of $207,000 recorded in 2016. At September 30, 2017 the Bank's ratio of ALLL to total loans was 54 basis points (bps) which is a 12bps decrease from the 66bps ratio at September 30, 2016.

In 2016 the Bank implemented a new model for estimating the ALLL. The new model followed a more objective approach in calculating loan loss reserves. The Bank's prior auditor, while agreeing with the methodology, disagreed with the result which resulted in a qualified opinion on the 2016 financial statements. A detailed discussion of this disagreement with the prior auditor is included in the Management Discussion and Analysis section of the 2016 annual report.

The 2017 reserve was calculated using the same methodology that was implemented in 2016. A national firm opined on the validity of the methodology in calculating the loan loss reserves in accordance with GAAP. This was an independent review completed in 2016 by one of the seven largest accounting firms in the U.S.

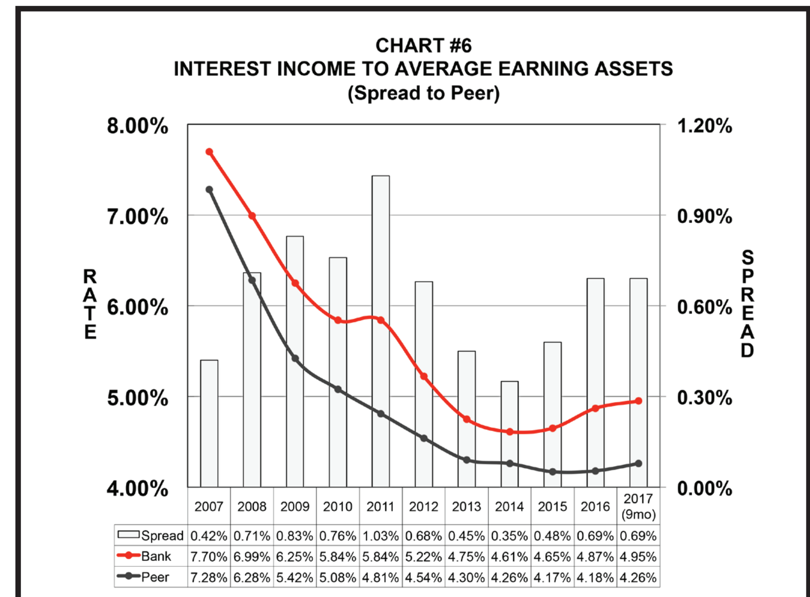
For the year ended September 30, 2017 the Bank recorded charge-offs, net of recoveries of $191,000. This was a decrease of $29,000 versus prior year net charge-offs of $220,000. The 2017 charge-off results provide additional history and support to the results of the Bank's new model for calculating the loan loss reserve.

INTEREST RATE PREMIUM

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 to collect these loans or, when necessary, liquidate the 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 carry and maintain the real estate and exposes the Bank to the risks of fluctuating fair market values.

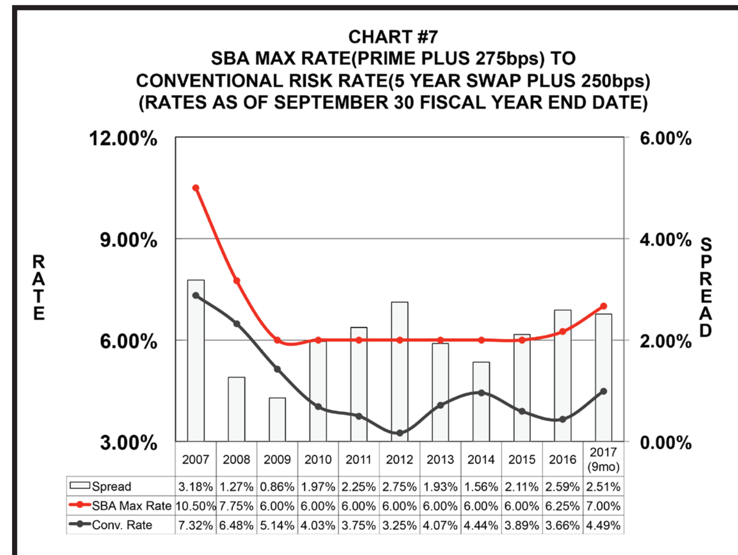
In order to absorb these additional costs, while realizing an acceptable rate of return, it is important that the Bank realize a yield on its loan portfolio that is greater than that of a conventional risk portfolio. Chart #6 compares the Bank's overall yield on assets to that of its peer group since 2007. This chart illustrates the level of premium the Bank has historically earned on its asset portfolio as compared to peer.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 (9mo)
Spread	0.42%	0.71%	0.83%	0.76%	1.03%	0.68%	0.45%	0.35%	0.48%	0.69%	0.69%
Bank	7.70%	6.99%	6.25%	5.84%	5.84%	5.22%	4.75%	4.61%	4.65%	4.87%	4.95%
Peer	7.28%	6.28%	5.42%	5.08%	4.81%	4.54%	4.30%	4.26%	4.17%	4.18%	4.26%

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 #7 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 has worked to compress the spread since 2007 and specifically from 2012 through 2014. 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.



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 (9mo)
Spread	3.18%	1.27%	0.86%	1.97%	2.25%	2.75%	1.93%	1.56%	2.11%	2.59%	2.51%
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%
Conv. Rate	7.32%	6.48%	5.14%	4.03%	3.75%	3.25%	4.07%	4.44%	3.89%	3.66%	4.49%

The benchmark spread began to expand in 2015 and the trend has generally continued through 2017 as the prime rate has begun to gradually increase. The expansion in this spread, coupled with the Bank's improvement in the efficiency of its workout processes, has served to expand the Bank's actual yield versus peer for the past two years (see Chart #6) and is a positive indicator moving forward.

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 co-ordination 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 to reduce the size of the real estate portfolio and, as a result, the annual holding costs.

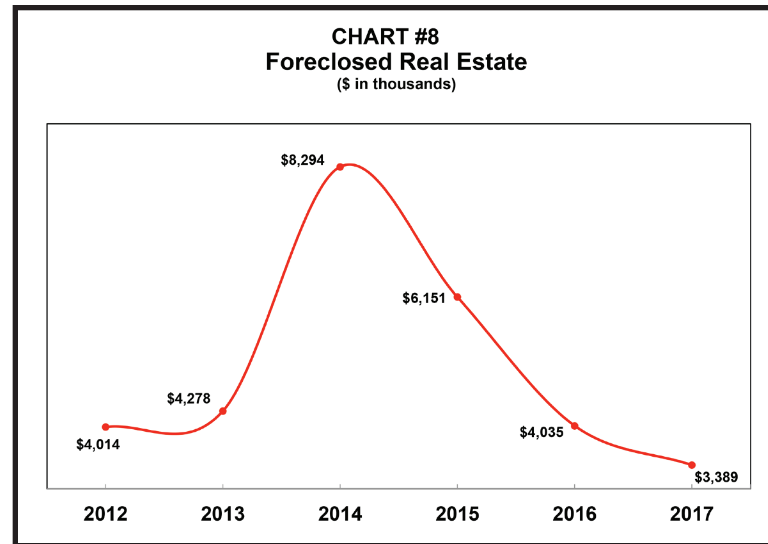


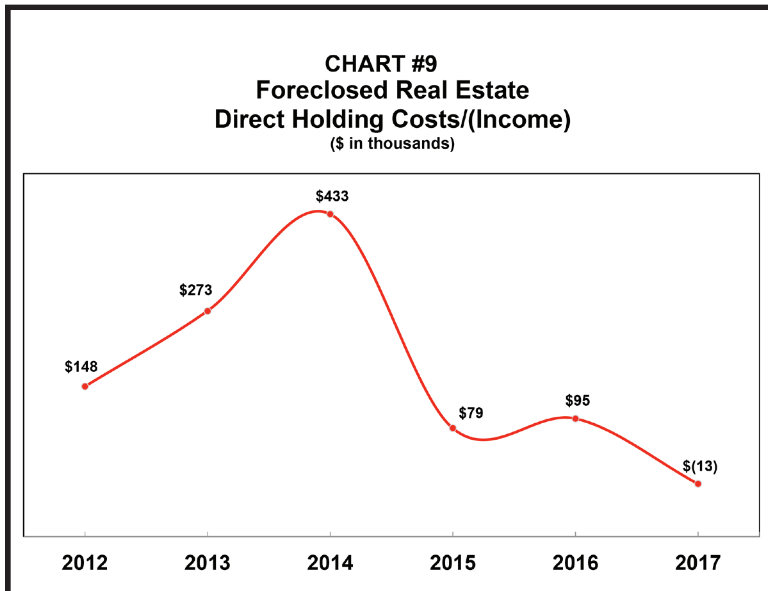
Chart #8 illustrates the Bank's historical balance of real estate owned since 2012. The portfolio decreased $646,000, or 16%, in 2017 compared to 2016. This continues a downward trend that has occurred over the past three years from a peak level of $8,294. It is important to emphasize, however, that while Management is pleased with this trend there is still the expectation that this balance will fluctuate within a reasonable range.

In 2017 the Bank realized aggregate losses of $4,000 on the sale of real estate versus and aggregate gain of $2,500 in 2016. The absence of any material gains or losses upon sale is an indicator that sales have been closed at or near current fair market values and that discounting in order to reduce the size of the portfolio is not occurring.

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 2017 the Bank recorded aggregate valuation losses in the amount of $113,000. This was a decrease of $295,000 versus the prior year.

A portion of this decrease, $92,000, is attributable to the year over year change in reserves for probable losses associated with holding vacant properties in the portfolio. Management established this contingency, beginning in 2016, based upon a historical review of its real estate holding costs. This review was completed in conjunction with the development of the Bank's new ALLL model. The study indicated a probability of minor casualty losses associated with theft and vandalism for properties that are vacant. Therefore, a valuation allowance based on historical average losses was established. This valuation balance decreased in 2017 as properties with unused allowances were sold out of the portfolio.

Overall, the Bank has experienced a decrease in the holding periods of its foreclosed properties which reduces exposure to market fluctuation. This, along with an overall strengthening in the real estate market, is a positive indicator moving forward.



The reduction in the size of the portfolio along with improvement in overall management and liquidation processes have also resulted in a substantial decrease in direct holding costs for the Bank. Chart #9 illustrates the historical trend in direct holding to hold and maintain foreclosed real estate. As illustrated in the chart net rental income exceeded direct carrying costs by $13,000 in 2017. It is important to note that this chart illustrates direct 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 have remained stable and no significant increases were incurred in 2017.

The Bank continues to emphasize borrower liquidation of real estate whenever possible. Historically this has resulted in a shortened marketing time as it eliminates the market expectation of discounting that is associated with bank owned properties. This strategy eliminates the Bank's risks of property ownership, the costs associated with managing and maintaining the collateral and the exposure to fluctuations in the marketplace.

LIQUIDITY AND FUNDING

Total cash and equivalents increased $3.4 million to $24.4 million at September 30, 2017. 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, 2017 the Bank had pledged a combined total of $185 million in collateral to support an aggregate borrowing capacity of $118 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, 2017 the Bank had total FHLB advances outstanding in the amount of $51.4 million, this is an increase of $19.4 million versus the prior year. As long term interest rates started to increase in 2017 the Bank took advantage of more favorable rates on long term borrowings at the FHLB versus rates for wholesale certificates of deposit for similar term.

Total interest expense for the Bank increased $429,000 to $2.8 million in 2017. This increase was driven by an increase in total deposits plus borrowings of $3.8 million and a general increase in interest rates in 2017.

The Bank does not maintain a retail branch network and the size of its core deposit base typically correlates to a change in the size of the commercial loan portfolio. As a result, the Bank relies on wholesale funding sources to supplement its balance sheet growth. This gives the Bank the flexibility to adjust its funding levels in order to meet corresponding growth, or reductions, in total assets. This was the case in 2017 as the growth in funding mirrored growth in the Bank's total assets of $4.6 million.

As in years past the Bank continues to utilize the brokered CD market as its 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 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 this risk Management utilizes multiple brokers and underwriters to protect against interruption in the market 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.

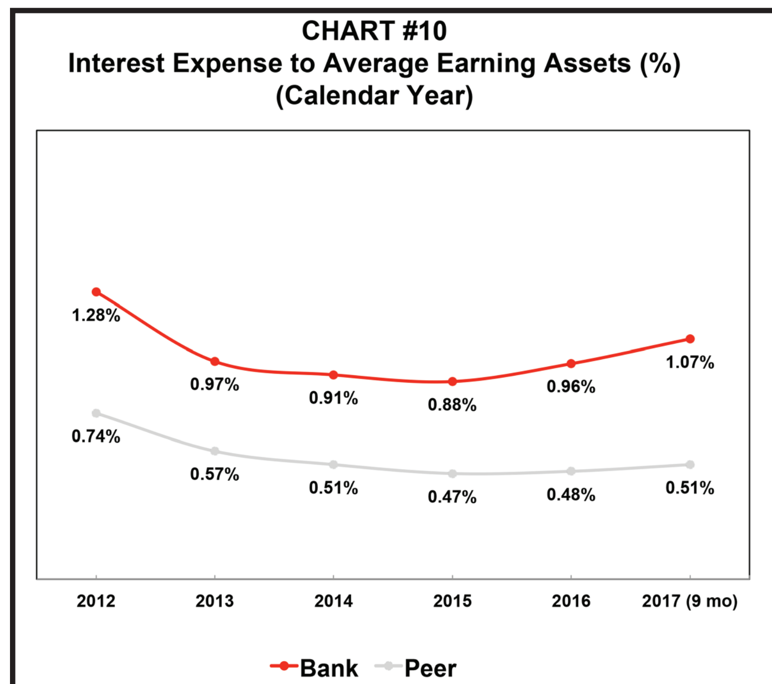


Chart #10 compares the Bank's cost of funds to its designated peer group. As illustrated in the chart, the Bank has historically carried a higher cost of funds versus peer. Part of this difference is effectively a cost of insurance the Bank chooses to incur in order to protect against rising interest rates. Given the amount of credit risk being taken in its business plan, the Bank's appetite for risk in other areas of the operation, including interest rate risk, is minimal. As a result the Bank typically funds its balance sheet with longer term liabilities in order to match the repricing of its loan portfolio. The longer term funding comes at a higher cost which drives up the Bank's overall cost of funds.

Also contributing to the variance in cost of funds to peer is the Bank's usage of the brokered CD market. Wholesale CD rates are set based on a national market and more closely mirror changes in the overall interest rate environment both in terms of rate and timing. As illustrated in Chart #10, as interest rates began to rise in 2017, the Bank's cost of funds increased at a greater pace than peer. This was largely due to the Bank's wholesale funding portfolio more closely correlating to benchmark interest rate increases.

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 $200,000 to $9.2 million in 2017 from $9.0 million in 2016. While the Bank's general operating infrastructure is in place with capacity for significant growth, the current environment with regard to cyber security has resulted in additional fixed overhead costs for the Bank. The increase in fixed overhead in 2017 was primarily the result of this issue as personnel and systems were enhanced to further strengthen IT operations.

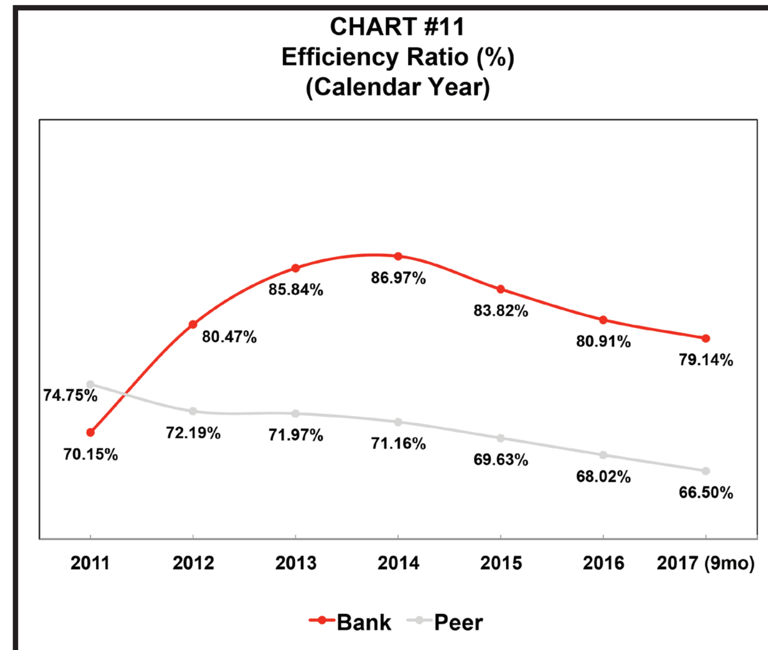
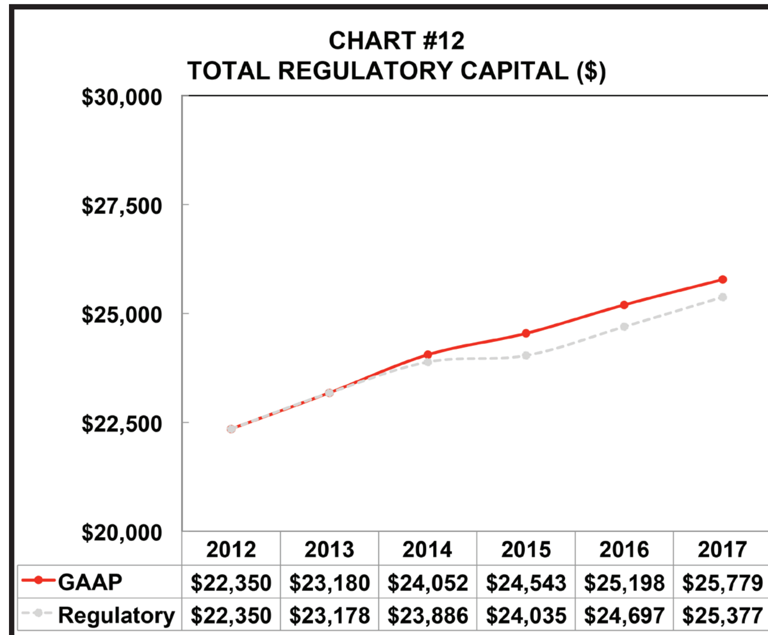


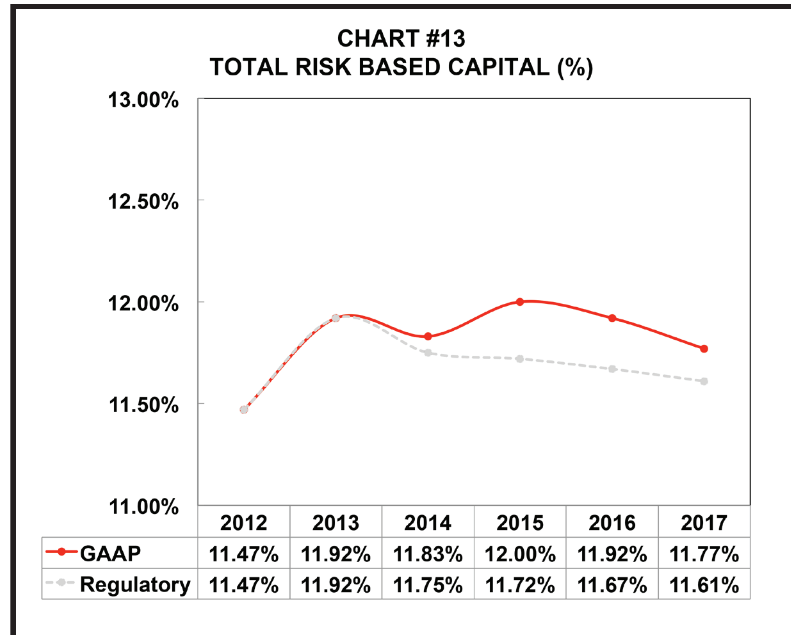
Chart #11 compares the Bank's efficiency ratio to that of its peer group for the calendar years ending December 31, 2011 through September, 2017. This chart illustrates the impact of the Bank's facility expansion, along with other infrastructure improvements, on its efficiency ratio. These changes were fully implemented in 2013. 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.

Loan growth in 2016, coupled with stable overhead costs, resulted in a 2.9% reduction in the efficiency ratio versus 2015. As discussed, in 2017, loan growth did not meet Management's projected goals. This coupled with the additional IT expenses as described resulted in a more modest decrease in the ratio for 2017.

Management continues to work toward additional growth in 2018. This planned growth will utilize the available infrastructure and will serve to return the Bank's efficiency ratios to competitive levels.



	2012	2013	2014	2015	2016	2017
GAAP	$22,350	$23,180	$24,052	$24,543	$25,198	$25,779
Regulatory	$22,350	$23,178	$23,886	$24,035	$24,697	$25,377



	2012	2013	2014	2015	2016	2017
GAAP	11.47%	11.92%	11.83%	12.00%	11.92%	11.77%
Regulatory	11.47%	11.92%	11.75%	11.72%	11.67%	11.61%

REGULATORY CAPITAL

Chart #12 illustrates the Bank's Total Regulatory Capital since 2012 and Chart #13 illustrates the Bank's Total Risk Based Capital ratio for the same periods. The charts are based on total capital as reported in the Bank's shareholder financial statements and total capital as reported on the Bank's regulatory Call Reports. Please refer to Note 24 of the financial statements for additional detail of this difference.

While the total amount of regulatory capital increased in 2017 versus 2016, the Total Risk Based Capital ratio decreased by approximately 6bps. While total regulatory capital increased year over year, it increased at a lesser rate than in 2016. This was due primarily to flat year over year earnings growth and an increase in the required dividend on preferred shares of $130,000. This, along with an increase in total risk based assets, resulted in a decline in the Total Risk Based Capital ratio. Total risk based assets increased due to an increase of $3.4 million in cash and equivalents and an increase of $2.1 million in loans that were past due or on nonaccrual status. Past due and nonaccrual loans are risk weighted at a higher rate which has a negative impact on the capital ratio calculations.

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, 2017 the Bank's capital ratios are all in excess of the Board's internal requirements.

The Bank's primary regulator announced the new Basel III capital regulations in 2013 and began the phase-in of the new rules in January, 2015. The new regulations included an increase in overall capital requirements as well as important changes to the calculation methodology. This change in methodology was material to the Bank as it increased the impact of past due and nonaccrual loans on the calculation. This had a negative result on the Bank's overall capital levels in comparison to the requirements. The Bank halted asset growth in 2013 to build capital levels in preparation for this change. Loan growth was resumed in fiscal 2016. At September 30, 2017 the Bank's capital levels remain above the fully phased-in regulatory requirements for a well-capitalized classification and meet the fully phased-in regulatory buffer requirements.

Crowe Horwath.

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 Statement of Financial Condition as of September 30, 2017, and the related consolidated statements of income, stockholders' equity, and cash flows for the year 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 audit. We conducted our audit 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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The consolidated financial statements of Enterprise Financial Services Group, Inc. as of and for the year ended September 30, 2016, were audited by other auditors whose report dated June 13, 2017, expressed a qualified opinion on those statements. The basis for the qualification indicated that the Company had understated the allowance for loan loss reserve in the range of $440,000 to $570,000 at September 30, 2016. The provision for loan losses was understated by $440,000 to $570,000, the related loan relationship manager compensation was overstated by $88,000 to $114,000, and income tax expense was overstated by $119,680 to 155,040 which resulted in net income being overstated by $232,320 to $300,960, and earnings per share, basic and diluted, being overstated in the range of $.26 to $.34 per share.

Crowe Horwath LLP

Cleveland, Ohio
January 8, 2018

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

ASSETS

	September 30,	
	2017	**2016**
Cash and due from banks	**$ 531,208**	$ 551,762
Cash on deposit with Federal Reserve Bank	**20,046,543**	20,269,294
Interest bearing deposits with banks	**3,785,158**	128,507
Cash and Cash Equivalents	**24,362,909**	**20,949,563**
Loans receivable	**232,870,081**	232,447,552
Allowance for loan losses	**(1,258,177)**	(1,523,813)
Net loans	**231,611,904**	**230,923,739**
Accrued interest receivable	**642,944**	660,130
Premises and equipment, net	**9,289,798**	9,444,406
Restricted investments in bank stock	**2,195,800**	1,410,900
Other assets (See Note 8)	**6,429,327**	6,511,804
Total Assets	**$ 274,532,682**	**$ 269,900,542**

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2017	September 30, 2016
LIABILITIES		
Non-interest bearing deposits	**$ 608,227**	$ 502,605
Interest bearing deposits	**197,181,349**	212,937,361
Total Deposits	**197,789,576**	213,439,966
Borrowings	**53,470,000**	33,970,000
Accrued interest payable	**254,410**	165,531
Accrued expenses and other liabilities	**461,613**	622,658
Total Liabilities	**251,975,599**	**248,198,155**
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, 2017 and 2016 with a liquidation value of $1,000 per share	**5,000,000**	5,000,000
Common stock, par value $.50; authorized 9,846,555 shares; 951,783 issued and 885,983 outstanding at September 30, 2017 and 2016	**475,892**	475,892
Additional paid-in capital	**9,805,047**	9,805,047
Retained earnings	**7,815,846**	6,961,150
Treasury stock, cost (65,800 shares at September 30, 2017 and 2016)	**(568,429)**	(568,429)
Total Enterprise Financial Services Group, Inc. Stockholders' Equity	**22,528,356**	**21,673,660**
Noncontrolling Interest	**28,727**	28,727
Total Stockholders' Equity	**22,557,083**	**21,702,387**
Total Liabilities and Stockholders' Equity	**$ 274,532,682**	**$ 269,900,542**

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended September 30,	
	2017	**2016**
INTEREST INCOME		
Interest and fees on loans	**$ 11,919,361**	$ 11,779,524
Interest on Federal Reserve balances	**181,196**	79,107
Other interest and dividend income	**81,061**	48,408
Total Interest Income	**12,181,618**	**11,907,039**
INTEREST EXPENSE		
Interest on deposits	**2,045,556**	1,884,508
Interest on borrowings	**750,359**	482,136
Total Interest Expense	**2,795,915**	**2,366,644**
Net Interest Income	**9,385,703**	**9,540,395**
PROVISION FOR LOAN LOSSES	**(75,134)**	**(206,563)**
Net Interest Income after Provision for Loan Losses	**9,460,837**	**9,746,958**
OTHER OPERATING INCOME		
Service charges on deposit accounts	**373,341**	360,337
Other fee revenue (See Note 12)	**1,572,405**	1,519,204
Gain (loss) on sale of foreclosed real estate	**(4,067)**	2,453
Loss on valuation of foreclosed real estate	**(112,579)**	(408,116)
Total Other Operating Income	**1,829,100**	**1,473,878**
OTHER OPERATING EXPENSES		
Salaries and employee benefits (See Note 13)	**4,726,856**	4,406,269
Occupancy	**348,449**	412,418
Furniture and office equipment	**403,920**	414,743
Data processing and computer equipment	**605,766**	531,998
FDIC insurance expense	**423,695**	587,127
Other (See Note 14)	**2,710,934**	2,655,256
Total Other Operating Expenses	**9,219,620**	**9,007,811**
Net Income from Continuing Operations, Before Tax	**2,070,317**	**2,213,025**

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended September 30,	
	2017	**2016**
INCOME TAX EXPENSE	**765,621**	**784,411**
Net Income	**1,304,696**	**1,428,614**
Net loss attributable to noncontrolling interest, net of tax	**-**	6,818
Net Income Attributable to Enterprise Financial Services Group, Inc.	**1,304,696**	**1,435,432**
Preferred stock dividends	450,000	320,000
Net Income Available to common stockholders	**$ 854,696**	**$ 1,115,432**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended September 30, 2017 and 2016

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Unearned ESOP Shares	Treasury Stock	Non Controlling Interest	Total Stockholders' Equity
BALANCE AT SEPTEMBER 30, 2015	**$ 5,000,000**	**$ 475,892**	**$ 9,805,047**	**$ 5,845,718**	**$ (82,492)**	**$ (568,429)**	**$ 18,308**	**$ 20,494,044**
Allocation of 6,818 ESOP Shares	-	-	-	-	82,492	-	-	82,492
Cash Dividends Paid on Preferred Stock ($64.00 per share)	-	-	-	(320,000)	-	-	-	(320,000)
Issue noncontrolling partnership interest in Hotel at Mountainview, LLC	-	-	-	-	-	-	17,237	17,237
Net income	-	-	-	1,435,432	-	-	(6,818)	1,428,614
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**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,	
	2017	**2016**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	**$ 1,304,696**	$ 1,428,614
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**(75,134)**	(206,563)
(Gain) loss on sale of foreclosed real estate	**4,067**	(2,453)
Valuation loss on foreclosed real estate	**112,579**	408,116
Allocation of ESOP Shares	**-**	82,492
Amortization of deferred loan fees and costs, net	**135,634**	140,763
Depreciation of premises and equipment	**701,512**	675,304
Donation of foreclosed real estate	**-**	102,500
Gain on disposition of premises and equipment	**(18,328)**	(35,984)
Decrease in deferred tax asset	**37,329**	248,256
(Increase) decrease in accrued interest receivable	**17,186**	(71,895)
(Increase) decrease in other assets	**(535,458)**	1,151,746
Decrease in other liabilities	**(90,665)**	(841,299)
Increase in accrued interest payable	**88,879**	41,884
Net Cash Provided by Operating Activities	**1,682,297**	3,121,481
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments in bank stock	**(1,184,900)**	**(650,300)**
Sale of restricted investments in bank stock	**400,000**	**-**
Net increase in loans	**(1,103,235)**	**(15,416,094)**
Purchases of premises and equipment	**(551,076)**	**(496,761)**
Proceeds from the sale of premises and equipment	**22,500**	**53,695**
Additional investment in foreclosed real estate	**(84,904)**	**(324,821)**
Proceeds from the sale of foreclosed real estate	**833,054**	**1,021,814**
Net Cash Provided (Used) by Investing Activities	**(1,668,561)**	**(15,812,467)**

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended September 30,	
	2017	**2016**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**(15,650,390)**	1,663,097
Dividends paid	**(450,000)**	(320,000)
Proceeds from borrowings	**29,500,000**	16,220,000
Repayment on borrowings	**(10,000,000)**	(82,492)
Net Cash Provided by Financing Activities	**3,999,610**	17,480,605
Net Increase in Cash and Cash Equivalents	**3,413,346**	4,789,619
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**20,949,563**	16,159,944
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 24,362,909**	$ 20,949,563
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 2,707,036**	$ 2,324,760
Income tax paid	**$ 930,300**	$ 606,839
NON-CASH INVESTING TRANSACTIONS		
Loans transferred to foreclosed real estate	**$ 453,268**	$ 1,478,364
Loans to facilitate sales of foreclosed real estate	**$ 98,697**	$ 2,098,044
Loan participation transferred to noncontrolling interest	**$ -**	$ 17,237

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.

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 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 $112,579 and $408,116 for the years ended September 30, 2017 and 2016, respectively. The Bank did not record any gains upon foreclosure of real estate during these years.

The Bank held foreclosed real estate with an aggregate carrying value, net of valuation allowance, of $3,388,877 and $4,034,850 at September 30, 2017 and 2016, respectively, which is included in other assets.

The Bank had a recorded investment in loans of $6,941 and $386,105 at September 30, 2017 and 2016, 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.

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, 2017 and 2016 was $93,594 and $85,333, 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 settlement of the real estate sales transaction. Revenue is not accrued on any commissions that may be earned or received prior to final settlement 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.

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 final settlement 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 by the Bank. For services that are capital in nature, revenue is eliminated against the corresponding payroll expenses resulting in capitalization of the services as 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, 2017 and 2016 was $736,000 and $661,000, respectively. The Federal Reserve Bank paid interest on required reserve and excess balances during the years ended September 30, 2017 and 2016. The Bank had interest bearing balances with the Federal Reserve of $20,046,543 and $20,269,294 at September 30, 2017 and 2016, 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, 2017 and 2016 as follows:

	2017	2016
Federal Home Loan Bank stock	$ 2,165,800	$ 1,380,900
Atlantic Community Bankers Bank stock	30,000	30,000
	$ 2,195,800	$ 1,410,900

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, 2017 and 2016 is as follows:

	2017	2016
Real estate:		
Construction and land development	**$ 21,457,806**	$ 11,187,025
Mortgage:		
Residential	**16,495,911**	21,095,573
Commercial	**164,572,520**	164,264,373
Commercial and industrial loans	**29,728,002**	35,299,073
Consumer loans	**46,575**	55,316
Other	**35,367**	19,763
Total	**232,336,181**	**231,921,123**
Unamortized deferred loan fees and origination costs, net	**533,900**	526,429
	232,870,081	**232,447,552**
Less allowance for loan losses	**(1,258,177)**	(1,523,813)
Net loans	**$ 231,611,904**	**$ 230,923,739**

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, 2017, 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 $30,938,876, $19,026,959 and $19,785,908, 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, 2017 and 2016 along with the value of risk mitigation programs in place to limit the Bank's exposure to loss from these loans:

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 (1)	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**

504 loan structure typically carries loan to value ratio of $\leq$ 50%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

September 30, 2016		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	$ 11,187,025	$ -	$ -	$ -	$ -	$ -	$ 11,187,025
Mortgage:							
Residential	19,580,443	44,000	-	-	44,000	1,471,130	21,095,573
Commercial	155,163,502	-	1,146,625	-	1,146,625	7,954,246	164,264,373
Commercial and industrial loans	34,187,195	599,310	199,217	-	798,527	313,351	35,299,073
Consumer loans	55,316	-	-	-	-	-	55,316
Other	19,763	-	-	-	-	-	19,763
Total	**220,193,244**	**643,310**	**1,345,842**	**-**	**1,989,152**	**9,738,727**	**231,921,123**
Less government guaranteed portion	36,665,796	215,980	600,441	-	816,421	4,596,896	42,079,113
SBA 504 financing (1)	16,818,376	-	-	-	-	-	16,818,376
Net exposure	**$ 166,709,072**	**$ 427,330**	**$ 745,401**	**$ -**	**$ 1,172,731**	**$ 5,141,831**	**$173,023,634**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2017 and 2016.

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, 2017 and 2016. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 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)

September 30, 2016

	Real Estate Residential	Real Estate Commercial	Construction	Commercial & Industrial	Consumer	Other	Total
Loans							
Individually evaluated for impairment (all 6 rated loans)	$ 1,686,070	$ 7,884,380	$ -	$ 250,416	$ -	$ -	$ 9,820,866
Troubled debt restructured with risk rating of 1-5	1,157,187	10,405,381	-	2,788,030	-	-	14,350,598
Collectively evaluated for impairment (all other rated 1-5)	18,252,316	145,974,612	11,187,025	32,260,627	55,316	19,763	207,749,659
Total Loans	**$ 21,095,573**	**$ 164,264,373**	**$ 11,187,025**	**$ 35,299,073**	**$ 55,316**	**$ 19,763**	**$ 231,921,123**
Related Allowance							
Individually evaluated for impairment (all 6 rated loans)	$ 68,954	$ 301,989	$ -	$ 40,709	$ -	$ -	$ 411,652
Troubled debt restructured with risk rating of 1-5	41,697	-	-	24,624	-	-	66,321
Collectively evaluated for impairment (all other rated 1-5)	109,308	738,793	62,871	134,465	403	-	1,045,840
Total Allowance	**$ 219,959**	**$ 1,040,782**	**$ 62,871**	**$ 199,798**	**$ 403**	**$ -**	**$ 1,523,813**

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, 2017 and 2016 are summarized as follows:

September 30, 2017

	Residential Mortgage	Commercial Mortgage	Construction & Land Development	Commercial & Industrial	Consumer	Total
Allowance for credit 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**

September 30, 2016

	Residential Mortgage	Commercial Mortgage	Construction & Land Development	Commercial & Industrial	Consumer	Total
Allowance for loan losses:						
Beginning Balance	$ 260,151	$ 1,301,370	$ 102,009	$ 285,676	$ 786	$ 1,949,992
Provision charged to operating expense	77,472	(182,390)	(39,138)	(62,124)	(383)	(206,563)
Recoveries of previously charged off loans	94	3,874	-	6,075	-	10,043
Charge-offs	(117,758)	(82,072)	-	(29,829)	-	(229,659)
Ending Balance	**$ 219,959**	**$ 1,040,782**	**$ 62,871**	**$ 199,798**	**$ 403**	**$ 1,523,813**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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, 2017 and 2016 are as follows:

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**

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Grade 6 (Classified)

September 30, 2016

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Real Estate:							
Construction and land development	$ -	$ 330,650	$ 7,165,117	$ 3,691,258	$ -	$ -	$11,187,025
Mortgage:							
Residential	1,362,743	1,143,492	12,505,384	3,815,596	759,028	1,509,330	21,095,573
Commercial	26,899,046	6,269,283	84,949,500	37,129,107	4,785,156	4,232,281	164,264,373
Commercial and industrial loans	14,273,695	2,064,570	11,040,079	6,699,028	1,059,959	161,742	35,299,073
Consumer loans	-	-	8,958	46,358	-	-	55,316
Other	19,763	-	-	-	-	-	19,763
Total	**$ 42,555,247**	**$ 9,807,995**	**$115,669,038**	**$ 51,381,347**	**$ 6,604,143**	**$ 5,903,353**	**$231,921,123**

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.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables summarize information for impaired loans by loan segment as of September 30, 2017 and 2016:

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		Total Impaired Loans		
	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal	Related Allowance	Unpaid Principal Balance	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans
Mortgage:								
Residential	$ 94,364	$ 22,362	$ 11,561	$ 1,299,644	$ 24,467	$ 1,405,569	$ 2,152,790	$ 83,873
Commercial	3,977,749	305,965	5,275,101	7,132,555	41,226	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**	**$ 9,289,260**	**$ 65,693**	**$ 19,951,449**	**$ 22,477,377**	**$ 707,088**

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2016

	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		Total Impaired Loans		
	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal	Related Allowance	Unpaid Principal Balance	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans
Mortgage:								
Residential	$ 766,027	$ 68,954	$ 1,004,360	$ 1,157,187	$ 41,697	$ 2,843,257	$ 2,622,715	$ 69,440
Commercial	3,122,018	301,989	4,678,045	10,405,381	-	18,289,761	18,285,280	704,380
Commercial and industrial	174,844	40,709	75,572	2,788,030	24,624	3,038,446	2,147,206	119,720
Total	**$ 4,062,889**	**$ 411,652**	**$ 5,757,977**	**$ 14,350,598**	**$ 66,321**	**$ 24,171,464**	**$ 23,055,201**	**$ 893,540**

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.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following summarizes loan modifications that are classified as TDRs for the years ended September 30, 2017 and 2016:

Troubled Debt Restructurings:

	Number of Contracts	**Pre-Modification Outstanding Principal, Net**	**Post-Modification Outstanding Principal, Net**
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
Year ended September 30, 2016			
Real Estate – Residential	**5**	$1,761,244	$ 1,761,244
Real Estate – Commercial	**11**	6,820,436	6,739,755
Commercial & Industrial	**3**	1,944,512	1,944,512
Total	**19**	$10,526,192	$ 10,445,511

Modifications classified as TDRs in the tables above are primarily for the purpose of granting an interest only period. Of the TDRs listed in the table for the year ended September 30, 2017, the Bank granted a change in interest rate on seven loans with an aggregate balance of $1,735,644 at the time of modification. The Bank also granted extensions of the maturity date for six loans with an aggregate balance of $1,256,617 at the time of modification. Of the TDRs listed in the table for year ended September 30, 2016, the Bank granted an interest rate reduction on one loan with a principal balance of $500,000. In addition, two loans with an aggregate principal balance of $180,000 were termed out with an extended maturity date. Lastly, one loan with a post modification principal balance of $173,915 was granted an additional advance of $12,625 as part of the restructuring.

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructurings That Subsequently Defaulted

	Year Ended September 30, 2017		Year Ended September 30, 2016	
	Number of Contracts	Outstanding Principal, Net	Number of Contracts	Outstanding Principal, Net
Real Estate – Commercial	1	$ 183,088	3	$ 894,726
Commercial & Industrial	3	1,169,476	3	1,931,568
Total	4	$ 1,352,564	6	$ 2,826,294

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, 2017 and 2016, included with the allowance for loan losses are reserves of $454,230 and $369,603, 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, 2017 and 2016, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2017	**2016**
Commitments to grant loans	**$ 1,480,125**	$ 1,750,000
Unfunded commitments under lines of credit	**42,433,544**	30,156,944
Standby letters of credit	**2,929,250**	2,693,913

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, 2017 and 2016:

	2017	2016
Land and improvements	**$ 1,628,198**	$ 1,628,198
Building and improvements	**6,926,883**	6,923,682
Furniture and equipment	**3,700,499**	3,891,424
Vehicles	**614,752**	544,201
Accumulated depreciation	**(3,580,534)**	(3,543,099)
	$ 9,289,798	$ 9,444,406

Depreciation expense of $701,512 and $675,304 was incurred by the company for the years ended September 30, 2017 and 2016, 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, 2017 and 2016:

	2017	2016
Foreclosed real estate	**$ 3,388,877**	$ 4,034,850
SBA guarantee receivable	**1,131,176**	953,176
Loan costs receivable	**183,885**	154,491
Deferred tax assets	**93,393**	130,722
Other receivables	**241,010**	224,777
Other prepaid expenses	**1,058,649**	878,968
Miscellaneous	**332,337**	134,820
	$ 6,429,327	$ 6,511,804

NOTE 9 – INTEREST BEARING DEPOSITS

Interest bearing deposits at September 30, 2017 and 2016 are further detailed as follows:

	2017	2016
NOW accounts	**$ 41,013,463**	$ 42,419,211
Savings accounts	**35,302,333**	35,108,851
Certificates and other time deposits	**120,865,553**	135,409,299
	$ 197,181,349	$212,937,361

The Bank utilizes the services of deposit brokers to obtain a portion of its total deposits. The Bank had total deposit balances of $103,199,000 and $116,975,000 at September 30, 2017 and 2016, respectively, that were obtained through the use of deposit brokers.

The Bank had $1,492,697 and $498,217 in outstanding certificates of deposit issued in denominations greater than $250,000 as of September 30, 2017 and 2016, 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:

2018	**$ 57,287,469**
2019	**20,810,025**
2020	**10,049,632**
2021	**23,309,916**
2022	**9,408,511**
	$ 120,865,553

NOTE 10 – BORROWINGS

Borrowings at September 30, 2017 and 2016 are as follows:

	2017	**2016**
Federal Home Loan Bank borrowings	**$ 51,420,000**	$ 31,920,000
Junior subordinated debentures	**2,050,000**	2,050,000
	$ 53,470,000	$ 33,970,000

Federal Reserve Bank Discount Window

On September 30, 2017, the Bank had overnight borrowing capacity at the Federal Reserve Bank discount window in the amount of $20,665,061. Loans receivable with a book value of $44,155,030 were pledged to the Federal Reserve Bank of Cleveland as eligible collateral at September 30, 2017. The Bank had no outstanding borrowings at September 30, 2017 and 2016. 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 1.75% at September 30, 2017.

Federal Home Loan Bank

The bank has established a borrowing capacity at the Federal Home Loan Bank ("FHLB"). On September 30, 2017 the Bank had pledged qualifying loans in the amount of $140,519,000 in support of a maximum borrowing capacity of approximately $97,548,000.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – BORROWINGS (CONTINUED)

Advances from FHLB at September 30, 2017 and 2016 consisted of the following:

Loan Type	Maturity Date	Interest Rate	2017	2016
Fixed Term	December 7, 2016	1.63%	**$ -**	$ 3,000,000
Fixed Term	May 31, 2017	1.24%	**-**	2,000,000
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**	-
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	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**	-
Fixed Term	May 16, 2022	2.21%	**6,000,000**	-
Fixed Term	June 8, 2022	2.10%	**5,000,000**	-
Fixed Term	July 5, 2022	2.27%	**6,000,000**	-
			$ 51,420,000	$ 31,920,000

Junior Subordinated Debentures

The Company had outstanding junior subordinated debt securities ("subordinated debentures") in the amount of $2,050,000 on September 30, 2017 and 2016.

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% (5.55% as of July 15, 2017, 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%.

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, 2017 and 2016 were $123,702, and $117,556, 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, 2017 and 2016.

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 $165,000 for each of the years ended September 30, 2017 and 2016. Additional expenses incurred in relation to the ESOP plan include interest expense on the note and professional fees associated with the administration of the plan. Interest expense in the amount of $2,876 was incurred for the year ended September 30, 2016. Administrative costs of $11,924 and $13,157 were incurred in each of the years ended September 30, 2017 and 2016, respectively.

Shares released for allocation and the fair value of unreleased shares are based on the fair value of shares as determined by an annual valuation of the Bank's common stock. The share valuation is completed by an independent appraisal firm based on data available as of June 30 each year.

The following table presents the components of ESOP shares at September 30, 2017 and 2016:

	2017	**2016**
Shares released for allocation	**-**	6,820
Allocated shares	**136,363**	129,543
	136,363	136,363

The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP upon the beneficiary's termination or after retirement. At September 30, 2017, the fair value, based on the annual share price valuation, of the 136,363 allocated shares held by the ESOP is $2,181,808. There are 9,886 allocated shares that are vested by former employees that are subject to an ESOP-related repurchase option. The fair value of all shares subject to the repurchase obligation is $158,179. In addition, there are 1,777 allocated shares that are vested by current employees that are subject to a diversification repurchase option whereby the employee has elected to exercise this option as of the date these financial statements were released. The fair value of these shares is $28,433.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – OTHER FEE REVENUE

Detail of other fee revenue for the years ended September 30, 2017 and 2016 is as follows:

	2017	2016
Real estate subsidiary commission income	**$ 920,564**	$ 921,553
Real estate subsidiary property management and other fee income	**45,438**	59,974
Consulting subsidiary fee income	**213,417**	183,944
Rental income from foreclosed real estate	**233,321**	185,766
ATM fee and service charge income	**33,359**	39,660
Insurance services income	**116,861**	126,851
Other fee income	**9,445**	1,456
Total other fee revenue	**$ 1,572,405**	$ 1,519,204

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, 2017 and 2016 is as follows:

	2017	2016
Wages		
Bank management and administrative	**$ 2,507,807**	$ 2,392,930
Enterprise Business Consultants	**651,573**	530,999
Kuzneski & Lockard	**130,316**	119,090
Enterprise Insurance Services	**62,914**	67,434
Relationship Manager compensation	**1,535,716**	1,474,566
ASC 310-20 salary deferral for loan origination activities	**(161,470)**	(178,750)
Total salaries and employee benefits	**$ 4,726,856**	$ 4,406,269

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – OTHER OPERATING EXPENSES

Further detail of other operating expenses for the years ended September 30, 2017 and 2016 is as follows:

	2017	2016
Business development	**$ 377,934**	$ 463,168
Foreclosed real estate expense	**220,094**	279,699
Real estate agency commissions	**536,117**	533,165
Legal and accounting services	**306,336**	139,080
Directors' fees	**174,595**	202,966
Telephone	**115,388**	132,164
Bank shares tax	**207,735**	189,378
Other loan and collection	**310,861**	183,325
Other – Bank operations	**361,729**	409,721
Other – Subsidiary operations	**100,145**	122,620
Total other operating expenses	**$ 2,710,934**	$ 2,655,256

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – INCOME TAXES

The components of net deferred tax assets and liabilities at September 30, 2017 and 2016 are as follows:

	2017	2016
Deferred tax assets:		
Allowance for loan losses	**$ 258,680**	$ 360,727
Deferred compensation	**37,532**	20,698
Other real estate owned	**223,998**	176,865
Nonaccrual interest	**65,939**	61,043
Subsidiary net-operating loss	**286,722**	277,320
Other	**33,380**	19,082
Total Deferred Tax Assets	**906,251**	915,735
Deferred tax liabilities:		
Premises and equipment	**(631,332)**	(606,027)
Deferred loan origination fees	**(181,526)**	(178,986)
Total Deferred Tax Liabilities	**(812,858)**	(785,013)
Net Deferred Tax Assets	**$ 93,393**	$ 130,722

The Company has determined that no valuation allowance was required for the deferred tax asset balance at September 30, 2017 and 2016, 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. The differences for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Tax at statutory rate	**$ 703,908**	$ 752,429
Nondeductible expenses	**61,713**	31,982
	$ 765,621	$ 784,411

NOTE 15 – INCOME TAXES (CONTINUED)

The Bank's provision for income taxes for 2017 and 2016 consists of the following:

	2017	2016
Current federal tax expense	**$ 728,292**	$ 536,155
Deferred federal tax (benefit) expense	**37,329**	248,256
	$ 765,621	$ 784,411

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, 2017 and 2016 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, 2017 and 2016, the Bank did not accrue any penalties or interest.

The Bank has evaluated its tax positions taken for all open tax years. Currently, the 2013 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, 2017 and 2016.

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 no material legal proceedings to which the Bank is a party. 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 $1,886,997 and $2,557,840 (including unused lines of credit) at September 30, 2017 and 2016, respectively.

The following is an analysis of loans to these parties during the year ended September 30, 2017 and 2016:

	2017	2016
Balance at beginning of year	**$ 2,557,807**	$ 4,485,722
Advances	**-**	-
Related party released as guarantor	**-**	(230,668)
Borrower no longer a director	**-**	(1,516,141)
Repayments	**(670,843)**	(181,106)
Balance at end of year	**$ 1,886,964**	$ 2,557,807

The aggregate amount of deposits on account at the Bank for directors and principal officers and their related interests was $4,644,465 and $2,267,095 for the years ended September 30, 2017 and 2016 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.

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 2017 is 1.25%. Management believes, as of September 30, 2017, 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, 2017 and 2016, 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, 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**
As of September 30, 2016						
Total capital (to risk-weighted assets)	**$24,697**	**11.67 %**	**$16,935**	**≥ 8.00 %**	**$21,169**	**≥ 10.00 %**
Tier 1 capital (to risk-weighted assets)	**23,173**	**10.95**	**12,701**	**≥ 6.00**	**16,935**	**≥ 8.00**
Common Equity Tier 1 Capital (to risk-weighted assets)	**23,161**	**10.94**	**9,526**	**≥ 4.50**	**13,760**	**≥ 6.50**
Tier 1 capital (to average assets)	**23,173**	**8.75**	**10,596**	**≥ 4.00**	**13,245**	**≥ 5.00**

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, 2017 and 2016:

	2017	2016
Weighted average common shares (Denominator)		
Weighted-average common shares outstanding	**951,783**	951,783
Average treasury shares	**(65,800)**	(65,800)
Average unearned ESOP shares	**-**	(1,986)
Weighted-average common shares used to calculate basic earnings per share (base, denominator)	**885,983**	883,997
Weighted-average common shares and common stock equivalents outstanding used to calculate diluted earnings per share (diluted, denominator)	**885,983**	883,997
Net Income (Numerator)		
Net income	**$ 1,304,696**	$ 1,428,614
Add: Net Loss attributable to noncontrolling interest, net of tax	**-**	6,818
Less: Preferred stock dividend	**(450,000)**	(320,000)
Net income available to common shareholders	**$ 854,696**	$ 1,115,432
Earnings Per Share		
Net income available to common shareholders, per share		
Basic	**$ 0.96**	$ 1.26
Diluted	**$ 0.96**	$ 1.26

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, 2017 and 2016

		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	$ 938,106	$ -	$ -	$ 938,106
Commercial real estate	$ 3,974,743	$ -	$ -	$ 3,974,743
Commercial and industrial	$ 1,041,562	$ -	$ -	$ 1,041,562
Total	$ 5,954,411	$ -	$ -	$ 5,954,411
Other real estate owned				
Residential real estate	$ 237,061	$ -	$ -	$ 237,061
Commercial real estate	$ 3,151,815	$ -	$ -	$ 3,151,815
Total	$ 3,388,876	$ -	$ -	$ 3,388,876

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS

		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, 2016				
Collateral-dependent impaired loans				
Residential real estate	$ 1,532,230	$ -	$ -	$ 1,532,230
Commercial real estate	$ 2,820,029	$ -	$ -	$ 2,820,029
Commercial and industrial	$ 707,246	$ -	$ -	$ 707,246
Total	$ 5,059,505	$ -	$ -	$ 5,059,505
Other real estate owned				
Residential real estate	$ 28,481	$ -	$ -	$ 28,481
Commercial real estate	$ 4,006,369	$ -	$ -	$ 4,006,369
Total	$ 4,034,850	$ -	$ -	$ 4,034,850

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, 2017 and 2016:

	Fair Value at September 30, 2017	Valuation Technique	Unobservable Inputs	Range
Other real estate owned	$ 3,388,877	Cost, Income and Sales Comparison	Estimated Costs to Sell	5% - 10%
Collateral-dependent impaired loans	$ 5,954,411	Cost, Income and Sales Comparison	Estimated Costs to Sell	5% – 10%

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	Fair Value at September 30, 2016	Valuation Technique	Unobservable Inputs	Range
Other real estate owned	$ 4,034,850	Cost, Income and Sales Comparison	Estimated Costs to Sell	5% - 10%
Collateral-dependent impaired loans	$ 5,059,505	Cost, Income and Sales Comparison	Estimated Costs to Sell	5% – 10%

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS				
Cash and due from banks	$ 531,208	$ 531,208	$ 551,762	$ 551,762
Cash on deposit with Federal Reserve Bank	20,046,543	20,046,543	20,269,294	20,269,294
Interest bearing deposits with banks	3,785,158	3,785,158	128,507	128,507
Net loans	231,611,904	218,799,686	230,923,739	230,100,155
Accrued interest receivable	642,944	642,944	660,130	660,130
Restricted investment in bank stock	2,195,800	N/A	1,410,900	N/A
Total financial assets	$ 258,813,557	$ 246,001,339	$ 253,944,332	$ 253,120,748
FINANCIAL LIABILITIES				
Non-interest bearing deposits	$ 608,227	$ 608,227	$ 502,605	$ 502,605
Savings, money market and NOW accts.	76,315,796	76,315,796	77,528,062	77,528,062
Certificates and other time deposits	120,865,553	119,720,795	135,409,299	135,183,424
Borrowings	53,470,000	53,135,377	33,970,000	34,199,516
Accrued interest payable	254,410	254,410	165,531	165,531
Total financial liabilities	$ 251,513,986	$ 250,034,605	$ 247,575,497	$ 247,579,138

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2017 and 2016.

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.

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

The following tables outline the differences between the Company's financial statements and regulatory reporting for the years ending September 30, 2017 and 2016:

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)

Year ended September 30, 2016:

	As Reported Financial Statements	Year Ended September 30, 2016 As Reported Regulatory Reporting	Variance
Consolidated Statements of Financial Condition			
Loans receivable	$ 232,447,552	$ 231,548,968	$ (898,584)
Net Loans	**230,923,739**	**230,025,155**	**(898,584)**
Accrued interest receivable	660,130	650,499	(9,631)
Other assets	6,511,804	6,918,369	406,565
Total Assets	**269,900,542**	**269,398,892**	**(501,650)**
Retained earnings	6,961,150	6,459,500	(501,650)
Total Stockholders' Equity	**21,702,387**	**21,200,739**	**(501,650)**
Total Liabilities and Stockholders' Equity	**269,900,542**	**269,398,892**	**(501,650)**

	As Reported Financial Statements	Year Ended, September 30, 2016 As Reported Regulatory Reporting	Variance
Consolidated Statements of Income			
Interest and fees on loans	$ 11,779,524	$ 11,783,865	$ 4,341
Total Interest Income	**11,907,039**	**11,911,380**	**4,341**
Provision for Loan Losses	**(206,563)**	**(206,563)**	**-**
Salaries and employee benefits	4,406,269	4,425,935	19,666
Other	2,655,256	2,628,519	(26,737)
Total Other Operating Expenses	**9,007,811**	**9,000,740**	**(7,071)**
Income Before Income Tax Expense	**2,213,025**	**2,224,437**	**11,412**
Income tax expense	784,411	788,291	3,880
Net Income	**1,428,614**	**1,436,146**	**7,532**
Net Income Attributable to Enterprise Financial Services Group, Inc.	**1,435,432**	**1,442,964**	**7,532**

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, 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 %
As of September 30, 2016			
Total capital	$ 25,198	$ 24,697	$ (501)
Tier 1 capital	$ 23,674	$ 23,173	$ (501)
Common Equity Tier 1 Capital	$ 23,662	$ 23,161	$ (501)
Tier 1 capital (to average assets)	$ 23,674	$ 23,173	$ (501)
Total capital to (risk-weighted assets)	11.92 %	11.67 %	-0.25 %
Tier 1 capital (to risk-weighted assets)	11.20 %	10.95 %	-0.25 %
Common Equity Tier 1 Capital (to risk-weighted assets)	11.19 %	10.94 %	-0.25 %
Tier 1 capital (to average assets)	8.92 %	8.75 %	-0.17 %

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 24 – SUBSEQUENT EVENTS

The Company evaluated its September 30, 2017 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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