Enterprise Bank

ANNUAL REPORT

2019

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Letter to Our Shareholders

Dear Fellow Shareholders:

We are pleased to report Enterprise Financial Services Group, Inc. has continued our growth while remaining focused on helping small businesses and operating exclusively in the small business niche.

We apologize for the delay in providing operating results and scheduling our annual shareholders meeting. The implementation of new accounting software in addition to the challenges of working during the COVID-19 pandemic has caused us to delay and change our annual meeting format this year.

Since our last report, the Bank has continued to experience overall growth and improvement in core earnings. The positive effect to net income resulting from growth was partially offset by increased technology costs and our decision to increase interest paid on deposit accounts to promote deposit growth.

The program to attract new deposit relationships was not as successful as anticipated so the premiums paid for deposits were rolled back to market rates in December 2019. This action will return cost of funds to a more traditional, market based levels over the course of 2020. The Bank will strive to grow business deposits utilizing new social media programs rather than offering premiums on deposits going forward.

The Bank's subsidiaries likewise continued to improve operations and increase operating income. We will continue to provide the necessary resources to increase operating revenue derived from our insurance, real estate and consulting subsidiaries.

The Bank remains vigilant in its efforts to control technology and litigation expenses in a difficult environment and has experienced limited success in doing so. Despite all of the current challenges, profits have continued to strengthen and we expect 2020 to be a very strong year with significant improvement to the bottom line.

We encourage you to read "Management Discussion and Analysis" contained in this Annual Report to gain a more thorough understanding of the 2019 operational and financial results.

As always, we appreciate your investment, your trust, and your ongoing support of Enterprise Financial Services Group.

Sincerely,

Chuck Leigh

Chariman of the Board

Douglas A. Rochard

Vice Chairman of the Board

The following discussion provides additional information and analysis for the results of operations for Enterprise Financial Services Group, Inc. (the "Company") and its wholly owned subsidiary, Enterprise Bank (the "Bank"), for the fiscal year ended September 30, 2019 ("2019"). This discussion also includes results of operations for the Bank's wholly owned subsidiaries which include Enterprise Insurance Services, Inc., Enterprise Business Consultants, Inc., Kuzneski & Lockard, Inc. and Buildonus, Inc. This discussion is provided as a supplement to the financial statements and accompanying disclosures included in the Company's 2019 Annual Report.

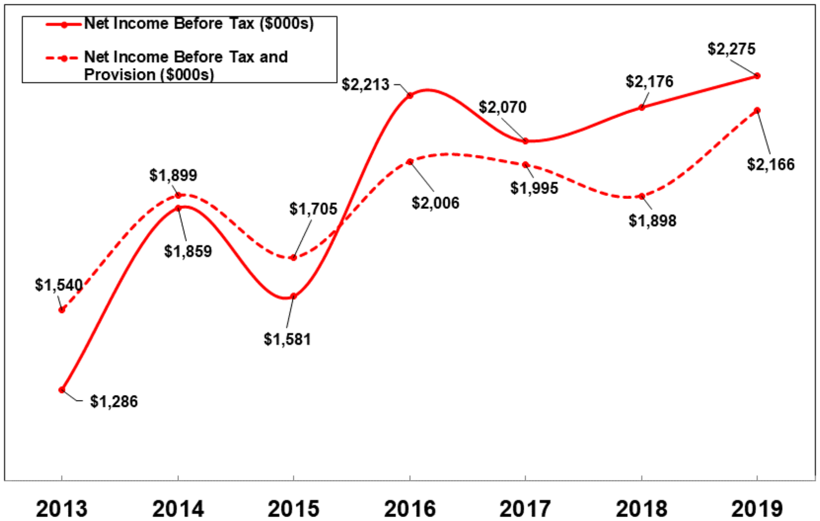
Peer group data used in preparing the accompanying charts was taken from the Bank's Uniform Bank Performance Report ("UBPR") as published quarterly by the Federal Deposit Insurance Corporation. The UBPR designated peer group for 2019 includes all insured commercial banks in the United States of America with total assets between $300 million and $1 billion. The UBPR designated peer group for years 2018 and prior includes all banks in the United States of America, located in a metropolitan area, with total assets between $100 and $300 million and two or fewer full service offices. Peer data is prepared on a calendar year basis. Therefore, when peer data is used in the charts the Bank's data is also presented on a calendar year basis.

Overall Performance Summary

Management's focus heading into 2019 was to continue prudent growth of the loan portfolio. The foundation was set in prior years with the expansion of the Bank's relationship manager ("RM") team and the development of a sales culture throughout the organization to facilitate growth. This additional growth increases the utilization of the Bank's infrastructure already in place as core operating overhead costs remain stable.

In 2019 the Bank's loan portfolio grew $15.5 million or approximately 6.4%. This was an increase over growth in 2018 which was $10.4 million or 4.5%. Current and prior year growth supported an increase in interest and fee income on loans in 2019 of $1.3 million or approximately 10% over the prior year. In addition, the Bank's credit environment continued to strengthen in 2019 as the bank recognized net recoveries of $15,000 in 2019 versus net charge-offs of $84,000 in the prior year. While emphasizing loan growth over the past several years the Bank has not relaxed its underwriting standards and continues to emphasize collateral support and other risk mitigation programs to minimize credit risk in the loan portfolio. In addition to the growth experienced in 2019 the Bank continues to hold a solid pipeline of commitments to grant loans and unfunded commitments under lines of credit which will support growth into 2020.

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



While the Bank generally achieved its goals for asset growth and corresponding increases in interest income, the impact on bottom line earnings did not meet expectations. Chart #1 illustrates the Bank's annual pre-tax income from 2013 through 2019. Pre-tax income eliminates the earnings impact of changes to statutory tax rates that were enacted at the end of 2017. In 2019, pre-tax income increased $99,000, or 4.5% over the prior year, to $2.3 million. Chart #1 also illustrates the Bank's annual income before tax and before provisions for loan loss for the same periods. This eliminates the impact of negative loss provisions that have occurred over the past several years as the overall credit environment and the strength of the Bank's portfolio has improved. Absent loss provisions, pre-tax earnings increased $268,000 or 14% in 2019.

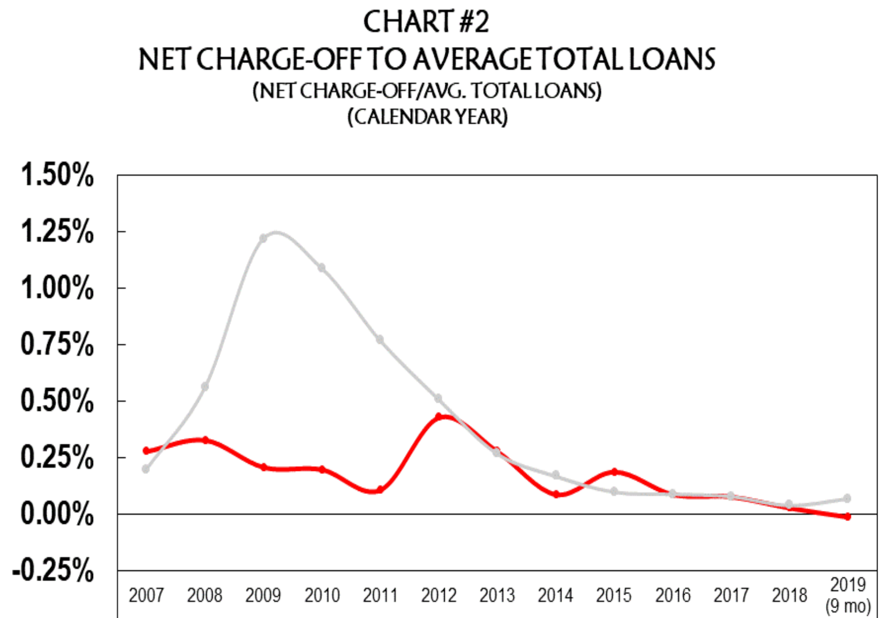
There were a couple of factors that lessened the impact of recent loan growth on overall net earnings which will be outlined in more detail throughout this discussion. The primary factor was the Bank's elevated cost of funds and its impact on interest expense and net interest margin. The elevated cost of funds was due to a pricing strategy for the Bank's transactional deposit products which include the Simplicity interest bearing checking and savings products. The Bank implemented this strategy a few years ago as an attempt to grow local core deposits in response to outside pressures to lower its concentrations of wholesale funding. After several months of being at or near top of market on rates, the Bank has not experienced any material growth in its transactional deposits that is over and above the organic growth that correlates to growth in the loan portfolio. As a result, in late 2019 the decision was made to discontinue this pricing strategy with a phase out over several months. This phase out began in the fourth quarter of 2019 with full phase-out expected to be complete in early to mid-2020.

Also affecting earnings was a $200,000 increase in legal fees. This increase is the result of the Bank's cost to defend against two ongoing lawsuits. The Bank is vigorously defending itself and ultimately believes it will prevail. However, costs incurred to defend are expensed as incurred and as a result professional services expense was elevated in 2019.

Core Operating Philosophy

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

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

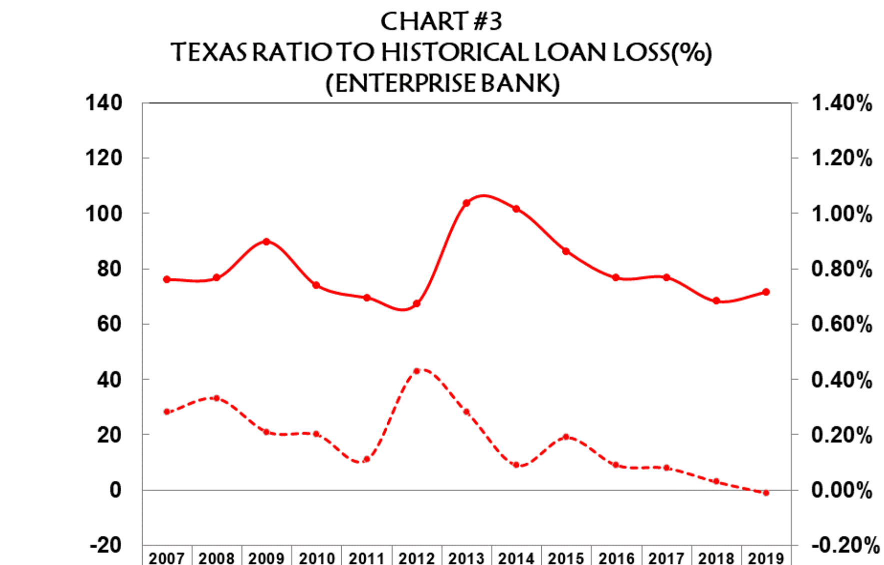


	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (9 mo)
Bank	0.28%	0.33%	0.21%	0.20%	0.11%	0.43%	0.28%	0.09%	0.19%	0.09%	0.08%	0.03%	-0.01%
Peer	0.20%	0.56%	1.22%	1.09%	0.77%	0.51%	0.27%	0.17%	0.10%	0.09%	0.08%	0.04%	0.07%

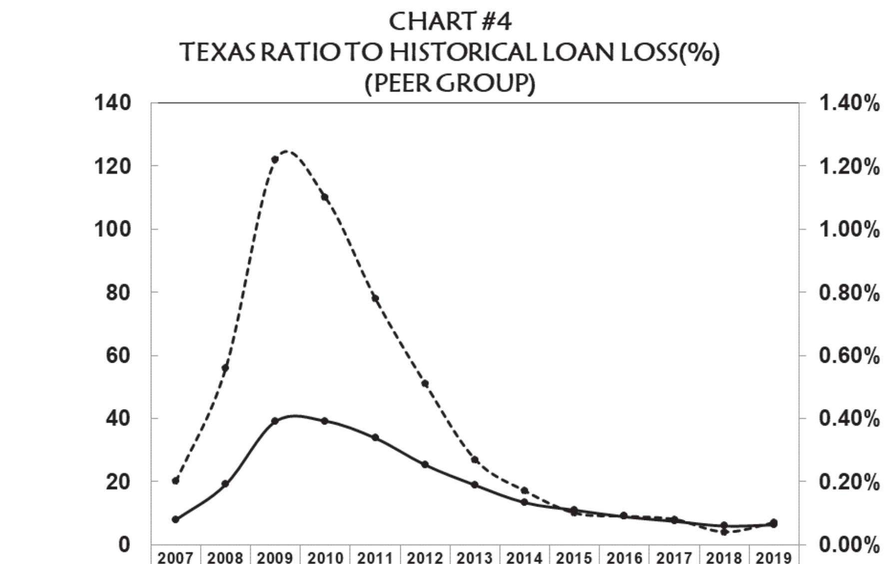
Chart #2 compares the Bank's loan loss rates to its peer group from 2007 through 2019. This chart illustrates that historically the Bank has been at or below peer loss rates and has experienced substantially less volatility during this time period. This is highlighted by the period of the last financial crisis in 2008 through 2011. During this time, peer banks were experiencing a dramatic spike in loss rates while Enterprise Bank's rates continued to fluctuate within a tolerable range.

A widely accepted indicator of a Bank's strength is the Texas Ratio. This ratio is often used by analysts and bank examiners as a predictor of credit quality problems, future loan losses and bank failure. The Texas Ratio combines the balance of nonaccrual and restructured loans plus foreclosed real estate and divides by the sum of total equity and the loan loss reserve.

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



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Texas Ratio	76.06	76.67	89.75	73.87	69.52	67.40	103.7	101.5	86.26	76.64	76.81	68.19	71.54
Loss Ratio	0.28%	0.33%	0.21%	0.20%	0.11%	0.43%	0.28%	0.09%	0.19%	0.09%	0.08%	0.03%	-0.01%



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Texas Ratio	8.06	19.23	39.09	39.16	33.78	25.35	18.97	13.46	11.10	8.99	7.58	6.09	6.47
Loss Ratio	0.20%	0.56%	1.22%	1.10%	0.78%	0.51%	0.27%	0.17%	0.10%	0.09%	0.08%	0.04%	0.07%

Loan Portfolio & Interest Income

Chart #5 shows year end loan portfolio balances for the Bank from 2012 through the current year. Chart #6 illustrates the growth rate in the portfolio for the same period. The Bank's loan portfolio grew $15.5 million in 2019 to a balance of $258.8 million at September 30, 2019. This was a growth rate of approximately 6.4%, which was an improvement over growth of 4.5% the prior year. This growth has been driven by the Bank's continued strength in its market niche and is supported by additional RM staff put in place in 2018.

CHART #5
Loans Receivable ($ in millions)

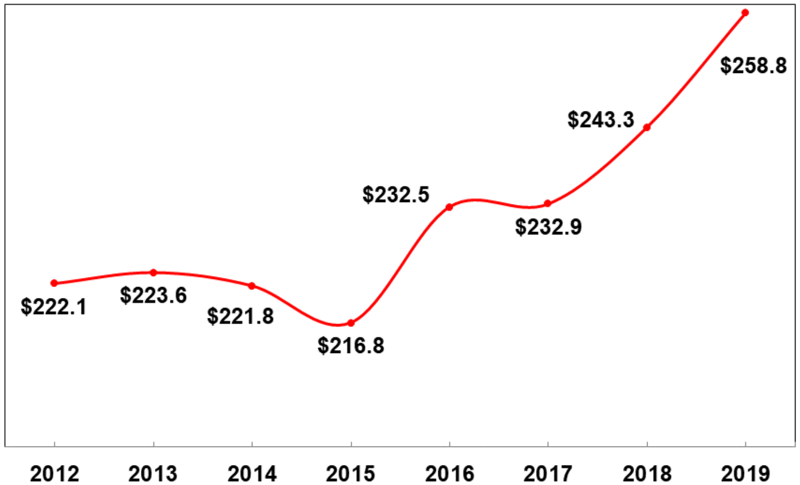
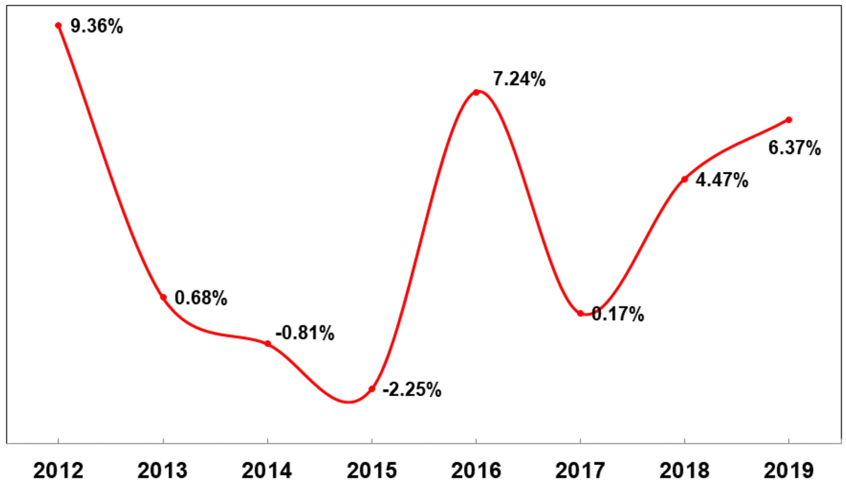


CHART #6
Loan Portfolio Growth Rate (%)



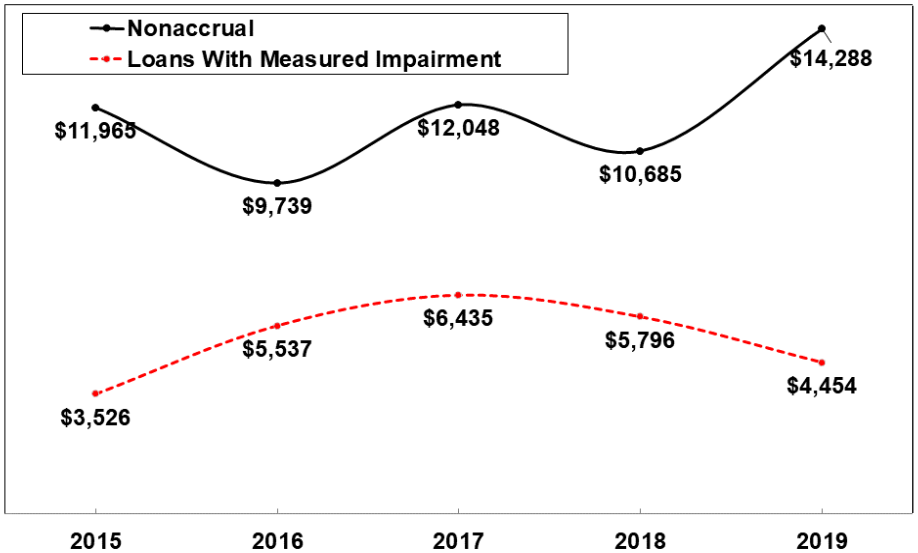
In 2019, total interest and fees on loans increased $1.3 million, or 10% over the prior year. This growth was supported primarily by the growth in the loan portfolio over the last two years. The interest rate environment in fiscal 2019 was one of a flattening yield curve which eventually inverted later in the year. Key rates for pricing of the Bank's loan portfolio include the prime rate and the 5 year Treasury rate. The prime rate decreased 25 basis points from the beginning of the year and 5 year treasury decreased 1.39%. In addition, the slope of the 1 month Treasury as compared to the five year Treasury decreased from plus 82 basis points at the beginning of 2019 to negative 36 basis points at year end. This environment did not have a material impact on interest income in 2019 as, on average, key rates still trended higher than previous years and this supported a continuing upward trend in rates as loans repriced. The Bank also has interest rate floors in place on a large portion of the portfolio to protect against falling rates.

Management expects that growth of the loan portfolio will remain a priority into 2020, however the amount of growth will ultimately be tied to capital management. There are many factors that have led to pressure on the Bank's capital ratios. This includes the level of non-performing assets, pressures on bottom line earnings as highlighted in this discussion and the Bank's level of unfunded commitments. Management will continue to monitor these factors and their impact on the Bank's capital ratios when planning for an acceptable level of asset growth.

Nonaccrual Loans & Revenue Recognition

Given the Bank's niche of financing start-up and distressed businesses, Management expects that the Bank will carry a level of non-performing loans that is higher than its peer group. Chart #7 illustrates the Bank's level of nonaccrual loans since 2015. The balance of nonaccrual loans increased $3.6 million, or 34%, in 2019. As discussed, the Bank's level of nonaccrual loans is typically not an indicator of loss due to the various loss mitigation strategies in place. Chart #7 also illustrates the balance of loans with measured impairment for the last five years. Loans with measured impairment have been individually evaluated and are deemed to have incurred some level of loss after consideration of collateral liquidation and any other loss mitigation strategies. The estimated amount of incurred loss is reserved on these loans. As can be seen in the chart, the balance of loans with measured impairment does not historically correlate to the balance of loans on nonaccrual status.

CHART #7
Nonaccrual Loans vs. Loans With Measured Impairment



In order to evaluate the impact that nonaccrual loans have on the Bank's earnings, it is important to have an understanding of the revenue recognition standard in GAAP as well as an understanding of the interpretation of this standard by the bank regulatory agencies.

According to 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. 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 regulatory agencies provide guidance on applying this topic for the preparation of bank regulatory financial reports ("call report")[3]. Per the instructions furnished, banks generally should not accrue interest on loans for which payment in full of principal or interest is not expected or upon which principal or interest has been in default for a period of 90 days or more unless the asset is both well secured and in the process of collection. The instructions define "in the process of collection" as an asset that is proceeding in due course either (1) through legal action, including judgment enforcement procedures, or (2) in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or its restoration to a current status in the near future.

The Office of the Comptroller of the Currency in the form of their updated Bank Accounting Advisory Series[4] provides updated guidance on this issue which has evolved over time. It currently states that, while a 30-day period is intended as a benchmark, each loan must be evaluated separately when determining whether it should be considered "in the process of collection". It goes on to state that when the timing and amount of repayment is reasonably certain, a collection period of greater than 30 days can be considered.

It has been Management's experience, as well as that of other banks in the industry, that the interpretation by regulators of the "well secured and in the process of collection" threshold can be very subjective and inconsistently applied. The Bank's primary source of collateral is commercial real estate and the expected liquidation cycle typically runs well in excess of 30 days. In addition, liquidation processes for this type of collateral can be complex and while the net fair value of the collateral is often significantly in excess of amounts due, the ultimate timing and amount of repayment can be subject to some level of uncertainty throughout. This subjectivity and uncertainty with regard to interpretation of this principal has led Management to historically adopt a conservative approach and place all loans on nonaccrual for regulatory accounting purposes when they become greater than 90 days past due and to apply all cash payments received for interest while a loan is on nonaccrual against principal.

This approach 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 this does not properly match revenue to expenses and creates earnings volatility.

This difference in methods between GAAP and regulatory accounting for loans greater than 90 days past due primarily impacts two areas. It impacts the decision process for when the Bank should stop accruing interest income and it impacts 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, 2019

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

TABLE 1: IMPACT OF REVENUE RECOGNITION: NONACCRUAL LOANS

		(A) Interest Not Accrued				(B) Cash Basis Payments Received		
Year ended:		Annual Change		Cumulative		Annual Change		Cumulative
September 30, 2012 (C)	$	289,000	$	289,000	$	-	$	-
September 30, 2013	$	86,000	$	375,000	$	3,000	$	3,000
September 30, 2014	$	(235,000)	$	140,000	$	280,000	$	283,000
September 30, 2015	$	123,000	$	263,000	$	647,000	$	930,000
September 30, 2016	$	(83,000)	$	180,000	$	(31,000)	$	899,000
September 30, 2017	$	14,000	$	194,000	$	(261,000)	$	638,000
September 30, 2018	$	(66,000)	$	128,000	$	(3,000)	$	635,000
September 30, 2019	$	129,000	$	257,000	$	202,000	$	837,000

(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 purposes.*

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

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

Management has made the determination that, to date, 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 either the shareholder or regulatory financial statements but, in Management's opinion, meets the GAAP threshold for revenue recognition.

In 2019 the Bank deferred recording $129,000 into interest income related to this issue. A cumulative amount of $257,000 of unrecorded interest income remained as of September 30, 2019. 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.

The deferral of income recognition creates pressure on capital and earnings. As indicated in Chart #7 the spread between the balance of loans on nonaccrual and the balance of loans with measured impairment has widened in 2019. This is an indicator that this income recognition variance could increase. Management will continue to monitor the materiality of this issue on the financial statements and would consider a change to its GAAP income recognition method in future periods if the cumulative amount of this difference becomes material.

Column (B) in Table 1 represents the annual change and cumulative amount of cash basis payments for interest that have been received for nonaccrual loans and recorded into interest income by the Bank. In Management's opinion, these cash payments are for loans that are well secured and in the process of collection and meet the collectability threshold as defined in GAAP. The subjectivity in the regulatory guidance for determining the collectability threshold also applies in this instance. Because of this uncertainty, Management has elected, for regulatory accounting purposes, to be conservative and apply all cash payments received for interest on loans in nonaccrual status as a reduction to the principal balance.

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

To maintain transparency for the users of the financial statements the results of both methods, and a description of the differences, is presented in ***Note 23 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, 2019 there was deferred recognition of interest income in the amount of $202,000 to the regulatory financial statements. Cumulatively, as of September 30, 2019, there was $837,000 of deferred income recognition, for regulatory reporting purposes, on cash payments received for loans that Management considers well secured and in the process of collection. These amounts have been recorded into income, on the Bank's shareholder financial statements, in the periods received.

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

Through September 30, 2019, 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 of Loan Losses ("ALLL")

For the year ended September 30, 2019, the Bank recorded a negative loan loss provision in the amount of $109,000. This was a $169,000 decrease over the negative provision of $278,000 recorded in the prior year.

At September 30, 2019, the Bank's ALLL had a balance of $802,000, which was a decrease of $94,000 from the prior year end. The Bank's ratio of ALLL to Total Loans was 31 bps at September 30, 2019, which is a 6 bps decrease from the prior year. In 2019, the Bank recorded net recoveries of approximately $15,000. In the prior year, the Bank had recorded charge-offs, net of recoveries, of $84,000. This continues a positive trend of net loan losses as illustrated in Chart #2.

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

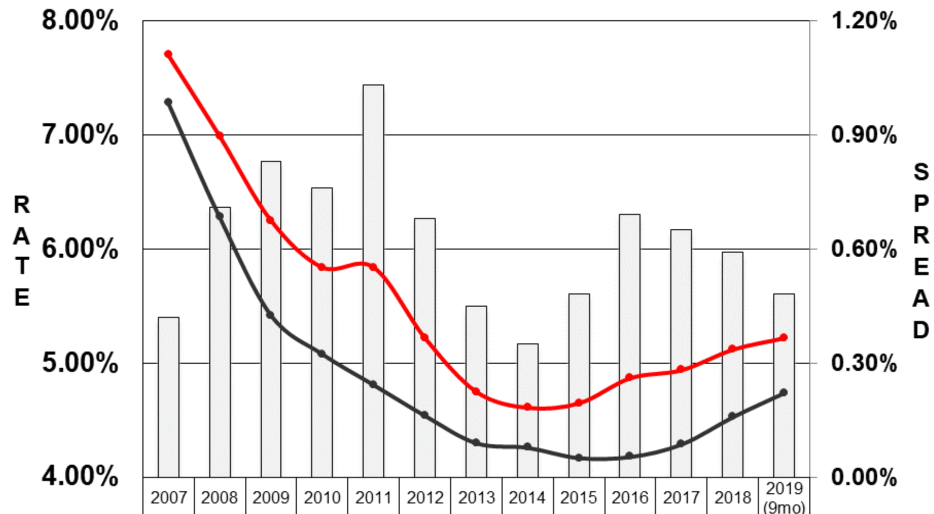
Interest Rate Premium

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

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

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

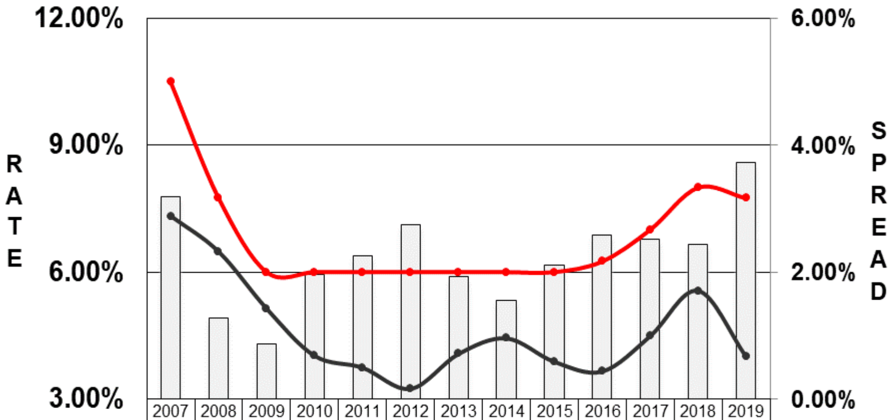
CHART #8
INTEREST INCOME TO AVERAGE EARNING ASSETS
(Spread to Peer)



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 (9mo)
Spread	0.42%	0.71%	0.83%	0.76%	1.03%	0.68%	0.45%	0.35%	0.48%	0.69%	0.65%	0.59%	0.48%
Bank	7.70%	6.99%	6.25%	5.84%	5.84%	5.22%	4.75%	4.61%	4.65%	4.87%	4.94%	5.12%	5.22%
Peer	7.28%	6.28%	5.42%	5.08%	4.81%	4.54%	4.30%	4.26%	4.17%	4.18%	4.29%	4.53%	4.74%

Management quantifies the yield premium available in the marketplace versus conventional risk lending by monitoring two benchmark rates. The benchmark rate that most closely correlates to the level of risk in the Bank's loan portfolio is the maximum rate allowable by the Small Business Administration ("SBA") for loans of similar term. For the Bank, that rate is Prime plus 275 basis points. The benchmark rate that most closely correlates to conventional risk lending for similar terms is the 5 year swap rate plus 250 basis points.

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



	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Spread	3.18%	1.27%	0.86%	1.97%	2.25%	2.75%	1.93%	1.56%	2.11%	2.59%	2.51%	2.44%	3.73%
SBA Max Rate	10.50	7.75%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.25%	7.00%	8.00%	7.75%
Conv. Rate	7.32%	6.48%	5.14%	4.03%	3.75%	3.25%	4.07%	4.44%	3.89%	3.66%	4.49%	5.56%	4.02%

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

The benchmark spread began to expand back towards historical levels as rates began to rise in 2016. While initially this expansion in market premium led to an increase in the Bank's return versus its peer group, the opposite has actually occurred in the past couple of years. This is due primarily to the Bank's RM team shifting more toward the SBA's 504 loan program and away from traditional SBA 7A funding.

Under SBA 7A funding, the Bank is protected from loss via a government guarantee of a portion of the loan balance, typically 75-90%. In this scenario, the Bank still carries a portion of the loss exposure, as well as having added overhead costs for administration and compliance with the SBA program. The risk retained by the Bank along with the overhead costs for administration supports the higher rate of return.

Under the SBA 504 loan program the Bank typically carries a first position on real estate with a loan to value typically in a range of at or below 50%. This effectively eliminates the Bank's risk of loss on the loan. The reduction in risk along with reduced administration and compliance results in a return on the asset that more closely correlates to conventional financing.

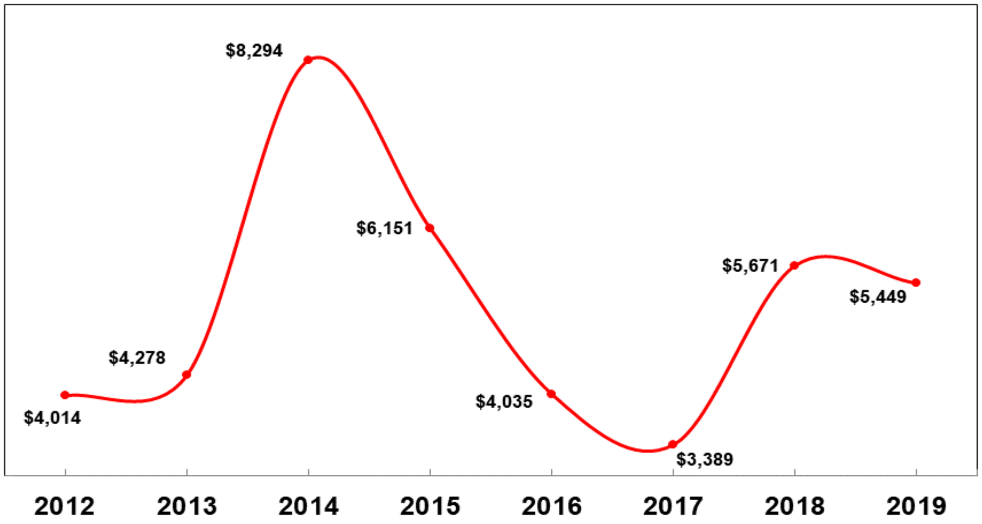
While this shift to 504 financing is a positive in terms of overall risk of loss within the portfolio, long term it creates an issue as the margin of return on the asset is not sufficient to support the fixed overhead in place to service a portfolio with a higher concentration of 7A loans. As highlighted in the chart, this erosion in spread to peer will be an area of focus for Management going 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 coordination of all areas of expertise within the Bank to assist with liquidation activities. This includes bringing together expertise in property management, real estate brokerage, construction, valuation, legal, accounting and the RM team. This team effort serves to minimize holding periods and maximize the realization upon sale versus appraised values. Continued refinement of liquidation processes and an overall strengthening in the local real estate market have worked in tandem over the past several years to minimize the size of the real estate portfolio and, as a result, the annual holding costs.

Chart #10 illustrates the Bank's historical balance of real estate owned since 2012. The portfolio decreased $222,000, or 4%, in 2019. As illustrated in the chart, this balance remains below peak levels and continues to fluctuate within a tolerable range. Because the Bank emphasizes commercial real estate collateral, individual properties often can have large fair market values. The foreclosure or sale of a small number of properties in any given year can often lead to a large fluctuation in the overall portfolio balance. This can be seen in the volatility of the historical balances in Chart #10.

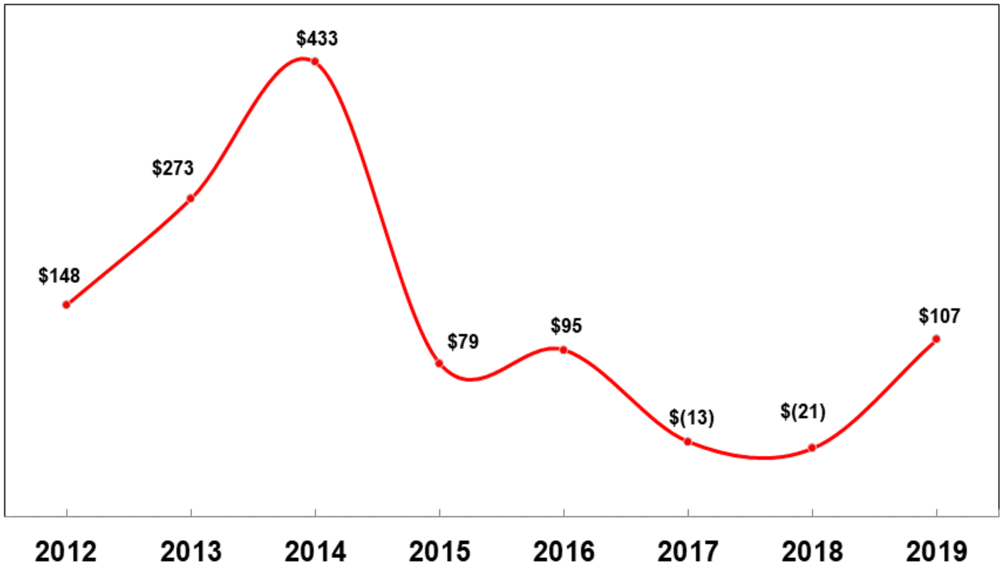
CHART #10
Foreclosed Real Estate
($ in thousands)



In 2019, the Bank realized aggregate net gains of $70,000 on the sale of real estate versus aggregate net gains of $56,000 in 2018. The continued absence of any material gains or losses on the sale of real estate is an indicator that sales prices have closely correlated to current appraised values and that discounting in order to reduce the size of the portfolio is not occurring. Since 2013 the Bank has realized approximately 97% of the current appraised values when selling foreclosed properties.

The fair market value of properties held in the real estate portfolio are evaluated on at least an annual basis and, if necessary, a valuation allowance is recorded through a charge to net income. In 2019, the Bank recorded aggregate valuation losses in the amount of $49,000 on an average portfolio balance of approximately $5.6 million. This was a decrease in recorded losses of $127,000 versus the prior year.

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



In 2019, the costs to carry foreclosed real estate increased $19,000 over the prior year to a total of $262,000. Rental income from properties in the portfolio decreased $107,000 to a total of $155,000. This was due to three properties being sold out of the portfolio which contributed a large portion of rental income. Chart #11 illustrates the historical trend in direct costs to hold and maintain foreclosed real estate. As illustrated in the chart, carrying expenses, net of income were $107,000 which remains well within a tolerable range given the Bank's underwriting philosophies.

It is important to note that this chart illustrates direct holding costs only. There is also a payroll cost component for managing and maintaining these properties that is included in Bank management and administrative wages. The personnel costs for managing and maintaining the real estate portfolio are generally fixed and have remained stable with no significant increases in 2019.

Liquidity and Funding

Total cash and equivalents increased $10.2 million to a balance of $31.8 million at September 30, 2019. The Bank's balance of cash and equivalents is based on its liquidity modeling process which accounts for anticipated fluctuations in customer balances, projected needs for loan funding commitments and reserves for other anticipated risk factors. The timing of maturities and issuances of brokered certificates of deposit also can cause large fluctuations in the balance of cash and equivalents at the end of any given period.

In addition to its cash and equivalent balances, the Bank maintains several off balance sheet sources of liquidity. This includes established and tested borrowing bases with the Federal Home Loan Bank ("FHLB") and the Federal Reserve Discount Window. As of September 30, 2019, the Bank had pledged a combined total of $187 million in collateral to support an aggregate borrowing capacity of $134 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, 2019 the Bank had total FHLB advances outstanding in the amount of $75.2 million, this is an increase of $25.2 million versus the prior year.

Cost of Funds

Total interest expense for the Bank increased $1.5 million to a total of $5.3 million in 2019. This increase outpaced similar increases in the Bank's yield on earning assets and served to limit the positive impact of loan growth in 2019. There were multiple factors that contributed to the increase in the Bank's cost of funds. This includes an increase in the balance of funding to support asset growth, continued upward repricing of the Bank's time deposits and the impact of the Bank's Simplicity pricing strategy.

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

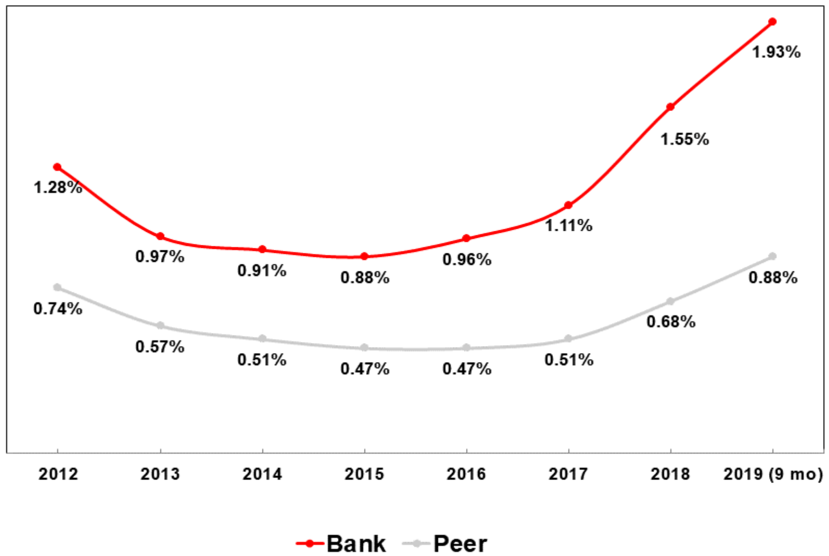


Chart #12 illustrates the Bank's Interest Expense to Average Earning Assets from 2012 to present. This chart highlights the increasing spread between the Bank's cost of funds and its peer group since 2016. In April 2016, Management implemented a new pricing philosophy on its transactional deposit accounts. This strategy was developed in response to building pressure for the Bank to reduce its reliance on wholesale funding, as scrutiny on its use of brokered deposits continued.

The new program was designed to counter prevailing pricing strategies in the marketplace, where new depositors are given attractive teaser rates for an introductory period and loyal customers are relegated to lower rate tiers, unless they proactively monitor and convert their accounts to the new products. Enterprise was founded on the concept of building a relationship and becoming a trusted advisor to its customers. Management wanted to build on that trust through transparent pricing on its deposit products that would treat all customers equally. This resulted in the implementation of the Bank's Simplicity checking product which provides a stable rate of interest on transactional deposits tied to an established money market index. All customers receive the same rate of return. In order to induce growth, the spread to index was set such that the Bank's rates would be at or near top of market.

Management has been disappointed in the outcome since this change was implemented. In order for this strategy to be effective, it needs to generate deposit growth sufficient enough to allow the Bank to reduce its reliance on higher cost wholesale funding and at minimum offset the cost of the product. However, much of the growth in transactional deposit since the implementation of this program directly correlates to the Bank's loan portfolio growth during the same period and therefore has not materially decreased the Bank's usage of wholesale funding sources. As a result, the decision was made to reduce the spread to index on this product over time to bring the Bank's rates on this product more in line with its peers in the local marketplace. This transition began in the fourth quarter of 2019 and will be fully phased in by the second quarter of 2020.

Wholesale Funding

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

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

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

Overhead and Efficiency

Total other operating expenses increased approximately $538,000, or 6%, to $10 million in 2019 from $9.5 million in 2018. While the core fixed operating overhead of the Bank remained stable, the increase in other operating expenses can be attributed to a few specific factors.

Total operating expenses for the Bank's subsidiary Enterprise Insurance services increased $248,000 year over year. This was offset by an increase in revenue of approximately $346,000 for the same period. The increase in revenue is classified as Other Operating Income. Please refer to Note 12 of the financial statements for a table detailing the components of Other Operating Income. The subsidiary provides real estate settlement and title insurance services as well as consulting for the purchase of commercial property, casualty and employee benefit insurance policies. In 2018 the subsidiary expanded its product offering to include residential settlement and title services. Up to that point, the company's focus was primarily on commercial services. The Bank increased its investment in this subsidiary, beginning in 2018, in order to build the infrastructure necessary to support this new product line. This included hiring the personnel to manage, develop and service the business as well as upgrading technology for administrative support. In 2019, the subsidiary was able to achieve profitability and it is now well positioned for future revenue growth.

Total operating expenses for the Bank's subsidiary Kuzneski & Lockard, Inc. increased $239,000 year over year. This was offset by an increase in revenue of approximately $337,000 for the same period. The increase in revenue is classified as Other Operating Income. Please refer to Note 12 of the financial statements for a table detailing the components of Other Operating Income. In 2019 Kuzneski & Lockard, entered into a franchise agreement with Howard Hanna Real Estate, Inc.

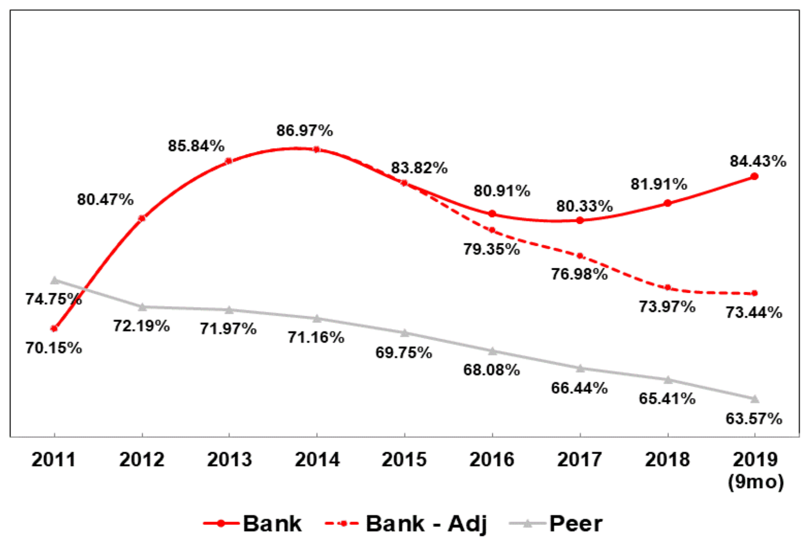
This partnership will allow Kuzneski & Lockard to strengthen its presence in the Indiana, PA market area as well as expand into other markets in Western Pennsylvania. Expense increased included costs associated with the conversion to the Howard Hanna brand as well as for personnel and facilities associated with expansion to other markets. Other expenses included variable costs associated with an increase in commission revenue for the year. In 2019, the subsidiary was able to achieve profitability and is well positioned for future revenue growth.

Bank legal and accounting services increased $321,000 versus the prior year. This is due primarily to an increase in corporate legal expense of $237,000 year over year. This increase is attributable to the Bank's cost to defend two ongoing lawsuits. A portion of this expense, approximately $80,000 is attributable to prior years. In 2019, the Bank was reimbursed for the amount of fees covered by its insurance carrier and any remainder was expensed. This amount was not deemed to be material to the financial statements and therefore no restatement of prior years was necessary. The Bank continues to defend against these suits and believes it will ultimately prevail. However any future costs to defend will be expensed as incurred. The remaining contributor to the increase in this expense category was normal fluctuation in the timing of expense versus recovery for legal expenses related to loan collection. The Bank expenses legal fees for collection as incurred, but had an elevated number of recoveries in 2018. These recoveries inflated the variance when comparing to 2019.

The Bank's efficiency ratio is a primary indicator used by Management to monitor the Bank's utilization of its fixed operating overhead. In 2013, the Bank expanded its facility and added personnel, technology and other infrastructure in order to increase capacity and prepare for future growth. While this initially increased the Bank's efficiency ratio and widened its spread to peer, it was anticipated that the ratio would be brought back into line as the Bank used this new capacity to grow its loan portfolio. The starting point of this projected growth was delayed initially, in fiscal years 2013 through 2015, as the Bank focused on building capital in order to comply with the new Basel III regulatory capital rules. Loan growth resumed 2016 and has continued through the current year (See Chart #5).

Chart #13 compares the Bank's efficiency ratio to its peer group from 2011 through the first nine calendar months of 2019 (annualized). This chart highlights that there have been other factors diluting the impact of increased revenue from loan growth on earnings and the efficiency ratio. The most material of these items is the core deposit pricing strategy highlighted earlier in this discussion. This strategy was implemented to increase local market deposits and reduce reliance on wholesale funding. The increase in rates associated with this program has led to an elevated cost of funds. This has resulted in a dilution to earnings over the past several years and has negatively impacted the Bank's efficiency ratio. To highlight the degree of impact to the ratio, Chart #13 includes a line (Bank - Adj) showing an estimate of the efficiency ratio had this deposit pricing program not been implemented.

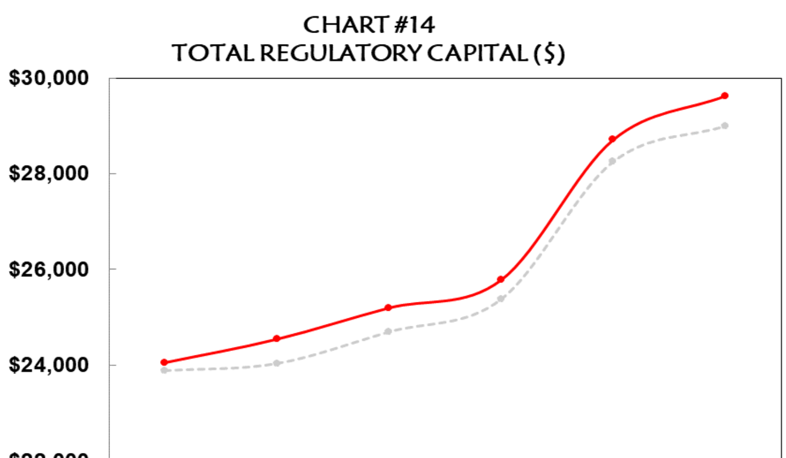
CHART #13
Efficiency Ratio (%)
(Calendar Year)



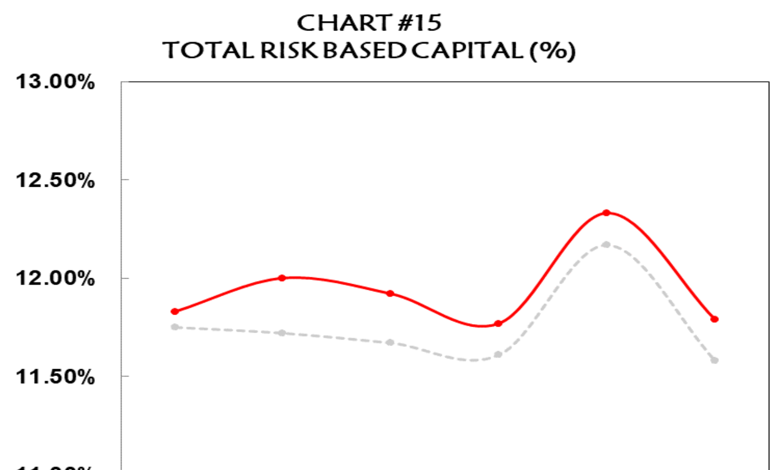
Another consideration when analyzing the Bank's efficiency ratio is the investment in its wholly-owned subsidiaries. This investment is unique to the peer group in that it is weighted towards service oriented businesses. This adds fixed personnel and infrastructure costs that are over and above that of typical bank operations. Management has significantly increased the level of investment in the real estate agency and insurance services subsidiaries over the past two years. Both of these businesses have achieved profitability in 2019 and each are now well positioned with key personnel in place and the capacity to grow significantly in future years. The revenue generated from this growth will ultimately justify the investment and contribute to bringing the efficiency of the consolidated organization back in line with peer.

Regulatory Capital

Chart #14 illustrates the Bank’s Total Regulatory Capital ($) balances since 2014 and Chart #15 illustrates the Bank’s Total Risk Based Capital ratio (%) for the same periods. These charts indicate both Total Capital as reported in the Bank’s shareholder financial statements and Total Capital as reported on the regulatory Call Reports. Please refer to Note 23 of the financial statements for additional detail of this difference.
Regulatory capital, as reported on the Bank's call report, increased $746,000 in 2019. The increase in capital represents 2019 net income less preferred stock dividends of $450,000 and dividends paid to shareholders of $238,000. The preferred stock dividend represents a 9% dividend on the average outstanding preferred stock balance and the shareholder dividend represents an annual dividend of $0.21 per outstanding share of common stock.



	2014	2015	2016	2017	2018	2019
GAAP	$24,052	$24,543	$25,198	$25,779	$28,715	$29,632
Regulatory	$23,886	$24,035	$24,697	$25,377	$28,255	$29,001



	2014	2015	2016	2017	2018	2019
GAAP	11.83%	12.00%	11.92%	11.77%	12.33%	11.79%
Regulatory	11.75%	11.72%	11.67%	11.61%	12.17%	11.58%

The Bank's Total Risk Based Capital ratio, as reported on the Bank's call report, decreased 54 basis points. The decrease is due to a combination of factors including loan portfolio growth, unfunded commitments to grant loans, the increase in loans on nonaccrual status, and earnings.

As highlighted earlier in this discussion, the balance of nonaccrual loans, while not a major indicator of losses, does have a negative impact on the Bank's regulatory capital ratios. This is because the portion of loans on nonaccrual status that are not backed by a government guarantee, are risk weighted at 150%. Also highlighted in this discussion are various factors that have limited the impact of growth in the loan portfolio on bottom line earnings. This includes the Bank's elevated cost of funds, regulatory accounting rules for non-performing loans and other higher than normal operating expenses. These factors place a limitation on the amount the Bank can grow while remaining within its regulatory capital requirements.

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. Please refer to Notes 20 and 23 for additional detail and disclosure on the capital calculations. The Board has set internal requirements for regulatory capital that are above well capitalized limits 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, 2019, the Bank's capital ratios are all in excess of the Board's internal requirements. In future years, Management will continue to manage the amount and timing of asset growth with a close eye on capital and requirements. This includes close monitoring of the level of loan growth, unfunded commitments, non-performing loan balances and expense management.

Crowe

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Enterprise Financial Services Group, Inc., which comprise the consolidated statements of financial condition as of September 30, 2019 and 2018, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Financial Services Group, Inc. as of September 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cleveland, Ohio
June 23, 2020

Crowe LLP

Crowe LLP

Assets

	September 30, 2019	September 30, 2018
Cash and due from banks	$ 614,090	$ 998,380
Cash on deposit with Federal Reserve Bank	30,726,989	20,083,377
Interest bearing deposits with banks	424,380	453,226
Cash and Cash Equivalents	31,765,459	21,534,983
Loans receivable	258,846,410	243,279,120
Allowance for loan losses	(801,587)	(896,235)
Net loans	258,044,823	242,382,885
Accrued interest receivable	802,867	754,655
Premises and equipment, net	8,512,124	8,747,423
Restricted investments in bank stock	3,156,000	2,136,600
Other assets (See Note 8)	8,895,799	9,954,231
Total Assets	**$ 311,177,072**	**$ 285,510,777**

See Notes to Consolidated Financial Statements

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2019	September 30, 2018
LIABILITIES		
Non-interest bearing deposits	$ 3,046,125	$ 2,331,543
Interest bearing deposits	201,207,279	203,352,249
Total Deposits	204,253,404	205,683,792
Borrowings	75,396,500	50,115,000
Accrued interest payable	539,350	386,473
Accrued expenses and other liabilities	2,265,787	1,643,428
Total Liabilities	**282,455,041**	**257,828,693**
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, 2019 and 2018 with a liquidation value of $1,000 per share	5,000,000	5,000,000
Common stock, par value $.50; authorized 9,846,555 shares; 1,200,320 issued at September 30, 2019 and 2018, respectively	600,160	600,160
Additional paid-in capital	13,628,506	13,628,506
Retained earnings	10,033,067	8,993,120
Treasury stock, cost (65,800 shares at September 30, 2019 and 2018)	(568,429)	(568,429)
Total Enterprise Financial Services Group, Inc. Stockholders' Equity	28,693,304	27,653,357
Noncontrolling Interest	28,727	28,727
Total Stockholders' Equity	**28,722,031**	**27,682,084**
Total Liabilities and Stockholders' Equity	**$ 311,177,072**	**$ 285,510,777**

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

	Years Ended September 30,	
	2019	2018
INTEREST INCOME		
Interest and fees on loans	$ 13,923,193	$ 12,662,466
Interest on Federal Reserve balances	576,965	344,415
Other interest and dividend income	217,304	143,987
Total Interest Income	**14,717,462**	**13,150,868**
INTEREST EXPENSE		
Interest on deposits	3,869,141	2,764,120
Interest on borrowings	1,382,536	994,362
Total Interest Expense	**5,251,677**	**3,758,482**
Net Interest Income	**9,465,785**	**9,392,386**
PROVISION FOR (CREDIT FROM) LOAN LOSSES	**(109,399)**	**(277,908)**
Net Interest Income after Provision for Loan Losses	**9,575,184**	**9,670,294**
OTHER OPERATING INCOME		
Service charges on deposit accounts	428,150	350,296
Other fee revenue (See Note 12)	2,286,496	1,773,944
Gain (loss) on sale of foreclosed real estate	69,848	55,515
Loss on valuation of foreclosed real estate	(48,531)	(176,040)
Total Other Operating Income	**2,735,963**	**2,003,715**
OTHER OPERATING EXPENSES		
Salaries and employee benefits (See Note 13)	4,852,521	4,884,030
Occupancy	486,384	450,567
Furniture and office equipment	311,490	442,420
Data processing and computer equipment	749,473	653,921
FDIC insurance expense	305,218	395,371
Other (See Note 14)	3,331,366	2,672,002
Total Other Operating Expenses	**10,036,452**	**9,498,311**
Income Before Income Taxes	**2,274,695**	**2,175,698**

See Notes to Consolidated Financial Statements

	Years Ended September 30,	
	2019	2018
INCOME TAX EXPENSE	**546,499**	**548,424**
Net Income	**1,728,196**	**1,627,274**
Preferred stock dividends	450,000	450,000
Net Income Attributable to Common Stockholders	**$ 1,278,196**	**$ 1,177,274**

See Notes to Consolidated Financial Statements

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-Controlling Interest	Total Stockholders' Equity
BALANCE AT SEPTEMBER 30, 2017	**$ 5,000,000**	**$ 475,892**	**$ 9,805,047**	**$ 7,815,846**	**$ (568,429)**	**$ 28,727**	**$22,557,083**
Cash Dividends Paid on Preferred Stock ($90.00 per share)	-	-	-	(450,000)	-	-	(450,000)
Private Stock Offering (248,536 shares at $16.00 per share, net of expenses to issue)	-	124,268	3,823,459	-	-	-	3,947,727
Net income	-	-	-	1,627,274	-	-	1,627,274
BALANCE AT SEPTEMBER 30, 2018	**5,000,000**	**600,160**	**13,628,506**	**8,993,120**	**(568,429)**	**28,727**	**27,682,084**
Cash Dividends Paid on Preferred Stock ($90.00 per share)	-	-	-	(450,000)	-	-	(450,000)
Cash Dividends Paid on Common Stock ($0.21 per share)	-	-	-	(238,249)	-	-	(238,249)
Net income	-	-	-	1,728,196	-	-	1,728,196
BALANCE AT SEPTEMBER 30, 2019	**$ 5,000,000**	**$ 600,160**	**$ 13,628,506**	**$10,033,067**	**$ (568,429)**	**$ 28,727**	**$28,722,031**

See Notes to Consolidated Financial Statements

	Years Ended September 30, 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,728,196	$1,627,274
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (credit from) loan losses	(109,399)	(277,908)
(Gain) on sale of foreclosed real estate	(69,848)	(55,515)
Valuation loss on foreclosed real estate	48,531	176,040
Amortization of deferred loan fees and costs, net	118,888	147,173
Depreciation of premises and equipment	657,448	699,186
Loss on disposition of premises and equipment	44,514	70,205
Decrease in deferred tax asset	30,757	18,100
(Increase) in accrued interest receivable	(48,212)	(111,711)
Decrease (Increase) in other assets	811,811	(1,240,202)
Increase in other liabilities	619,683	1,174,518
Increase in accrued interest payable	152,877	132,063
Net Cash Provided by Operating Activities	3,985,246	2,359,223
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments in bank stock	(1,099,400)	(80,800)
Sale of restricted investments in bank stock	80,000	140,000
Net increase in loans	(17,576,076)	(13,326,403)
Purchases of premises and equipment	(686,030)	(227,016)
Proceeds from the sale of premises and equipment	219,367	-
Additional investment in foreclosed real estate	(310,195)	(118,765)
Proceeds from the sale of foreclosed real estate	2,454,701	388,892
Net Cash Used by Investing Activities	(16,917,633)	(13,224,092)

See Notes to Consolidated Financial Statements

	Years Ended September 30, 2019	2018
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	$ (1,430,388)	$ 7,894,216
Dividends paid	(688,249)	(450,000)
Proceeds from private stock offering	-	2,092,727
Proceeds from borrowings	27,281,500	2,000,000
Repayment on borrowings	(2,000,000)	(3,500,000)
Net Cash Provided by Financing Activities	23,162,863	8,036,943
Net Increase (Decrease) in Cash and Cash Equivalents	10,230,476	(2,827,926)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	21,534,983	24,362,909
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 31,765,459	$ 21,534,983
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	$ 5,098,800	$ 3,626,419
Income tax paid	$ 455,815	$ 340,542
NON-CASH INVESTING TRANSACTIONS		
Loans transferred to foreclosed real estate	$ 2,035,850	$ 3,557,218
Loans to facilitate sales of foreclosed real estate	$ 131,200	$ 871,061
NON-CASH FINANCING TRANSACTIONS		
Redemption of Junior Subordinated Debentures to Common Stock	$ -	$ 1,855,000

See 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.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses

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

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

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

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

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

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 $48,531 and $176,040 for the years ended September 30, 2019 and 2018, respectively. There were no gains recorded upon foreclosure of real estate for the year ended September 30, 2019 and September 30, 2018.

The Bank held foreclosed real estate with an aggregate carrying value, net of valuation allowance, of $5,448,748 and $5,671,195 at September 30, 2019 and 2018, respectively, which is included in other assets.

The Bank had a recorded investment in loans of $531,098 and $483,353 at September 30, 2019 and 2018, 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.

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.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2019 and 2018 was $95,602 and $84,296, 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.

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.

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, 2019 and 2018 was $972,000 and $813,000, respectively. The Federal Reserve Bank paid interest on required reserve and excess balances during the years ended September 30, 2019 and 2018. The Bank had interest bearing balances with the Federal Reserve of $30,726,989 and $20,083,377 at September 30, 2019 and 2018, 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, 2019 and 2018 as follows:

	2019	2018
Federal Home Loan Bank stock	$ 3,126,000	$ 2,106,600
Atlantic Community Bankers Bank stock	30,000	30,000
	$ 3,156,000	$ 2,136,600

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.

NOTE 4 – LOANS RECEIVABLE

The composition of the Bank's loan portfolio at September 30, 2019 and 2018 is as follows:

	2019	2018
Real estate:		
Construction and land development	$ 10,764,453	$ 10,398,736
Mortgage:		
Residential	15,632,964	15,402,801
Commercial	197,416,987	186,914,037
Commercial and industrial loans	34,333,105	29,939,812
Consumer loans	72,122	35,752
Other	4,703	8,785
Total	258,224,334	242,699,923
Unamortized deferred loan fees and origination costs, net	622,076	579,197
	258,846,410	243,279,120
Less allowance for loan losses	(801,587)	(896,235)
Net loans	**$ 258,044,823**	**$ 242,382,885**

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, 2019, 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 $47,989,096, $19,466,074 and $31,064,569, 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.

The following is a detail of the Bank's loans, classified by delinquent status, at September 30, 2019 and 2018 along with the value of risk mitigation programs in place to limit the Bank's exposure to loss from these loans:

September 30, 2019		**Days Past Due and Accruing**			**Past Due and**		**Total Loans**
	Current	**30-59**	**60-89**	**90+**	**Accruing Total**	**Nonaccrual**	**Receivable**
Real Estate:							
Construction and land development	$ 10,764,453	$ -	$ -	$ -	$ -	$ -	$ 10,764,453
Mortgage:							
Residential	14,359,836	-	-	-	-	1,273,128	15,632,964
Commercial	182,820,528	1,688,313	2,302,991	-	3,991,304	10,605,155	197,416,987
Commercial and industrial loans	31,512,559	5,333	405,029	-	410,362	2,410,184	34,333,105
Consumer loans	72,122	-	-	-	-	-	72,122
Other	4,703	-	-	-	-	-	4,703
	239,534,201	1,693,646	2,708,020	-	4,401,666	14,288,467	258,224,334
Total							
Less government guaranteed portion	34,455,615	2,666	314,210	-	316,876	4.221.107	38,993,598
SBA 504 financing (1)	10,400,261	-	-	-	-	-	10,400,261
Net after SBA credit enhancements	**$ 194,678,325**	**$ 1,690,980**	**$ 2,393,810**	**$ -**	**$ 4,084,790**	**$ 10,067,360**	**$ 208,830,475**

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

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

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

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

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, 2019 and 2018.

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, 2019 and 2018. Generally, loans that are internally risk rated between 1 and 5 are collectively evaluated for impairment and loans with a risk grade of 6 are individually evaluated for impairment.

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

September 30, 2019

	Real Estate Residential	Real Estate Commercial	Construction	Commercial & Industrial	Consumer	Other	Total
Loans							
Individually evaluated for impairment (all 6 rated loans)	$ 531,098	$ 10,055,328	$ -	$ 2,699,609	$ -	$ -	$ 13,286,035
Troubled debt restructured with risk rating of 1-5	1,544,343	10,639,386	-	1,943,000	-	-	14,126,729
Collectively evaluated for impairment (all other rated 1-5)	13,557,523	176,722,273	10,764,453	29,690,496	72,122	4,703	230,811,570
Total Loans	**$ 15,632,964**	**$ 197,416,987**	**$ 10,764,453**	**$ 34,333,105**	**$ 72,122**	**$ 4,703**	**$ 258,224,334**
Related Allowance							
Individually evaluated for impairment (all 6 rated loans)	$ 33,128	$ 287,690	$ -	$ 152,759	$ -	$ -	$ 473,577
Troubled debt restructured with risk rating of 1-5	29,317	-	-	-	-	-	29,317
Collectively evaluated for impairment (all other rated 1-5)	10,735	190,147	5,188	91,834	789	-	298,693
Total Allowance	**$ 73,180**	**$ 477,837**	**$ 5,188**	**$ 244,593**	**$ 789**	**$ -**	**$ 801,587**

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2018

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Transactions in the allowance for loan losses for the years ended September 30, 2019 and 2018 are summarized as follows:

September 30, 2019

	Residential Mortgage	Commercial Mortgage	Construction & Land Development	Commercial & Industrial	Consumer	Total
Allowance for credit losses:						
Beginning Balance	$ 66,331	$ 365,075	$ 9,575	$ 454,360	$ 894	$ 896,235
Provision for (credit from) loan losses	6,399	100,822	(4,387)	(212,128)	(105)	(109,399)
Recoveries of previously charged off loans	450	35,188	-	2,361	-	37,999
Charge-offs	-	(23,248)	-	-	-	(23,248)
Ending Balance	**$ 73,180**	**$ 477,837**	**$ 5,188**	**$ 244,593**	**$ 789**	**$ 801,587**

September 30, 2018

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

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, 2019 and 2018 are as follows:

September 30, 2019

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Real Estate:							
Construction and land development	$ -	$ -	$ 10,024,666	$ 739,787	$ -	$ -	$ 10,764,453
Mortgage:							
Residential	1,176,022	1,424,028	10,035,822	2,352,197	517,936	126,959	15,632,964
Commercial	21,838,051	7,791,258	100,566,176	46,942,617	10,802,048	9,476,837	197,416,987
Commercial and industrial loans	17,338,724	660,556	7,601,994	7,305,074	861,458	565,299	34,333,105
Consumer loans	22,641	-	-	49,481	-	-	72,122
Other	4,703	-	-	-	-	-	4,703
Total	**$ 40,380,141**	**$ 9,875,842**	**$128,228,658**	**$ 57,389,156**	**$ 12,181,442**	**$ 10,169,095**	**$ 258,224,334**

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2018

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

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, 2019 and 2018:

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, 2019

	Impaired Loans Credit Risk Grade 6 with Specific Allowance		Impaired Loans Grade 6 with no Specific Allowance	Troubled Debt Restructured With Risk Grade 1 through 5		Restructured with no Specific Allowance	Total Impaired Loans		
	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal Balance	Average Investment In Impaired Loans	Interest Income Recognized on Impaired Loans
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage									
Residential	531,098	33,128	-	717,841	29,317	826,502	2,075,441	2,030,209	22,286
Commercial	908,972	287,690	9,146,356	-	-	10,639,386	20,694,714	17,706,171	887,633
Commercial and industrial loans	2,295,901	152,759	403,708	-	-	1,943,000	4,642,609	4,316,147	172,720
Consumer loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	$ 3,735,971	$ 473,577	$ 9,550,064	$ 717,841	$ 29,317	$ 13,408,888	$ 27,412,764	$ 24,052,527	$ 1,082,639

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

September 30, 2018

	Impaired Loans Credit Risk Grade 6 with Specific Allowance		Impaired Loans Grade 6 with no Specific Allowance	Troubled Debt Restructured With Risk Grade 1 through 5		Restructured with no Specific Allowance	Total Impaired Loans		
	Unpaid Principal	**Related Allowance**	**Unpaid Principal**	Unpaid Principal	**Related Allowance**	**Unpaid Principal**	**Unpaid Principal Balance**	**Average Investment In Impaired Loans**	**Interest Income Recognized on Impaired Loans**
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage									
Residential	533,808	30,718	-	830,184	22,019	423,959	1,787,951	1,345,359	40,047
Commercial	1,886,686	74,925	5,602,390	-	-	8,897,775	16,386,851	16,118,717	558,008
Commercial and industrial loans	1,885,987	194,231	80,323	659,500	121,290	835,006	3,460,816	2,855,984	113,613
Consumer loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	$ 4,306,481	$ 299,874	$ 5,682,713	$ 1 ,489,684	$ 143,309	$ 10,156,740	$ 21,635,618	$ 20,320,060	$ 711,668

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, 2019 and 2018:

Troubled Debt Restructurings:

	Number of Contracts	Pre-Modification Outstanding Principal, Net	Post-Modification Outstanding Principal, Net
Year ended September 30, 2019			
Real Estate – Residential	**2**	$ 1,316,854	$ 1,316,854
Real Estate - Commercial	**7**	5,186,707	5,186,707
Commercial & Industrial	**6**	3,096,409	3,096,409
Total	**15**	$ 9,599,970	$ 9,599,970
Year ended September 30, 2018			
Real Estate – Residential	**-**	$ -	$ -
Real Estate – Commercial	**6**	3,999,021	3,999,021
Commercial & Industrial	**6**	1,833,997	1,833,997
Total	**12**	$ 5,833,018	$ 5,833,018

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following summarizes loan modifications that are classified as TDRs for the years ended September 30, 2019 and 2018:

September 30, 2019

Description	Number of Loans	Principal Balance at Modification
Grant or extend interest only period	**4**	$3,854,556
Maturity Extension	**4**	2,858,249
Payment Modification	**4**	2,441,870
Other	**3**	445,295
Totals	**15**	**$9,599,970**

September 30, 2018

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructurings That Subsequently Defaulted

	Year Ended September 30, 2019		Year Ended September 30, 2018	
	Number of Contracts	Outstanding Principal, Net	Number of Contracts	Outstanding Principal, Net
Real Estate – Commercial	1	$1,861,576	-	$ -
Total	1	$1,861,576	-	$ -

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, 2019 and 2018, included with the allowance for loan losses are reserves of $29,317 and $143,309, 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, 2019 and 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2019	2018
Commitments to grant loans	$ 7,201,800	$ 11,427,828
Unfunded commitments under lines of credit	39,098,995	47,440,919
Standby letters of credit	3,136,098	3,407,948

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, 2019 and 2018:

	2019	2018
Land and improvements	$ 1,609,498	$ 1,628,198
Buildings and improvements	6,755,900	6,926,883
Furniture and equipment	3,978,009	3,773,379
Vehicles	692,997	543,708
Accumulated depreciation	(4,524,280)	(4,124,745)
	$ 8,512,124	$ 8,747,423

Depreciation expense of $657,448 and $699,186 was incurred by the company for the years ended September 30, 2019 and 2018, respectively and is included in other operating expense.

NOTE 8 – OTHER ASSETS

The following summarizes other assets at September 30, 2019 and 2018:

	2019	2018
Foreclosed real estate	$ 5,448,748	$ 5,671,195
Other foreclosed assets	183,675	143,675
SBA guarantee receivable	1,140,099	1,322,110
Loan costs receivable	719,232	402,184
Deferred tax assets	44,536	75,293
Other receivables	439,532	1,142,708
Other prepaid expenses	848,825	838,160
Miscellaneous	71,152	358,906
	$ 8,895,799	$ 9,954,231

NOTE 9 – INTEREST BEARING DEPOSITS

Interest bearing deposits at September 30, 2019 and 2018 are further detailed as follows:

	2019	2018
NOW accounts	$ 47,261,972	$ 37,929,044
Savings accounts	43,759,580	42,075,495
Certificates and other time deposits	110,185,727	123,347,710
	$ 201,207,279	$ 203,352,249

The Bank utilizes the services of deposit brokers to obtain a portion of its total deposits. The Bank had total deposit balances of $ 96,777,000 and $107,923,000 at September 30, 2019 and 2018, respectively that were obtained through the use of deposit brokers.

The Bank had $2,668,681 and $1,956,168 in outstanding certificates of deposit issued in denominations greater than $250,000 as of September 30, 2019 and 2018, 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:

2020	49,279,782
2021	26,529,981
2022	10,600,241
2023	9,221,724
2024	14,553,999
	$ 110,185,727

NOTE 10 – BORROWINGS

Borrowings at September 30, 2019 and 2018 are as follows:

	2019	**2018**
Federal Home Loan Bank borrowings	$ 75,201,500	$ 49,920,000
Junior subordinated debentures	195,000	195,000
	$ 75,396,500	$ 50,115,000

Federal Reserve Bank Discount Window

On September 30, 2019, the Bank had overnight borrowing capacity at the Federal Reserve Bank discount window in the amount of $23,531,164. Loans receivable with a book value of $27,629,101 were pledged to the Federal Reserve Bank of Cleveland as eligible collateral at September 30, 2019. The Bank had no outstanding borrowings at September 30, 2019 and 2018. These funds are advanced when necessary to meet the Bank's short-term liquidity needs. The rate of interest on these borrowings is an adjustable rate equal to the Federal Reserve discount rate, which was 2.50% at September 30, 2019.

Federal Home Loan Bank

The bank has established a borrowing capacity at the Federal Home Loan Bank ("FHLB"). On September 30, 2019, the Bank had pledged qualifying loans in the amount of $159,055,000 in support of a maximum borrowing capacity of approximately $110,538,150.

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

NOTE 10 – BORROWINGS (CONTINUED)

Advances from FHLB at September 30, 2019 and 2018 consisted of the following:

Loan Type	Maturity Date	Interest Rate	2019	2018
Fixed Term	November 8, 2018	1.86%	$ -	2,000,000
Fixed Term	November 4, 2019	1.30%	3,000,000	3,000,000
Fixed Term	March 4, 2020	1.78%	4,400,000	4,400,000
Fixed Term	August 13, 2020	1.88%	4,300,000	4,300,000
Fixed Term	November 17, 2020	2.11%	2,000,000	2,000,000
Fixed Term	December 10, 2020	1.81%	2,300,000	2,300,000
Fixed Term	February 10, 2021	1.41%	5,920,000	5,920,000
Fixed Term	July 27, 2021	1.52%	3,000,000	3,000,000
Fixed Term	August 10, 2021	1.51%	2,500,000	2,500,000
Fixed Term	September 9, 2021	1.48%	2,500,000	2,500,000
Fixed Term	April 11, 2022	2.19%	1,000,000	1,000,000
Fixed Term	May 16, 2022	2.21%	6,000,000	6,000,000
Fixed Term	June 8, 2022	2.10%	5,000,000	5,000,000
Fixed Term	July 5, 2022	2.27%	6,000,000	6,000,000
Fixed Term	November 20, 2023	3.21%	6,000,000	-
Fixed Term	December 19, 2023	3.03%	5,000,000	-
Fixed Term	February 28, 2024	2.83%	5,000,000	-
Fixed Term	March 14, 2024	2.70%	5,000,000	-
Fixed Term	August 23, 2024	1.72%	6,281,500	-
			$ 75,201,500	$ 49,920,000

Junior Subordinated Debentures

The Company had outstanding junior subordinated debt securities ("subordinated debentures") in the amount of $195,000 on September 30, 2019 and 2018, respectively.

Interest on the debentures is reset quarterly on the 15th of January, April, July and October at a rate equal to 3-Month Libor plus 4.25% (6.5641% as of July 15, 2019, 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.

In April, 2018 the Company converted debentures with a face amount of $1,855,000 to 115,936 shares of newly issued common stock at a price of $16.00 per share.

NOTE 11 – EMPLOYEE BENEFIT PLANS

Enterprise Bank 401(k) Plan

The Bank has a defined contribution pension plan covering all employees. The Bank makes a contribution equal to 3% of wages for each eligible employee regardless of the employees own elective contributions to the plan. The Bank's contributions for the years ended September 30, 2019 and 2018 were $133,473 and $130,295, 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, 2019 and 2018.

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 $50,000 and $215,000 for each of the years ended September 30, 2019 and 2018, respectively. Additional expenses incurred in relation to the ESOP plan include professional fees associated with the administration of the plan. Administrative costs of $9,758 and $10,063 were incurred in each of the years ended September 30, 2019 and 2018, respectively.

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

There were $136,363 shares held by the ESOP and allocated to beneficiary accounts at September 30, 2019 and 2018. There were no unallocated shares held by the ESOP during these periods. The fair value of the allocated shares was $2,290,898 at September 30, 2019. This valuation was based on the independent appraisal of the Company's shares completed as of June 30, 2019.

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

At September 30, 2019 there are 31,037 shares subject to the repurchase obligation with a fair value of $521,422. Total account balances subject to distribution request are $554,110 at September 30, 2019. Of this amount, $201,977 would be payable in the year of the beneficiary's request for distribution. The remainder would be payable in equal annual installments over the remaining five year period.

In addition, employees who meet minimum age and service requirements are subject to a diversification option whereby the employee has the right to sell, and the Bank has the obligation of purchase, a portion of their vested shares. At September 30, 2019 there were approximately 20 shares, with a fair value of $333, whereby the employee has elected to exercise their diversification option.

NOTE 12 – REVENUE RECOGNITION AND ASC 606

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 recognized 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.

On October 1, 2018, the Company adopted ASU 2014-09 *Revenue from Contracts with Customers* and all subsequent amendments to the ASU (collectively, "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The Company's services that fall within the scope of ASC 606 are recognized as revenue as the Company satisfies its obligation to the customer.

The Company adopted ASC 606 using the modified retrospective method applied to all contracts not completed as of October 1, 2018. Results for reporting periods beginning after October 1, 2018 are presented under ASC 606 while prior period amounts continue to be reported in accordance with legacy GAAP. The adoption of ASC 606 did not result in a change to the accounting for any of the in-scope revenue streams, as such, no cumulative effective adjustment was recorded.

All of the Company's revenue from contracts with customers that falls within the scope of ASC 606 is recognized in Other Operating Income.

NOTE 12 – REVENUE RECOGNITION AND ASC 606 (CONTINUED)

The following table presents the Company's sources of Total Other Operating Income for the fiscal years ending September 30, 2019 and 2018. Items outside the scope of ASC 606 are noted as such.

	Year Ended September 30, 2019	Year Ended September 30, 2018
Other Operating Income		
Service charges on deposit accounts		
Overdraft fees	$ 20,184	$ 37,625
Other	407,966	312,671
Total	**428,150**	**350,296**
Other Fee Revenue		
Real estate subsidiary commission income	1,236,055	1,021,691
Real estate subsidiary other fee income	169,082	45,787
Consulting subsidiary fee income	139,014	208,753
Rental income from foreclosed real estate	155,282	262,521
ATM Fee and service charge income	41,141	36,716
Insurance subsidiary income	530,330	184,464
Other fee income	15,592	14,012
Total	**2,286,496**	**1,773,944**
Gain (loss) on sale of foreclosed real estate	**69,848**	**55,515**
Loss) on valuation of foreclosed real estate	**(48,531)**	**(176,040)**
Total Other Operating Income	**$ 2,735,963**	**$ 2,003,715**

NOTE 12 – REVENUE RECOGNITION AND ASC 606 (CONTINUED)

Service Charges on Deposit Accounts and ATM fee and service charge Income:
The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction if executed as that is the point in time the Company fulfils the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing a period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Real estate subsidiary commission and other fee income:
The Bank's wholly owned subsidiary, Kuzneski & Lockard, Inc. ("K & L"), 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 sale transaction. Revenue is not accrued on any commissions that may be earned or received prior to final closing of the transaction whether those commissions are refundable or non-refundable. Other fee based income on services provided to customers that are not commission based are recognized in the period that services are rendered and earned.

Consulting subsidiary fee income:
The Bank's wholly owned subsidiary, Enterprise Business Consultants, Inc. ("EBC"), provides professional services to its customers for a fee. Services include, but are limited to, bookkeeping, marketing, web design and IT consulting. The customer is generally billed and revenue recognized in the period in which the professional services were provided. In some instances services are provided and invoiced on a completed projected 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. EBC oftentimes provides services to clients that are in a distressed situation and therefore collectability of fee revenue is questionable. Under these circumstances fees for services are accrued as work in process with an offsetting unbilled work in process liability and revenue recognition is deferred.

Insurance subsidiary Income:
The Bank's wholly owned subsidiary, Enterprise Insurance Services, Inc. ("EIS") provides title insurance and real estate transaction settlement services as well as 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 insurance policies. Commission revenue is recognized by the company upon completion of the policy transaction. Revenue from services rendered for real estate settlement transactions is recognized upon completion of the transaction. All other service revenue is recognized monthly as services are rendered. Revenue is deferred on any fee for services where collectability may be questionable.

Construction subsidiary income:
The Bank's wholly owned subsidiary, Buildonus, Inc. provides maintenance and light construction services in support of the Bank's facilities and foreclosed properties. The subsidiary invoices the Bank monthly for completed services. In consolidation, Buildonus revenue is generally eliminated against the corresponding Bank expense.

Rental income from foreclosed real estate:
The Bank occasionally forecloses on properties that have existing lease agreements or ongoing lease operations. For these properties the Bank collects rents based on the terms of its lease agreements and recognizes rental income on a monthly basis. In instances where collectability of rents is questionable revenue recognition is deferred until collection is made.

NOTE 12 – REVENUE RECOGNITION AND ASC 606 (CONTINUED)

Gain (loss) on sale of foreclosed real estate:

The Company records a gain or loss from the sale of foreclosed real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of foreclosed real estate to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer.

(Loss) on valuation of foreclosed real estate:

Properties held in the Company's portfolio of foreclosed real estate are appraised on at least an annual basis. Upon completion of the annual appraisal properties are adjusted to the lower of the Company's original cost basis or the new appraised value through an adjustment to a valuation allowance. The offset to this adjustment is recognized as a gain or (loss) on the valuation of the foreclosed real estate. This category is not within the scope of ASC 606.

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, 2019 and 2018 is as follows:

	2019	2018
Wages		
Bank management and administrative	$2,513,961	$ 2,515,028
Enterprise Business Consultants	717,822	678,411
Kuzneski & Lockard	194,828	145,862
Enterprise Insurance Services	240,688	128,585
Relationship Manager compensation	1,410,722	1,629,864
ASC 310-20 salary deferral for loan origination activities	(225,500)	(213,720)
Total salaries and employee benefits	$ 4,852,521	$ 4,884,030

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

NOTE 14 – OTHER OPERATING EXPENSES

Further detail of other operating expenses for the years ended September 30, 2019 and 2018 is as follows:

	2019	2018
Business development	$ 411,206	$ 366,184
Foreclosed real estate expense	261,600	242,160
Real estate agency commissions	750,120	627,059
Legal and accounting services	456,457	135,395
Directors' fees	169,334	181,904
Telephone	148,766	128,315
Bank shares tax	242,809	219,968
Other loan and collection	150,415	260,737
Other – Bank operations	389,543	362,579
Other – Subsidiary operations	351,116	147,701
Total other operating expenses	$ 3,331,366	$ 2,672,002

NOTE 15 – INCOME TAXES

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

The components of net deferred tax assets and liabilities at September 30, 2019 and 2018 are as follows:

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 92,554	$ 97,880
Deferred compensation	33,933	21,408
Other real estate owned	170,716	182,051
Nonaccrual interest	67,737	26,874
Subsidiary net-operating loss	209,855	243,415
Other	17,412	20,981
Total Deferred Tax Assets	592,207	592,609
Deferred tax liabilities:		
Premises and equipment	(417,035)	(395,684)
Deferred loan origination fees	(130,636)	(121,632)
Total Deferred Tax Liabilities	(547,671)	(517,316)
Net Deferred Tax Assets	$ 44,536	$ 75,293

NOTE 15 – INCOME TAXES (CONTINUED)

The Company has determined that no valuation allowance was required for the deferred tax asset balance at September 30, 2019 and 2018, respectively, because it is more likely than not that these assets will be realized through future reversals of existing temporary differences and through future taxable income.

The tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate to income before income taxes. For 2019 the statutory rate was 21%. For 2018, the statutory rate was 24.25%. This is a blended rate of 34% for the first three months of the fiscal year and 21% for the remaining nine months after the enactment of the Tax Cut and Jobs act. The differences for the years ended September 30, 2019 and 2018 are as follows:

	2019	2018
Tax at statutory rate	$ 477,686	$ 528,259
Impact of change in statutory tax rate	-	86,233
Nondeductible and other expenses	68,813	(66,068)
	$ 546,499	$ 548,424

The Bank's provision for income taxes for 2019 and 2018 consists of the following:

	2019	2018
Current federal and state tax expense	$ 515,742	$ 530,324
Impact of change in statutory tax rate	_	86,233
Deferred federal tax (benefit) expense	30,757	(68,133)
	$ 546,499	$ 548,424

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, 2019 and 2018 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, 2019 and 2018, the Bank did not accrue any penalties or interest.

The Bank has evaluated its tax positions taken for all open tax years. Currently, the 2015 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, 2019 and 2018.
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.

NOTE 17 – CONTINGENCIES AND COMMITMENTS

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

NOTE 18 – RELATED PARTY TRANSACTIONS

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

The aggregate amount of credit extended to these directors and principal officers was $1,734,674 and $2,177,628 (including unused lines of credit) at September 30, 2019 and 2018, respectively.

The following is an analysis of loans to these parties during the year ended September 30, 2019 and 2018:

	2019	2018
Balance at beginning of year	$ 1,677,595	$ 1,886,964
Repayments	(442,920)	(209,369)
Balance at end of year	$ 1,234,675	$ 1,667,595

The aggregate amount of deposits on account at the Bank for directors and principal officers and their related interests was $1,637,236 and $2,512,733 for the years ended September 30, 2019 and 2018 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 was 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 2019 was 2.5%. Management believes, as of September 30, 2019, the Bank meets all capital adequacy requirements to which it is 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, 2019 and 2018, 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. The requirements for capital adequacy purposes exclude the capital conservation buffer. 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, 2019:						
Total capital (to risk-weighted assets)	**$29,001**	**11.58 %**	**$20,041**	**≥ 8.00 %**	**$25,051**	≥ 10.00 **%**
Tier 1 capital (to risk-weighted assets)	**28,472**	**11.37**	**15,031**	**≥ 6.00**	**20,041**	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	**28,472**	**11.37**	**11,273**	**≥ 4.50**	**16,283**	≥ 6.50
Tier 1 capital (to average assets)	**28,472**	**9.25**	**12,311**	**≥ 4.00**	**15,389**	≥ 5.00
As of September 30, 2018						
Total capital (to risk-weighted assets)	**$28,255**	**12.17 %**	**$18.580**	**≥ 8.00 %**	**$23,226**	≥ 10.00 **%**
Tier 1 capital (to risk-weighted assets)	**27,466**	**11.83**	**13,935**	**≥ 6.00**	**18,580**	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	**27,466**	**11.83**	**10,452**	**≥ 4.50**	**15,097**	≥ 6.50
Tier 1 capital (to average assets)	**27,466**	**9.58**	**11,472**	**≥ 4.00**	**14,340**	≥ 5.00

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, 2019 and 2018:

	2019	2018
Weighted average common shares (Denominator)		
Weighted-average common shares outstanding	1,200,320	1,068,902
Average treasury shares	(65,800)	(65,800)
Weighted-average common shares used to calculate basic earnings per share (base, denominator)	1,134,520	1,003,102
Weighted-average common shares and common stock equivalents outstanding used to calculate diluted earnings per share (diluted, denominator)	1,134,520	1,003,102
Net Income (Numerator)		
Net income	$ 1,728,196	$ 1,627,274
Less: Preferred stock dividend	(450,000)	(450,000)
Net income available to common shareholders	$ 1,278,196	$ 1,177,274
Earnings Per Share		
Net income available to common shareholders, per share		
Basic	$ 1.13	$ 1.17
Diluted	$ 1.13	$ 1.17

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, 2019 and 2018.

		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, 2019				
Collateral-dependent impaired loans				
Residential real estate	$ 1,186,494	$ -	$ -	$ 1,186,494
Commercial real estate	$ 1,122,233	$ -	$ -	$ 1,122,233
Commercial and industrial	$ 2,155,575	$ -	$ -	$ 2,155,575
Total	$ 4,464,302	$ -	$ -	$ 4,464,302
Other real estate owned				
Residential real estate	$ 1,305,137	$ -	$ -	$ 1,305,137
Commercial real estate	$ 3,187,562	$ -	$ -	$ 3,182,562
Total	$ 4,492,699	$ -	$ -	$ 4,492,699

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	Fair Value	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Collateral-dependent impaired loans				
Residential real estate	$ 1,311,255	$ -	$ -	$ 1,311,225
Commercial real estate	$ 2,310,877	$ -	$ -	$ 2,310,877
Commercial and industrial	$ 2,310,289	$ -	$ -	$ 2,310,289
Total	$ 5,932,421	$ -	$ -	$ 5,932,421
Other real estate owned				
Residential real estate	$ 45,000	$ -	$ -	$ 45,000
Commercial real estate	$ 1,605,687	$ -	$ -	$ 1,605,687
Total	$ 1,650,687	$ -	$ -	$ 1,650,687

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.

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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, 2019 and 2018:

	Fair Value at September 30, 2019	Valuation Technique	Unobservable Inputs	Range
Other real estate owned				
Residential real estate	$ 1,305,137			
Commercial real estate	$ 3,187,562			
Total	**$ 4,492,699**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	5%- 10%
Collateral-dependent impaired loans				
Residential real estate	$ 1,186,494			
Commercial real estate	$ 1,122,233			
Commercial and industrial	$ 2,155,575			
Total	**$ 4,464,302**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	5% - 10%

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts and estimate fair values of financial instruments not carried at fair value, at December 31, 2018 and 2019 are as follows:

		Fair Value Measurements at September 30, 2019			
	Carrying Amount	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS					
Cash and due from banks	$ 614,090	$ 614,090	$ -	$ -	$ 614,090
Cash on deposit with Federal Reserve Bank	30,726,989	30,726,989	-	-	30,726,989
Interest bearing deposits with banks	424,380	424,380	-	-	424,380
Net loans	258,044,823	-		254,281,114	254,281,114
Accrued interest receivable	802,867	-	802,867	-	802,867
Restricted investment in bank stock	3,156,000	N/A	N/A	N/A	N/A
Total financial assets	**293,769,149**	**31,765,459**	**802,867**	**257,281,114**	**286,849,440**
FINANCIAL LIABILITIES					
Non-interest bearing deposits	3,046,125	-	3,046,125	-	3,046,125
Savings, money market and NOW accts.	91,021,552	-	91,021,552	-	91,021,552
Certificates and other time deposits	110,185,727	-	110,567,586	-	110,567,586
Borrowings	75,396,500	-	75,884,300	-	75,884,300
Accrued interest payable	539,350	-	539,350	-	539,350
Total financial liabilities	**$ 280,189,254**		**$ 281,058,913**	**$ -**	**$ 281,058,913**

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	Carrying Amount	Fair Value Measurements at September 30, 2018			
		Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS					
Cash and due from banks	$ 998,380	$ 998,380	$ -	$ -	$ 998,380
Cash on deposit with Federal Reserve Bank	20,083,377	20,083,377	-	-	20,083,377
Interest bearing deposits with banks	453,266	453,266	-	-	453,266
Net loans	242,382,885	-	-	229,069,102	229,069,102
Accrued interest receivable	754,655	-	754,655	-	754,655
Restricted investment in bank stock	2,136,600	N/A	N/A	N/A	N/A
Total financial assets	**266,809,163**	**21,535,023**	**754,655**	**229,069,102**	**251,358,780**
FINANCIAL LIABILITIES					
Non-interest bearing deposits	2,331,543	-	2,331,543	-	2,331,543
Savings, money market and NOW accts.	80,004,539	-	80,004,539	-	80,004,539
Certificates and other time deposits	123,347,710	-	121,067,726	-	121,067,726
Borrowings	50,115,000	-	48,587,708	-	48,587,708
Accrued interest payable	386,473	-	386,473	-	386,473
Total financial liabilities	**$ 256,185,265**	$ -	**$ 252,377,989**	**$ -**	**$ 252,377,989**

The methods utilized to estimate the fair value instruments at September 30, 2018 did not necessarily represent an exit price. In accordance with our adoption of ASU 2016-01 on October 1, 2018, the methods utilized to measure the fair value of financial instruments at September 30, 2019, represent exit prices.

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) (CONTINUED)

The following tables outline the differences between the Company's financial statements and regulatory reporting for the years ending September 30, 2019 and 2018:

Year ended September 30, 2019:

	As Reported Financial Statements	Year Ended September 30, 2019 As Reported Regulatory Reporting	Variance
Consolidated Statements of Financial Condition			
Loans receivable	$ 258,846,410	$ 258,009,315	$ (837,095)
Allowance for loan losses	(801,587)	(529,454)	272,133
Net Loans	258,044,823	257,479,861	564,962
Other assets	8,895,799	9,102,089	206,290
Total Assets	311,177,072	310,818,400	(358,672)
Retained earnings	10,033,067	9,674,395	(358,672)
Total Stockholders' Equity	28,722,031	28,363,359	(358,672)
Total Liabilities and Stockholders' Equity	311,177,072	310,818,400	(358,672)

	As Reported Financial Statements	Year Ended September 30, 2019 As Reported Regulatory Reporting	Variance
Consolidated Statements of Income			
Interest and fees on loans	$ 13,923,193	$ 13,720,838	$ (202,355)
Total Interest Income	14,717,462	14,515,107	(202,355)
Provision for Loan Losses	(109,399)	(273,912)	164,513
Salaries and employee benefits	4,852,521	4,821,980	30,541
Total Other Operating Expenses	10,036,452	10,005,911	30,541
Income Before Income Tax Expense	2,274,695	2,267,394	(7,301)
Income tax expense	546,499	544,966	1,533
Net income	1,728,196	1,722,428	(5.768)
Net Income Attributable to Enterprise Financial Services Group, Inc.	1,728,196	1,722,428	(5.768)

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

Year ended September 30, 2018:

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

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

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, 2019			
Total capital	$ 29,632	$ 29,001	$ (631)
Tier 1 capital	$ 28,831	$ 28,472	$ (359)
Common Equity Tier 1 Capital	$ 28,831	$ 28,472	$ (359)
Tier 1 capital (to average assets)	$ 28,831	$ 28,472	$ (359)
Total capital (to risk-weighted assets)	11.79%	11.58%	-0.21%
Tier 1 capital (to risk-weighted assets)	11.47%	11.37%	-0.10%
Common Equity Tier 1 Capital (to risk-weighted assets)	11.47%	11.37%	-0.10%
Tier 1 capital (to average assets)	9.36%	9.25%	-0.11%
As of September 30, 2018			
Total capital	$ 28,715	$ 28,255	$ (460)
Tier 1 capital	$ 27,819	$ 27,466	$ (353)
Common Equity Tier 1 Capital	$ 27,819	$ 27,466	$ (353)
Tier 1 capital (to average assets)	$ 27,819	$ 27,466	$ (353)
Total capital (to risk-weighted assets)	12.33%	12.17%	-0.16%
Tier 1 capital (to risk-weighted assets)	11.94%	11.83%	-0.12%
Common Equity Tier 1 Capital (to risk-weighted assets)	11.94%	11.83%	-0.12%
Tier 1 capital (to average assets)	9.69%	9.58%	-0.11%

NOTE 24 – SUBSEQUENT EVENTS

The Company evaluated its September 30, 2019 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 Bank's market area which includes Allegheny County in the State of Pennsylvania, and surrounding counties, has been impacted by the coronavirus pandemic (COVID-19). The full impact and duration of the virus is currently unknown and may have a negative effect on the overall economic condition of the Bank's market area as well as the operations and business results of its clients.

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