ANNUAL REPORT

2022

ENTERPRISE BANK

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Letter to Our Shareholders

Dear Fellow Shareholders:

We are pleased to report that Enterprise Financial Services Group, Inc. achieved solid financial results with overall performance exceeding budget for the fiscal year which ended September 30, 2022.

The Bank's asset quality remains strong. The financial results for the past fiscal year were likewise strong. It's important to note that unlike the previous year, our revenues were not supplemented by extraordinary fee income from the PPP program. The Bank expects core profits will continue to grow. We are positioned to navigate the current, rising interest rate environment and the Bank does not anticipate rising rates will adversely affect future earnings.

The remodeling of the former Aplha Building on the Bank's campus has been completed. The subsidiaries have all relocated to the renovated building and full operations of the new small business support businesses will begin in 2023.

The Bank's staff continued to perform at a high level this past year. Their strong performance coupled with our financial results have enabled us to increase dividends and accelerate our buy back of the preferred stock.

The Bank's management team believes the lending enviorment for our small business niche will be ripe for growth in the next year. Inflation and related rising interest rates create stress in the small business economy which usually generates quality lending opportunities. Our capital position and strong operating income should allow us to grow and service the needs of small businesses.

The Bank finished upgrading its IT security structure to further protect us from the risk of ransomware while improving IT system quality. As risks continue to evolve, we will continue to upgrade and improve our systems to manage the risks while reducing costs.

We encourage you to read the Management's Discussion and Analysis 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,

Charles H. Leyh
Chairman of the Board

Chuck Leyh

Douglas W. Lockard
Vice Chairman of the Board

Douglas W. Lockard

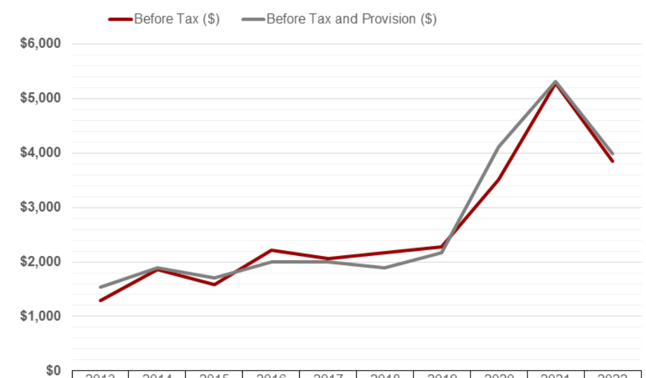
This discussion provides additional information and analysis of the results of operations for Enterprise Financial Services Group, Inc. (the "Company") and its wholly owned subsidiary, Enterprise Bank (the "Bank"), for the fiscal year ended September 30, 2022 ("2022"). This discussion includes results of operations for the Bank's wholly owned subsidiaries Enterprise Insurance Services, Inc., Enterprise Business Consultants, Inc., Kuzneski & Lockard, Inc., Buildonus, Inc., Enterprise Intangible Assets, LLC, Enterprise OREO, Inc. and Enterprise Child Care, LLC. This discussion is provided as a supplement to the audited financial statements and accompanying disclosures included in the Company's 2022 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 the years 2019-2022 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. 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

Chart #1 illustrates the Company's annual income before tax and annual income before tax and loan loss provisions for the last ten years. Income before loan loss provisions eliminates the impact of loan loss reserves which have been volatile through the period of the Covid pandemic. Pre-tax income, excluding loss provisions, in 2022 was $4.0 million. This was a decrease in earnings of $1.3 million or 25% versus the prior year.

CHART #1
NET INCOME BEFORE TAX ($000s)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Before Tax ($)	$1,286	$1,859	$1,581	$2,213	$2,070	$2,176	$2,275	$3,504	$5,277	$3,850
Before Tax and Provision ($)	$1,540	$1,899	$1,705	$2,007	$1,995	$1,898	$2,166	$4,111	$5,310	$3,989

When comparing to the prior year it is important to recognize the impact of fee income from participation in the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") on earnings. This program provided funding to small businesses during the COVID pandemic that was 100% guaranteed by the SBA and eligible for forgiveness if the borrower met certain criteria. In 2021, the Bank realized fee income of $1.6 million from participation in this program. In 2022, the Bank realized fee income of $273,000 as the program was winding down and all loans were paid off. This results in a difference in fee income of approximately $1.3 million year over year. As of September 30, 2022, the Bank's participation in the PPP program has concluded. No loans remain on the balance sheet and no additional fee income is anticipated.

In 2022, Management's goal was to put the Covid challenges of the past few years behind and return emphasis to building the loan portfolio. The Bank has the infrastructure in place to double in size without increasing fixed overhead costs.

Therefore, growth in the portfolio will improve efficiency and utilize the capacity available allowing incremental earnings to drop to the bottom line. As 2022 progressed, unhealthy rate competition in the Bank's market, along with the continuation of businesses using cash reserves to reduce their debt, created an environment that was not favorable for growth. The following discussion will highlight these and other factors contributing to the Company's 2022 performance in greater detail.

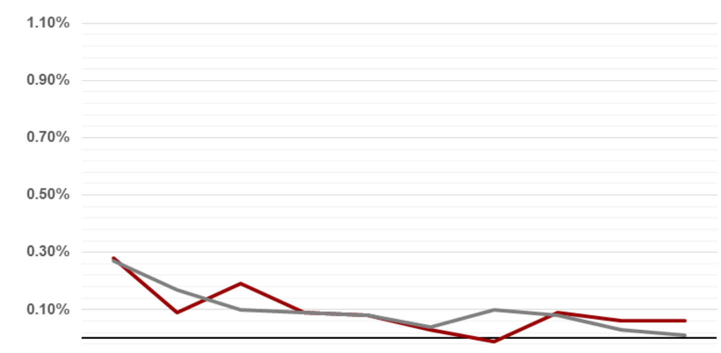
CORE OPERATING PHILOSOPHY

Enterprise Bank, now entering its 25th year, operates with the mission , "To deliver superior, ethical service and value to our clients, shareholders and staff." All decisions are made with this mission in mind, striving to strike a balance between the interests of all three stakeholders.

The focus is on providing funding and support services to local small businesses that are in a start-up, growth, or distressed cycle. The Bank prioritizes standing behind its clients in their time of need when the client has exhibited a foundation of strong character and sound management practices.

Operating in this niche brings with it additional risk. Traditional cash flow techniques for evaluating credit are less reliable when a business is starting-up or experiencing difficulties. Because of this, the Bank has developed alternative methods of evaluation that emphasize collateral valuation over cash flow projections. The Bank also uses other risk mitigation tools such as government guaranteed lending programs to support the credit when prudent for the Bank and the client. This alternate way of evaluating and mitigating risk allows the Bank to support its clients in circumstances when many other banks are unwilling to help.

CHART #2
NET CHARGE-OFFS / AVERAGE LOANS
(CALENDAR YEAR)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 (9 mo)
Bank	0.28%	0.09%	0.19%	0.09%	0.08%	0.03%	-0.01%	0.09%	0.06%	0.06%
Peer	0.27%	0.17%	0.10%	0.09%	0.08%	0.04%	0.10%	0.08%	0.03%	0.01%

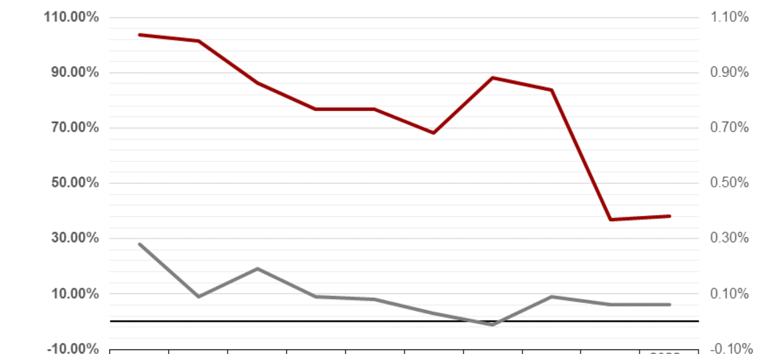
The success of these strategies can be measured by comparing the Bank's loss ratios to its peers over time. Chart #2 compares the Bank's loss rates to its peer group for the last ten years. This chart highlights that the Bank's loss rates are consistently comparable to its peer group despite its unique business plan.

With its reliance on collateral to support underwriting and to mitigate credit losses, the Bank emphasizes the accuracy of its appraisal process and being effective and efficient when the liquidation of collateral becomes necessary. The emphasis on collateral also allows the Bank to be patient and supportive with its workout strategies for clients that are honest and proactive in this process. As a result, the Bank typically carries a higher level of non-performing assets than its peer group.

When analyzing the Bank's strength and performance, traditional bank analysis tools are often not good indicators in this business plan. An example of this would be the Texas Ratio. The Texas Ratio is a widely accepted indicator of a bank's strength and is used for projecting future losses in the loan portfolio and as a predictor of potential bank failure.

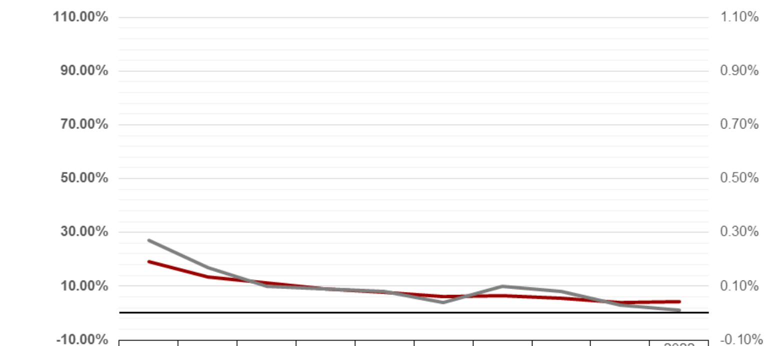
Chart #3 illustrates the Bank's Texas Ratio and loan loss ratios for the past ten years. Chart #4 illustrates the same for the Bank's peer group. The scale is the same for both charts. A comparison of the two charts indicates that the correlation in the amount of losses to the Texas Ratio is significantly less for the Bank than for the peer group. The comparison also highlights the long-term consistency that the Bank has maintained in minimizing losses despite the higher non-performing asset levels.

CHART #3
TEXAS RATIO AND LOSS % - BANK
(CALENDAR YEAR)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 (9 mo)
Texas Ratio	103.74%	101.51%	86.26%	76.64%	76.81%	68.19%	88.30%	83.75%	37.01%	38.16%
Loss %	0.28%	0.09%	0.19%	0.09%	0.08%	0.03%	-0.01%	0.09%	0.06%	0.06%

CHART #4
TEXAS RATIO AND LOSS % - PEER
(CALENDAR YEAR)



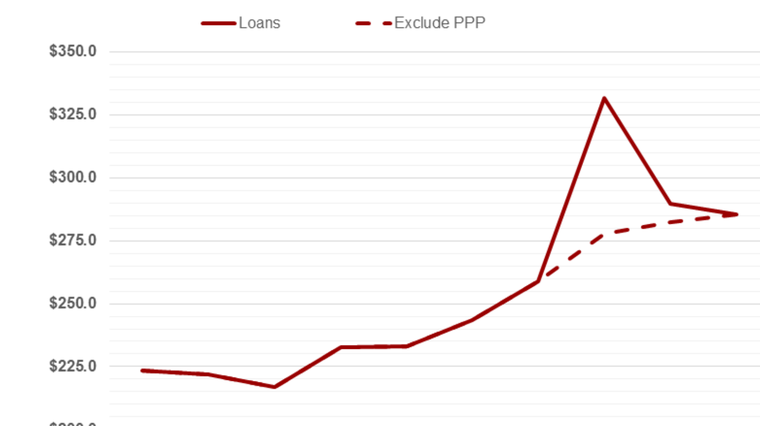
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 (9 mo)
Texas Ratio	19.05%	13.53%	11.12%	9.01%	7.60%	6.13%	6.35%	5.52%	3.96%	4.16%
Loss %	0.27%	0.17%	0.10%	0.09%	0.08%	0.04%	0.10%	0.08%	0.03%	0.01%

LOAN PORTFOLIO AND INTEREST INCOME

Chart #5 displays the Bank's loan portfolio balance at year-end for the past ten-year period. The dotted line in Chart #5 indicates the portfolio balance excluding PPP loans on the books at year-end in 2020 and 2021. Chart #6 illustrates the portfolio growth rate, excluding PPP loans, for the same ten-year period.

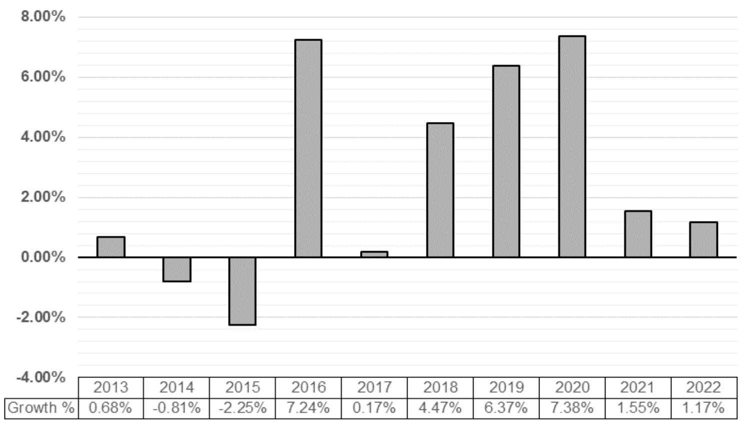
In 2022, the balance of the Bank's loan portfolio, excluding PPP loans, grew $3.3 million or 1.17%. This represented the second consecutive year of minimal growth. In 2021, much of the loan activity was shifted to administration of the SBA PPP program to support the Bank's clients through the pandemic. In 2022, it was Management's plan to shift priority back to growth in the loan portfolio.

CHART #5
LOANS RECEVABLE ($ in millions)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Loans	$223.6	$221.8	$216.8	$232.5	$232.9	$243.3	$258.8	$331.5	$289.5	$285.5
Exclude PPP	$223.6	$221.8	$216.8	$232.5	$232.9	$243.3	$258.8	$277.9	$282.2	$285.5

CHART #6
LOAN GROWTH (%)
(EXCLUDING PPP)



The prolonged low-rate environment, which continued through the first six months of the fiscal year, coupled with excess liquidity that remained in the banking system led to increased competition. To deploy cash, banks were reaching for yield and competing for loans at historically low rates. It was Management's belief that competing at this level to meet growth goals would lead to harm in the long term when rates eventually moved from historical lows.

In addition to increased competition, existing clients continued to perform well in a strong economy. This led to business sales with the proceeds being used to pay off associated loans along with other clients using increases in cash reserves to pay down their debt. This was the continuation of a trend that began in the latter half of 2021. Rather than compete in this market, Management de-emphasized growth with an eye toward retaining capital. This would allow the Bank to accelerate its planned liquidation of the SBLF preferred stock.

In the latter half of the fiscal year interest rates did begin to move upward. To slow the economy and control rising inflation, The Federal Reserve raised the Fed Funds rate 2.75% over the course of several months. At year-end, indications were that the Fed would continue to hike rates, as necessary, to bring inflation down to within an acceptable range. This creates a recessionary environment and, in a recession, competing banks typically tighten lending standards at a time when their clients are most in need of funding. This is a more favorable environment for the Bank to grow its loan portfolio and this is reflected in the loan growth goals budgeted for 2023.

Planned loan growth is always 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.

Total interest and fee income earned on the loan portfolio decreased by $2.6 million, or 15% below the prior year. A large portion of this decrease, $1.6 million, is the result of the winding down of the SBA PPP program. As of the end of the 2022 fiscal year, this program was completely phased out. No PPP loans remain in the Bank's loan portfolio and all income has been recognized. In addition, fee income on loans in 2022, excluding PPP fees, was approximately $108,000 below the prior year. This was primarily due to lower prepayment income received in 2022.

Also contributing to the year-over-year decrease in interest income is the amount of income recognized on impaired loans. Interest income recognized on impaired loans in 2022 decreased by $851,000 versus the prior year. This was due in part to several cash payoffs received in 2021 for impaired loans and the recognition of past due interest upon receipt of payment in full. In addition, one large loan that has had income recognized in prior periods has now reached a point where there is measured impairment and interest recognition has ceased. Please refer to the tables in Note 5 of the financial statements for additional detail on the recognition of interest on impaired loans.

NONACCRUAL LOANS AND REVENUE RECOGNITION

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. 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.

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, 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 more than 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 more than the Bank's recorded investment in the loan.

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

2 FASB Accounting Standards Codification - Master Glossary

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

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

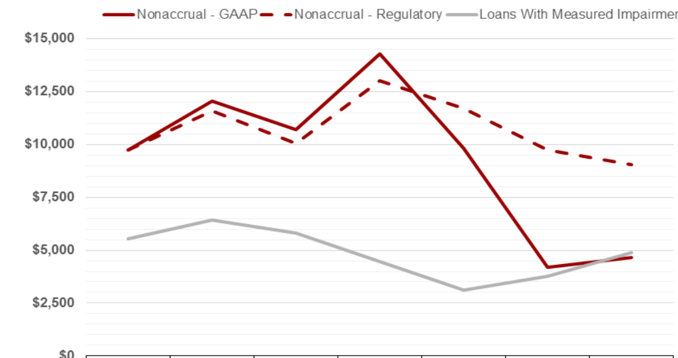
It is Management's opinion that the regulator's more stringent collectability threshold is unreasonable, and not in accordance with GAAP, given the business model of this institution. This results in a material amount of revenue recognition being deferred until the collateral liquidation process is complete. 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 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 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 $679,000, or 7%, in 2022. The balance of nonaccrual loans, per financial statement classification, increased $440,000 or 10%, in 2022.

Chart #7 also indicates the historical balance of loans with measured impairment for the same 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.

CHART #7
NONACCRUAL LOANS VS. LOANS WITH MEASURED IMPAIRMENT
($000s)



	2016	2017	2018	2019	2020	2021	2022
Nonaccrual - GAAP	$9,739	$12,048	$10,685	$14,288	$9,814	$4,198	$4,638
Nonaccrual - Regulatory	$9,739	$11,577	$10,055	$13,012	$11,693	$9,743	$9,064
Loans With Measured Impairment	$5,537	$6,435	$5,796	$4,454	$3,122	$3,765	$4,881

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:	**Current Year**	**Cumulative**	**Current Year**	**Cumulative**	**Current 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
September 30, 2022	39,000.00	565,000.00	234,000.00	2,127,000.00	273,000.00	2,692,000.00

(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 annual, 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, $565,000 in interest income has been accrued, to the shareholder financial statements, through September 30, 2022. Of this amount, $39,000 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, $2,127,000 in interest income has been recorded to the shareholder financial statements for cash received. Of this amount, $234,000 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, 2022, there is approximately $2.7 million of interest income that has been recorded in these financial statements that has been deferred for regulatory reporting purposes. Of this amount, $273,000 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 current appraised value upon liquidation. Through September 30, 2022, the Bank has not recognized any material losses in its shareholder financial statements because of interest income recognition that was later identified as uncollectible.

ALLOWANCE FOR LOAN LOSSES (“ALLL”)

In 2022, the Bank continued to estimate loan loss reserves using an incurred loss model. The model currently in use was implemented in 2016. 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.

The model was designed to mirror the Bank’s underwriting philosophy by prioritizing the valuation of real estate collateral when measuring loss. Market sales data is analyzed on a quarterly basis and the model closely considers fluctuations in real estate values in terms of specific property types and geographic locations. Updated valuation data is a significant factor in supporting qualitative adjustments to the Bank's loss history when determining final reserve levels.

For the year ended September 30, 2022, the Bank recorded loan loss provisions of $139,000. This was an increase in provision expense of $107,000 from the prior year. The Bank's ALLL at year end was $1 million or 0.35% of loans receivable. The total reserve increased $29,000 from the prior year but the reserve as a percentage of loans receivable was unchanged.

In 2022 as the Bank’s credit quality remained strong and external factors in the credit environment continued to improve. In 2022, the Bank removed its qualitative factor related to the COVID pandemic. Generally, all restrictions that would significantly impact the business operations of the Bank and its clients have been lifted. This coupled with other strong internal and external indicators resulted in the removal of this factor from the reserve calculation.

The most significant qualitative factor in the Bank’s reserve calculation is tied to fluctuations in market data for commercial real estate valuations. The reserve examines fluctuation in terms of property types and location of properties in the Bank’s portfolio. Valuation data has continued to strengthen post-pandemic, reducing the impact of this factor on the current year’s reserve balance.

Actual charge-offs, net of recoveries for the year were $110,810. This was a decrease of $112,783 as compared to the prior year and remained within the targeted range. Please refer to Chart #2 for a comparison of the Bank’s charge-off ratio to its peer group.

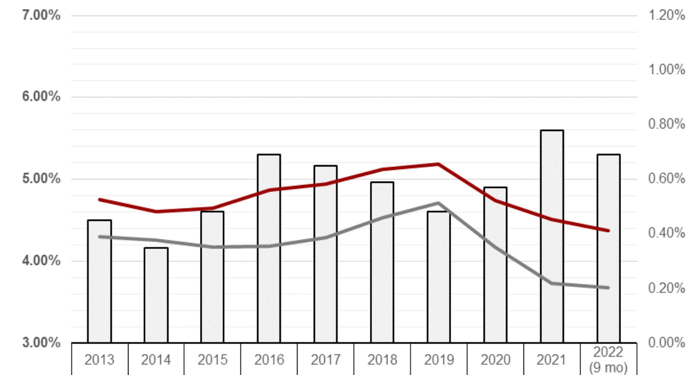
On October 1, 2022, the Bank intends to early adopt ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Loses on Financial Instruments”. This will result in the implementation of an expected loss model. This model has been developed and tested and Management is currently in the conversion process. Please refer to Note 1 in these financial statements for more information on this change.

INTEREST RATE PREMIUM

An important benchmark that is regularly monitored by Management is the Bank's yield on earning assets compared to peer. 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 earns a yield on assets that is greater than that realized on a conventional risk portfolio and sufficient to absorb these expected additional costs.

Chart #8 illustrates the Bank's yield on earning assets compared to peer for the years 2013 to present. This chart indicates that in 2022 the Bank's spread to peer decreased to 69bps, down 8bps from the prior year. Although this spread decreased in 2022 it remains strong when compared to prior years and is within a reasonable range.

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

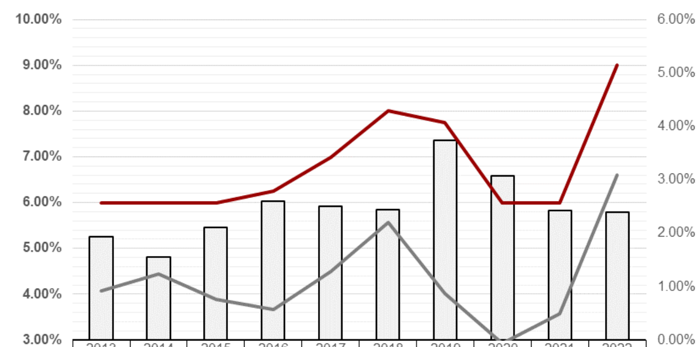


	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 (9 mo)
Spread	0.45%	0.35%	0.48%	0.69%	0.65%	0.59%	0.48%	0.57%	0.78%	0.69%
Bank	4.75%	4.61%	4.65%	4.87%	4.94%	5.12%	5.19%	4.74%	4.51%	4.37%
Peer	4.30%	4.26%	4.17%	4.18%	4.29%	4.53%	4.71%	4.17%	3.73%	3.68%

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

Chart #9 illustrates these two benchmark rates, and the spread between them, from 2013 to present. This chart indicates that the spread between the two benchmark rates has narrowed since 2019. The downward trend in the benchmark rates is an indicator of tightening in the risk premium available in the marketplace.

CHART #9
SBA MAX RATE (PRIME PLUS 275bps) TO
CONVENTIONAL RISK RATE (5 YEAR SWAP PLUS 250bps)
(ON SEPTEMBER 30)



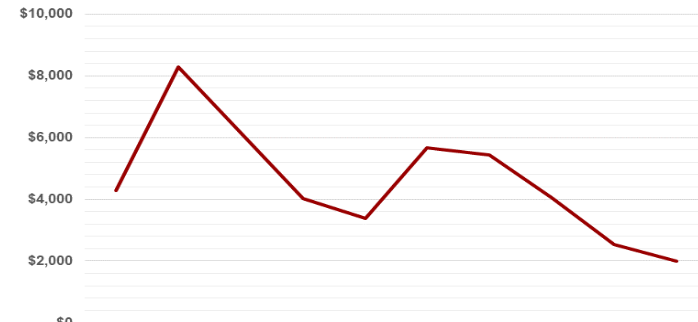
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Spread	1.93%	1.56%	2.11%	2.59%	2.51%	2.44%	3.73%	3.07%	2.42%	2.39%
SBA Max Rate	6.00%	6.00%	6.00%	6.25%	7.00%	8.00%	7.75%	6.00%	6.00%	9.00%
Conv Rate	4.07%	4.44%	3.89%	3.66%	4.49%	5.56%	4.02%	2.93%	3.58%	6.61%

FORECLOSED REAL ESTATE

With the Bank's philosophy of emphasizing collateral over cash flow in the underwriting process, it is important that Management can effectively and efficiently liquidate foreclosed real estate. The Bank has established a long track history of liquidating properties at or near their appraised values. Long-term the Bank has realized 95% of the current appraised value when liquidating real estate.

This is accomplished through a team approach that utilizes expertise across several areas of the organization. Property management, real estate brokerage, construction, valuation, legal, accounting and the Relationship Manager ("RM") team are brought together to develop and execute liquidation strategies. By liquidating properties on a timely basis, the Bank can minimize holding costs and reduce exposure to fluctuations in market prices.

CHART #10
FORECLOSED REAL ESTATE ($000s)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Foreclosed RE	$4,278	$8,294	$6,151	$4,035	$3,389	$5,671	$5,449	$4,050	$2,535	$1,991

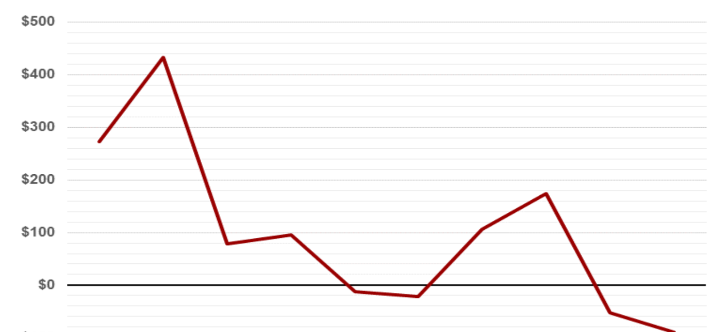
Chart #10 plots the Bank's balance in foreclosed properties on September 30th of the past ten years. 2022 continued a downward trend with a decrease of $544,000 to a balance of $2.0 million. While the balance in foreclosed real estate remains at historical lows Management's expectation is that the balance will fluctuate within a reasonable range moving forward.

In 2022, the Bank liquidated properties with aggregate proceeds of approximately $967,000. Gains on sale of real estate were recorded in the amount of $206,000. 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 2022, net valuation gains of $18,000 were recorded.

On September 30, 2021, two properties were in the process of demolition. These properties were valued at year-end based on an estimate of the land value once demolition was complete, net of costs to demolish the existing structures. In 2022, once demolition was completed, and updated appraisals were obtained, the properties were adjusted to the new appraised values. This resulted in gains on valuation of approximately $90,000. This was offset by valuation losses, recorded throughout the year, on annual appraisals of properties in the portfolio in the amount of $72,000.

Chart #11 shows the Bank's direct costs, net of rental and other income, to carry real estate on an annual basis for the past 10 years. In 2022, the Bank realized income that exceeded direct expense by $90,000. This is the 2nd consecutive year that the Bank has realized income in excess of carrying costs on foreclosed real estate.

CHART #11
FORECLOSED REAL ESTATE
DIRECT HOLDING COSTS/(INCOME) ($000s)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Foreclosed RE	$273	$433	$79	$95	$(13)	$(21)	$107	$174	$(53)	$(90)

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.

LIQUIDITY AND FUNDING

Total cash and cash equivalents at year-end increased $44 million from the prior year to a balance of $111.3 million. This increase was due to a corresponding increase in the balances of non-maturity deposits. The Bank was aware that elevated balances in these accounts would be temporary, and at year end funds were being held in the reserve account pending their expected withdrawal.

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 policy rigidly aligns its liquidity requirements with current and projected capital levels. The Bank's access to wholesale funding sources would be interrupted if its capital ratios fell below a well-capitalized regulatory classification.

Excess liquidity in the banking system continued throughout the fiscal year. Much of this liquidity was created in prior years through government programs to counter the effect of the COVID-19 and its impact on the economy. The Bank’s deposit balances have increased throughout this period and growth continued in 2022. Balances in the Bank’s NOW and Savings accounts increased $45.1 million, or 28%, over the prior year-end balances. This builds on similar growth of $35.1 million, or 28%, in 2021. As described earlier, a large portion of the 2022 growth is considered temporary and is expected to runoff in the first fiscal quarter of 2023.

Time deposits grew $3.0 million in 2022, or 3%, to a balance of $112.7 million. The Bank’s time deposit balances consist of two components. Time deposits that originate from the Bank’s local market and time deposits issued on the national brokered market. In 2022, local market CD balances increased $15 million, or 87%, while brokered market balances decreased $12 million, or 13%. While time deposits issued in the local market typically carry lower rates than those issued on the brokered market, this must be balanced against the operational overhead to process those accounts. Growth in local market time deposits typically consists of many lower balance accounts while brokered CDs can be issued as one large denomination certificate aggregating a group of smaller accounts. In 2022, Management allowed measured growth in local CDs to utilize available operating capacity and slightly reduce wholesale funding balances. It is not anticipated that this will be a long-term or significant shift in the Bank’s funding mix.

The Bank will continue 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 terms, 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 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, several contingent sources of liquidity are maintained and tested for use should a disruption occur in the brokered CD market.

Sources of contingent liquidity include established and tested borrowing capacity with the Federal Home Loan Bank ("FHLB") and the Federal Reserve Discount Window. As of September 30, 2022, the Bank had pledged a combined total of $160.2 million in collateral to support an aggregate borrowing capacity of $118.4 million.

The Bank's borrowing capacities are established primarily as contingency funding tools. The Bank also uses a portion of its 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, 2022 the Bank had total advances outstanding at the FHLB of $54.3 million. This was a decrease of $8.0 million from the prior year.

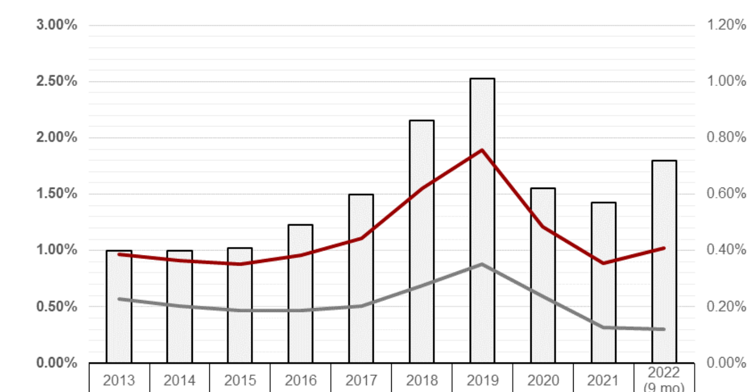
In 2022, the Bank ended its participation in the Federal Reserve's Paycheck Protection Program Liquidity Facility ("PPPLF"). This lending facility was established to provide non-recourse, low cost funding in support of banks participating in the PPP lending program. In 2022, the Bank paid back in full all advances under this program and no additional advances are anticipated.

COST OF FUNDS

Total interest expense for the Bank was generally unchanged versus the prior year at $3.5 million. Rates remained at historical lows through the first half of the fiscal year and then began to rise sharply in the second half in response to inflationary pressures. The Bank's total interest expense remained stable despite the rising rate environment due to a shift in the mix of interest-bearing liabilities. The average annual balance in non-maturity deposits (DDA; NOW and Savings) increased approximately $24 million, or 16%. Overall, these deposit products carry a lower interest rate than the Bank's time deposits and borrowings. The increase in non-maturity deposits was offset by a decrease in the average annual balance of time deposits and borrowings of approximately $20 million, or 12%.

Chart #12 illustrates the Bank's historical cost of funds rate compared to the peer group for the past ten years. The Bank's cost of funds is consistently above the peer group. This is due in part because the Bank's business plan does not include a large retail deposit operation and utilizes various wholesale funding sources as an alternative. This is offset in part as the Bank does not have the added overhead costs associated with a retail operation or a large branch network. In addition, the Bank strives to minimize interest rate and liquidity risk and thus ladders the maturities of its wholesale funding sources. The extension in term of these products is typically at higher rates than if the Bank were using only short-term funding. Management strives to minimize this spread to peers while recognizing that the Bank's funding structure dictates that it likely can't be eliminated entirely. As indicated in the chart, for the first nine months of calendar year 2022, the spread to peer has increased by approximately 15bps.

CHART #12
INTEREST EXPENSE TO AVERAGE EARNING ASSETS
(SPREAD TO PEER)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 (9 mo)
Spread	0.40%	0.40%	0.41%	0.49%	0.60%	0.86%	1.01%	0.62%	0.57%	0.72%
Bank	0.97%	0.91%	0.88%	0.96%	1.11%	1.55%	1.89%	1.21%	0.89%	1.02%
Peer	0.57%	0.51%	0.47%	0.47%	0.51%	0.69%	0.88%	0.59%	0.32%	0.30%

Much of this increase in spread is attributable to the Bank's reaction to the rising rate environment compared to the peer group. As highlighted earlier in its mission statement, the Bank strives to strike a balance in providing value to its clients, shareholders, and staff. In this instance that balance is demonstrated by showing loyalty to the Bank's clients and increasing deposit rates on transaction and savings accounts that are proportionate to increases in the benchmark rates tied to those accounts. Conversely, to this point the peer group has generally held the line on rates despite the rising rate environment.

BANK OPERATING OVERHEAD AND EFFICIENCY

Total other operating expenses decreased approximately $960,000 or 8% as compared to the prior year. The following will highlight the major components contributing to this decrease that are associated with the Bank's core operations. Revenue and operating costs of the Bank's wholly owned subsidiaries will be discussed separately.

Wages and benefits expense associated with Bank operations generally remained fixed with a couple of notable exceptions. RM compensation expense decreased $222,000 compared to the prior year. RM expense is entirely variable and based on a formula tied to income generated by the RM, net of loss provisions. This creates a vested interest by the RM in the success of his or her clients and the Bank's overall performance. In addition to RM expense, year-end executive and staff bonus expenses in 2022 were approximately $100,000 below the prior year. The prior year's bonus amount was elevated to compensate Management and staff for efforts put forth to administer the PPP program and the benefits to the Company's earnings because of those efforts. This year, as in the past, a significant portion of the executive bonus compensation was paid out in shares of common stock to reduce the regulatory capital impact of those payments.

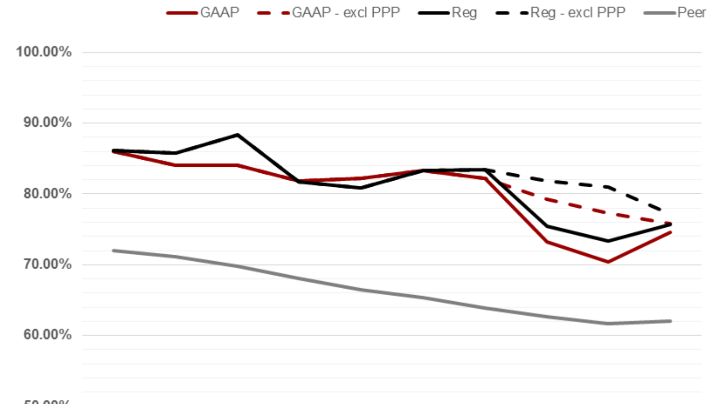
As in prior years, costs associated with IT staffing and infrastructure remained a concern in 2022. Current year expenses, including personnel, increased approximately $166,000, or 12%, versus the prior year. This increase in costs continues a long-term trend experienced throughout the industry. Cyber security risks continue to evolve and protecting the Bank's assets and client information is vital.

FDIC insurance expenses decreased $140,000, or 29%, year over year. There are many factors that go into the assessment rate used to calculate the Bank's premiums including but not limited to a base assessment rate, asset size, and bank performance. The FDIC has adopted a restoration plan to increase the agency's reserve ratio to 1.35% by September 30, 2028. This will increase the Bank's premium expense in the future as its base assessment rate will increase 2 basis points beginning in the first quarter of 2023.

Legal and accounting expenses increased approximately $253,000 versus the prior year from a credit balance of $71,000 in 2021 to $183,000 in expenses in 2022. Legal expenses were reduced in 2021 due to a one-time recovery of approximately $400,000 in legal expenses upon prevailing on a lawsuit. The expense amount in 2022 is within the normal expected range for this category. The Bank continues to incur expenses as it defends itself against a second ongoing lawsuit in which it believes it will also ultimately prevail.

The Bank's efficiency ratio is an indicator used by Management to monitor the Bank's utilization of its infrastructure. Chart #13 compares the Bank's efficiency ratio on a fiscal year basis to its peer group, on a calendar year basis, for the past ten years. This ratio has been impacted greatly over the last three years by fee income generated through the PPP program. The dotted lines in the chart show the efficiency ratio with PPP fee income removed.

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



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GAAP	86.06%	84.03%	84.09%	81.79%	82.21%	83.35%	82.25%	73.29%	70.41%	74.53%
GAAP - excl PPP	86.06%	84.03%	84.09%	81.79%	82.21%	83.35%	82.25%	79.21%	77.30%	75.86%
Reg	86.09%	85.73%	88.30%	81.69%	80.91%	83.35%	83.38%	75.46%	73.38%	75.75%
Reg - excl PPP	86.09%	85.73%	88.30%	81.69%	80.91%	83.35%	83.38%	81.85%	81.00%	77.12%
Peer	71.97%	71.16%	69.75%	68.08%	66.44%	65.34%	63.95%	62.70%	61.73%	62.05%

While the efficiency ratio, net of the impact of PPP, shows a continuing downward trend, the pace of the decline has been slowed by limited growth in the loan portfolio over the past two years. Loan growth and strengthening the subsidiary businesses are the focus of Management in the upcoming year. With the infrastructure currently in place the Bank has the capacity for significant growth in both areas. Revenue generated coupled with stable operating expenses will bring the efficiency ratios closer to peer.

When analyzing the Bank's efficiency ratio and comparing it to the peer group, it is important to recognize the Bank's investment in its subsidiary lines of business. The Bank' s subsidiaries are service oriented as they are designed to assist in strengthening small business through bookkeeping, marketing, IT, and other advisory services. The added personnel and infrastructure costs associated with these lines of business are unique to the Bank and not typical of other bank operations.

SUBSIDIARY OPERATIONS

Kuzneski & Lockard, Inc. is a full-service real estate agency headquartered in Indiana, Pennsylvania. In 2022, commission income and fee revenue generated by the subsidiary decreased $966,000 compared to the prior year. This was offset by a $544,000 decrease in commission expenses along with other decreases in fixed and variable overhead expenses.

The residential real estate industry has experienced a shift over the past several months as internet-based agencies have aggressively recruited agents by offering them significantly higher commission payout rates in exchange for the elimination of many of the services provided by a traditional agency. This has led to a reduction in the number of agents contracted by the subsidiary. Along with this trend, the recent increase in mortgage rates has led to a decline in the number of sales transactions. This has also contributed to the decline in revenue this year.

Moving forward, the subsidiary will focus on growing commercial sales activity in the Pittsburgh market as it opens its offices in the newly renovated Alpha building. The residential real estate operation in Indiana will continue with a smaller infrastructure in place to service what is expected to be a lower base of sales activity.

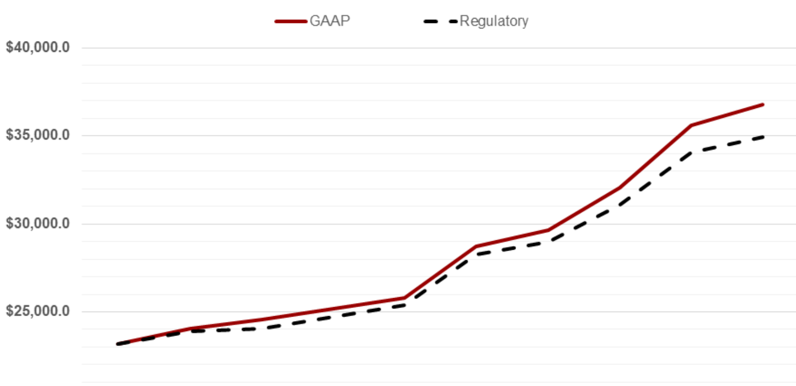
Enterprise Insurance Services, Inc. provides residential and commercial settlement services along with title and business lines of insurance. Revenue generated by this subsidiary decreased approximately $300,000 in 2022. This is a product of the down cycle in this industry. Mortgage refinance activity had already been declining as the prolonged low-rate environment continued into the first half of 2022. As mortgage rates rose sharply in the 2nd half of the fiscal year the number of sale transactions was also affected. The focus in this subsidiary has been to closely monitor overhead and minimize costs in this down cycle without harming the subsidiary's ability to expand activity when activity rebounds.

Enterprise Business Consultants, Inc. provides various support services to small businesses. Services include but are not limited to bookkeeping, temporary CFO, marketing, web design and IT support. For the past several years growth has not been emphasized in this subsidiary and any excess capacity has generally been used to support bank operations. In 2023, all operations of this subsidiary will move into its offices in the newly renovated Alpha building and focus will return to growth of external revenue sources. Additional investment in management and support staff to support growth can also be expected.

REGULATORY CAPITAL

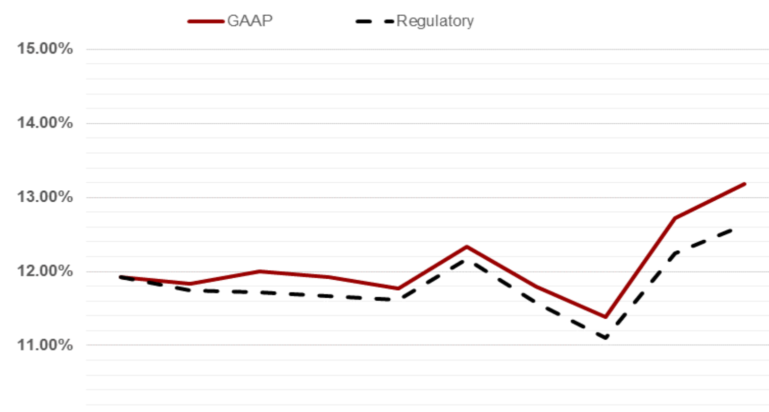
Chart #14 illustrates the Bank's Total Regulatory Capital ($) balances for the past ten years. Chart #15 illustrates the Bank's Total Risk Based Capital Ratio (%) for the same period. These charts indicate amounts as reported in the Bank's regulatory Call Reports and as if amounts were reported based 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 ($)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GAAP	$23,180	$24,052	$24,543	$25,198	$25,779	$28,715	$29,632	$32,062	$35,623	$36,807
Regulatory	$23,178	$23,886	$24,035	$24,697	$25,377	$28,255	$29,001	$31,110	$34,041	$34,956

CHART #15
TOTAL RISK BASED CAPITAL (%)



	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
GAAP	11.92%	11.83%	12.00%	11.92%	11.77%	12.33%	11.79%	11.38%	12.72%	13.18%
Regulatory	11.92%	11.75%	11.72%	11.67%	11.61%	12.17%	11.58%	11.10%	12.25%	12.63%

Regulatory Total Capital, reported on the Bank's September 30, 2022, Call Report, increased $915,000 in 2022. The increase in capital is reflective of 2022 net income less preferred stock dividends of $416,875 and dividends paid to shareholders of $301,000. 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 $0.26 per outstanding share of common stock.

Additionally, the regulatory capital balance reflects additional dividends paid to the Company in support of liquidating 1,250 shares of its preferred stock at $1,000 per share for a total of $1,250,000. The liquidated shares are part of the 5,000 shares issued by the Company in 2011 as a participant in the U.S. Treasury's Small Business Lending Fund.

In 2022, the Company also re-issued 6,516 shares of Treasury Stock. Treasury shares were issued to the Enterprise Stock Ownership Plan. The proceeds of this re-issuance were down streamed to the Bank as additional capital and is reflected in the regulatory capital balance.

The Bank's Total Risk Based Capital Ratio, reported on the Bank's Call Report on September 30, 2022, was 12.63%. This represents an increase of 0.38% over the prior year end. 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 ratios fell 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. On September 30, 2022, all capital ratios complied with these requirements.

An updated capital management plan was included in the 2020 update of the five-year business plan. This plan included stabilization of loan growth to support the accumulation of capital above the required levels. The additional capital would then support planned liquidation of the Company's preferred stock.

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

Opinion

We have audited the consolidated financial statements of Enterprise Financial Services Group, Inc. and its subsidiaries (the “Company”), which comprise the consolidated statements of financial condition as of September 30, 2022 and 2021, 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”).

In our opinion, the accompany-ing financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.
In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern within one year after the date that the financial statements are issued.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises management's discussion and analysis but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Elliott Davis, LLC

Columbia, South Carolina
December 13, 2022

Consolidated Statements of Financial Condition

ASSETS

	September 30, 2022	September 30, 2021
Cash and due from banks	$ 673,250	$ 758,691
Cash on deposit with Federal Reserve Bank	109,999,623	66,197,159
Interest bearing deposits with banks	620,469	516,755
Cash and Cash Equivalents	**111,293,342**	**67,472,605**
Loans receivable	285,480,050	289,457,710
Allowance for loan losses	(1,005,956)	(977,316)
Net Loans	**284,474,094**	**288,480,394**
Accrued interest receivable	1,279,212	1,238,935
Premises and equipment, net	11,343,360	10,712,403
Restricted investments in bank stock	2,339,800	2,663,600
Other assets (See Note 8)	6,864,849	6,969,707
Total Assets	**$ 417,594,657**	**$ 377,537,644**

See Notes to Consolidated Financial Statements

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2022	September 30, 2021
LIABILITIES		
Non-interest bearing deposits	$ 5,907,275	$ 5,128,713
Interest bearing deposits	318,940,846	270,801,321
Total Deposits	**324,848,121**	**275,930,034**
Borrowings	54,476,500	63,741,187
Accrued interest payable	328,374	313,344
Accrued expenses and other liabilities	2,294,844	3,060,890
Total Liabilities	**381,947,839**	**343,045,455**
Commitments and contingencies (See Notes 6 and 17)		
STOCKHOLDERS' EQUITY		
Senior non-cumulative perpetual preferred stock authorized 5,000,000 shares; 3,750 and 5,000 shares issued and outstanding at September 30, 2022 and 2021, respectively, with a liquidation value of $1,000 per share	3,750,000	5,000,000
Common stock, par value $.50; 9,846,555 shares authorized; 1,200,320 shares issued; 1,164,049 and 1,157,533 shares outstanding at September 30, 2022 and 2021, respectively	600,160	600,160
Additional paid in capital	13,830,836	13,756,227
Retained earnings	17,783,253	15,508,619
Treasury stock, cost, 36,271 and 42,787 shares at September 30, 2022 and 2021, respectively	(317,431)	(372,817)
Total Stockholders' Equity	**35,646,818**	**34,492,189**
Total Liabilities and Stockholders' Equity	**$ 417,594,657**	**$ 377,537,644**

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

	September 30, 2022	September 30, 2021
INTEREST INCOME		
Interest and fees on loans	$ 15,160,307	$ 17,770,195
Interest on Federal Reserve balances	685,327	63,869
Other interest and dividend income	145,144	156,561
Total Interest Income	**15,990,778**	**17,990,625**
Interest on deposits	2,176,731	1,983,405
Interest on borrowings	1,341,006	1,545,137
Total Interest Expense	**3,517,737**	**3,528,542**
Net Interest Income	**12,473,041**	**14,462,083**
PROVISION FOR LOAN LOSSES	**139,450**	**32,897**
Net Interest Income After Provision For Loan Losses	**12,333,591**	**14,429,186**
OTHER OPERATING INCOME		
Service charges on deposit accounts	362,058	343,397
Other fee revenue (see Note 12)	2,604,787	3,830,526
Gain/(loss) on sale of foreclosed real estate	206,368	(51,393)
Gain/(loss) on valuation of foreclosed real estate	17,698	(640,344)
Total Other Operating Income	**3,190,911**	**3,482,186**
OTHER OPERATING EXPENSES		
Salaries and employee benefits (see Note 13)	6,554,772	7,054,222
Occupancy	496,989	475,497
Furniture and office equipment	382,367	321,785
Data processing and computer equipment	896,208	789,578
FDIC insurance expense	342,820	482,686
Other (see Note 14)	3,001,619	3,511,092
	11,674,775	**12,634,860**
Net Income From Continuing Operations, Before Tax	**3,849,727**	**5,276,512**

See Notes to Consolidated Financial Statements

	September 30, 2022	September 30, 2021
INCOME TAX EXPENSE	**857,260**	**1,162,090**
Net Income	**2,992,467**	**4,114,422**
Preferred stock dividends	416,875	450,000
Net Income Attributable To Common Stockholders	**$ 2,575,592**	**$ 3,664,422**
Net Income Attributable to Common Stockholders, per share (basic)	**$ 2.22**	**$ 3.23**
Net Income Attributable to Common Stockholders, per share (diluted)	**$ 2.22**	**$ 3.23**

See Notes to Consolidated Financial Statements

	Preferred Stock	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
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**
Liquidation of preferred stock (1,250 shares at $1,000.00/share)	(1,250,000)	-	-	-	-	(1,250,000)
Re-issuance of treasury stock (6,516 shares at $19.95/share)	-	-	74,609	-	55,386	129,995
Cash dividends paid on preferred stock ($90.00 per share)	-	-	-	(416,875)	-	(416,875)
Cash dividends paid on common stock ($0.26 per share)	-	-	-	(300,958)	-	(300,958)
Net income	-	-	-	2,992,467	-	2,992,467
BALANCE AT SEPTEMBER 30, 2022	**$ 3,750,000**	**$ 600,160**	**$ 13,830,836**	**$ 17,783,253**	**$ (317,431)**	**$ 35,646,818**

See Notes to Consolidated Financial Statements

	Years Ended September 30, 2022	2021
CASH FLOWS FROM OPERATING ACTIVITES		
Net income	$ 2,992,467	$ 4,114,422
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	139,450	32,897
(Gain) loss on sale of foreclosed real estate	(206,368)	51,393
(Gain) loss on valuation of foreclosed real estate	(17,698)	640,344
Amortization of deferred loan fees and costs, net	141,868	156,653
Depreciation of premises and equipment	687,031	695,062
Gain on disposition of premises and equipment	(16,965)	(55,753)
Decrease (increase) in deferred tax asset	35,455	(209,110)
(Increase) decrease in accrued interest receivable	(40,277)	218,882
(Increase) decrease in other assets	(460,698)	450,535
Decrease in other liabilities	(766,596)	(1,010,811)
Increase (decrease) in accrued interest payable	15,030	(221,915)
Net Cash Provided By Operating Activities	**2,502,699**	**4,862,599**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments in bank stock	(200,000)	(138,100)
Sale of restricted investments in bank stock	523,800	728,800
Net decrease in loans	3,875,915	41,485,432
Purchases of premises and equipment	(1,301,523)	(2,877,062)
Net proceeds from the sale of premises and equipment	500	-
Net proceeds from insurance on foreclosed real estate	-	184,500
Additional investment in foreclosed real estate	(75,934)	(87,634)
Proceeds from the sale of foreclosed real estate	679,718	1,135,203
Net Cash Provided By Investing Activities	**3,502,476**	**40,431,139**

See Notes to Consolidated Financial Statements

	Years Ended September 30, 2022	Years Ended September 30, 2021
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	$ 48,918,087	$ 19,660,425
Dividends paid	(717,833)	(688,249)
Proceeds from re-issuance of treasury stock	129,995	323,333
Liquidation of preferred stock	(1,250,000)	-
Proceeds from borrowings	11,000,000	7,257,887
Repayment on borrowings	(20,264,687)	(74,884,601)
Net Cash Provided (Used) By Financing Activities	**37,815,562**	**(48,331,205)**
Net Increase (Decrease) In Cash and Cash Equivalents	**43,820,737**	**(3,037,467)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**67,472,605**	**70,510,072**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 111,293,342**	**$ 67,472,605**
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest Paid	$ 3,502,707	$ 3,750,457
Income Tax Paid	$ 1,098,533	$ 1,195,615
NON-CASH INVESTING TRANSACTIONS		
Loans transferred to foreclosed real estate	$ 241,335	$ 303,480
Loans to facilitate sales of foreclosed real estate	$ 287,768	$ 117,200

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, LLC, Enterprise OREO, Inc., Enterprise Child Care LLC, 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, LLC holds title to mineral rights the Bank has obtained through foreclosure. Enterprise OREO, Inc. is a holding company for foreclosed properties and Enterprise Child Care LLC provides daycare services for Company employees.

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, less estimated selling costs, 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 gains on foreclosed real estate of $17,698 for the year ended September 30, 2022. The Bank recorded net valuation losses on foreclosed real estate of $640,344 for the year ended September 30, 2021. There were no gains recorded upon foreclosure of real estate for the years ended September 30, 2022 and September 30, 2021.

The Bank held foreclosed real estate with an aggregate carrying value, net of valuation allowance, of $1,991,073 and $2,535,123 at September 30, 2022 and 2021, respectively, which is included in other assets.

On September 30, 2022 the Bank had no loans secured by 1-4 family residential real estate that were in the process of foreclosure. 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.

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. Advertising costs are included in the line item Other in the Other Operating Expenses section of the Income Statement. Total advertising expense for the years ended September 30, 2022 and 2021 was $27,735 and

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.

The Company is finalizing its evaluation of the adoption of ASU No. 2016-13 "Financial Instruments – Credit Losses (Topic 326). The Company plans to early adopt as of October 1, 2022. The Company to date has developed an in-house model for implementation, sourced and reconciled required data from the Company's loan systems, determined appropriate segmentations of its portfolio, developed processes for calculating and supporting qualitative factors, and has performed parallel runs of the model. The Company is currently finalizing conversion date calculations. The Company currently estimates the allowance for loan losses will increase by a range of $1.5 million and $2.5 million. In addition, the Company expects to recognize a liability for unfunded commitments between $300,000 and $500,000 upon adoption. The Company will finalize the adoption during the first fiscal quarter of 2023.

Use of Estimates

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

NOTE 2 - CASH BALANCES WITH FEDERAL RESERVE BANKS

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.). Reserves are maintained in the form of vault cash or cash balances held with the Federal Reserve Bank. The Bank also, from time to time, maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing. 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, 2022 and 2021.

The Federal Reserve Bank paid interest on any required reserves and excess balances during the years ended September 30, 2022 and 2021. The Bank had interest bearing balances with the Federal Reserve of $109,999,623 and $66,197,159 at September 30, 2022 and 2021, 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, 2022 and 2021 as follows:

	2022	2021
Federal Home Loan Bank stock	$ 2,309,800	$ 2,633,600
Atlantic Community Bankers Bank stock	30,000	30,000
Total	**$ 2,339,800**	**$ 2,663,600**

As a member of the FHLB, the Bank is required to maintain a capital stock investment. The FHLB requires a minimum investment based upon the 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, 2022 and 2021 was as follows:

	2022	2021
Real estate:		
Construction and land development	$ 9,567,203	$ 8,597,451
Mortgage:		
Residential	17,465,221	19,589,836
Commercial	231,571,685	230,203,370
Commercial and industrial loans	26,093,488	30,550,662
Consumer loans	42,298	66,367
Other	7,135	48,415
Total	**284,747,030**	**289,056,101**
Unamortized deferred loan (fees) and origination costs, net	733,020	401,609
Total	**285,480,050**	**289,457,710**
Less allowance for loan losses	(1,005,956)	(977,316)
Net loans	**$ 284,474,094**	**$ 288,480,394**

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, 2022, 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 $71,663,081, $27,121,663 and $13,977,887, 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%. On September 30, 2022, the Bank had no PPP loans outstanding. As of September 30, 2021, the Bank had 38 PPP loans outstanding with an aggregate principal balance of $7,279,377. 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, 2022 and 2021 along with the value of risk mitigation programs in place to limit the Bank's exposure to loss from these loans.

September 30, 2022		**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	$ 9,567,203	$ -	$ -	$ -	$ -	$ -	$ 9,567,203
Mortgage:							
Residential:	17,448,948	-	-	-	-	16,273	17,465,221
Commercial:	221,321,228	4,281,069	-	1,347,490	5,628,559	4,621,898	231,571,685
Commercial and industrial loans	25,799,504	-	-	293,984	293,984	-	26,093,488
Consumer loans	42,298	-	-	-	-	-	42,298
Other	7,135	-	-	-	-	-	7,135
Total	**274,186,316**	**4,281,069**	**-**	**1,641,474**	**5,922,543**	**4,638,171**	**284,747,030**
Less government guaranteed portion	37,438,085	-	-	834,677	834,677	-	38,272,762
SBA 504 financing (1)	21,819,099	-	-	-	-	-	21,819,099
Net after SBA credit enhancements	**$ 214,929,132**	**$ 4,281,069**	**$ -**	**$ 806,797**	**$ 5,087,866**	**$ 4,638,171**	**$ 224,655,169**

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

NOTE 4 - LOANS RECEIVABLE (CONTINUED)

September 30, 2021	**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	$ 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 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, 2022 and 2021.

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, 2022 and 2021. 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, 2022

	Real Estate Residential	Real Estate Commercial	Construction and Land Development	Commercial & Industrial	Consumer	Other	Total
Loans							
Individually evaluated for impairment (all 6 rated loans)	$ 132,161	$ 10,183,451	$ -	$ 600,637	$ -	$ -	$ 10,916,249
Troubled debt restructured with a risk rating of 1 - 5	26,434	11,854,544	-	235,467	-	-	12,116,445
Collectively evaluated for impairment (all other rated 1-5)	17,306,626	209,533,690	9,567,203	25,257,384	42,298	7,135	261,714,336
Total Loans	**$ 17,465,221**	**$ 231,571,685**	**$ 9,567,203**	**$ 26,093,488**	**$ 42,298**	**$ 7,135**	**$ 284,747,030**
Related Allowance							
Individually evaluated for impairment (all 6 rated loans)	$ 14,118	$ 450,733	$ -	$ 11,135	$ -	$ -	$ 475,986
Troubled debt restructured with a risk rating of 1 - 5	-	47,543	-	-	-	-	47,543
Collectively evaluated for impairment (all other rated 1-5)	20,712	257,603	7,441	196,633	38	-	482,427
Total Allowance	**$ 34,830**	**$ 755,879**	**$ 7,441**	**$ 207,768**	**$ 38**	**$ -**	**$ 1,005,956**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2021

	Real Estate Residential	Real Estate Commercial	Construction and Land Development	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)

Activity in the allowance for loan losses for the years ended September 30, 2022 and 2021 is summarized as follows:

September 30, 2022

	Residential Mortgage	Commercial Mortgage	Construction and Land Development	Commercial & Industrial	Consumer	Other	Total
Allowance for credit losses							
Beginning Balance	$ 71,116	$ 745,200	$ 23,636	$ 137,048	$ 245	$ 71	$ 977,316
Provision for (credit from) loan losses	(49,280)	126,494	(16,195)	78,709	(207)	(71)	139,450
Recoveries of previously charged off loans	12,994	1,120	-	15,296	-	-	29,410
Charge-offs	-	(116,935)	-	(23,285)	-	-	(140,220)
Ending Balance	**$ 34,830**	**$ 755,879**	**$ 7,441**	**$ 207,768**	**$ 38**	**$ -**	**$ 1,005,956**

September 30, 2021

	Residential Mortgage	Commercial Mortgage	Construction and 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**

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, 2022 and 2021 are as follows:

September 30, 2022

	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Total
Real Estate:							
Construction and land development	$ -	$ 172,305	$ 5,167,976	$ 4,226,922	$ -	$ -	$ 9,567,203
Mortgage:							
Residential	2,006,045	1,050,740	9,710,909	4,050,815	613,672	33,040	17,465,221
Commercial	23,876,660	6,387,346	117,059,265	69,143,148	5,756,492	9,348,774	231,571,685
Commercial and industrial loans	13,709,252	656,474	7,472,214	3,555,230	338,431	361,887	26,093,488
Consumer loans	-	-	11,438	30,860	-	-	42,298
Other	7,135	-	-	-	-	-	7,135
Total	**$ 39,599,092**	**$ 8,266,865**	**$ 139,421,802**	**$ 81,006,975**	**$ 6,708,595**	**$ 9,743,701**	**$ 284,747,030**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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**

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, 2022 and 2021:

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, 2022

	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	132,161	14,118	-	-	-	26,434	158,595	559,904	175,159
Commercial	4,201,274	450,733	5,982,177	482,673	47,543	11,371,871	22,037,995	22,872,551	1,275,021
Commercial and industrial loans	64,236	11,135	536,401	-	-	235,467	836,104	1,064,772	129,642
Consumer loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	**$ 4,397,671**	**$ 475,986**	**$ 6,518,578**	**$ 482,673**	**$ 47,543**	**$ 11,633,772**	**$ 23,032,694**	**$ 24,497,227**	**$ 1,579,822**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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**

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, 2022, total COVID-19 related modifications were approximately $84,752, representing 1 loan and less than 1% of the portfolio. As of September 30, 2021, total COVID-19 related modifications were approximately $478,721, representing 3 loans and less than 1% 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, 2022 and 2021:

Troubled Debt Restructuring:

	Number of Contracts	Pre-Modification Outstanding Principal, Net	Post-Modification Outstanding Principal, Net
Year ended September 30, 2022			
Real Estate - Commercial	6	$ 6,571,439	$ 6,571,439
Commercial & Industrial	3	344,919	344,919
Total	**9**	**$ 6,916,358**	**$ 6,916,358**
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**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following summarizes loan modifications that were designated as TDRs during the fiscal years ended September 30, 2022 and 2021:

September 30, 2022

Description	Number of Loans	Principal Balance at Modification
Maturity extension	1	$ 121,707
Grant or extend interest only period	8	6,794,651
Total	**9**	**$ 6,916,358**

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**

NOTE 5 - ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructuring That Subsequently Defaulted

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. There were no TDR restructurings that subsequently defaulted for the years ended September 30, 2022 and 2021.

Loans modified in a troubled debt restructuring are considered impaired loans for purposes of calculating the Allowance for Loan Losses. As of September 30, 2022 and 2021, included with the allowance for loan losses are reserves of $509,410 and $49,657, 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, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2022	2021
Commitments to grant loans	$ -	$ 4,818,200
Unfunded commitments under lines of credit	55,279,109	42,869,943
Standby letters of credit	1,822,966	2,390,002

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, 2022 and 2021:

	2022	2021
Land and improvements	$ 1,933,302	$ 1,617,394
Buildings and improvements	9,174,481	8,937,386
Furniture and equipment	4,769,472	4,893,854
Vehicles	795,804	782,057
Accumulated Depreciation	(5,329,699)	(5,518,288)
Total	**$ 11,343,360**	**$ 10,712,403**

Depreciation expense of $687,031 and $695,062 was incurred by the company for the years ended September 30, 2022 and 2021, respectively and is included in other operating expense.

NOTE 8 - OTHER ASSETS

The following summarizes other assets at September 30, 2022 and 2021:

	2022	2021
Foreclosed real estate	$ 1,991,073	$ 2,535,123
Other foreclosed assets	-	75,000
SBA guarantee receivable	3,019,751	2,641,086
Loan costs receivable	396,075	427,047
Deferred tax assets	363,405	398,860
Other receivables	251,096	322,249
Other prepaid expenses	792,277	526,039
Miscellaneous	51,172	44,303
Total	**$ 6,864,849**	**$ 6,969,707**

NOTE 9 - INTEREST BEARING DEPOSITS

Interest bearing deposits at September 30, 2022 and 2021 are further detailed as follows:

	2022	2021
NOW accounts	$ 136,223,033	$ 91,445,703
Savings accounts	69,967,794	69,574,279
Certificates and other time deposits	112,750,019	109,781,339
Total	**$ 318,940,846**	**$ 270,801,321**

The Bank utilizes the services of deposit brokers to obtain a portion of its total deposits. The Bank had total deposit balances of $87,956,349 and $99,775,048 at September 30, 2022 and 2021, respectively that were obtained through the use of deposit brokers.

The Bank had $7,050,176 and $3,410,076 in outstanding certificates of deposit issued in denominations greater than $250,000 as of September 30, 2022 and 2021, 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:

2023	$ 45,549,100
2024	17,979,108
2025	19,633,602
2026	24,062,256
2027	5,525,953
	$ 112,750,019

NOTE 10 - BORROWINGS

Borrowings at September 30, 2022 and 2021 are as follows:

	2022	**2021**
Federal Home Loan Bank borrowings	$ 54,281,500	$ 62,281,500
Federal Reserve PPPLF borrowings	-	1,264,687
Junior subordinated debentures	195,000	195,000
	$ 54,476,500	**$ 63,741,187**

Federal Reserve Bank Discount Window

On September 30, 2022, the Bank had overnight borrowing capacity at the Federal Reserve Bank discount window in the amount of $31,474,563. Loans receivable with a book value of $35,803,097 were pledged to the Federal Reserve Bank of Cleveland as eligible collateral at September 30, 2022. The Bank had no outstanding borrowings at September 30, 2022 and 2021. 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 3.25% at September 30, 2022.

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 no PPPLF advances outstanding at September 30, 2022. The Bank had advances outstanding of $1,264,687 on September 30, 2021.

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, 2022, the Bank had pledged qualifying loans in the amount of $124,410,533 in support of a maximum borrowing capacity of approximately $86,912,423.

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, 2022 and 2021 consisted of the following:

Loan Type	Maturity Date	Interest Rate	2022	2021
Fixed Rate	April 11, 2022	2.19%	-	1,000,000
Fixed Rate	May 16, 2022	2.21%	-	6,000,000
Fixed Rate	June 8, 2022	2.10%	-	5,000,000
Fixed Rate	July 5, 2022	2.27%	-	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	3,000,000
Fixed Rate	June 10, 2027	3.70%	10,000,000	-
			$ 54,281,500	**$ 62,281,500**

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, 2022 and 2021.

Interest on the debentures is reset quarterly on the 15th of January, April, July and October at a rate equal to 3-Month Libor plus 4.25% (6.99% as of July 15, 2022, 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, 2022 and 2021 were $172,244 and $177,440, 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, 2022 and 2021.

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 $248,402 and $246,990 for the years ended September 30, 2022 and 2021, respectively. Additional expenses incurred in relation to the ESOP plan include professional fees associated with the administration of the plan. Administrative costs of $11,547 and $10,634 were incurred in the years ended September 30, 2022 and 2021, 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 169,224 and 161,883 shares held by the ESOP and allocated to beneficiary accounts at September 30, 2022 and 2021, respectively. There were no unallocated shares held by the ESOP during these periods. The fair value of the allocated shares was $3,570,626 at September 30, 2022. This valuation was based on the independent appraisal of the Company’s shares completed as of June 30, 2022.

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, 2022 there are 33,365 shares subject to the repurchase obligation with a fair value of $704,002. Total account balances subject to distribution request are $708,206 at September 30, 2022. Of this amount, $275,641 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, 2022 there were no employees that had 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, 2022 and 2021. Items outside the scope of ASC 606 are noted as such.

	2022	2021
Other Operating Income		
Service charges on deposit accounts		
Overdraft fees	$ 7,840	$ 3,865
Other	354,218	339,532
Total	**362,058**	**343,397**
Other Fee Revenue		
Real estate subsidiary commission income	929,493	1,895,004
Real estate subsidiary other fee income	84,130	42,596
Consulting subsidiary fee income	171,015	201,973
Rental and other income from foreclosed real estate	254,482	252,326
ATM fee and service charge income	44,662	37,497
Insurance subsidiary income	1,083,183	1,382,683
Other fee income	37,822	18,447
Total	**2,604,787**	**3,830,526**
Gain/(Loss) on sale of foreclosed real estate	**206,368**	**(51,393)**
Gain/(Loss) on valuation of foreclosed real estate	**17,698**	**(640,344)**
Total Other Operating Income	**$ 3,190,911**	**$ 3,482,186**

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)

Gain/(Loss) on sale of foreclosed real estate:

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

Gain/(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, 2022 and 2021 is as follows:

	2022	2021
Wages and Benefits		
Bank management and administrative	$ 2,906,760	$ 3,110,187
Enterprise Business Consultants	827,269	728,533
Kuzneski & Lockard	99,744	227,706
Enterprise Insurance Services	680,828	711,752
Relationship Manager compensation	2,298,671	2,520,794
ASC 310-20 salary deferral for loan origination activities	(258,500)	(244,750)
Total salaries and employee benefits	**$ 6,554,772**	**$ 7,054,222**

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, 2022 and 2021 is as follows:

	2022	2021
Business development	$ 458,218	$ 396,717
Foreclosed real estate expense	164,391	199,015
Real estate agency commissions	655,744	1,199,522
Legal and accounting services	182,527	(70,627)
Directors' fees	240,510	234,074
Telephone	73,552	142,157
Bank shares tax	301,651	275,406
Other loan and collections	32,926	8,150
Other - Bank operations	451,963	452,861
Other - Subsidiary operations	440,137	673,817
Total	**$ 3,001,619**	**$ 3,511,092**

NOTE 15 - INCOME TAXES

The components of net deferred tax assets and liabilities at September 30, 2022 and 2021 are as follows:

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 234,931	$ 226,974
Deferred compensation	56,719	92,028
Other real estate owned	348,226	352,058
Nonaccrual interest	40,727	40,727
Subsidiary net-operating loss	319,319	255,376
Other	33,744	15,367
Total Deferred Tax Assets	**1,033,666**	**982,530**
Deferred tax liabilities		
Premises and equipment	(516,327)	(499,332)
Deferred loan origination fees	(153,934)	(84,338)
Nonaccrual interest	-	-
Total Deferred Tax Liabilities	**(670,261)**	**(583,670)**
Net Deferred Tax Assets	**$ 363,405**	**$ 398,860**

The Company has determined that no valuation allowance was required for the deferred tax asset balances at September 30, 2022 and 2021, 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 2022 and 2021. The differences for the years ended September 30, 2022 and 2021 are as follows:

	2022	2021
Tax at statutory rate	$ 808,443	$ 1,108,068
Nondeductible and other expenses	48,817	54,022
Income Tax Expense	**$ 857,260**	**$ 1,162,090**

NOTE 15 - INCOME TAXES (CONTINUED)

The Bank's provision for income taxes for 2022 and 2021 consists of the following:

	2022	2021
Current federal and state tax expense	$ 821,805	$ 1,371,200
Deferred federal tax (benefit) expense	35,455	(209,110)
	$ 857,260	**$ 1,162,090**

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, 2022 and 2021 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. $82 and $2,394 in penalties and interest were recognized for the years ended September 30, 2022 and 2021, respectively.

The Bank has evaluated its tax positions taken for all open tax years. Currently, the 2018 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 3,750 shares issued and outstanding with liquidation value of $3,750,000, or $1,000 per share, on September 30, 2022. 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.

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.

On March 15, 2022 the Company redeemed 1,250 shares of the outstanding SBLF preferred stock in the amount of $1,250,000, or $1,000 per share.

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, 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 $3,281,549 and $3,419,727 (including unused lines of credit) at September 30, 2022 and 2021, respectively.

The following is an analysis of loans to these parties during the year ended September 30, 2022 and 2021:

	2022	2021
Balance at beginning of year	$ 2,919,727	$ 1,057,576
New loans	1,200,000	2,185,059
Repayments	(1,388,178)	(322,908)
Balance at end of year	**$ 2,731,549**	**$ 2,919,727**

The aggregate amount of deposits on account at the Bank for directors and principal officers, and their related interests, was $3,059,182 and $2,492,041 for the years ended September 30, 2022 and 2021, 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, 2022, 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, 2022 and 2021, 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, 2022 and September 30, 2021 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	
(Dollar amounts in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of September 30, 2022:						
Total capital (to risk-weighted assets)	$ 34,956	12.63 %	$ 22,135	≥ 8.00%	$ 27,669	≥ 10.00%
Tier 1 capital (to risk-weighted assets)	34,305	12.40	16,601	≥ 6.00	22,135	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	34,305	12.40	12,451	≥ 4.50	17,985	≥ 6.50
Tier 1 capital (to average assets)	34,305	8.74	15,701	≥ 4.00	19,627	≥ 5.00
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	18,066	≥ 6.50
Tier 1 capital (to average assets)	33,113	8.77	15,110	≥ 4.00	18,888	≥ 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, 2022 and 2021.

	2022	2021
Weighted-average common shares (Denominator)		
Weighted-average common shares outstanding	1,200,320	1,200,320
Average treasury shares	(40,002)	(65,737)
Weighted-average common shares and common stock equivalents earnings per share (base, denominator)	**1,160,318**	**1,134,583**
Weighted-average common shares and common stock equivalents outstanding used to calculate diluted earnings per share (diluted, denominator)	**1,160,318**	**1,134,583**
Net Income (Numerator)		
Net Income	$ 2,992,467	$ 4,114,422
Less: Preferred stock dividend	(416,875)	(450,000)
Net income attributable to common shareholders	**$ 2,575,592**	**$ 3,664,422**
Net income attributable to common shareholders, per share		
Basic	**$ 2.22**	**$ 3.23**
Diluted	**$ 2.22**	**$ 3.23**

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, 2022 and 2021:

		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, 2022				
Collateral - dependent impaired loans				
Residential real estate	$ 118,043	$ -	$ -	$ 118,043
Commercial real estate	4,185,671	-	-	4,185,671
Commercial and industrial	53,101	-	-	53,101
Total	**$ 4,356,815**	**$ -**	**$ -**	**$ 4,356,815**
Other Real Estate Owned				
Commercial real estate	$ 695,327	$ -	$ -	$ 695,327
Total	**$ 695,327**	**$ -**	**$ -**	**$ 695,327**

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, 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**

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, 2022. Sales that are not considered arms length transactions or where the sales price was not negotiated under normal market conditions have been excluded from this analysis.

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, 2022 and 2021:

September 30, 2022

	Fair Value	Valuation Technique	Unobservable Inputs	Range
Other real estate owned				
Commercial real estate	$ 695,327			
Total	**$ 695,327**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	**5%-10%**
Collateral-dependent impaired loans				
Residential real estate	$ 118,043			
Commercial real estate	4,185,671			
Commercial and industrial	53,101			
Total	**$ 4,356,815**	**Cost, Income and Sales Comparison**	**Estimated Costs to Sell**	**5%-10%**

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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)

The carrying amounts and estimated fair values of financial instruments not carried at fair value, at September 30, 2022 and 2021 are as follows:

	Fair Value Measurements at September 30, 2022				
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS					
Cash and due from banks	$ 673,250	$ 673,250	$ -	$ -	$ 673,250
Cash on deposit with Federal Reserve Bank	109,999,623	109,999,623	-	-	109,999,623
Interest bearing deposits with banks	620,469	620,469	-	-	620,469
Net loans	284,474,094	-	-	266,817,618	266,817,618
Accrued interest receivable	1,279,212	-	1,279,212	-	1,279,212
Restricted investment in bank stock	2,339,800	N/A	N/A	N/A	N/A
Total financial assets	**399,386,448**	**111,293,342**	**1,279,212**	**266,817,618**	**379,390,172**
FINANCIAL LIABILITIES					
Non interest bearing deposits	5,907,275	-	5,907,275	-	5,907,275
Savings, money market and NOW accounts	206,190,827	-	206,190,827	-	206,190,827
Certificate and other time deposits	112,750,019	-	104,565,579	-	104,565,579
Borrowings	54,476,500	-	52,339,849	-	52,339,849
Accrued interest payable	328,374	-	328,374	-	328,374
Total financial liabilities	**$ 379,652,995**	**$ -**	**$ 369,331,904**	**$ -**	**$ 369,331,904**

NOTE 22 - FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

	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 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, 2022 and 2021:

Year ended September 30, 2022

	As Reported Financial Statements	As Reported Regulatory Reporting	Variance
Consolidated Statements of Financial Condition			
Loans receivable	$ 285,480,050	$ 283,633,123	$ (1,846,927)
Allowance for loan losses	(1,005,956)	(650,802)	355,154
Net Loans	**284,474,094**	**282,982,321**	**(1,491,773)**
Accrued interest receivable	1,279,212	713,906	(565,306)
Other Assets	6,864,849	7,737,237	872,388
Total Assets	**417,594,657**	**416,409,966**	**(1,184,691)**
Accrued expenses and other liabilities	2,294,844	2,605,823	310,979
Total Liabilities	**381,947,839**	**382,258,818**	**310,979**
Retained Earnings	17,783,253	16,287,583	(1,495,670)
Total Stockholders' Equity	**35,646,818**	**34,151,148**	**(1,495,670)**
Total Liabilities and Stockholders' Equity	**417,594,657**	**416,409,966**	**(1,184,691)**

	As Reported Financial Statements	As Reported Regulatory Reporting	Variance
Consolidated Statements of Income			
Interest and fees on loans	$ 15,160,307	$ 14,886,985	$ (273,322)
Total Interest Income	**15,990,778**	**15,717,456**	**(273,322)**
Provision for Loan Losses	139,450	(166,047)	(305,497)
Salaries and employee benefits	6,554,772	6,539,000	(15,772)
Total Other Operating Expenses	**11,674,775**	**11,659,003**	**(15,772)**
Income Before Income Tax Expense	**3,849,727**	**3,897,674**	**47,947**
Income tax expense	857,260	867,328	10,068
Net income	**2,992,467**	**3,030,346**	**37,879**

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

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)**
Accrued interest receivable	1,238,935	713,142	(525,793)
Other Assets	6,969,707	7,836,391	866,684
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)

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

(Dollar amounts in thousands)	Financial Statements	Regulatory Reporting	Variance
As of September 30, 2022			
Total Stockholders' Equity	$ 35,801	$ 34,305	$ (1,496)
Total Common Stockholders' Equity	35,801	34,305	(1,496)
Total Stockholders' Equity plus Allowance for Loan Losses	36,807	34,956	(1,851)
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)

NOTE 24 - SUBSEQUENT EVENTS

The Company evaluated its September 30, 2022 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.

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