ENTERPRISE BANK

ANNUAL REPORT

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Letter to Our Shareholders

Dear Fellow Shareholders:

We are pleased to report that Enterprise Financial Services Group, Inc. has continued to expand the bottom line while remaining focused on helping small business and operating in the small business niche. This was the most profitable year in our history! Our capital level has grown stronger and it is the Board's intent to begin buying back the preferred stock over the next five years.

The Bank's asset quality has continued to strengthen with charge-offs dropping to historical lows. The Bank's small business clients have been largely successful at mitigating the negative business climate challenges brought on by COVID-19.

The Bank did experience some losses related to OREO that were beyond management's control. Two separate buildings experienced structural deterioration. One resulting from a neighboring building's damages migrating to our property and the second from wind creating structural roof damage. Both losses were outside of our insurance coverage.

The Bank began a remodel of the office building next to the Bank. All Bank subsidiaries will move into this newly renovated building in the first half of 2022. This should enable material expansion in the non- traditional banking business lines. We hope to make a material profit in the future operations of these subsidiaries.

The Bank continues to control technology related expenses but this is an area of great concern due to the constant barrage of IT attacks from a myriad of individuals and foreign governments. The constant attempts to find and explore IT system weaknesses has caused the industry to expend large amounts of money to protect depositors.

The Bank incurred material expense over the last few years to defend itself from what management believes are frivolous lawsuits. This year we prevailed in one of the lawsuits and were able to recover all of our costs in the process.

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

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

Sincerely,

Chuck Leyh

Charles H. Leyh
Chariman of the Board

Douglas W. Lockard

Douglas W. Lockard
Vice Chairman of the Board

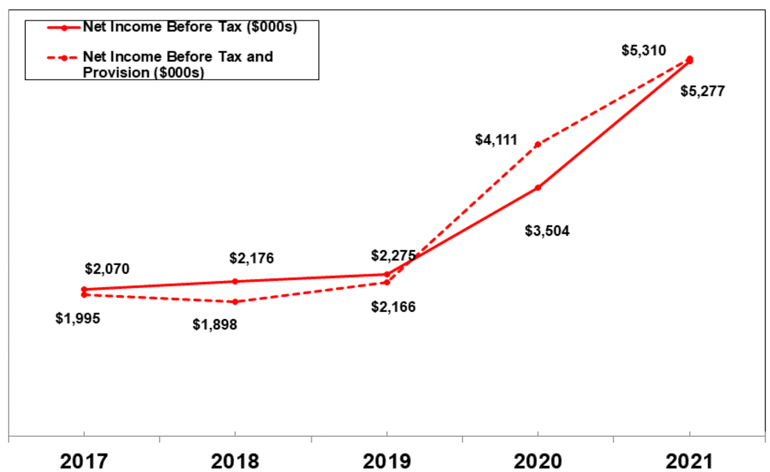
This discussion provides additional information and analysis of the results of operations for Enterprise Financial Services Group, Inc. (the "Company") and its wholly owned subsidiary, Enterprise Bank (the "Bank"), for the fiscal year ended September 30, 2021 ("2021"). This discussion includes results of operations for the Bank's wholly owned subsidiaries Enterprise Insurance Services, Inc., Enterprise Business Consultants, Inc., Kuzneski & Lockard, Inc., Buildonus, Inc. and Enterprise Intangible Assets, LLC. This discussion is provided as a supplement to the audited financial statements and accompanying disclosures included in the Company's 2021 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 Financial Institutions Examination Council ("FFIEC"). The Bank's UBPR designated peer group for 2021 includes all insured commercial banks in the United States of America with total assets between $300 million and $1 billion. The Bank's 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 million and $300 million and two or fewer full service offices. Please note that UBPR data is prepared on a calendar year basis. Therefore, unless specifically noted, when peer data is used in the charts the Bank's data has also been presented on a calendar year basis.

OVERALL PERFORMANCE SUMMARY

In 2021, Management continued to navigate through the challenges of operating during the global COVID-19 pandemic. At the same time, there was continued emphasis on meeting overall strategic goals. This included targeted growth in the core loan portfolio while maintaining credit quality and stable costs of operation. Focus on supporting the Bank's small business client base during this difficult period remained a priority. In 2021, the Bank was again a participating lender in the 2nd round of Paycheck Protection Program ("PPP") loans to help small businesses. This program provided funding to small businesses that was 100% guaranteed by the SBA and eligible for forgiveness if the borrower met certain criteria.

CHART #1
NET INCOME BEFORE TAX
($ in thousands)



The solid line in accompanying Chart #1 illustrates the Company's annual pre-tax income for the last five fiscal years (2017 through 2021). In 2021, pre-tax income increased $1.8 million over the prior year, to a total of approximately $5.3 million. This represents a 51% increase over the prior year.

Chart #1 also illustrates the Company's annual income before tax and before provision for loan losses for the same five year period. This is indicated by the dotted line. Income before provision for loan losses eliminates the impact of loan loss provisions which have been volatile year to year in the current environment. Pre-tax income, excluding loan loss provisions, increased $1.2 million or 29% versus the prior year.

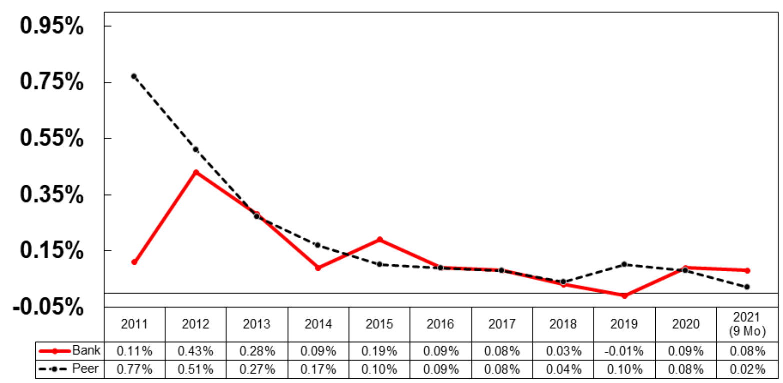
The primary contributor to the increase in earnings was an increase in net interest income of approximately $2.1 million. This was driven by an increase in interest income generated through current and prior years loan growth, continued downward pressure on the Bank's cost of funds and fee income generated through participation in the 2nd round of the SBA PPP program. The following discussion will discuss these, as well as other factors contributing to the Company's 2021 performance, in greater detail.

CORE OPERATING PHILOSOPHY

Enterprise Bank was founded in 1998 by a group of entrepreneurs from Western Pennsylvania who identified a void in the industry with regard to serving the banking needs of small business. The Bank's focus from the beginning has been on providing funding and support services to small business that are in a start-up, growth or distressed cycle. The Bank has always prioritized standing behind its customers in their time of need when those customers exhibit a foundation of strong character and sound management practice.

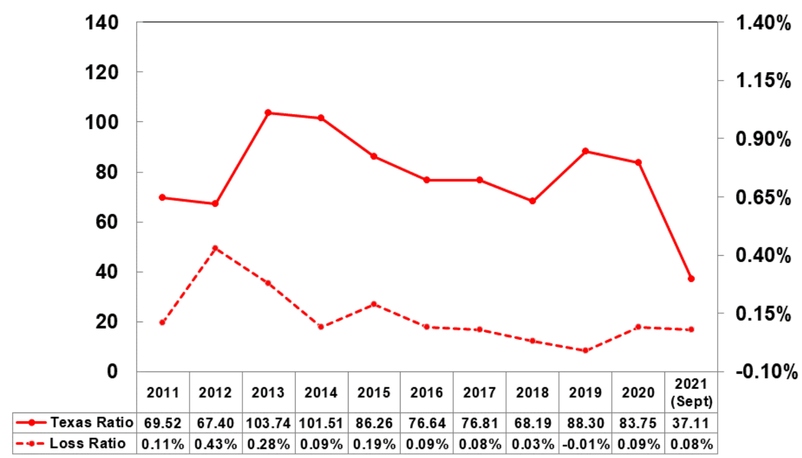
Serving the small business community in this way brings with it unique and added risks. The Bank has always worked to mitigate this additional risk by emphasizing the strength of collateral rather than historical cash flows during the underwriting process. This is supplemented as necessary by the use of other available risk mitigation tools such as government guaranteed lending programs. The Bank has historically been one of the largest SBA lenders in its local market.

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



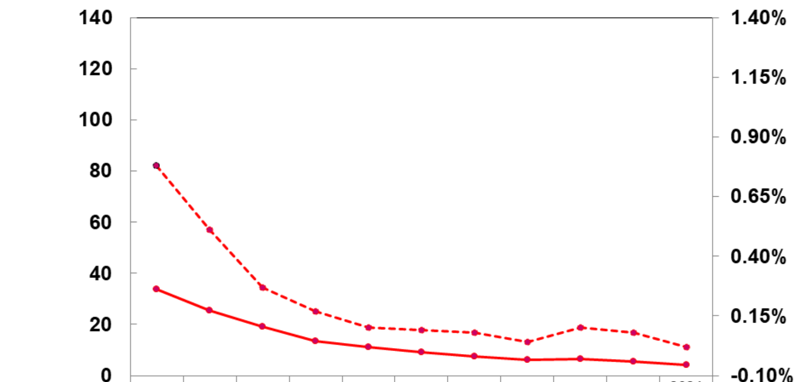
With a reliance on collateral to support underwriting, and to mitigate credit losses, the Bank pays strict attention to the quality of appraisals, and has implemented effective and efficient collateral liquidation strategies. Chart #2 compares the Bank's loan loss rates to its peer group for the annual periods of 2011 to present. This chart illustrates that historically the Bank's loss rates have been comparable to the peer group and demonstrates the effectiveness of the Bank's loss mitigation processes.

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



A widely accepted indicator of a bank's asset quality is the Texas Ratio. This ratio is oftentimes used as a predictive indicator of poor credit quality, expected losses and potential bank failure. Chart #3 compares the Bank's Texas Ratio to its loss rates since 2011. Chart #4 similarly compares the Texas Ratio of the Bank's peer group to loss rates for the same periods.

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



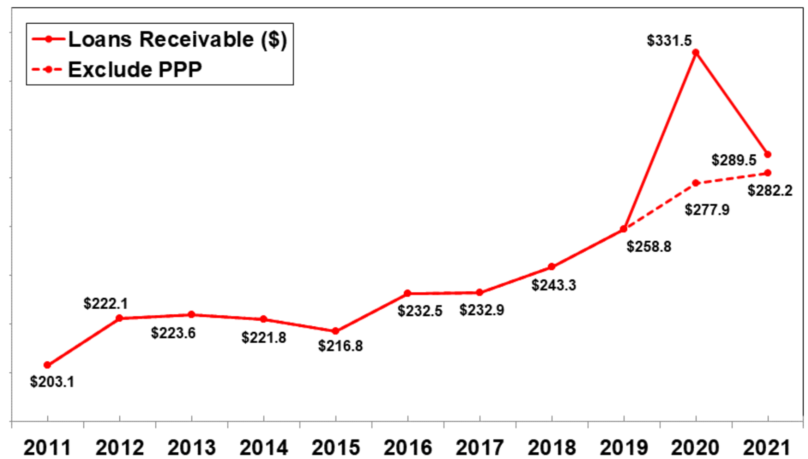
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (Sept)
Texas Ratio	33.78	25.35	18.97	13.46	11.10	8.99	7.58	6.13	6.35	5.52	4.31
Loss Ratio	0.78%	0.51%	0.27%	0.17%	0.10%	0.09%	0.08%	0.04%	0.10%	0.08%	0.02%

As illustrated in these two charts, the Texas Ratio has never been a good predictor of loss for the Bank. While the Bank's business niche dictates that it typically carries a higher level of non-performing assets, these charts confirm the Bank's long track history of being able to liquidate these assets while maintaining an acceptable range of loss.

LOAN PORTFOLIO AND INTEREST INCOME

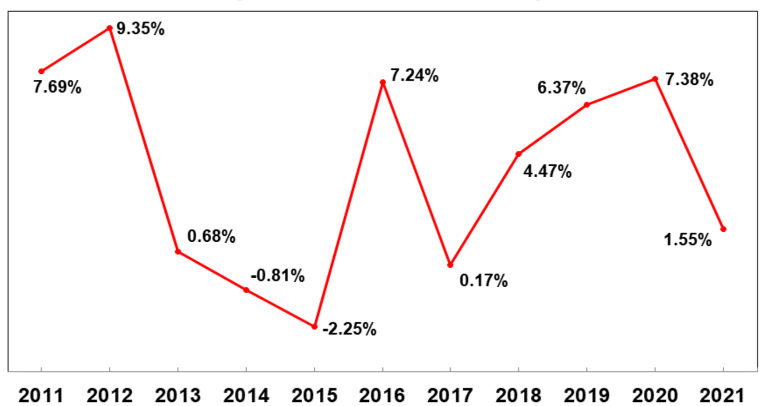
In 2021, the Bank's loan portfolio, excluding PPP loans, grew by $4.3 million, or 1.55% over the prior year. The solid line in Chart #5 indicates the year-end portfolio balances in the Bank's loan portfolio from 2011 to present. The dotted line indicates the balances excluding PPP loans. Chart #6 illustrates the growth percentages for the same periods, exclusive of PPP lending.

CHART #5
LOANS RECEIVABLE($ in millions)



In 2021, the pace of loan growth was at targeted levels for much of the year. However, a group of unexpected pay downs in the 4th quarter brought the overall portfolio balance down significantly. In the 4th quarter, seven loans with an aggregate balance of approximately $10 million were paid off. Most of these were the result of the proceeds from the sale of businesses being used to extinguish the associated debt. As a result of these payoffs, growth in the core portfolio fell below goals set in the 2021 budget.

CHART #6
LOAN PORTFOLIO GROWTH RATE(%)
(EXCLUDES PPP LOANS)



Total interest and fee income generated by loans increased by $1.1 million, or 6.8% over the prior year. Interest and fee income, excluding amount generated by the PPP program, increased $630,000, or 4.14%, over the prior year. This increase is generally attributable to the additional interest income generated through current and prior years' growth in the portfolio.

In 2021, the Bank was a participant in the 2nd round of the SBA PPP lending program. This year the Bank funded 187 PPP loans with an aggregate balance of $24.1 million. Over the life of the PPP program, the bank has funded a total of 514 loans with an aggregate balance of $77.8 million. These loans have a fixed interest rate of 1%, are 100% government guaranteed and are forgivable to the borrower if certain criteria are met. As of September 30, 2021, there were 38 loans with a balance of $7.3 million remaining in the portfolio.

Total interest and fee income recognized in 2021 as a result of participation in the PPP lending program was approximately $1.9 million. This was an increase of $448,000 over the prior year. Fees collected for origination and servicing the PPP loan portfolio were deferred and recognized over the remaining life of the loan in order to match the fee revenue with associated costs. All fees have been recognized into income for those loans that have been forgiven or paid in full. As of September 30, 2021, recognition of $273,000 in remaining PPP fees has been deferred to future periods. Costs incurred to administer this program included variable costs to the relationship manager team for origination and servicing as well as indirect costs associated with re-direction of staff time for administration of the portfolio.

Targeted growth in the core loan portfolio is closely correlated to the Bank's capital management planning. Earnings, level of non-performing assets and amount unfunded commitments are all factors when measuring capital. Management will continue to closely monitor these factors when planning for acceptable levels of loan growth in the future.

NONACCRUAL LOANS AND REVENUE RECOGNITION

In order to evaluate the Bank's balance of loans on nonaccrual status and its impact on earnings, it is important to highlight that Management and its primary regulator have a difference of opinion in determining when to place a loan on nonaccrual status.

According to GAAP, revenue is recognizable when it is both earned and either realized or realizable. In order for revenue to be considered realizable, a collectability threshold must be met. Management and its primary regulator have different interpretations of when this collectability threshold has been met for loans that are in default.

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

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

1 Staff Paper, Revenue Recognition – Collectability, October 28, 2013, IFRS/FASB

2 FASB Accounting Standards Codification - Master Glossary

3 Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)

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

However, the regulators have a more stringent interpretation of what is considered "in the process of collection". In their opinion, in order for a loan to be considered in the process of collection, the timing and amount of repayment must be reasonably certain and there must be evidence that collection in full of amounts due and unpaid will occur shortly. Their indicated benchmark of an acceptable time frame is 30 days.[4]

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

It is Management's opinion that the regulator's more stringent collectability threshold is unreasonable, and not in accordance with GAAP, given the business model of this institution. This 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 approach does not properly match revenues to expenses and creates volatility in reported earnings.

It is Management's conclusion that the financial result of this difference in interpretation of the GAAP standard is material to the financial statements. Therefore, there are differences between the financial statements as reported to shareholders in this annual report and the financial statements as reported in the Bank's regulatory Call Report. The primary differences are in the balance of loans on nonaccrual status and the timing of interest income recognition for these loans. To maintain transparency for the users of the financial statements, the results of both methods and a description of the differences are presented in Note 23 Reconciliation of Financial Statements to Regulatory Reporting included with the financial statements in this Annual Report.

CHART #7
NONACCRUAL LOANS VS. LOANS WITH MEASURED IMPAIRMENT

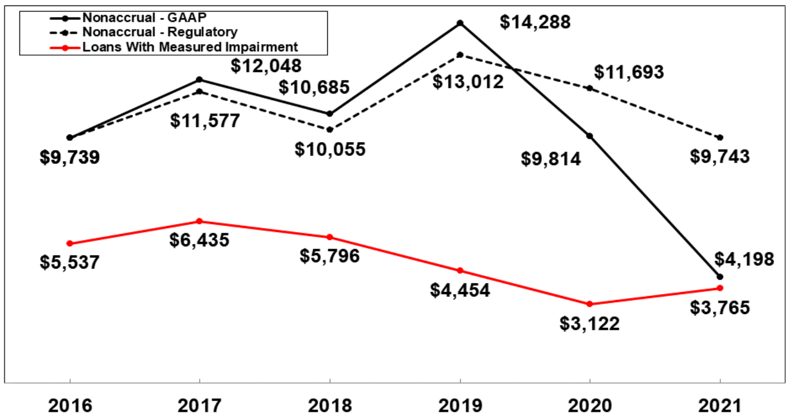


Chart #7 illustrates the balance of loans that have been placed on nonaccrual status for both regulatory and GAAP purposes. The solid line represents the net investment in loans that have been classified as nonaccrual on the Bank's shareholder financial statements. The dotted line represents the net investment in loans that have been classified as nonaccrual on the Bank's regulatory financial statements. The balance of nonaccrual loans, per regulatory classification, decreased $2.0 million, or 17%, in 2021. The balance of nonaccrual loans, per financial statement classification, decreased $5.6 million, or 57%, in 2021.

4 Bank Accounting Advisory Series, Office of the Comptroller of the Currency, August, 2021

Chart #7 also indicates the historical balance of loans with measured impairment for the same time period. 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. Any shortfall of collateral to the basis in the loan is reserved.

The following table (Table 1) quantifies the differences in interest income recognition between the regulatory Call Report and the shareholder financial statements:

TABLE 1: IMPACT OF REVENUE RECOGNITION: NONACCRUAL LOANS

	(A) Interest Accrual		(B) Cash Basis Payments Received		(C) Combined Total	
Year ended:	**Change - Year**	**Cumulative**	**Change - Year**	**Cumulative**	**Change - Year**	**Cumulative**
September 30, 2012 (C)	289,000.00	289,000.00	-	-	289,000.00	289,000.00
September 30, 2013	86,000.00	375,000.00	3,000.00	3,000.00	89,000.00	378,000.00
September 30, 2014	(235,000.00)	140,000.00	280,000.00	283,000.00	45,000.00	423,000.00
September 30, 2015	123,000.00	263,000.00	647,000.00	930,000.00	770,000.00	1,193,000.00
September 30, 2016	(83,000.00)	180,000.00	(31,000.00)	899,000.00	(114,000.00)	1,079,000.00
September 30, 2017	14,000.00	194,000.00	(261,000.00)	638,000.00	(247,000.00)	832,000.00
September 30, 2018	(66,000.00)	128,000.00	(3,000.00)	635,000.00	(69,000.00)	763,000.00
September 30, 2019	129,000.00	257,000.00	202,000.00	837,000.00	331,000.00	1,094,000.00
September 30, 2020	28,000.00	285,000.00	339,000.00	1,176,000.00	367,000.00	1,461,000.00
September 30, 2021	241,000.00	526,000.00	717,000.00	1,893,000.00	958,000.00	2,419,000.00

(A) Interest receivable 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 accrued to interest income in the GAAP basis (shareholder) financial statements but have not been accrued for regulatory purposes (beginning with method change in 2020).

(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 interest receivable on loans that, in Management's opinion, are well secured and in the process of collection but do not meet the threshold as set forth in the regulatory reporting guidance. For regulatory purposes, these loans are classified as nonaccrual and recognition of interest income on an accrual basis has stopped.

In prior years, Management had made the determination that the year to year, and cumulative, impact of this adjustment was not material to the financial statements as a whole and continued to follow the regulatory guidance. In early 2020, Management re-evaluated its position and determined that the year to year fluctuation was becoming too large to ignore. A change in the income recognition method for the shareholder financial statements was implemented in fiscal year 2020. As a result, for the shareholder financial statements, interest continues to be accrued for loans that are greater than 90 days past due but meet Management's criteria of well-secured and in the process of collection.

As shown in Table 1, Column (A), cumulatively, $526,000 in interest income has been accrued, to the shareholder financial statements, through September 30, 2021. Of this amount, $241,000 was recorded as interest income in the current year.

Column (B) in Table 1 represents the annual change and cumulative amount of cash payments for interest received on loans that have a regulatory classification of nonaccrual that have been recorded into interest income in the shareholder financial statements. It is Management's opinion that these payments are from loans that are well secured, in the process of collection and meet the collectability threshold as defined in GAAP.

Historically, Management has concluded that the impact of the regulatory interpretation of this concept is material to the financial results of the Company and the financial statements as reported in accordance with GAAP. As such, the shareholder financial statements are not adjusted to mirror the regulatory financial reports for these cash payments.

As shown in Table 1, Column (B), cumulatively, $1,893,000 in interest income has been recorded to the shareholder financial statements for cash received. Of this amount, $717,000 was recorded as interest income in the current year. In the regulatory financial statements, all cash received for interest on nonaccrual loans is applied as a reduction to the net investment in the loan.

As illustrated in Column (C), Table 1, cumulatively, through September 30, 2021, there is approximately $2.4 million of interest income that has been recorded in these financial statements that has been deferred for regulatory reporting purposes. Of this amount, $958,000 was recognized in the current year.

For all columns (A), (B) and (C), for those years where the annual change (Change-Year) column is negative, this represents time periods where final liquidation of loans has occurred resulting in the recognition of income for regulatory purposes that had been recorded to the GAAP financial statements in prior periods. This is an indication of the unwinding of the timing differences for recognizing interest income on these loans.

Management's ability to make accurate judgements on these credits is driven primarily by the reliability of its 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 95% of the most recent appraised value upon liquidation. Through September 30, 2021, the Bank has not recognized any material losses in its shareholder financial statements as a result of interest income recognition that was later identified as uncollectible.

ALLOWANCE FOR LOAN LOSSES (“ALLL”)

The Bank continues to estimate loss reserves using an incurred loss model. The model currently in use was implemented in 2016. The model was designed to mirror the Bank's underwriting philosophy by prioritizing the valuation of real estate collateral. It closely monitors fluctuations in real estate values in terms of specific property types and geographic locations. Market sales data is analyzed on a quarterly basis. Updated valuation data is a significant factor in supporting qualitative adjustments to the Bank's loss history when determining final reserve levels. Prior to implementation, the model’s methodology was subject to an independent review and validation by one of the seven largest accounting firms in the U.S.

For the year ended September 30, 2021, the Bank recorded loan loss provisions of $33,000. This was a decrease in provision expense of $574,000 from the prior year. The Bank's ALLL at year end was $977,000 or 0.35% of loans receivable, excluding PPP loans. This was a decrease of $191,000 as compared to the prior year reserve of $1,168,000 or 0.42% of loans receivable, excluding PPP loans. Charge-offs, net of recoveries for the year were $223,593. This was a decrease of $17,183 as compared to the prior year and remained within the targeted range.

Provision expense in 2020 was elevated, as compared to 2021, due to the establishment of qualitative adjustment factors that recognized the uncertainty surrounding the COVID-19 pandemic and its potential impact on credit quality for the Bank. This included two significant qualitative adjustments related to the pandemic.

The first factor was an adjustment based on an evaluation of all loans in the portfolio which had been receiving payment assistance from the SBA as part of The Coronavirus Aid, Relief and Economic Security Act ("CARES Act"). Management evaluated all loans receiving assistance to determine the likelihood that the borrower would be able to make payments absent this assistance. For loans with uncertainty as to future payments, an estimate of impairment was calculated. The aggregate of these calculations was added as a qualitative adjustment to the reserve.

Second, the reserve model routinely includes a qualitative factor tied to fluctuations in market data for commercial real estate valuations. The market data has been negatively impacted as a result of the pandemic, as a result, the amount of this qualitative adjustment increased significantly through the end of 2020.

Uncertainty surrounding the pandemic remained present in 2021 as new variants circulated and case levels remained elevated. As a result, the qualitative adjustments remained an important part of the reserve calculation for 2021. However, the amount of the factors did not materially increase or decrease during the course of the year, therefore, they did not have a material impact on the current year provision expense.

INTEREST RATE PREMIUM

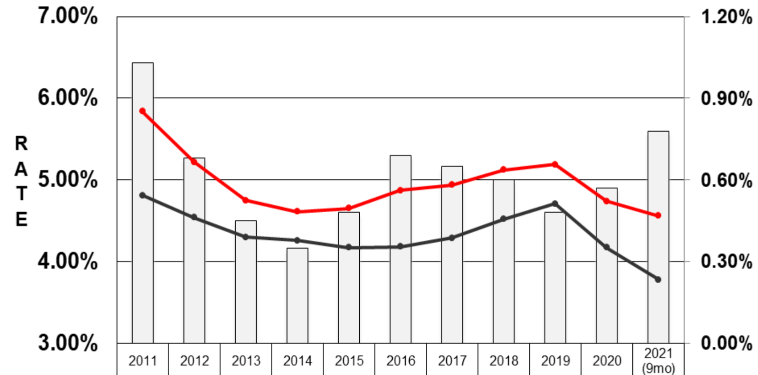
An important benchmark that is regularly monitored by Management is the Bank's yield on earning assets and how it compares to its peer group. As indicated in its Texas Ratio, the Bank typically carries an elevated level of non-performing assets. While historically the Bank has been able to minimize loss of principal, there are additional costs to be considered. This includes legal and collection expenses, costs to preserve and protect collateral and costs to hold and liquidate foreclosed real estate. Therefore, it is important that the Bank earn a yield on assets that is greater than that realized on a conventional risk portfolio and sufficient to absorb these additional costs.

Chart #8 illustrates the Bank's yield on earning assets as it compares to peer for the years 2011 to present. This chart indicates that the Bank's spread to peer has increased to 78bps in 2021, up 21bps from the prior year. The trend shown in this chart is a positive indicator that the Bank has held to its pricing model and has been able to maintain the necessary yield premium in the current low rate environment.

Management monitors two benchmark rates to compare prevalent rates for conventional risk financing to rates for financing that correlates more closely with the Bank's level of risk. 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 SBA for loans of similar term. For the Bank, that rate is Prime plus 275 basis points. The benchmark that most closely correlates to conventional lending for similar term is the 5 year swap rate plus 250 basis points.

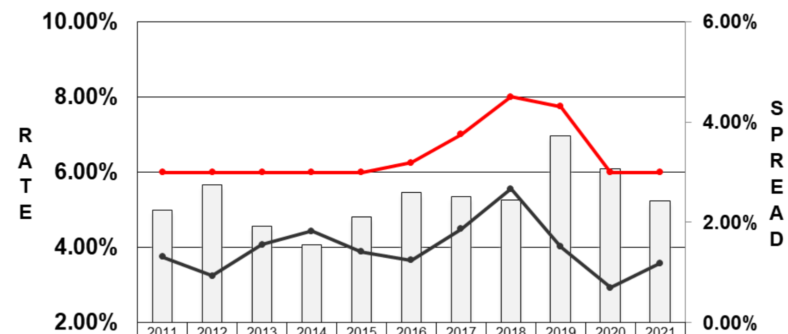
Chart #9 illustrates these two benchmark rates, and the spread between them, from 2011 to present. This chart indicates that the spread between the two benchmark rates has been narrowing since 2019. The downward trend in the benchmark rates is an indicator of tightening in the risk premium available in the marketplace.

CHART #8
INTEREST INCOME TO AVERAGE EARNING ASSETS
(SPREAD TO PEER)



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021 (9mo)
Spread	1.03%	0.68%	0.45%	0.35%	0.48%	0.69%	0.65%	0.60%	0.48%	0.57%	0.78%
Bank	5.84%	5.22%	4.75%	4.61%	4.65%	4.87%	4.94%	5.12%	5.19%	4.74%	4.56%
Peer	4.81%	4.54%	4.30%	4.26%	4.17%	4.18%	4.29%	4.52%	4.71%	4.17%	3.78%

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)



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Spread	2.25%	2.75%	1.93%	1.56%	2.11%	2.59%	2.51%	2.44%	3.73%	3.07%	2.42%
SBA Max Rate	6.00%	6.00%	6.00%	6.00%	6.00%	6.25%	7.00%	8.00%	7.75%	6.00%	6.00%
Conv. Rate	3.75%	3.25%	4.07%	4.44%	3.89%	3.66%	4.49%	5.56%	4.02%	2.93%	3.58%

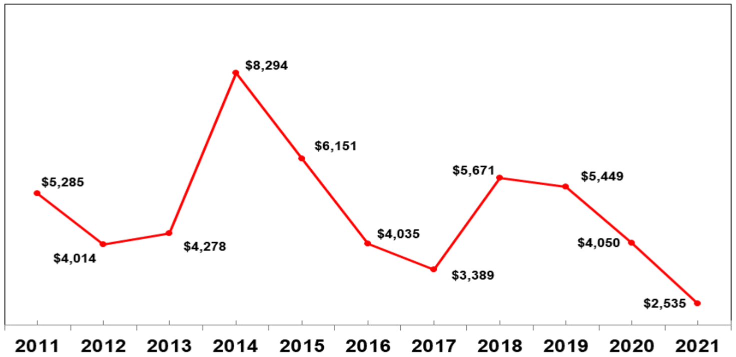
FORECLOSED REAL ESTATE

Given the emphasis placed on real estate collateral as a risk mitigation tool, it is important that Management maintain effective and cost efficient liquidation strategies. Management uses a team oriented approach, bringing together several areas of expertise to assist with the liquidation process. This includes bringing together staff with expertise in property management, real estate brokerage, construction, valuation, legal, accounting and the relationship manager (“RM”) team. The goal of this approach is to maximize the realization of sales price to appraised value while minimizing the holding period. Efficient liquidation limits the Bank's exposure to fluctuations in the value of the property and minimizes overall holding costs.

Chart #10 illustrates the Bank's historical balance of real estate owned from 2011 through the current year. At September 30, 2021 the balance in the portfolio was $2.5 million. This was a $1.5 million decrease from the prior year. The current balance is a ten year low and continues to fluctuate within Management's target range.

In 2021, the Bank liquidated properties with an aggregate sales value of approximately $1.4 million. Losses on the sale of real estate were $51,000. This was a $55,000 decrease from the prior year. The absence of material losses on the sale of real estate supports that sales prices have closely correlated to current appraised values and that significant discounting in order to reduce the portfolio is not occurring. Since 2014, the Bank has realized an aggregate of 95% of current appraised value when liquidating foreclosed real estate.

CHART #10
FORECLOSED REAL ESTATE
($ IN THOUSANDS)



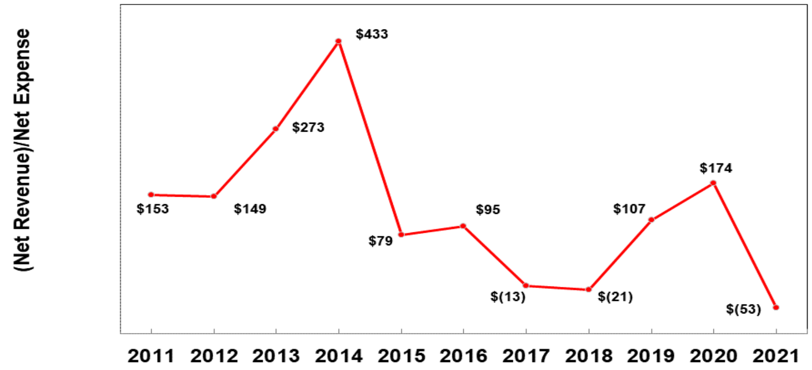
The fair market value of properties held in the real estate portfolio are evaluated on at least an annual basis. If necessary, a valuation allowance is recorded through a charge to net income. In 2021, valuation losses of $640,000 were recorded as a charge to net income. This was an increase of approximately $306,000 over the prior year. The year over year increase is primarily due to valuation allowances recorded on two specific properties.

On the first property, due diligence related to a potential sale uncovered a previously undetected structural issue. It was ultimately determined that the best course of action would be to demolish the property and sell as vacant land. A valuation loss on this property of approximately $286,000 was recorded which included an accrual for the estimated costs to demolish.

On the second property, ongoing damage was being caused by water runoff from an adjacent property that was not owned by the Bank. It was determined that the best course of action to protect the Bank's collateral was to enter into litigation with the owner of the adjacent property, which resulted in a judgement allowing the Bank to acquire the property. Upon acquisition and a full inspection, structural issues were discovered, and it was determined that the best course of action to protect the Bank's original asset would be demolition of the acquired property.
A valuation loss of approximately $201,000 was recorded which included estimated costs to demolish the building and estimated costs to mitigate damage on the Bank's original asset.

Chart #11 outlines the Bank's direct costs, net of rental income, to carry real estate on an annual basis since 2011. In 2021, the Bank had rental income in excess of direct expense of $53,000. This is a $227,000 decrease from a net expense of $174,000 the prior year. The decrease in year over year carrying costs is a direct result of the reduction in the number of properties in the real estate portfolio. It is important to note that this chart illustrates direct holding costs only. There is an additional payroll component for managing and maintaining properties that is included in Bank management and administrative wages. These costs are generally fixed regardless of the size of the real estate portfolio and have remained stable in 2021.

CHART #11
FORECLOSED REAL ESTATE
DIRECT HOLDING COSTS/(INCOME)
($ IN THOUSANDS)



LIQUIDITY AND FUNDING

Total cash and cash equivalents decreased $3 million from the prior year to a balance of $67.4 million at September 30, 2021. Liquidity management has been a challenge throughout 2021. Various stimulus programs implemented by the government to counter the effect of the COVID-19 pandemic on the national economy has created excess liquidity in the banking system as a whole. This has resulted in a significant increase in deposit balances at the Bank. Balances in the Bank's NOW and Savings accounts increased $35.1 million, or 28%, year over year.

The Bank's target balance of cash and cash equivalents is based on its liquidity policy and modeling process which accounts for anticipated fluctuations in deposit account balances, projected needs for funding loan commitments and reserves for other anticipated risk factors. The Bank's liquidity policy rigidly aligns liquidity requirements with current and projected capital levels. The Bank's access to wholesale funding sources would be interrupted if its capital ratios would fall below a well-capitalized regulatory classification.

The Bank maintains several sources of contingent liquidity. This includes established and tested borrowing capacity with Federal Home Loan Bank ("FHLB") and the Federal Reserve Discount Window. As of September 30, 2021, the Bank had pledged a combined total of $154 million in collateral to support an aggregate borrowing capacity of $111 million.

The Bank's borrowing capacities are established primarily as contingency funding tools. The Bank also uses a portion of it borrowing capacity at the FHLB as a tool for managing interest rate risk and to take advantage of favorable pricing for funds when available. As of September 30, 2021 the Bank had total advances outstanding at the FHLB of $62.3 million. This was a decrease of $15.2 million from the prior year.

The Bank was also a participant in the Federal Reserve Paycheck Protection Program Liquidity Facility ("PPPLF"). This lending facility was established to provide lower cost funding in support of banks participating in the PPP lending program. Funds are advanced on a non-recourse basis and PPP loans are pledged as collateral. PPPLF advances carry a fixed rate of interest of 35bps and mature in conjunction with the maturity, forgiveness or prepayment of the underlying PPP loan collateral. At September 30, 2021, the Bank had outstanding advances of $1.3 million. This is a $52.4 million decrease from the prior year and is reflective of the winding down of this program.

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 rates while the cost of administration is less than that of retail deposits. Brokered CDs are well protected from early withdrawal in a rising interest rate environment. This, along with the ability to manage term, makes brokered certificates a good tool for interest rate risk management.

The Bank mitigates the risks associated with wholesale funding by utilizing multiple brokers and underwriters to protect against interruption in the marketplace or with a particular issuer. In addition, Management has policies in place to ladder maturities in order to protect against large blocks of maturities should a liquidity event occur. The Bank also closely monitors liquidity levels and regularly performs stress testing by modeling various emergency liquidity scenarios. Lastly, as discussed, several contingent sources of liquidity are maintained and tested for use should a disruption occur in the brokered CD market.

COST OF FUNDS

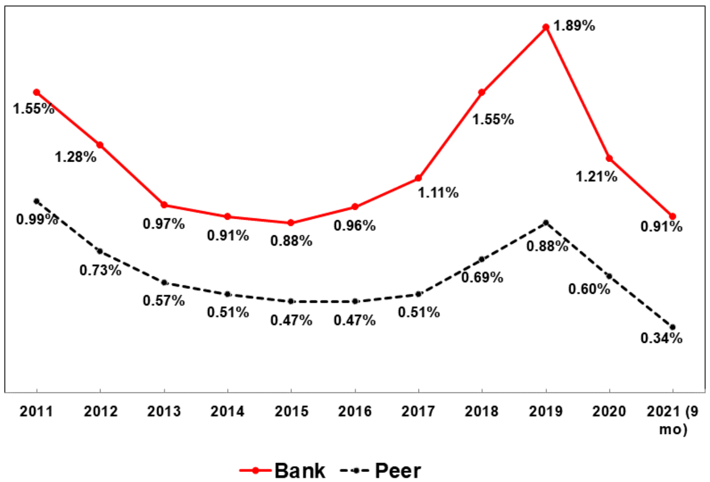
Total interest expense for the Bank decreased $1.2 million to a total of $3.5 million in 2021. The primary driver of this decrease was an interest rate environment that continued to be at historical lows. Interest rates across the entire yield curve dropped beginning in the first calendar quarter of 2020 and the rate environment remained low throughout fiscal 2021.

Chart #12 illustrates the Bank's historical cost of funds from 2011 to present. From the end of calendar year 2020 through the first nine months of 2021, the Bank's cost of funds has dropped 30bps. If market rates remain at these lower levels, the Bank’s cost of funds will continue to trend downward as longer term liabilities continue to mature and are replaced with lower rate deposits.

Also contributing to the drop in cost of funds is a shift in the mix of deposits. In 2021, NOW and Savings deposits increased $35.1 million or 28%. This increase has allowed the Bank to reduce its reliance on brokered CDs and FHLB advances which typically carry a higher rate. In 2021, certificates and other time deposits decreased $14.8 million, and outstanding advances from the FHLB decreased $15.2 million.

Lastly, Management continued to narrow the spread to index on its Simplicity deposit product line. In April of 2016, the Simplicity product was introduced to provide a more transparent pricing model and to grow deposits in order to reduce reliance on wholesale funding sources. In order to induce deposit growth, the spread to index on this product was set so that the Bank's rates would be at or near the top of the local market. As shown in Chart #12, this increased the Bank's spread to peer beginning in 2017 and it peaked in 2019 at 101 bps.

CHART #12
INTEREST EXPENSE TO AVERAGE EARNING ASSETS (%)
(CALENDAR YEAR)



The pricing strategy did not generate enough deposit growth to justify the cost, therefore, Management began to unwind the strategy by narrowing the index starting in 2019. Since that time, the spread to peer has come back in line and has decreased from the peak of 101bps in 2019 to 57bps through the first nine months of calendar 2021.

OVERHEAD AND EFFICIENCY

Total other operating expenses increased approximately $1.4 million or 12% as compared to the prior year. The following will highlight the major components contributing to this increase.

The largest component was an increase in relationship manager costs of approximately $583,000. RM expense is based on a formula tied to the income generated by the RM, net of loss provisions. This creates a vested interest by the RM in client success and the Bank's overall performance. As a result, this expense is variable and correlates to Bank earnings. This year's increase in RM expense was in line with the Bank's year over year increase in earnings.

Included in operating expenses are real estate commission expenses related to revenue generated by the Bank's real estate subsidiary. Real estate commission expense increased approximately $417,000 over the prior year. This expense is variable in nature and was supported by a year over year increase in commission income of approximately $515,000.

In 2021, the Board approved performance bonuses for the Executive team and a one-time bonus for the extra effort of staff involved in the success of administering the PPP program. The aggregate cost of these bonuses was approximately $330,000. A significant portion of the Executive bonus was paid in shares of common stock in order to reduce the impact on the Bank's regulatory capital ratios.

Costs associated with IT staffing and infrastructure increased approximately $240,000 year over year and this continues a long term trend of increased costs in this area. Much of this increase is in response to growing cyber security risks that are impacting the entire Banking industry. Protecting the Bank's assets as well as sensitive client information from growing cyber security threats continues to be a high priority. While the majority of the Bank's fixed infrastructure costs have remained stable in support of the Bank's growth, cost increases in IT remain a concern.

Wages and benefits expense associated with the Bank's insurance services subsidiary increased approximately $208,000 year over year. While remaining profitable, net income before tax generated by the subsidiary decreased approximately $178,000 year over year. This represents continued refinement of staff and infrastructure to support the rapid growth that has occurred in this business line.

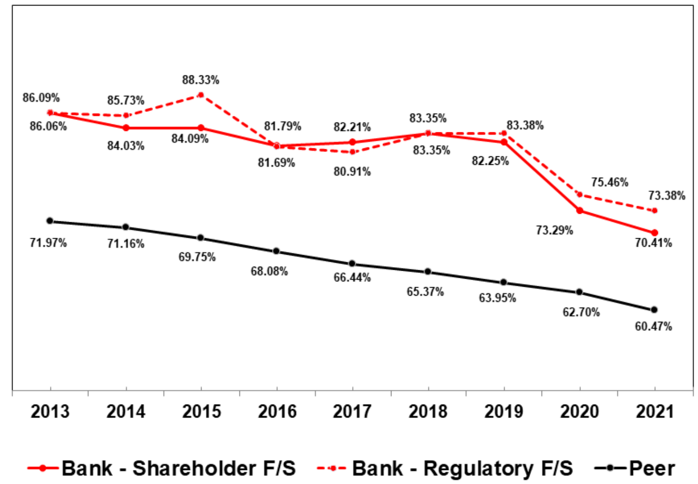
Prior year discussions have highlighted legal expense increases as a result of two ongoing lawsuits. In 2020, the Bank prevailed on one of these lawsuits as it was dismissed in the summary judgement phase. In 2021, the Bank was successful in settling a counterclaim on this lawsuit which resulted in a recovery of approximately $400,000 of expense. As a result, legal and accounting services expense (See Note 14) decreased by approximately the same amount year over year, which resulted in a credit balance in 2021 of approximately $71,000. The second lawsuit is ongoing. The Bank continues to defend itself against the second suit and believes it will ultimately prevail.

Chart #13 compares the Bank's efficiency ratio to its peer group from 2013 through 2021. Please note that for this chart, the Bank's data is presented on a fiscal year basis and the peer group data is presented on a calendar year basis. The Bank's efficiency ratio is a primary indicator used by Management to monitor the Bank's utilization of its operating overhead.

In 2013, the Bank expanded its facility and added personnel, technology and other infrastructure in order to increase capacity in preparation for growth. While this initially increased the Bank's efficiency ratio and widened its spread to peer, anticipation was that the ratio would be brought back into line as the Bank grew into the new capacity through growth in the loan portfolio.

The starting point of this growth was delayed initially as the Bank focused on building capital in order to comply with the new Basel III regulatory capital rules which were finalized shortly after the Bank's expansion. Management resumed loan growth beginning in 2016 and has continued to emphasize growth through the current year (See Charts #5 and #6).

CHART #13
EFFICIENCY RATIO (%)
(BANK – FISCAL YEAR; PEER – CALENDAR YEAR)



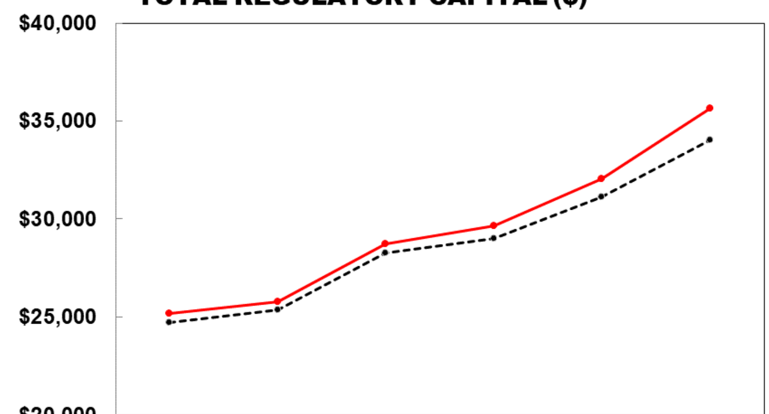
Since 2016, the ratio has been on an overall downward trajectory at a rate similar to the peer group. This was interrupted for a period of time by the core deposit pricing strategy highlighted earlier in this discussion. The increase in rates associated with the program led to an elevated cost of funds and a dilution to earnings during this period. This impacted the periods of 2017 through 2019. For the past two years, the unwinding of this program along with the generation of increased revenue has worked to significantly improve the ratio.

Another consideration when analyzing the Bank's efficiency ratio is its investment in the subsidiary lines of business. This investment is unique to the peer group in that it is allocated more to service oriented businesses. This adds fixed personnel and infrastructure costs that are over and above that of typical bank operations.

REGULATORY CAPITAL

Chart #14 illustrates the Bank's Total Regulatory Capital ($) balances since 2016. Chart #15 illustrates the Bank's Total Risk Based Capital Ratio (%) for the same period. These charts indicate both Total Capital as reported in the Bank's regulatory Call Reports and if amounts were reported based on the shareholder financial statement results. Please refer to Note 23 of the financial statements for additional detail of these differences.

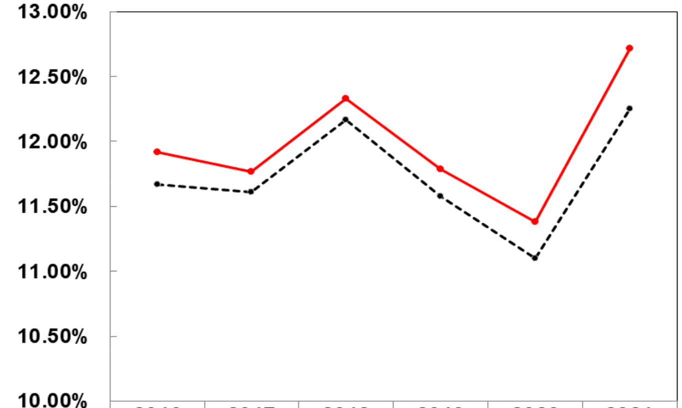
CHART #14
TOTAL REGULATORY CAPITAL ($)



	2016	2017	2018	2019	2020	2021
GAAP	$25,198	$25,779	$28,715	$29,632	$32,062	$35,623
Regulatory	$24,697	$25,377	$28,255	$29,001	$31,110	$34,041

Regulatory Total Capital, as reported on the Bank's Call Report, increased $2.9 million in 2021. The Bank's Total Risk Based Capital Ratio, as reported on the Bank's Call Report, increased 1.34%. The increases are reflective of 2021 net income less preferred stock dividends of $450,000 and dividends paid to shareholders of $238,000. The preferred stock dividend represents a 9% annual dividend rate on the average outstanding preferred stock balance. The shareholder dividend represents an annual dividend of $0.21 per outstanding share of common stock.

CHART #15
TOTAL RISK BASED CAPITAL (%)



	2016	2017	2018	2019	2020	2021
GAAP	11.92%	11.77%	12.33%	11.79%	11.38%	12.72%
Regulatory	11.67%	11.61%	12.17%	11.58%	11.10%	12.25%

In 2021, the Company re-issued 23,013 shares of Treasury Stock. Treasury shares were issued to the Enterprise Stock Ownership Plan and used to fund 2021 executive bonuses granted by the Board. The proceeds of this re-issuance were down streamed to the Bank as additional capital.

Given the Bank's usage of wholesale funding markets, it is imperative that the Bank maintain a well-capitalized regulatory classification. If the Bank's capital would fall below well-capitalized levels its access to wholesale funding would be disrupted.

The Bank has set internal requirements for regulatory capital that are above the well-capitalized threshold and are aligned with the institution's risk profile. These requirements provide a buffer for the Bank to react prior to its classification being downgraded. At September 30, 2021, all capital ratios were in compliance with the Board set limits.

An updated capital management plan was included in the 2020 update of the five year business plan. This plan included stabilization of loan growth in order to support the accumulation of capital in excess of the Board mandated levels. This additional capital would be used to begin liquidating the Company's preferred stock.

elliott davis

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. and its Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of September 30, 2021, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

elliott davis

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Financial Services Group, Inc. and its Subsidiaries as of September 30, 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

The financial statements of the Company, as of and for the year ended September 30, 2020, were audited by other auditors, whose report, dated April 23, 2021, expressed an unmodified opinion on those statements.

Elliott Davis, LLC

Columbia, South Carolina
December 16, 2021

Elliott Davis, LLC

ASSETS

	September 30, 2021	September 30, 2020
Cash and due from banks	$ 758,691	$ 750,072
Cash on deposit with Federal Reserve Bank	66,197,159	69,005,246
Interest bearing deposits with banks	516,755	754,754
Cash and Cash Equivalents	**67,472,605**	**70,510,072**
Loans receivable	289,457,710	331,477,092
Allowance for loan losses	(977,316)	(1,168,012)
Net Loans	**288,480,394**	**330,309,080**
Accrued interest receivable	1,238,935	1,457,817
Premises and equipment, net	10,712,403	8,507,225
Restricted investments in bank stock	2,663,600	3,254,300
Other assets (See note 8)	6,969,707	8,588,455
Total Assets	**$ 377,537,644**	**$ 422,626,949**

See Notes to Consolidated Financial Statements

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2021	September 30, 2020
LIABILITIES		
Non-interest bearing deposits	$ 5,128,713	$ 5,819,401
Interest bearing deposits	270,801,321	250,450,208
Total Deposits	**275,930,034**	**256,269,609**
Borrowings	63,741,187	131,367,900
Accrued interest payable	313,344	535,259
Accrued expenses and other liabilities	3,060,890	3,711,498
Total Liabilities	**343,045,455**	**391,884,266**
Commitments and contingencies (See Notes 6 and 17)		
STOCKHOLDERS' EQUITY		
Senior non-cumulative perpetual preferred stock authorized 5,000,000 shares; 5,000 shares issued and outstanding at September 30, 2021 and 2020, with a liquidation value of $1,000 per share	5,000,000	5,000,000
Common stock, par value $.50; authorized 9,846,555 shares; 1,200,320 issued at September 30, 2021 and 2020, respectively	600,160	600,160
Additional paid in capital	13,756,227	13,628,506
Retained earnings	15,508,619	12,082,446
Treasury stock, cost 42,787 and 65,800 shares at September 30, 2021 and 2020, respectively	(372,817)	(568,429)
Total Stockholders' Equity	**34,492,189**	**30,742,683**
Total Liabilities and Stockholders' Equity	**$ 377,537,644**	**$ 422,626,949**

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

	September 30, 2021	September 30, 2020
INTEREST INCOME		
Interest and fees on loans	$ 17,770,195	$ 16,629,824
Interest on Federal Reserve balances	63,869	215,840
Other interest and dividend income	156,561	217,062
Total Interest Income	**17,990,625**	**17,062,726**
Interest on deposits	1,983,405	2,963,062
Interest on borrowings	1,545,137	1,738,794
Total Interest Expense	**3,528,542**	**4,701,856**
Net Interest Income	**14,462,083**	**12,360,870**
PROVISION FOR LOAN LOSSES	**32,897**	**607,201**
Net Interest Income After Provision For Loan Losses	**14,429,186**	**11,753,669**
OTHER OPERATING INCOME		
Service charges on deposit accounts	343,397	325,811
Other fee revenue (see Note 12)	3,830,526	3,146,037
Loss on sale of foreclosed real estate	(51,393)	(106,382)
Loss on valuation of foreclosed real estate	(640,344)	(334,148)
Total Other Operating Income	**3,482,186**	**3,031,318**
OTHER OPERATING EXPENSES		
Salaries and employee benefits (see Note 13)	7,054,222	5,596,590
Occupancy	475,497	481,174
Furniture and office equipment	321,785	404,105
Data processing and computer equipment	789,578	688,493
FDIC insurance expense	482,686	468,488
Other (see Note 14)	3,511,092	3,642,546
	12,634,860	**11,281,396**
Net Income From Continuing Operations, Before Tax	**5,276,512**	**3,503,591**

See Notes to Consolidated Financial Statements

	September 30, 2021	September 30, 2020
INCOME TAX EXPENSE	**1,162,090**	**765,963**
Net Income	**4,114,422**	**2,737,628**
Preferred stock dividends	450,000	450,000
Net Income Attributable To Common Stockholders	**$ 3,664,422**	**$ 2,287,628**
Net Income Attributable to Common Stockholders, per share (basic)	**$ 3.23**	**$ 2.02**
Net Income Attributable to Common Stockholders, per share (diluted)	**$ 3.23**	**$ 2.02**

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

	Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Non-Controlling Interest	Total Stockholders' Equity
BALANCE AT SEPTEMBER 30, 2019	**$ 5,000,000**	**$ 600,160**	**$ 13,628,506**	**$ 10,033,067**	**$ (568,429)**	**$ 28,727**	**$ 28,722,031**
Liquidation of non-controlling interest	-	-	-	-	-	(28,727)	(28,727)
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	-	-	-	2,737,628	-	-	2,737,628
BALANCE AT SEPTEMBER 30, 2020	**5,000,000**	**600,160**	**13,628,506**	**12,082,446**	**(568,429)**	**-**	**30,742,683**
Re-issuance of treasury stock (23,013 shares at $14.05/share)	-	-	127,721	-	195,612	-	323,333
Cash dividends paid on preferred stock ($90.00 per share)	-	-	-	(450,000)	-	-	(450,000)
Cash dividends paid on common stock ($0.21 per share)	-	-	-	(238,249)	-	-	(238,249)
Net income	-	-	-	4,114,422	-	-	4,114,422
BALANCE AT SEPTEMBER 30, 2021	**$ 5,000,000**	**$ 600,160**	**$ 13,756,227**	**$ 15,508,619**	**$ (372,817)**	**$ -**	**$ 34,492,189**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

	Years Ended September 30,	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITES		
Net income	$ 4,114,422	$ 2,737,628
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	32,897	607,201
Loss on sale of foreclosed real estate	51,393	106,382
Loss on valuation of foreclosed real estate	640,344	334,148
Amortization of deferred loan fees and costs, net	156,653	145,606
Depreciation of premises and equipment	695,062	678,929
(Gain) loss on disposition of premises and equipment	(55,753)	1,952
Increase in deferred tax asset	(209,110)	(145,214)
(Increase) decrease in accrued interest receivable	218,882	(654,950)
(Increase) decrease in other assets	450,535	(470,611)
Increase (decrease) in other liabilities	(1,010,811)	1,435,733
Decrease in accrued interest payable	(221,915)	(4,091)
Net Cash Provided By Operating Activities	**4,862,599**	**4,772,713**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments in bank stock	(138,100)	(394,300)
Sale of restricted investments in bank stock	728,800	296,000
Net (increase) decrease in loans	41,485,432	(74,572,734)
Purchases of premises and equipment	(2,877,062)	(675,982)
Net proceeds from insurance on foreclosed real estate	184,500	-
Additional investment in foreclosed real estate	(87,634)	(194,015)
Proceeds from the sale of foreclosed real estate	1,135,203	2,242,302
Net Cash Provided (Used) By Investing Activities	**40,431,139**	**(73,298,729)**

See Notes to Consolidated Financial Statements

	Years Ended September 30, 2021	Years Ended September 30, 2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 19,660,425	$ 52,016,205
Dividends paid	(688,249)	(688,249)
Proceeds from re-issuance of treasury stock	323,333	-
Liquidations of Non-controlling interest	-	(28,727)
Proceeds from borrowings	7,257,887	77,798,200
Repayment on borrowings	(74,884,601)	(21,826,800)
Net Cash Provided (Used) By Financing Activities	**(48,331,205)**	**107,270,629**
Net Increase (Decrease) In Cash and Cash Equivalents	**(3,037,467)**	**38,744,613**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**70,510,072**	**31,765,459**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 67,472,605**	**$ 70,510,072**
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest Paid	$ 3,750,457	$ 4,705,097
Income Tax Paid	$ 1,195,615	$ 997,872
NON-CASH INVESTING TRANSACTIONS		
Loans transferred to foreclosed real estate	$ 303,480	$ 2,321,400
Loans to facilitate sales of foreclosed real estate	$ 117,200	$ 765,733

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., Enterprise Intangible Assets, 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. Enterprise Intangible Assets, Inc. holds title to mineral rights the Bank has obtained through foreclosure.

Cash and Cash Equivalents

Cash and cash equivalents includes cash in banks with original maturities of less than 90 days. For purposes of reporting cash flows, the Bank has defined cash and cash equivalents as those amounts included in the Consolidated Statements 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 foreseeable 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.

Management's interpretation of GAAP with regard to the recognition of interest income on loans receivable differs from regulatory reporting guidance. This results in a difference between interest income as presented in this report and interest income as presented in the Bank's regulatory financial reporting. Please refer to Note 23 Reconciliation Of Financial Statements To Regulatory Reporting (Unaudited) for more detail and discussion of these differences.

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 the loss is confirmed.

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 selling costs, 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 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 Statements 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 capitalized 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 $640,344 and $334,148 for the years ended September 30, 2021 and 2020, respectively. There were no gains recorded upon foreclosure of real estate for the years ended September 30, 2021 and September 30, 2020.

The Bank held foreclosed real estate with an aggregate carrying value, net of valuation allowance, of $2,535,123 and $4,050,233 at September 30, 2021 and 2020, respectively, which is included in other assets.

On September 30, 2021 the Bank had recorded investments in loans of $282,936 that were secured by 1-4 family residential real estate and in the process of foreclosure. On September 30, 2020 the Bank had no loans secured by 1-4 family residential real estate that were 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, 2021 and 2020 was $57,692 and $94,841, 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.

Adoption of New Accounting Standards

On October 1, 2019, the Bank adopted ASU No. 2016-02 “Leases (Topic 842)” and subsequent amendments thereto, which requires the Bank to recognize most leases on the balance sheet. We adopted the standard under a modified retrospective approach as of the date of adoption.

Adoption of the leasing standard resulted in no recognition of operating right-of-use assets and operating lease liabilities as of January 1, 2019 as the Bank has no leases in excess of 12 months. There was no material impact to the timing of expense or income recognition in the Bank’s Consolidated Statements of Income. Prior periods were not restated and continue to be presented under legacy GAAP.

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.

Risk and Uncertainties

On March 11, 2020, the World Health Organization announced that the COVID-19 outbreak was deemed a pandemic, and on March 13, 2020, President Donald Trump declared the ongoing COVID-19 pandemic of sufficient magnitude to warrant an emergency declaration. The extent to which the coronavirus may impact business activity will depend on future developments, which are highly uncertain and cannot be predicted, including new information which may emerge concerning the severity of the coronavirus and the actions required to contain or treat its impact, among others.

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. Effective March 26, 2020, in response to the COVID-19 pandemic, the Federal Reserve reduced its reserve requirement ratios to zero percent. As a result, the Bank had no reserve requirement at September 30, 2021 and 2020.

The Federal Reserve Bank paid interest on any required reserves and excess balances during the years ended September 30, 2021 and 2020. The Bank had interest bearing balances with the Federal Reserve of $66,197,159 and $69,005,246 at September 30, 2021 and 2020, 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, 2021 and 2020 as follows:

	2021	**2020**
Federal Home Loan Bank stock	$ 2,633,600	$ 3,224,300
Atlantic Community Bankers Bank stock	30,000	30,000
Total	**$ 2,663,600**	**$ 3,254,300**

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 member's 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, 2021 and 2020 was as follows:

	2021	2020
Real estate:		
Construction and land development	$ 8,597,451	$ 14,958,546
Mortgage:		
Residential	19,589,836	16,533,030
Commercial	230,203,370	216,803,550
Commercial and industrial loans	30,550,662	83,139,222
Consumer loans	66,367	66,055
Other	48,415	65,576
Total	**289,056,101**	**331,565,979**
Unamortized deferred loan (fees) and origination costs, net	401,609	(88,887)
Total	**289,457,710**	**331,477,092**
Less allowance for loan losses	(977,316)	(1,168,012)
Net loans	**$ 288,480,394**	**$ 330,309,080**

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.

On September 30, 2021, the Bank had concentrations in loans to lessors of non-residential buildings (except mini-warehouses), lessors of residential buildings, and hotels (except casino hotels) in the amounts of $65,686,835, $28,343,151 and $19,992,743, respectively.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”) was signed into law which included a $349 billion loan program administered through the U.S. Small Business Administration (“SBA”), referred to as the Paycheck Protection Program (“PPP”). This program was subsequently increased by another $320 billion on April 20, 2020. Under the PPP program, small businesses, sole proprietorships, independent contractors and self-employed individuals could apply for loans from existing SBA lenders and other approved regulated lenders that were enrolled in the program, subject to numerous limitations and eligibility criteria. PPP loans are 100% guaranteed by the SBA and the borrower is eligible for loan forgiveness by the SBA if they meet certain criteria. The loans have a fixed interest rate of 1%. As of September 30, 2021, the Bank had 38 loans outstanding under the PPP program with an aggregate principal balance of $7,279,377. As of September 30, 2020, the Bank had 326 loans outstanding under the PPP program with an aggregate principal balance of $53,637,200. The principal balances of PPP loans are included in commercial and industrial loans in the above table.

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

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.

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 and Industrial: 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.

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

The following is a detail of the Bank's loans, classified by delinquent status, at September 30, 2021 and 2020 along with the value of risk mitigation programs in place to limit the Bank's exposure to loss from these loans.

September 30, 2021		**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	$ 8,597,451	$ -	$ -	$ -	$ -	$ -	$ 8,597,451
Mortgage:							
Residential:	19,529,442	-	-	-	-	60,394	19,589,836
Commercial:	223,161,923	2,285,651	-	901,449	3,187,100	3,854,347	230,203,370
Commercial and industrial loans	29,535,732	543,984	188,010	-	731,994	$ 282,936	30,550,662
Consumer loans	66,367	-	-	-	-	-	66,367
Other	48,415	-	-	-	-	-	48,415
Total	**280,939,330**	**2,829,635**	**188,010**	**901,449**	**3,919,094**	**4,197,677**	**289,056,101**
Less government guaranteed portion	38,741,783	847,951	141,008	-	988,959	254,642	39,985,384
SBA 504 financing (1)	17,505,986	784,596	-	-	784,596	-	18,290,582
Net after SBA credit enhancements	**$ 224,691,561**	**$ 1,197,088**	**$ 47,002**	**$ 901,449**	**$ 2,145,539**	**$ 3,943,035**	**$ 230,780,135**

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

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

September 30, 2020	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	$ 14,958,546	$ -	$ -	$ -	$ -	$ -	$ 14,958,546
Mortgage:							
Residential	15,220,027	-	-	-	-	1,313,003	16,533,030
Commercial	204,562,546	4,554,922	-	829,091	5,384,013	6,856,991	216,803,550
Commercial and industrial loans	80,627,519	550,000	37,060	280,591	867,651	1,644,052	83,139,222
Consumer loans	66,055	-	-	-	-	-	66,055
Other	65,576	-	-	-	-	-	65,576
Total	**315,500,269**	**5,104,922**	**37,060**	**1,109,682**	**6,251,664**	**9,814,046**	**331,565,979**
Less government guaranteed portion	83,360,990	412,500	31,501	210,443	654,444	2,653,726	86,669,160
SBA 504 financing (1)	11,628,976	-	-	-	-	-	11,628,976
Net after SBA credit enhancements	**$ 220,510,303**	**$ 4,692,422**	**$ 5,559**	**$ 899,239**	**$ 5,597,220**	**$ 7,160,320**	**$ 233,267,843**

(1) SBA loan structure typically carries a 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 31, 2021 and 2020.

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, net of estimated selling costs, 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. Construction and land development are loans secured by real estate that are generally to finance land development or on-site construction of industrial, commercial, residential or farm buildings. Commercial and 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, 2021 and 2020. 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 is 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)

September 30, 2021

	Real Estate Residential	Real Estate Commercial	Construction	Commercial & Industrial	Consumer	Other	Total
Loans							
Individually evaluated for impairment (all 6 rated loans)	$ 186,912	$ 5,598,155	$ -	$ 1,170,221	$ -	$ -	$ 6,955,288
Troubled debt restructured with a risk rating of 1 - 5	985,240	17,115,202	-	254,812	-	-	18,355,254
Collectively evaluated for impairment (all other rated 1-5)	18,417,684	207,490,013	8,597,451	29,125,629	66,367	48,415	263,745,559
Total Loans	**$ 19,589,836**	**$ 230,203,370**	**$ 8,597,451**	**$ 30,550,662**	**$ 66,367**	**$ 48,415**	**$ 289,056,101**
Related Allowance							
Individually evaluated for impairment (all 6 rated loans)	$ 19,768	$ 49,657	$ -	$ 24,845	$ -	$ -	$ 94,270
Troubled debt restructured with a risk rating of 1 - 5	-	-	-	-	-	-	-
Collectively evaluated for impairment (all other rated 1-5)	51,348	695,543	23,636	112,203	245	71	883,046
Total Allowance	**$ 71,116**	**$ 745,200**	**$ 23,636**	**$ 137,048**	**$ 245**	**$ 71**	**$ 977,316**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2020

	Real Estate Residential	Real Estate Commercial	Construction	Commercial & Industrial	Consumer	Other	Total
Loans							
Individually evaluated for impairment (all 6 rated loans)	$ 702,825	$ 10,372,645	$ -	$ 2,582,028	$ -	$ -	$ 13,657,498
Troubled debt restructured with a risk rating of 1 - 5	979,440	13,230,350	-	413,280	-	-	14,623,070
Collectively evaluated for impairment (all other rated 1-5)	14,850,765	193,200,555	14,958,546	80,143,914	66,055	65,576	303,285,411
Total Loans	**$ 16,533,030**	**$ 216,803,550**	**$ 14,958,546**	**$ 83,139,222**	**$ 66,055**	**$ 65,576**	**$ 331,565,979**
Related Allowance							
Individually evaluated for impairment (all 6 rated loans)	$ 40,771	$ 4,546	$ -	$ 235,459	$ -	$ -	$ 280,776
Troubled debt restructured with a risk rating of 1 - 5	12,725	-	-	4,411	-	-	17,136
Collectively evaluated for impairment (all other rated 1-5)	40,872	667,245	41,962	117,637	702	1,682	870,100
Total Allowance	**$ 94,368**	**$ 671,791**	**$ 41,962**	**$ 357,507**	**$ 702**	**$ 1,682**	**$ 1,168,012**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Activity in the allowance for loan losses for the years ended September 30, 2021 and 2020 is summarized as follows:

September 30, 2021

	Residential Mortgage	Commercial Mortgage	Construction & Land Development	Commercial & Industrial	Consumer	Other	Total
Allowance for credit losses							
Beginning Balance	$ 94,368	$ 671,791	$ 41,962	$ 357,507	$ 702	$ 1,682	$ 1,168,012
Provision for (credit from) loan losses	18,446	73,409	(18,326)	(38,564)	(457)	(1,611)	32,897
Recoveries of previously charged off loans	7,563	-	-	317	-	-	7,880
Charge-offs	(49,261)	-	-	(182,212)	-	-	(231,473)
Ending Balance	**$ 71,116**	**$ 745,200**	**$ 23,636**	**$ 137,048**	**$ 245**	**$ 71**	**$ 977,316**

September 30, 2020

	Residential Mortgage	Commercial Mortgage	Construction & Land Development	Commercial & Industrial	Consumer	Other	Total
Allowance for credit losses							
Beginning Balance	$ 73,180	$ 477,837	$ 5,188	$ 244,593	$ 789	$ -	$ 801,587
Provision for (credit from) loan losses	45,738	402,679	36,774	120,415	(87)	1,682	607,201
Recoveries of previously charged off loans	450	499	-	5,841	-	-	6,790
Charge-offs	(25,000)	(209,224)	-	(13,342)	-	-	(247,566)
Ending Balance	**$ 94,368**	**$ 671,791**	**$ 41,962**	**$ 357,507**	**$ 702**	**$ 1,682**	**$ 1,168,012**

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, 2021 and 2020 are as follows:

September 30, 2021

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Real Estate:							
Construction and land development	$ -	$ 289,816	$ 4,939,500	$ 3,368,135	$ -	$ -	$ 8,597,451
Mortgage:							
Residential	2,931,442	805,167	12,070,839	3,621,591	82,715	78,082	19,589,836
Commercial	18,730,239	6,001,216	102,489,336	87,093,671	11,191,484	4,697,424	230,203,370
Commercial and industrial loans	19,649,075	349,419	3,851,777	5,842,160	391,789	466,442	30,550,662
Consumer loans	-	-	-	66,367	-	-	66,367
Other	16,531	-	31,884	-	-	-	48,415
Total	**$ 41,327,287**	**$ 7,445,618**	**$ 123,383,336**	**$ 99,991,924**	**$ 11,665,988**	**$ 5,241,948**	**$ 289,056,101**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2020

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Real Estate:							
Construction and land development	$ -	$ 106,697	$ 12,518,398	$ 2,333,451	$ -	$ -	$ 14,958,546
Mortgage:							
Residential	1,218,476	1,178,432	11,318,400	2,030,759	269,446	517,517	16,533,030
Commercial	18,931,776	6,023,045	107,986,762	66,902,591	7,530,052	9,429,324	216,803,550
Commercial and industrial loans	66,980,445	1,083,498	5,805,456	8,266,977	194,332	808,514	83,139,222
Consumer loans	19,091	-	-	46,964	-	-	66,055
Other	840	64,736	-	-	-	-	65,576
Total	**$ 87,150,628**	**$ 8,456,408**	**$ 137,629,016**	**$ 79,580,742**	**$ 7,993,830**	**$ 10,755,355**	**$ 331,565,979**

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 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, 2021 and 2020:

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, 2021

	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 with Specific Allowance		Troubled Debt Restructured with no Specific Allowance	Total Impaired Loans		
	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal	Related Allowance	Unpaid Principal Balance	Unpaid Principal Balance	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage									
Residential	145,106	19,768	41,806	-	-	985,240	1,172,152	1,040,652	225,251
Commercial	3,336,921	49,657	2,261,234	-	-	17,115,202	22,713,357	24,680,650	2,064,570
Commercial and industrial loans	282,936	24,845	887,285	-	-	254,812	1,425,033	2,147,188	141,570
Consumer loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	**$ 3,764,963**	**$ 94,270**	**$ 3,190,325**	**$ -**	**$ -**	**$ 18,355,254**	**$ 25,310,542**	**$ 27,868,490**	**$ 2,431,391**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2020

	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 with Specific Allowance		Troubled Debt Restructured with no Specific Allowance	Total Impaired Loans		
	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal	Related Allowance	Unpaid Principal Balance	Unpaid Principal Balance	Average Investment in Impaired Loans	Interest Income Recognized on Impaired Loans
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage									
Residential	462,480	40,771	240,345	588,677	12,725	390,763	1,682,265	1,535,075	33,862
Commercial	39,639	4,546	10,333,006	-	-	13,230,350	23,602,995	23,992,677	1,878,244
Commercial and industrial loans	2,007,454	235,459	574,574	24,115	4,411	389,165	2,995,308	3,588,811	259,164
Consumer loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	**$ 2,509,573**	**$ 280,776**	**$ 11,147,925**	**$ 612,792**	**$ 17,136**	**$ 14,010,278**	**$ 28,280,568**	**$ 29,116,563**	**$ 2,171,270**

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)

On March 22, 2020, the federal banking agencies issued an "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" (revised later on April 7, 2020), which, among other things, encouraged financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations because of the effects of COVID-19, stated that institutions generally do not need to categorize COVID-19 related modifications as TDRs, and that the agencies will not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as TDRs. In addition, the CARES Act provides financial institutions the option to temporarily suspend certain requirements under GAAP related to loan modifications and classification as TDRs for a limited period of time to account for the effects of COVID-19. As of September 30, 2021, total COVID-19 related modifications were approximately $478,721, representing 3 loans or 0.17% of the portfolio. As of September 30, 2020, total COVID-19 related modifications were approximately $8,002,381, representing 9 loans or 2.4% of the portfolio. Loan modifications were made on a case-by-case basis and ranged from an extension of interest only payments, maturity extensions or payment deferrals. These loans are not classified as TDRs.

The following summarizes loan modifications that were designated as TDRs during the fiscal years ended September 30, 2021 and 2020:

Troubled Debt Restructuring:

	Number of Contracts	Pre-Modification Outstanding Principal, Net	Post-Modification Outstanding Principal, Net
Year ended September 30, 2021			
Real Estate - Commercial	**5**	$ 9,423,669	$ 9,423,669
Commercial & Industrial	**5**	1,048,790	1,048,790
Total	**10**	**$ 10,472,459**	**$ 10,472,459**
Year ended September 30, 2020			
Real Estate - Residential	**3**	$ 1,369,756	$ 1,369,756
Real Estate - Commercial	**7**	12,798,116	12,798,116
Commercial & Industrial	**6**	2,094,802	2,094,802
Total	**16**	**$ 16,262,674**	**$ 16,262,674**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following summarizes loan modifications that were designated as TDRs during the fiscal years ended September 30, 2021 and 2020:

September 30, 2021

Description	Number of Loans	Principal Balance at Modification
Maturity extension	**4**	$ 3,258,228
Grant or extend interest only period	**6**	7,214,231
Total	**10**	**$ 10,472,459**

September 30, 2020

Description	Number of Loans	Principal Balance at Modification
Maturity extension	**9**	$ 7,576,245
Payment modification	**7**	8,686,429
Total	**16**	**$ 16,262,674**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructuring That Subsequently Defaulted

	Year Ended September 30, 2021		Year Ended September 30, 2020	
	Number of Contracts	Outstanding Principal, Net	Number of Contracts	Outstanding Principal, Net
Real Estate - Commercial	-	$ -	1	$ 553,412
Total	**-**	**$ -**	**1**	**$ 553,412**

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, 2021 and 2020, included with the allowance for loan losses are reserves of $49,657 and $17,136, 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, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2021	2020
Commitments to grant loans	$ 4,818,200	$ 13,376,750
Unfunded Commitments under lines of credit	42,869,943	50,208,982
Standby letters of credit	2,390,002	1,721,653

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, 2021 and 2020:

	2021	2020
Land and improvements	$ 1,617,394	$ 1,617,394
Buildings and improvements	8,937,386	6,800,159
Furniture and equipment	4,893,854	4,388,402
Vehicles	782,057	751,899
Accumulated Depreciation	(5,518,288)	(5,050,629)
Total	**$ 10,712,403**	**$ 8,507,225**

Depreciation expense of $695,062 and $678,929 was incurred by the company for the years ended September 30, 2021 and 2020, respectively and is included in other operating expense.

NOTE 8 - OTHER ASSETS

The following summarizes other assets at September 30, 2021 and 2020:

	2021	2020
Foreclosed real estate	$ 2,535,123	$ 4,050,233
Other foreclosed assets	75,000	75,000
SBA guarantee receivable	2,641,086	1,756,587
Loan costs receivable	427,047	473,900
Deferred tax assets	398,860	189,750
Other receivables	322,249	1,220,044
Other prepaid expenses	526,039	778,732
Miscellaneous	44,303	44,209
Total	**$ 6,969,707**	**$ 8,588,455**

NOTE 9 - INTEREST BEARING DEPOSITS

Interest bearing deposits at September 30, 2021 and 2020 are further detailed as follows:

	2021	2020
NOW accounts	$ 91,445,703	$ 73,411,189
Savings accounts	69,574,279	52,456,985
Certificates and other time deposits	109,781,339	124,582,034
Total	**$ 270,801,321**	**$ 250,450,208**

The Bank utilizes the services of deposit brokers to obtain a portion of its total deposits. The Bank had total deposit balances of $99,775,048 and $114,295,266 at September 30, 2021 and 2020, respectively that were obtained through the use of deposit brokers.

The Bank had $3,410,076 and $2,195,416 in outstanding certificates of deposit issued in denominations greater than $250,000 as of September 30, 2021 and 2020, 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:

2022	$ 39,800,753
2023	14,693,090
2024	15,099,959
2025	16,405,416
2026	23,782,121
	$ 109,781,339

NOTE 10 - BORROWINGS

Borrowings at September 30, 2021 and 2020 are as follows:

	2021	**2020**
Federal Home Loan Bank borrowings	$ 62,281,500	$ 77,501,500
Federal Reserve PPPLF borrowings	1,264,687	53,671,400
Junior subordinated debentures	195,000	195,000
	$ 63,741,187	**$ 131,367,900**

Federal Reserve Bank Discount Window

On September 30, 2021, the Bank had overnight borrowing capacity at the Federal Reserve Bank discount window in the amount of $20,782,651. Loans receivable with a book value of $24,186,092 were pledged to the Federal Reserve Bank of Cleveland as eligible collateral at September 30, 2021. The Bank had no outstanding borrowings at September 30, 2021 and 2020. 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 0.25% at September 30, 2021.

Federal Reserve Bank Paycheck Protection Program Liquidity Facility

The Bank is a participant in the Paycheck Protection Program Liquidity Facility ("PPPLF"). This program was initiated by the Federal Reserve to facilitate lending to small businesses under the Paycheck Protection Program ("PPP Loans") of the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Under this program the Federal Reserve lends to eligible borrowers on a non-recourse basis, taking PPP loans as collateral. PPPLF Advances carry a fixed interest rate of 35 basis points. Advances mature in conjunction with the maturity date of the PPP loan pledged to secure the extension of credit. This maturity is accelerated if the underlying PPP Loan goes into default and the eligible borrower sells the PPP Loan to the SBA to realize the SBA guarantee. The maturity of the advances are also accelerated to the extent of any loan forgiveness reimbursement received from the SBA. To the extent pledged to the PPPLF, PPP loans are deducted from average assets for the Bank's Leverage Ratio (Tier I capital to average assets). The Bank had advances outstanding of $1,264,687 and $53,761,400 on September 30, 2021 and 2020, respectively.

NOTE 10 - BORROWINGS (CONTINUED)

Federal Home Loan Bank

The Bank has established a borrowing capacity at the Federal Home Loan Bank ("FHLB"). On September 30, 2021, the Bank had pledged qualifying loans in the amount of $129,455,181 in support of a maximum borrowing capacity of approximately $90,646,165.

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.

Advances from the FHLB at September 30, 2021 and 2020 consisted of the following:

Loan Type	Maturity Date	Interest Rate	2021	2020
Fixed Rate	November 17, 2020	2.11%	$ -	$ 2,000,000
Fixed Rate	December 10, 2020	1.81%	-	2,300,000
Fixed Rate	February 10, 2021	1.41%	-	5,920,000
Fixed Rate	July 27, 2021	1.52%	-	3,000,000
Fixed Rate	August 10, 2021	1.51%	-	2,500,000
Fixed Rate	September 9, 2021	1.48%	-	2,500,000
Fixed Rate	April 11, 2022	2.19%	1,000,000	1,000,000
Fixed Rate	May 16, 2022	2.21%	6,000,000	6,000,000
Fixed Rate	June 8, 2022	2.10%	5,000,000	5,000,000
Fixed Rate	July 5, 2022	2.27%	6,000,000	6,000,000
Fixed Rate	August 14, 2023	0.65%	5,000,000	5,000,000
Fixed Rate	November 13, 2023	1.93%	4,000,000	4,000,000
Fixed Rate	November 20, 2023	3.21%	6,000,000	6,000,000
Fixed Rate	December 19, 2023	3.03%	5,000,000	5,000,000
Fixed Rate	February 28, 2024	2.83%	5,000,000	5,000,000
Fixed Rate	March 14, 2024	2.70%	5,000,000	5,000,000
Fixed Rate	August 23, 2024	1.72%	6,281,500	6,281,500
Fixed Rate	March 3, 2025	1.31%	5,000,000	5,000,000
Fixed Rate	August 13, 2026	1.14%	3,000,000	-
			$ 62,281,500	**$ 77,501,500**

NOTE 10 - BORROWINGS (CONTINUED)

Junior Subordinated Debentures

The Company had outstanding junior subordinated debt securities (“subordinated debentures”) in the amount of $195,000 on September 30, 2021 and 2020.

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% (4.3838% as of July 15, 2021, 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.

NOTE 11 - EMPLOYEE BENEFITS 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, 2021 and 2020 were $177,440 and $154,399, 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, 2021 and 2020.

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 $246,990 and $150,411 for the years ended September 30, 2021 and 2020, respectively. Additional expenses incurred in relation to the ESOP plan include professional fees associated with the administration of the plan. Administrative costs of $10,634 and $10,989 were incurred in the years ended September 30, 2021 and 2020, 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 161,883 and 136,363 shares held by the ESOP and allocated to beneficiary accounts at September 30, 2021 and 2020, respectively. There were no unallocated shares held by the ESOP during these periods. The fair value of the allocated shares was $3,229,561 at September 30, 2021. This valuation was based on the independent appraisal of the Company’s shares completed as of June 30, 2021.

NOTE 11 - EMPLOYEE BENEFIT PLANS (CONTINUED)

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, 2021 there are 32,293 shares subject to the repurchase obligation with a fair value of $644,237. Total account balances subject to distribution request are $657,387 at September 30, 2021. Of this amount, $242,594 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, 2021 there were approximately 1,477 shares, with a fair value of $29,456, 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, 2021 and 2020. Items outside the scope of ASC 606 are noted as such.

	2021	2020
Other Operating Income		
Service charges on deposit accounts		
Overdraft fees	$ 3,865	$ 12,408
Other	339,532	313,403
Total	**343,397**	**325,811**
Other Fee Revenue		
Real estate subsidiary commission income	1,895,004	1,380,114
Real estate subsidiary other fee income	42,596	18,546
Consulting subsidiary fee income	201,973	217,061
Rental and other income from foreclosed real estate	252,326	187,371
ATM fee and service charge income	37,497	34,405
Insurance subsidiary income	1,382,683	1,287,691
Other fee income	18,447	20,849
Total	**3,830,526**	**3,146,037**
Loss on sale of foreclosed real estate	**(51,393)**	**(106,382)**
Loss on valuation of foreclosed real estate	**(640,344)**	**(334,148)**
Total Other Operating Income	**$ 3,482,186**	**$ 3,031,318**

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 is 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. 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 not 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. EBC oftentimes provides services to clients that are in a distressed situation and therefore collectability of fee revenue is questionable. Under these circumstances 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 and other 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)

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 benefit plans paid to the employees of the Bank and its subsidiaries. Further detail of the expense for the years ended September 30, 2021 and 2020 is as follows:

	2021	2020
Wages and Benefits		
Bank management and administrative	$ 3,110,187	$ 2,641,039
Enterprise Business Consultants	728,533	587,883
Kuzneski & Lockard	227,706	203,609
Enterprise Insurance Services	711,752	504,334
Relationship Manager compensation	2,520,794	1,937,475
ASC 310-20 salary deferral for loan origination activities	(244,750)	(277,750)
Total salaries and employee benefits	**$ 7,054,222**	**$ 5,596,590**

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, 2021 and 2020 is as follows:

	2021	2020
Business development	$ 396,717	$ 417,146
Foreclosed real estate expense	199,015	361,679
Real estate agency commissions	1,199,522	782,966
Legal and accounting services	(70,627)	327,322
Directors' fees	234,074	195,591
Telephone	142,157	132,133
Bank shares tax	275,406	258,797
Other loan and collections	8,150	129,648
Other- Bank operations	452,861	416,514
Other- Subsidiary operations	673,817	620,750
Total	**$ 3,511,092**	**$ 3,642,546**

NOTE 15 - INCOME TAXES

The components of net deferred tax assets and liabilities at September 30, 2021 and 2020 are as follows:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 226,974	$ 220,066
Deferred compensation	92,028	73,406
Other real estate owned	352,058	265,802
Nonaccrual interest	40,727	-
Subsidiary net-operating loss	255,376	209,318
Other	15,367	23,965
Total Deferred Tax Assets	**982,530**	**792,557**
Deferred tax liabilities		
Premises and equipment	(499,332)	(447,458)
Deferred loan origination fees	(84,338)	(142,201)
Nonaccrual interest	-	(13,148)
Total Deferred Tax Liabilities	**(583,670)**	**(602,807)**
Net Deferred Tax Assets	**$ 398,860**	**$ 189,750**

The Company has determined that no valuation allowance was required for the deferred tax asset balances at September 30, 2021 and 2020, respectively, because it is more likely than not these assets will be realized through future reversals of existing temporary differences and through future taxable income.

The tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate to income before income taxes. The statutory rate was 21% for 2021 and 2020. The differences for the years ended September 30, 2021 and 2020 are as follows:

	2021	2020
Tax at statutory rate	$ 1,108,068	$ 735,754
Nondeductible and other expenses	54,022	30,209
Income Tax Expense	**$ 1,162,090**	**$ 765,963**

NOTE 15 - INCOME TAXES (CONTINUED)

The Bank's provision for income taxes for 2021 and 2020 consists of the following:

	2021	2020
Current federal and state tax expense	$ 1,371,200	$ 911,177
Deferred federal tax (benefit) expense	(209,110)	(145,214)
	$ 1,162,090	**$ 765,963**

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, 2021 and 2020 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 other expense. During the year ended September 30, 2021 penalties and interest of $2,394 were recognized. No penalties or interest were recognized during the year ended September 30, 2020.

The Bank has evaluated its tax positions taken for all open tax years. Currently, the 2017 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, 2021 and 2020.

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 $3,419,727 and $1,557,576 (including unused lines of credit) at September 30, 2021 and 2020, respectively.

The following is an analysis of loans to these parties during the year ended September 30, 2021 and 2020:

	2021	2020
Balance at beginning of year	$ 1,057,576	$ 1,234,675
New loans	2,185,059	-
Repayments	(322,908)	(177,099)
Balance at end of year	**$ 2,919,727**	**$ 1,057,576**

The aggregate amount of deposits on account at the Bank for directors and principal officers, and their related interests, was $2,492,041 and $1,629,146 for the years ended September 30, 2021 and 2020, 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 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 of 2.5%. Management believes, as of September 30, 2021, 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, 2021 and 2020, 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 Bank's category.

The numbers in this table are based on information as reported by the Bank to its regulator on the September 30, 2021 and September 30, 2020 call reports. Please refer to Note 23 Reconciliation Of Financial Statements To Regulatory Reporting (Unaudited) for detail and discussion of differences between the Bank's regulatory reporting and the financial statements included in this report.

	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, 2021:						
Total capital (to risk-weighted assets)	$34,041	12.25 %	$22,235	≥ 8.00%	$27,794	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	33,113	11.91	16,676	≥ 6.00	22,235	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	33,113	11.91	12,507	≥ 4.50	22,235	≥ 6.50
Tier 1 capital (to average assets)	33,113	8.77	15,110	≥ 4.00	27,794	≥ 5.00
As of September 30, 2020:						
Total capital (to risk-weighted assets)	$31,110	11.10 %	$22,425	≥ 8.00%	$28,031	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	29,947	10.68	16,819	≥ 6.00	22,425	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	29,947	10.68	12,614	≥ 4.50	18,220	≥ 6.50
Tier 1 capital (to average assets)	29,947	8.26	14,502	≥ 4.00	18,128	≥ 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, 2021 and 2020.

	2021	2020
Weighted-average common shares (Denominator)		
Weighted-average common shares outstanding	1,200,320	1,200,320
Average treasury shares	(65,737)	(65,800)
Weighted-average common shares and common stock equivalents earnings per share (base, denominator)	**1,134,583**	**1,134,520**
Weighted-average common shares and common stock equivalents outstanding used to calculate diluted earnings per share (diluted, denominator)	**1,134,583**	**1,134,520**
Net Income (Numerator)		
Net Income	$ 4,114,422	$ 2,737,628
Less: Preferred stock dividend	(450,000)	(450,000)
Net income attributable to common shareholders	**$ 3,664,422**	**$ 2,287,628**
Net income attributable to common shareholders, per share		
Basic	**$ 3.23**	**$ 2.02**
Diluted	**$ 3.23**	**$ 2.02**

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS

Disclosures About Fair Values 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 tables present 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, 2021 and 2020:

	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, 2021				
Collateral - dependent impaired loans				
Residential real estate	$ 125,338	$ -	$ -	$ 125,338
Commercial real estate	3,287,264	-	-	3,287,264
Commercial and industrial	258,091	-	-	258,091
Total	**$ 3,670,693**	**$ -**	**$ -**	**$ 3,670,693**
Other Real Estate Owned				
Commercial real estate	$ 1,228,400	$ -	$ -	$ 1,228,400
Total	**$ 1,228,400**	**$ -**	**$ -**	**$ 1,228,400**

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2020				
Collateral - dependent impaired loans				
Residential real estate	$ 997,661	$ -	$ -	$ 997,661
Commercial real estate	35,093	-	-	35,093
Commercial and industrial	1,791,699	-	-	1,791,699
Total	**$ 2,824,453**	**$ -**	**$ -**	**$ 2,824,453**
Other real estate owned				
Residential real estate	$ 204,750	$ -	$ -	$ 204,750
Commercial real estate	2,592,091	-	-	2,592,091
Total	**$ 2,796,841**	**$ -**	**$ -**	**$ 2,796,841**

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. Appraisers are selected from the list of approved appraisers maintained by management. Appraisals are only obtained from independent licensed appraisers following Uniform Standards of Professional Appraisal Practice (USPAP). Appraisals are analyzed by Management to detect apparent errors or inconsistencies. The Bank compares and accumulates actual real estate sales price data with the most recent USPAP appraisal to cumulatively assess and monitor accuracy. The cumulative appraisal accuracy percentage exceeds 94% as of September 30, 2021.

The tables above indicate the aggregate value of OREO properties that have been adjusted to a fair value, less estimated costs to sell, that is less than the fair value, less estimated cost to sell, at the acquisition date.

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. Appraisers are selected from the list of approved appraisers maintained by Management. Appraisals are only obtained from independent licensed appraisers following USPAP.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill at September 30, 2021 and 2020:

September 30, 2021

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Other real estate owned				
Commercial real estate	$ 1,228,400			
Total	**$ 1,228,400**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	**5%-10%**
Collateral-dependent impaired loans				
Residential real estate	$ 125,338			
Commercial real estate	3,287,264			
Commercial and industrial	258,091			
Total	**$ 3,670,693**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	**5%-10%**

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

September 30, 2020

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Other real estate owned				
Residential real estate	$ 204,750			
Commercial real estate	2,592,091			
Total	**$ 2,796,841**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	**5%-10%**
Collateral-dependent impaired loans				
Residential real estate	$ 997,661			
Commercial real estate	35,093			
Commercial and industrial	1,791,699			
Total	**$ 2,824,453**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	**5%-10%**

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at September 30, 2021 and 2020 are as follows:

	Fair Value Measurements at September 30, 2021				
	Carrying Amount	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS					
Cash and due from banks	$ 758,691	$ 758,691	$ -	$ -	$ 758,691
Cash on deposit with Federal Reserve Bank	66,197,159	66,197,159	-	-	66,197,159
Interest bearing deposits with banks	516,755	516,755	-	-	516,755
Net loans	288,480,394	-	-	284,134,490	284,134,490
Accrued interest receivable	1,238,935	-	1,238,935	-	1,238,935
Restricted investment in bank stock	2,663,600	N/A	N/A	N/A	N/A
Total financial assets	**359,855,534**	**67,472,605**	**1,238,935**	**284,134,490**	**352,846,030**
FINANCIAL LIABILITIES					
Non interest bearing deposits	5,128,713	-	5,128,713	-	5,128,713
Savings, money market and NOW accounts	161,019,982	-	161,019,982	-	161,019,982
Certificate and other time deposits	109,781,339	-	110,090,606	-	110,090,606
Borrowings	63,741,187	-	65,485,423	-	65,485,423
Accrued interest payable	313,344	-	313,344	-	313,344
Total financial liabilities	**$ 339,984,565**	**$ -**	**$ 342,038,068**	**$ -**	**$ 342,038,068**

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	Fair Value Measurements at September 30, 2020				
	Carrying Amount	Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS					
Cash and due from banks	$ 750,072	$ 750,072	$ -	$ -	$ 750,072
Cash on deposit with Federal Reserve Bank	69,005,246	69,005,246	-	-	69,005,246
Interest bearing deposits with banks	754,754	754,754	-	325,633,118	754,754
Net loans	330,309,080	-	-	-	325,633,118
Accrued interest receivable	1,457,817	-	1,457,817	-	1,457,817
Restricted investment in bank stock	3,254,300	N/A	N/A	N/A	N/A
Total financial assets	**405,531,269**	**70,510,072**	**1,457,817**	**325,633,118**	**397,601,007**
FINANCIAL LIABILITIES					
Non interest bearing deposits	5,819,401	-	5,819,401	-	5,819,401
Savings, money market and NOW accounts	125,868,174	-	125,868,174	-	125,868,174
Certificate and other time deposits	124,582,034	-	126,825,937	-	126,825,937
Borrowings	131,367,900	-	134,250,712	-	134,250,712
Accrued interest payable	535,259	-	535,259	-	535,259
Total financial liabilities	**$ 388,172,768**	**$ -**	**$ 393,299,483**	**$ -**	**$ 393,299,483**

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 regulator in interpreting certain GAAP accounting standards.

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

1. **Recognition of accrued interest income on loans**

   Management's interpretation of GAAP is that interest income on a loan should be accrued when collectability of the Bank's total investment in the loan is "reasonably assured". The Bank's total investment in a loan includes outstanding principal, unpaid interest and any amounts legally reimbursable and outstanding.

   According to written guidance provided by FASB, "reasonably assured" and "probable" are interchangeable and defined as "that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved."

   In Management's opinion the threshold of "reasonably assured" is met when the loan meets the three following 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 considered reasonable for the type of collateral being liquidated.

   The Bank's primary regulator has provided more stringent guidance on when to stop accruing interest on a loan. The instructions furnished by the regulator generally require the accrual of interest on a loan to cease when it becomes greater than 90 days past due, unless the loan is considered well secured and in the process of collection.

   In order for a loan to be considered in the process of collection the timing and amount of repayments must be reasonably certain and there must be evidence that collection in full will occur shortly. Their indicated benchmark of an acceptable time frame is 30 days.

   The financial statements included with this report are prepared using Management's interpretation of the GAAP standards for the accrual of interest income. When filing regulatory financial statements the Bank continues to follow the instructions provided by the regulator.

2. **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. According to written guidance provided by FASB, "reasonably assured" and "probable" are interchangeable and defined as "that which can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved."

   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."

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

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.

The following tables outline the differences between the Company's financial statements included with this report and the Company's financial statements as provided to its regulator for the years ending September 30, 2021 and 2020:

Year ended September 30, 2021

	As Reported Financial Statements	As Reported Regulatory Reporting	Variance
Consolidated Statements of Financial Condition			
Loans receivable	$ 289,457,710	$ 287,825,996	$ (1,631,714)
Allowance for loan losses	(977,316)	(927,659)	49,657
Net Loans	**288,480,394**	**286,898,337**	**(1,582,057)**
Other Assets	6,969,707	7,310,598	340,891
Total Assets	**377,537,644**	**376,296,478**	**(1,241,166)**
Accrued expenses and other liabilities	3,060,889	3,353,272	292,383
Total Liabilities	**343,045,454**	**343,337,837**	**292,383**
Retained Earnings	15,508,619	13,975,070	(1,533,549)
Total Stockholders' Equity	**34,492,190**	**32,958,641**	**(1,533,549)**
Total Liabilities and Stockholders' Equity	**377,537,644**	**376,296,478**	**(1,241,166)**

	As Reported Financial Statements	As Reported Regulatory Reporting	Variance
Consolidated Statements of Income			
Interest and fees on loans	$ 17,770,195	$ 16,812,771	$ (957,424)
Total Interest Income	**17,990,625**	**17,033,201**	**(957,424)**
Provision for Loan Losses	32,897	(12,214)	(45,111)
Salaries and employee benefits	7,054,222	6,883,926	(170,296)
Total Other Operating Expenses	**12,634,860**	**12,464,564**	**(170,296)**
Income Before Income Tax Expense	**5,276,512**	**4,534,495**	**(742,017)**
Income tax expense	1,162,090	1,006,266	(155,824)
Net income	**3,664,422**	**3,078,229**	**(586,193)**

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

Year ended September 30, 2020

	As Reported Financial Statements	As Reported Regulatory Reporting	Variance
Consolidated Statements of Financial Condition			
Loans receivable	$ 331,477,092	$ 330,300,361	$ (1,176,731)
Allowance for loan losses	(1,168,012)	(1,163,466)	4,546
Net Loans	**330,309,080**	**329,136,895**	**(1,172,185)**
Other Assets	8,588,455	8,813,284	224,829
Total Assets	**422,626,949**	**421,679,593**	**(947,356)**
Retained Earnings	12,082,446	11,135,090	(947,356)
Total Stockholders' Equity	**30,742,683**	**29,795,327**	**(947,356)**
Total Liabilities and Stockholders' Equity	**422,626,949**	**421,679,593**	**(947,356)**

	As Reported Financial Statements	As Reported Regulatory Reporting	Variance
Consolidated Statements of Income			
Interest and fees on loans	$ 16,629,824	$ 15,992,287	$ (637,537)
Total Interest Income	**17,062,726**	**16,425,189**	**(637,537)**
Provision for Loan Losses	607,201	862,215	255,014
Salaries and employee benefits	5,596,590	5,449,208	(147,382)
Total Other Operating Expenses	**11,281,396**	**11,134,014**	**(147,382)**
Income Before Income Tax Expense	**3,503,591**	**2,758,422**	**(745,169)**
Income tax expense	765,963	609,478	(156,485)
Net income	**2,737,628**	**2,148,944**	**(588,684)**

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

The following table outlines differences between the financial statements and regulatory accounting for Bank capital levels:

	Financial Statements	Regulatory Reporting	Variance
As of September 30, 2021			
Total Stockholders Equity	$ 34,646	$ 33,113	$ (1,533)
Total Common Stockholders Equity	34,646	33,113	(1,533)
Total Stockholders' Equity plus Allowance for Loan Losses	35,623	34,041	(1,582)
As of September 30, 2020			
Total Stockholders Equity	$ 30,894	$ 29,947	$ (947)
Total Common Stockholders Equity	30,894	29,947	(947)
Total Stockholders' Equity plus Allowance for Loan Losses	32,062	31,110	(952)

NOTE 24 - SUBSEQUENT EVENTS

The Company evaluated its September 30, 2021 financial statements for subsequent events through the date of the independent Auditor's Report which is the date the financials statements were available to be issued, noting no items requiring accrual or disclosure.

ENTERPRISE FINANCIAL
SERVICES GROUP, INC.

4091 Mount Royal Boulevard • Allison Park, Pennsylvania 15101-2917
Phone: 412.487.6048 • Toll Free: 877.487.5044 • Fax: 412.487.4622
Email: info@enterprisebankpgh.com • Website: enterprisebankpgh.com