Enterprise Bank

ANNUAL REPORT 2020

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Letter to Our Shareholders

Dear Fellow Shareholders:

We are pleased to report Enterprise Financial Services Group, Inc. has continued its growth in both asset size and profits the past fiscal year despite the unprecedented challenges and economic conditions brought on by the COVID-19 pandemic. We have all the while remained focused on helping new and existing small business clients through these difficult times.

The Bank's profitability has improved in a material way as a direct result of our cost of funds returning to a more market-level pricing structure. Contrary to what typically happens to deposit levels when interest rates are relatively low, the Bank's deposit account balances grew materially. This was a direct result of government-sponsored small business support programs such as the Paycheck Protection Program (PPP).

Our fee revenue increased materially due to income growth from subsidiaries and the fee revenue earned from the PPP program. The Bank expects fee revenue to continue to improve profitability in the next fiscal year.

The Bank continued to monitor and improve its technology and litigation expenses. Technology expenses decreased over the last year. The Bank also reduced litigation expenses and prevailed in a recent large litigation case that should result in recovery of additional legal expenses in the near future.

The Bank anticipates limited growth over the next five years and intends to build capital. The intent of increasing our capital is to fund the buy-back of the preferred stock issued as a result of government actions arising out of the 2008 financial crisis. This action will enable the Bank to increase the dividend payouts to the common stockholders in future years.

The Bank intends to remodel the office building located on campus next to the Bank's main office. Enterprise Bank purchased this property a few years ago to facilitate growth. We intend to locate the Insurance, Consulting, IT and Real Estate subsidiaries, along with a small business incubator, in the newly renovated building once fully completed.

The Bank intends to focus on the growth potential in the fee for service areas, such as Title Insurance, IT consulting, Real Estate Brokerage Services, Marketing and Bookkeeping Services. The new office space will facilitate expansion in these areas while giving the Bank additional room to expand its core operations and services in the main office.

We encourage you to read "Management's Discussion and Analysis" contained in this Annual Report to gain a more thorough understanding of the 2020 operational and financial results.

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

Sincerely,

Chuck Leyh

Charles H. Leyh
Chariman of the Board

Douglas W. Lockard

Douglas W. Lockard
Vice Chairman of the Board

The following discussion provides additional information and analysis for the results of operations for Enterprise Financial Services Group, Inc. (the "Company") and its wholly-owned subsidiary, Enterprise Bank (the "Bank"), for the fiscal year ended September 30, 2020 ("2020"). This discussion also includes results of operations for the Bank's wholly-owned subsidiaries: Enterprise Insurance Services, Inc., Enterprise Business Consultants, Inc., Kuzneski & Lockard, Inc. and Buildonus, Inc. This discussion is provided as a supplement to the financial statements and accompanying disclosures included in the Company's 2020 Annual Report.

Peer group data used in preparing the accompanying charts was taken from the Bank's Uniform Bank Performance Report ("UBPR") as published quarterly by the Federal Deposit Insurance Corporation. The UBPR designated peer group for 2020 includes all insured commercial banks in the United States of America with total assets between $300 million and $1 billion. The UBPR designated peer group for years 2018 and prior includes all banks in the United States of America, located in a metropolitan area, with total assets between $100 and $300 million and two or fewer full service offices. Peer data is prepared on a calendar-year basis. Therefore, when peer data is used in the charts the Bank's data has also been presented on a calendar-year basis.

Overall Performance Summary

As fiscal 2020 began, management focus was on continuing prudent growth of the loan portfolio to further increase utilization of the Bank's core operating capacity. Another priority in 2020 was growth in the subsidiary business lines to enhance non-interest income. Expansion was specifically focused on Enterprise Insurance Services, Inc., the Bank's title insurance subsidiary.

Fiscal 2020 took a sharp turn six months in, however, with the COVID-19 outbreak which was declared a pandemic in March, 2020. As a result, Management shifted focus toward supporting its small business clients during the resulting economic downturn and navigating the Bank through its own operational challenges.

In order to provide support to its clients, the Bank became a significant participating lender in the SBA's Paycheck Protection Program ("PPP"). This program provided small businesses with funding through 100% guaranteed SBA loans. Loans were eligible for forgiveness if they met certain criteria. Additionally, the Bank proactively worked with clients to restructure payment arrangements in order to assist them through various business closures and operating restrictions. Operationally, management worked through frequently changing regulations to keep the Bank open while maintaining a safe workplace for employees. As the crisis evolved there were several instances where the Bank, or its subsidiary lines of business, were operating at limited capacity, under work-at-home rules, or closed entirely.

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

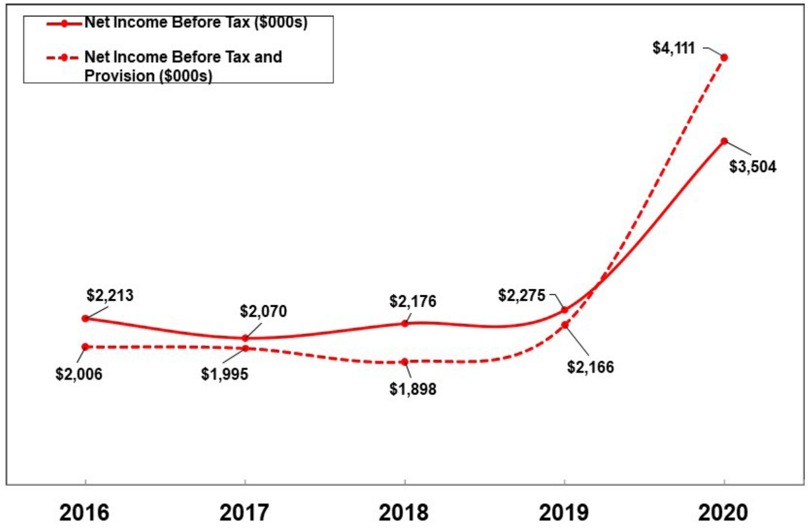


Chart #1 illustrates the Bank's annual pre-tax income from fiscal 2016 through 2020. Pre-tax income eliminates the earnings impact of changes to statutory tax rates that were enacted at the end of 2017. In 2020, pretax income increased $1.2 million[1], or 54% over the prior year, to $3.5 million. Chart #1 also illustrates the Bank's annual income before tax and before provisions for loan loss for the same periods. This eliminates the impact of loss provisions that have been volatile as significant changes in the credit environment, both positive and negative, have occurred over the course of this period. Pre-tax income, excluding loan loss provisions, increased $1.9 million or 86% in 2020.

The increase in earnings for 2020 was the result of several factors, including an increase in net interest income driven by continued growth in the loan portfolio as well as fee income recognized through participation in the PPP program. Net interest income was also boosted on the cost of funds side as Management began to unwind the Bank's premium deposit pricing strategy. A lower interest rate environment also contributed to the decrease in cost of funds. This was partially offset by an increase in the provision for loan losses as the Bank evaluated the reserve level as a result of the pandemic. The following discussion will analyze these among other factors in greater detail.

Core Operating Philosophy

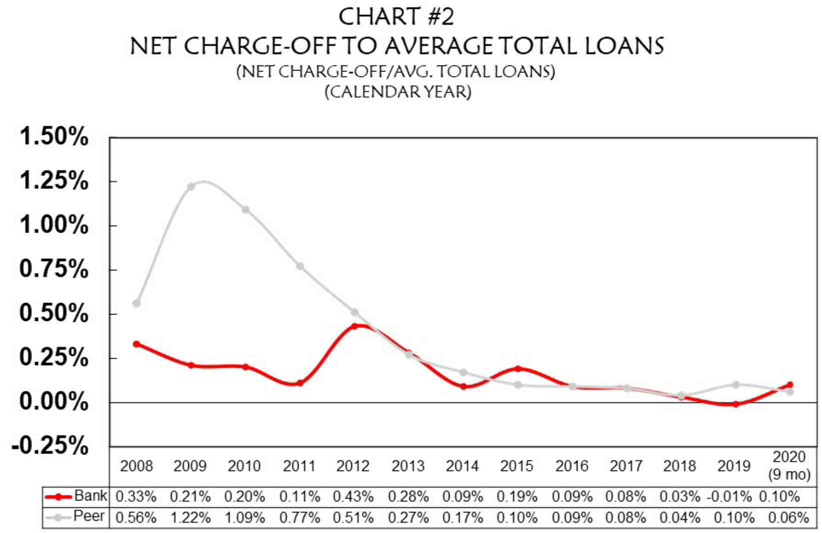
Enterprise Bank was founded in 1998 by a group of entrepreneurs from Western Pennsylvania who identified a void in the industry with regard to serving the banking needs of small business. The Bank's focus from the beginning has been on providing funding and support services to small business that are in a start-up, growth or distressed cycle. The Bank has always prioritized standing behind its customers in their time of need when those customers exhibit a foundation of strong character and sound management practice. In 2020 this philosophy was brought to the forefront as the Bank worked to navigate through the challenges of the Covid 19 pandemic.

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

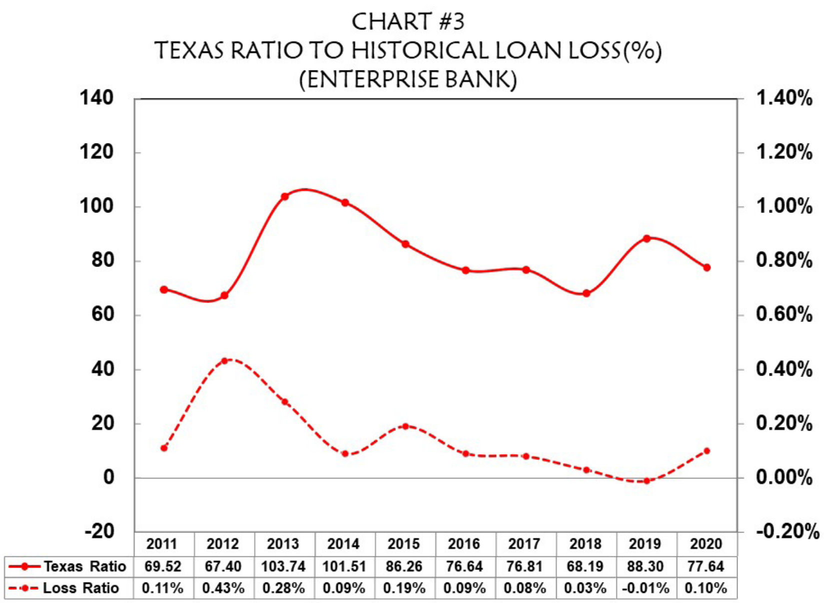
With a reliance on collateral to support underwriting and mitigate credit losses, the Bank pays strict attention to the quality of appraisals and has implemented effective and efficient collateral liquidation strategies. This has historically resulted in lower and less volatile loan loss rates than the Bank's peer group which operates in a more conventional lending environment.

1 Numbers are rounded to the nearest 1,000

Chart #2 compares the Bank's loan loss rates to its peer group for the annual periods of 2008 to present. This chart illustrates that historically the Bank has been at or below the loss experience of the peer group and with less volatility. This is highlighted by the period of the last financial crisis in 2008 through 2011. During that cycle, the peer group experienced a dramatic spike in loss rates while the Bank's rates continued to fluctuate within a tolerable range.



A widely accepted indicator of a bank's asset quality is the Texas Ratio. This ratio is oftentimes used as a predictive indicator of poor credit quality, expected losses and potential bank failure. Chart #3 compares the Bank's Texas Ratio to its loss rates since 2011. Chart #4 similarly compares the Texas Ratio of the Bank's peer group to loss rates for the same periods. The two charts illustrate the relative difference between Enterprise Bank and its peers as it relates to the Texas Ratio being an indicator of loss. The Texas Ratio has never been a good indicator of future losses for the Bank. The chart supports the conclusion that, historically, the Bank's loss mitigation strategies have been effective in minimizing losses on non-performing assets.



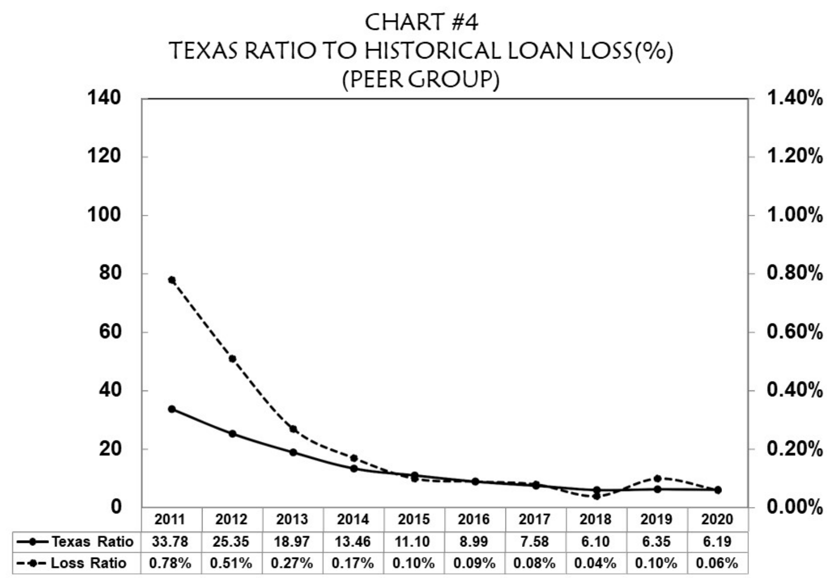


CHART #5
Loans Receivable ($ in millions)

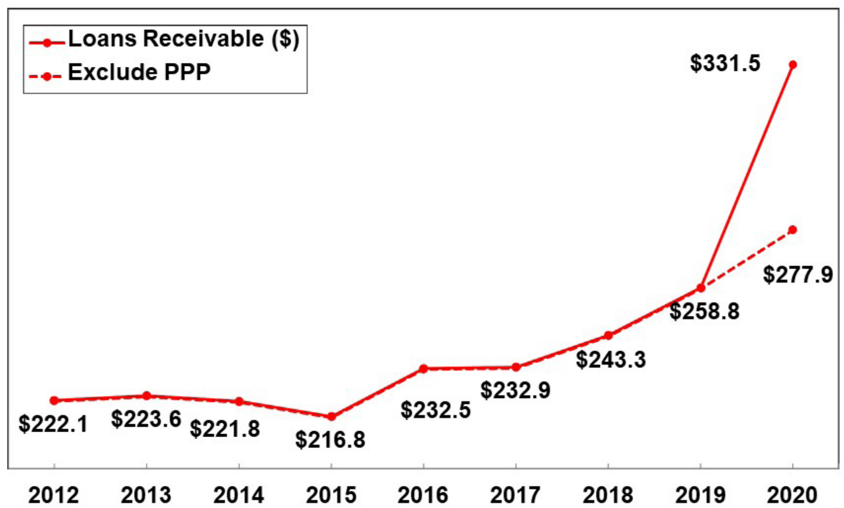
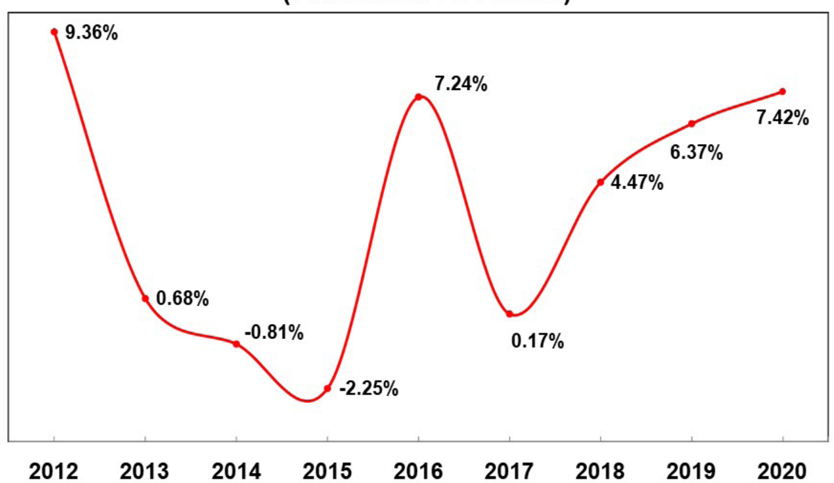


CHART #6



Loan Portfolio and Interest Income

Despite the operational challenges presented in 2020 the Bank was able to maintain a solid loan growth rate in 2020, exclusive of PPP lending. The Bank was on pace to meet budgeted goals for growth prior to the start of the pandemic. Chart #5 indicates the year-end portfolio balances from 2012 through 2020 and Chart #6 illustrates the annual growth rate of the portfolio for the same periods. Core portfolio growth in 2020 was 7.42% which was an increase over the prior year.

Loan origination activities were largely curtailed in the latter half of the fiscal year as staff and resources were shifted to handle the large volume of PPP originations. In 2020 the Bank funded approximately 330 PPP loans with an aggregate balance of $54 million. The loans have a fixed interest rate of 1%, are 100% government guaranteed and are forgivable to the borrower if certain criteria are met. Because the PPP loans are anticipated to be short term in nature and not an indicator of core loan growth, Chart #5 shows the portfolio balance both with and without the PPP loans. In Chart #6 PPP loans are also excluded when calculating annual % growth of the portfolio.

Total interest and fee income on loans increased by $2.7 million in 2020, or 19% over the prior year. Interest and fee income, excluding amounts generated by the PPP program, increased $1.3 million or 9% over the prior year. The increase in the income generated by the core portfolio can be split into two segments. Approximately $285,000 is attributed to a change in method for when to place a loan on nonaccrual status which is discussed in more detail later in this analysis. The remainder is generally attributable to current and prior years' growth in the portfolio.

Total Interest and fee income recognized in 2020 as a result of participation in the PPP lending program was approximately $1.4 million. As of September 30, 2020, approximately $1.9 million in fees were generated by the Bank as a participant in the program. Fees for origination and servicing the PPP portfolio were deferred and recognized over the estimated life of the loan in order to match the fee revenue with associated costs. Estimated life was based on the shorter of (i) the estimated time to forgiveness or (ii) maturity. Management has estimated that the forgiveness process for the majority of the portfolio would be completed over a nine-month period. This resulted in approximately $1.1 million of the total fees generated being recognized as income in 2020. Costs incurred include variable costs to the relationship manager team for origination and servicing as well as indirect costs associated with re-direction of staff time for administration of the portfolio.

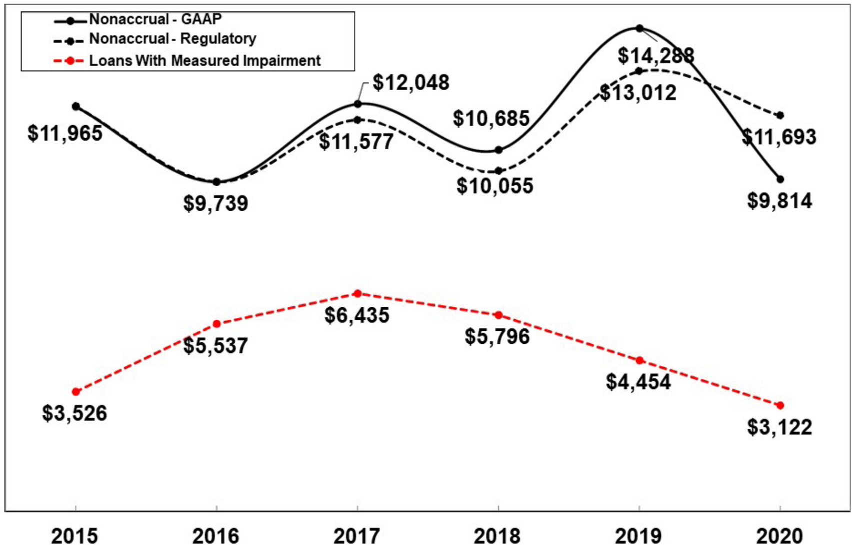
Future growth in the core portfolio will closely correlate to the Bank's capital management planning. Earnings, non-performing assets and unfunded commitments are all factors when measuring capital levels. Management will continue to closely monitor these factors when planning an acceptable level of asset growth.

Nonaccrual Loans and Revenue Recognition

Given the Bank's niche of financing start-up and distressed businesses, Management expects that the Bank will carry a level of non-performing loans that is higher than its peer group. Chart #7 illustrates the Bank's level of nonaccrual loans since 2015. The balance of nonaccrual loans, per regulatory classification, decreased $1.3 million, or 10%, in 2020. The balance of nonaccrual loans, per financial statement classification, decreased $4.5 million, or 31%, in 2020.

CHART #7

Nonaccrual Loans vs. Loans With Measured Impairment



As discussed, the Bank's level of nonaccrual loans is typically not an indicator of loss due to the various loss mitigation strategies in place. Chart #7 also indicates the balance of loans with measured impairment for the last five years. Loans with measured impairment have been individually evaluated and are deemed to have incurred some level of loss after consideration of collateral liquidation and any other loss mitigation strategies. Any shortfall of collateral to the basis in the loan is reserved. As indicated in the chart, the balance of loans with measured impairment does not historically correlate to the balance of loans on nonaccrual status.

In order to evaluate the impact that nonaccrual loans have on the Bank's earnings, it is important to have an understanding of the revenue recognition standard in GAAP. According to the general revenue recognition principles established by GAAP, revenue is recognizable when it is both earned and either realized or realizable. In order for revenue to be considered realizable a collectability threshold must be met. Management and its primary regulator have a difference of opinion when it comes to interpreting the appropriate collectability threshold for loans that are in 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 that is supported by a current valuation from a trusted source; (2) the collateral is in the process of liquidation; and (3) the liquidation is expected to be complete within a time frame that is considered reasonable given the type of collateral being liquidated.

The instructions furnished by the regulator for preparation of the Bank's regulatory financial reports provide general guidance on this same topic[3]. The instructions have historically been backed by a more stringent interpretation of the collectability threshold by the regulator. In general, for regulatory purposes, a loan is required to be placed on nonaccrual when it becomes greater than 90 days past due, unless the loan is considered well-secured and in the process of collection. However, the regulators have a more stringent interpretation of what is considered "in the process of collection". In their opinion, in order for a loan to be considered in the process of collection the timing and amount of repayment must be reasonably certain and there must be evidence that collection in full of amounts due and unpaid will occur shortly. Their indicated benchmark of an acceptable time frame is 30 days.[4]

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

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

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

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1 Staff Paper, Revenue Recognition – Collectability, October 28, 2013, IFRS/FASB
2 FASB Accounting Standards Codification - Master Glossary
3 Instructions for Preparation of Consolidated Reports of Condition and Income (FFIEC 031 and 041)
4 Bank Accounting Advisory Series, Office of the Comptroller of the Currency, August, 2019

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

TABLE 1: IMPACT OF REVENUE RECOGNITION: NONACCRUAL LOANS

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

(A) Interest not accrued, net of cash basis payments received, on loans that are well secured and in the process of collection, as defined by Management, in accordance with GAAP guidance. These amounts 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 the amount of interest income, both annually and cumulatively, that has not been accrued as income in the regulatory Call Reports. This amount represents loans that have been placed on regulatory nonaccrual status that, in Management's opinion, are well secured and in the process of collection but do not meet the threshold set forth in the regulatory reporting guidance. The amounts shown in Column (A) are net of any cash payments for interest that have been received for this group of loans.

In prior years, Management had made the determination that the year over year impact of this adjustment was not material to the financial statements as a whole and therefore followed the regulatory guidance in determining when to place a loan on nonaccrual for both Call Report and GAAP financial statement reporting. In this discussion in 2019, Management indicated that the spread between the balance of loans on nonaccrual and the balance of loans that actually had measured impairment was widening and that this income recognition variance could materially increase in future years. 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 GAAP financial statements was implemented in 2020. As a result of this change, for the GAAP financial statements, interest will continue to accrue for loans that are greater than 90 days past due but meet Management's criteria of well-secured and in the process of collection.

The cumulative increase to net income in 2020 related to prior years as a result of this change in method was approximately $163,000. This amount is net of the corresponding increases to Relationship Manager (RM) compensation and the provision for tax expense. It was determined that this cumulative adjustment was immaterial and therefore the 2019 financial statements were not re-stated. As shown in Table 1, as of September 30, 2020, on a cumulative basis approximately $285,000 in interest income has been accrued related to this issue, $28,000 of this amount was for income actually generated in 2020.

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

As in years past, 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 payments.

For both interest accrual and the treatment of cash basis payments, the result is a cumulative difference between the financial statements as reported to shareholders and the regulatory financial statements as reported in the Bank's Call Reports. To maintain transparency for the users of the financial statements the results of both methods, and a description of the differences, is presented in Note 23 Reconciliation of Financial Statements to Regulatory Reporting included with the financial statements in this Annual Report.

As illustrated in Table 1, for the year ended September 30, 2020 a combined total of $367,000 of interest income generated in 2020 was recorded in the financial statements that is not reflected in the Bank's regulatory Call Reports. An additional $257,000 was recorded in 2020 as a result of the prior year effect of the method change. Cumulatively, as of September 30, 2020, there is approximately $1.5 million of interest income that has been recorded in these financial statements that has been deferred for regulatory reporting purposes.

Management's ability to make accurate judgements on these credits is driven primarily by the reliability of its appraisal process. The Bank has a solid track history of realizing at or near current appraised values upon final liquidation of its collateral. On average the Bank has realized approximately 95% of the most recent appraised value upon liquidation. Through September 30, 2020, the Bank has not recognized any material losses in its shareholder financial statements as a result of interest income recorded that later required a write-down of principal on the loan.

Allowance for Loan Losses ("ALLL")

For the year ended September 30, 2020, the Bank recorded loan loss provisions of $607,000. This was an increase of $716,000 over the negative provision of $109,000 recorded in 2019. The majority of this increase is attributable to qualitative factors added to the reserve as a result of changes in the credit environment during the pandemic.

The Coronavirus Aid, Relief and Economic Security Act ("CARES Act") signed into law in March 2020 included a program whereby the SBA would make payments for six months on behalf of existing borrowers under their 7A program. At the end of the fiscal year, Management carefully reviewed all loans in the portfolio that were receiving payment assistance. The purpose of this review was to determine whether or not it was likely that the borrower had sufficient cash flow to make payments absent this assistance. For any loans where it was determined that timely payment was unlikely an estimate of impairment was calculated and a qualitative adjustment was made to the loan loss reserve.

In addition to this qualitative adjustment, other qualitative factors were adjusted for current market conditions. Most notably this included a significant adjustment to underlying collateral values based on current conditions in the real estate market.

As a result of these adjustments the Bank's ALLL at year end was $1,168,000 or 0.42% of loans receivable, excluding PPP loans. This was an increase of $366,000 over the prior year balance of $802,000 or 0.31% of loans receivable. Charge-offs, net of recoveries for the year were $240,776. While this was an increase over the prior year it fell within the Management benchmark of $250,000 per year.

The Bank continues to estimate loss reserves using an incurred loss model. This model was updated and implemented in 2016. The methodology was subject to an independent review and validation at the time of implementation 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. It closely monitors changes in real estate values in terms property type and location. Market sales data is analyzed on a quarterly basis to determine any qualitative adjustment needed to loss history.

Interest Rate Premium

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

There are additional costs incurred by the Bank as a result of carrying higher non-performing assets that must be considered. This includes legal expenses for collection as well as costs to preserve, protect and, if necessary, liquidate collateral. The period of time necessary to complete this process can oftentimes be extended, which escalates the expense even further. Elevated balances of nonaccrual loans also creates downward pressure on the yield of the overall portfolio, this includes the carrying cost to fund these loans.

Lastly, with collateral liquidation being a primary strategy to mitigate the loss of principal, the Bank typically carries a larger portfolio of foreclosed real estate than peer banks. This results in elevated costs to hold and maintain the real estate and exposes the Bank to the risks of fluctuating market values.

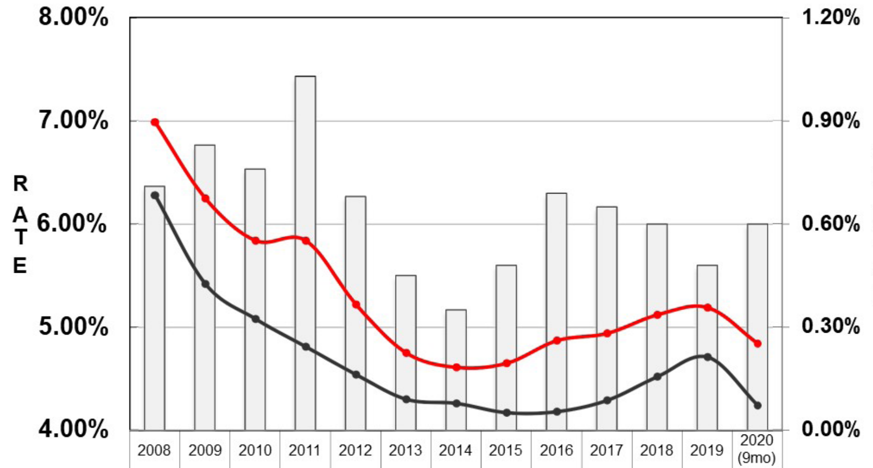
In order to absorb these additional costs, while realizing an acceptable rate of return, it is important that the Bank realize a yield on its loan portfolio that is greater than that of a conventional risk portfolio. Chart #8 compares the Bank's overall yield on earning assets to its peer group from 2008 through 2020. This chart indicates the amount of yield premium (Spread) the Bank has earned historically on its asset portfolio as compared to peer. In 2020 the Bank's yield premium was 60 basis points above peer. This was an increase of 12 basis points over the prior year.

Management monitors two benchmark rates to quantify the yield premium available in the marketplace. The benchmark rate that most closely correlates to the level of risk in the Bank's loan portfolio is the maximum rate allowable by the SBA for loans of similar term. For the Bank that rate is Prime plus 275 basis points. The benchmark rate that most correlates to conventional lending for similar term is the 5 year swap rate plus 250 basis points.

Chart #9 illustrates the trend of the two benchmark rates and the spread between the two. At September 30, 2020 the spread was 3.16% which was a decrease of 59bps in comparison to the prior year. Historically, a prolonged low rate environment has eroded the spread between the benchmark rates and has been an indicator that the Bank's spread versus peer could be at risk. This is illustrated in Chart #9 for the years 2009-2015, the period of the last prolonged low rate cycle. Unlike the prior cycle, the current low rate environment has been spread across the entire yield curve. Because of this the benchmark spread has not yet eroded to the same degree.

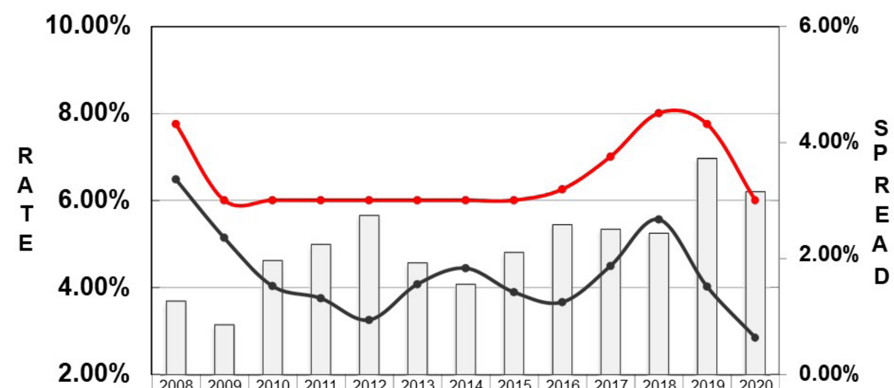
Although the benchmark spread decreased this year, the Bank's actual spread to peer has increased. Prior discussions have indicated that the Bank had veered away from using the traditional Small Business Administration (SBA) 7A financing program as a risk mitigation tool and shifted more toward the SBA's 504 loan program. As indicated in Chart #8, this began to show itself with a narrowing spread to peer in 2019.

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



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020 (9mo)
Spread	0.71%	0.83%	0.76%	1.03%	0.68%	0.45%	0.35%	0.48%	0.69%	0.65%	0.60%	0.48%	0.60%
Bank	6.99%	6.25%	5.84%	5.84%	5.22%	4.75%	4.61%	4.65%	4.87%	4.94%	5.12%	5.19%	4.84%
Peer	6.28%	5.42%	5.08%	4.81%	4.54%	4.30%	4.26%	4.17%	4.18%	4.29%	4.52%	4.71%	4.24%

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



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Spread	1.27%	0.86%	1.97%	2.25%	2.75%	1.93%	1.56%	2.11%	2.59%	2.51%	2.44%	3.73%	3.16%
SBA Max Rate	7.75%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.25%	7.00%	8.00%	7.75%	6.00%
Conv. Rate	6.48%	5.14%	4.03%	3.75%	3.25%	4.07%	4.44%	3.89%	3.66%	4.49%	5.56%	4.02%	2.84%

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

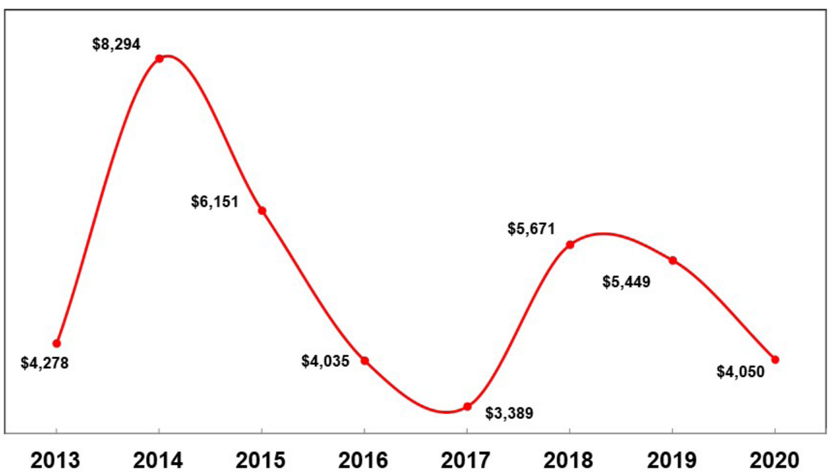
When using the 504 program the Bank typically carries a first lien position on real estate collateral with a loan to value typically in a range of at or below 50%. This effectively eliminates the Bank's risk of loss on the loan. The reduction in risk along with reduced administration and compliance results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

The shift to a higher mix of 504 financing versus 7A was creating a drag on the Bank's net interest margin. Management had expressed concern to its lenders that this shift in philosophy did not support the fixed overhead already in place to service a non-conventional portfolio. As a result usage of the 7A program has increased and this is starting to show itself as the spread to peer has moved back to prior levels.

Foreclosed Real Estate

Given the emphasis placed on real estate collateral as a risk mitigation tool, it is important that Management maintain effective and cost efficient liquidation strategies. Management has developed a team oriented approach through coordination of various areas of expertise within the Bank to assist with liquidation activities. This includes bringing together staff with expertise in property management, real estate brokerage, construction, valuation, legal, accounting and the RM team. The goal of this approach is to maximize the realization of sales price to appraised value while minimizing the holding period. Efficient liquidation practices serve to limit the Bank's exposure to fluctuations in real estate market pricing as well as minimize the costs to hold properties.

CHART #10
Foreclosed Real Estate
($ in thousands)



For the period of October 1, 2013 through September 30, 2020 the Bank has realized approximately 95% of current appraised value on the sale of foreclosed properties. Chart #10 illustrates the Bank's historical balance of real estate owned from 2013 through the current year. The portfolio decreased approximately $1.4 million, or 26%, in 2020 to a total of approximately $4 million.

The balance of foreclosed real estate and the number of properties remains below peak levels and continues to fluctuate within what Management would consider an acceptable range. Despite the challenges caused by the pandemic, the real estate team was able to dispose of properties with an aggregate sales value of $3.0 million. Final settlement on the majority of these sales occurred after the start of the pandemic.

In 2020, the Bank incurred net losses on the sale of real estate of $106,000 as compared to a net gain of $70,000 in the prior year. The continued absence of any material gains or losses on the sale of real estate is an indicator that sales prices have closely correlated to current appraised values and that significant discounting in order to reduce the size of the portfolio is not occurring.

The fair market value of properties held in the real estate portfolio are evaluated on at least an annual basis and, if necessary, a valuation allowance is recorded through a charge to net income. In 2020, the Bank recorded aggregate valuation losses in the amount of $334,000 on an average portfolio balance of approximately $4.7 million. This was an increase of $286,000 versus the prior year.

Contributing to this increase was a valuation loss of $162,000 on a specialty use property. This property was designed as a dry cleaning operation and continuing decline in this industry limited prospects for sale. The property was written down to its alternate use value and ultimately sold in 2020. On a long term basis valuation losses year to year continue to fluctuate within an acceptable range.

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

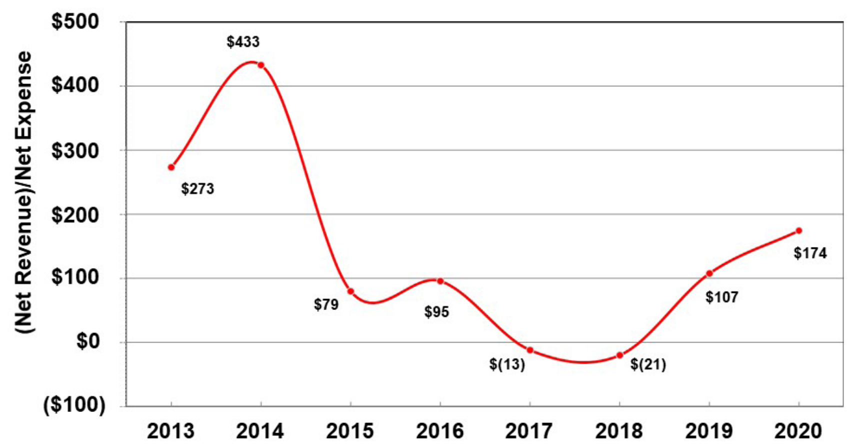


Chart #11 illustrates the historical trend in direct costs to hold foreclosed real estate. Carrying expenses, net of any rental income, were $174,000 which remains below peak and within Management's tolerable range. The year to year net expense can fluctuate based on the mix of rental versus non-rental properties and based on the number of properties that are backed by an SBA guarantee. Much of the fluctuation between 2019 and 2020 was attributable to these factors.

It is important to note that this chart illustrates direct holding costs only. There is also a payroll component for managing and maintaining properties that is included in Bank management and administrative wages. The personnel costs for managing and maintaining the real estate portfolio are generally fixed and have remained stable with no significant increases in 2020.

Liquidity and Funding

Total cash and equivalents increased $38.7 million over the prior year to a balance of $70.5 million at September 30, 2020. The Bank's balance of cash and equivalents is based on its liquidity modeling process which accounts for anticipated fluctuations in deposit account balances, projected needs for funding loan commitments and reserves for other anticipated risk factors.

There were a couple of factors that drove the increase in liquidity at year end. In 2020, Management enacted several policy changes to align liquidity requirements with capital levels. The Bank's access to wholesale funding sources would be curtailed if its capital ratios would fall below a well-capitalized regulatory classification. As such, Management has updated its policies to more formally quantify required liquidity levels and to set the level of monitoring processes based on current and projected capital levels. The implementation of these policies resulted in an increase in internal liquidity requirements in 2020.

Cash levels have also increased at year end due to an overall increase in cash in the banking system. This is generally the result of various stimulus programs implemented by the government to counter the effect of the Covid-19 pandemic on the national economy. Much of this added stimulus has resulted in an increase in total deposits on the balance sheet at the Bank.

At September 30, 2020 total deposits were $256.3 million which was an increase of $52 million, or 25%, over the prior year. On a short term basis Management retained a portion of this increase as additional liquidity to protect against increased volatility and uncertainty in the market due to the pandemic. It is expected that the Bank's overall liquidity will return to baseline policy levels as this uncertainty continues to abate.

In addition to its cash and equivalent balances, the Bank maintains several off balance sheet sources of liquidity. This includes established and tested borrowing bases with the Federal Home Loan Bank ("FHLB") and the Federal Reserve Discount Window. As of September 30, 2020, the Bank had pledged a combined total of $184 million in collateral to support an aggregate borrowing capacity of $132 million.

The Bank's borrowing capacities are established primarily as contingency funding tools to use should an unexpected liquidity event occur. The Bank also uses a portion of its FHLB borrowing capacity as a tool for managing interest rate risk and to take advantage of favorable pricing for funds. As of September 30, 2020 the Bank had total FHLB advances outstanding in the amount of $77.5 million. This is an increase of $2.3 million over the prior year.

In 2020 the Bank also participated in the Federal Reserve Paycheck Protection Program Liquidity Facility ("PPPLF"). This lending facility was established to provide lower cost funding in support of banks participating in the PPP lending program. Funds are advanced on a non-recourse basis and PPP loans are pledged as collateral. PPPLF advances carry a fixed rate of interest of 35 basis points and mature in conjunction with the maturity, forgiveness or prepayment of the underlying PPP loan collateral. At September 30, 2020 the Bank had outstanding advances of $53.7 million under this program.

The Bank continues to utilize the brokered CD market as a primary 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 rate environment. This, along with the ability to manage term, makes brokered certificates a good tool for interest rate risk management.

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

Cost of Funds

Total interest expense for the Bank decreased $550,000 to a total of $4.7 million in 2020. There were several factors driving this decrease. This includes a material change in the overall rate environment and the unwinding of the Bank's premium pricing strategy.

Due to the pandemic's impact on the economy, interest rates across the yield curve dropped to historical lows beginning late in the first calendar quarter of 2020. The Bank was operating in a slightly liability sensitive position at this time. This means that a greater dollar value of liabilities than assets were subject to rate repricing in the short term as rates fell. As a result this drove a significant drop in cost of funds for the Bank in the short term. If market rates remain at these levels there will continue to be downward pressure on the Bank’s cost of funds as longer term liabilities reprice.

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

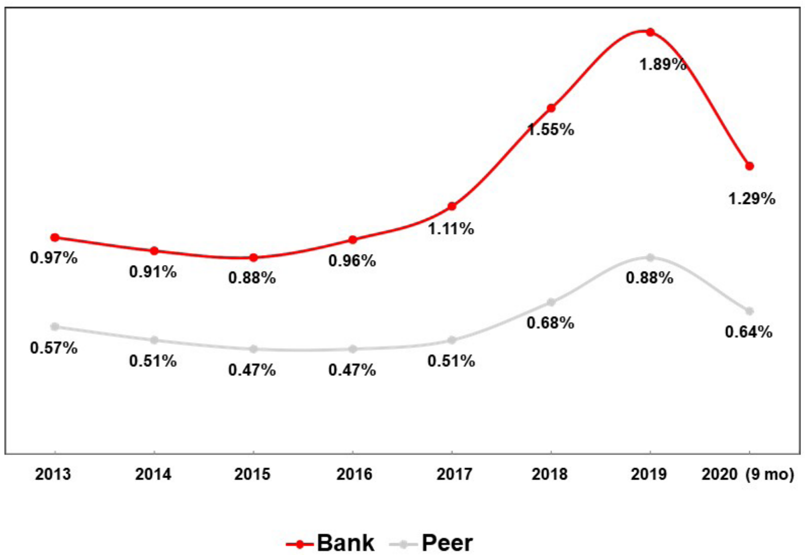


Chart #12 illustrates the Bank's Interest Expense to Average Earning Assets from 2013 to present. This chart highlights the drop in cost of funds that has occurred over the first nine month of 2020. The pace that cost of funds has dropped for the Bank has been greater than that of its peer group. The Bank’s average cost of funds has decreased 60 basis points while the peer group has decreased 24 basis on average. The reduction in the spread between the Bank and its peer group’s average cost of funds was partially driven by the lower rate environment, but to a greater degree it was driven by Management beginning to unwind its premium pricing strategy.

In April, 2016, Management implemented a new pricing philosophy on its transactional deposit accounts. This strategy was developed in response to building pressure for the Bank to reduce its reliance on wholesale funding sources, such as the brokered CD market. The new program was also designed to counter prevailing pricing strategies in the marketplace. Typically these pricing policies give attractive teaser rates for an introductory period to attract new business. Under this conventional pricing strategy, loyal customers are relegated to lower rate tiers, unless they proactively monitor their accounts and convert to the new products.

This pricing policy does not align with the Bank’ emphasis on relationship banking. Management wanted to create an alternative pricing program that was more transparent and was beneficial to both loyal customers and new business. This resulted in implementation of the Simplicity checking product which provided a stable rate tied to an established money market index. All customers received the same rate of return. In order to induce the deposit growth necessary to decrease wholesale funding levels a premium pricing strategy was implemented whereby the spread to index was set such that the Bank's rates would be at near top of market.

Over time the higher spread to index did not generate sufficient growth to justify the cost. In the 2nd quarter of fiscal 2020 management began to slowly reduce the spread over time to bring the Bank's overall rates for transactional deposits more in line with average peer rates in the market. As illustrated in Chart #12, the spread to peer for the Bank's cost of funds was reduced from 101 basis points in 2019 to 65 basis points in the first nine months of 2020. It is expected that this spread will continue to decrease as the unwinding of this program continues.

Overhead and Efficiency

Total other operating expenses increased approximately $1.2 million or 12% as compared to the prior year. While core operating overhead of the Bank remained stable, the increase in other operating expenses can be attributed to a few specific factors.

A large portion of the increase in operating expenses was the result of continued growth in the Bank's insurance services subsidiary. This growth resulted in an increase of approximately $570,000 in total operating expenses. Of this amount approximately $250,000 was cost of goods sold, $290,000 was for expanding the number of staff, and $30,000 was for additional fixed overhead. The increase in expense was offset by an increase in revenue of approximately $735,000. For the fiscal year, pre-tax net income generated by the subsidiary increased by approximately $165,000. During the year processes and technology were refined along with assembling the right team of personnel which will prepare the subsidiary for additional growth in revenue in future years.

The next largest factor increasing operating expenses was costs associated with the PPP lending program and other pandemic related administrative costs. The largest component of this would be an increase in total relationship manager costs of approximately $527,000 versus the prior year. Relationship manager costs are variable and based on a contractual formula tied to income generated in their branch, net of any provisions for loan loss. Increases in interest and fees on loans as a result of the PPP program were a large driver of the increase in this cost item for 2020.

There were also additional costs associated with maintaining operations during the pandemic. This included the purchase and implementation of additional technology to increase work at home capabilities, enhanced cleaning processes at Bank facilities and implementation of various other social distancing and employee safety measures.

In 2020, overall performance of the subsidiary businesses was impacted greatly due to various government shut-down orders and operating restrictions. As a result, personnel from these businesses, and associated costs, were shifted to Bank operations to assist with administration of the PPP program as well as other pandemic related tasks.

Lastly, net FDIC insurance expense increased $163,000 versus the prior year. The amount of expense in 2019 was reduced due to one-time retro-active premium credits received when the overall insurance fund met certain minimum levels. In 2020, absent these credits, premium expense returned to normal levels.

In 2019 this discussion highlighted legal expense increases as a result of two ongoing lawsuits. In 2020 the Bank prevailed on one of these lawsuits as it was dismissed in the summary judgment phase. The second lawsuit is ongoing. The Bank continues to defend itself against the second suit and believes it will ultimately prevail. In 2020, there was no material impact to operating expenses as a result of the two lawsuits.

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

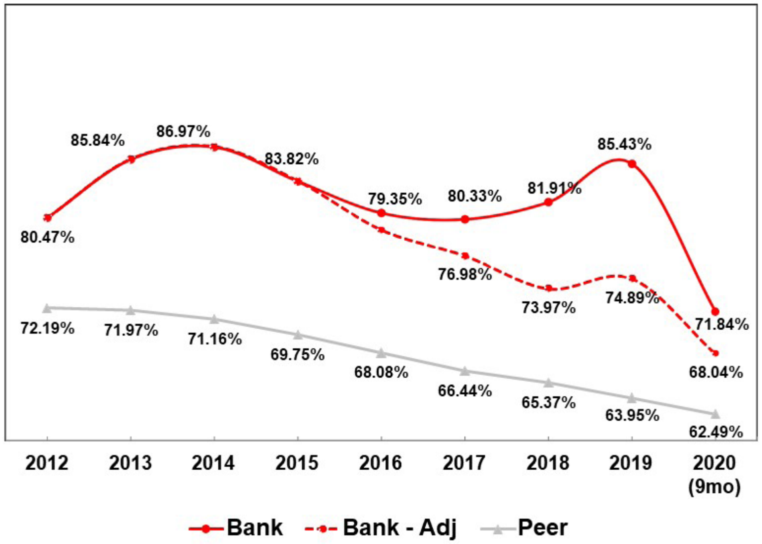


Chart #13 compares the Bank's efficiency ratio to its peer group from 2012 through the first nine calendar months of 2020 (annualized). The Bank's efficiency ratio is a primary indicator used by Management to monitor the Bank's utilization of its operating overhead.

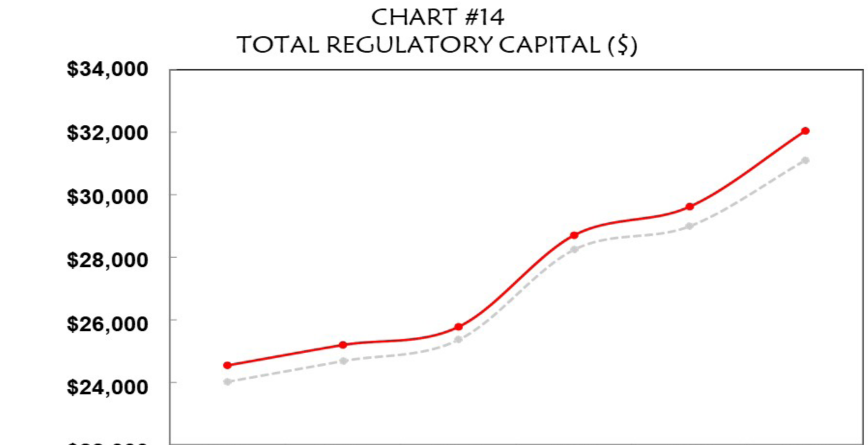
In 2013, the Bank expanded its facility and added personnel, technology and other infrastructure in order to increase capacity in preparation for growth. While this initially increased the Bank's efficiency ratio and widened its spread to peer, it was anticipated that the ratio would be brought back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

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

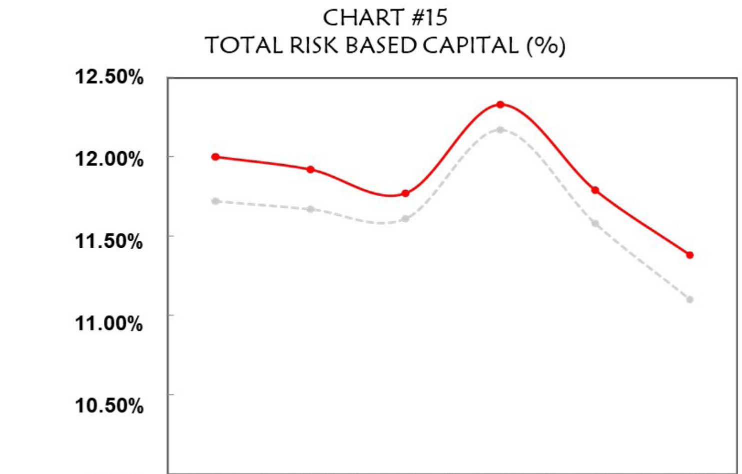
Chart #13 highlights that additional factors have diluted the impact of increased revenue from growth on bottom line earnings and the efficiency ratio. The most material of these items is the core deposit pricing strategy highlighted earlier in this discussion. The increase in rates associated with this program has led to an elevated cost of funds and a dilution to earnings during this period.

To highlight the degree of impact to the efficiency ratio, Chart #13 includes an additional line (Bank-Adj) indicating an estimate of what the efficiency ratio would be had this program not been implemented.

Another consideration when analyzing the Bank's efficiency ratio is its investment in its subsidiary lines of business. This investment is unique to the peer group in that it is allocated more to service oriented businesses. This adds fixed personnel and infrastructure costs that are over and above that of typical bank operations. Management has significantly increased the level of investment in the real estate agency and insurance services subsidiaries over the past several years. Both businesses are well positioned for growth in future years and revenue generated by this growth will contribute to reducing the efficiency ratios in the future.



	2015	2016	2017	2018	2019	2020
GAAP	$24,543	$25,198	$25,779	$28,715	$29,632	$32,062
Regulatory	$24,035	$24,697	$25,377	$28,255	$29,001	$31,110



	2015	2016	2017	2018	2019	2020
GAAP	12.00%	11.92%	11.77%	12.33%	11.79%	11.38%
Regulatory	11.72%	11.67%	11.61%	12.17%	11.58%	11.10%

Regulatory Capital

Chart #14 illustrates the Bank's Total Regulatory Capital ($) balances since 2015 and Chart #15 illustrates the Bank's Total Risk Based Capital Ratio (%) for the same period. These charts compare Capital as reported in the Bank's regulatory Call Reports versus the Bank's audited financial statements. Please refer to Note 23 of the financial statements for additional detail of these differences.

Regulatory Total Capital, as reported on the Bank's Call Report, increased $2.4 million in 2020. This increase represents 2020 net income less preferred stock dividends of $450,000 and dividends paid to shareholders of $238,000. The preferred stock dividend represents a 9% annual dividend rate on the average outstanding preferred stock balance. The shareholder dividend represents an annual dividend of $0.21 per outstanding share of common stock.

The Bank's Total Risk Based Capital Ratio, as reported on the Bank's Call Report, decreased 48 basis points. This decrease is due to a combination of factors including loan portfolio growth, balances on nonaccrual for regulatory purposes and an increase in commitments to grant loans.

Given the Bank's usage of wholesale funding markets it is imperative that the Bank maintain a well-capitalized regulatory classification. If the Bank's capital would fall below well-capitalized levels, 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 institutions risk profile. These requirements provide a buffer for the Bank to react prior to its classification being downgraded. In 2020, the Bank's capital levels have dipped below the Board's established limits. As a result, a new five year projection was completed which includes an updated capital management plan. This plan includes stabilization of loan growth in order to build capital levels. Increased capital will be put toward re-establishing capital to Board mandated levels and liquidating the preferred stock.

Crowe

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Enterprise Financial Services Group, Inc., which comprise the consolidated balance sheets as of September 30, 2020 and 2019, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Enterprise Financial Services Group, Inc. as of September 30, 2020 and 2019 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

Cleveland, Ohio
April 23, 2021

Crowe LLP

ASSETS

	September 30, 2020	September 30, 2019
Cash and due from banks	$ 750,072	$ 614,090
Cash on deposit with Federal Reserve Bank	69,005,246	30,726,989
Interest bearing deposits with banks	754,754	424,380
Cash and Cash Equivalents	70,510,072	31,765,459
Loans receivable	331,477,092	258,846,410
Allowance for loan losses	(1,168,012)	(801,587)
Net loans	330,309,080	258,044,823
Accrued interest receivable	1,457,817	802,867
Premises and equipment, net	8,507,225	8,512,124
Restricted investments in bank stock	3,254,300	3,156,000
Other assets (See Note 8)	8,588,455	8,895,799
Total Assets	**$ 422,626,949**	**$ 311,177,072**

See Notes to Consolidated Financial Statements

Liabilities and Stockholders' Equity

	September 30, 2020	September 30, 2019
Liabilities		
Non-interest bearing deposits	$ 5,819,401	$ 3,046,125
Interest bearing deposits	250,450,208	201,207,279
Total Deposits	256,269,609	204,253,404
Borrowings	131,367,900	75,396,500
Accrued interest payable	535,259	539,350
Accrued expenses and other liabilities	3,711,498	2,265,787
Total Liabilities	**391,884,266**	**282,455,041**
Commitments and contingencies (See Notes 6 and 17)		
Stockholders' Equity		
Preferred stock, authorized 5,000,000 shares; 5,000 shares issued and outstanding at September 30, 2020 and 2019 with a liquidation value of $1,000 per share	5,000,000	5,000,000
Common stock, par value $.50; authorized 9,846,555 shares; 1,200,320 issued at September 30, 2020 and 2019, respectively	600,160	600,160
Additional paid-in capital	13,628,506	13,628,506
Retained earnings	12,082,446	10,033,067
Treasury stock, cost (65,800 shares at September 30, 2020 and 2019)	(568,429)	(568,429)
Total Enterprise Financial Services Group, Inc. Stockholders' Equity	30,742,683	28,693,304
Non-Controlling Interest	-	28,727
Total Stockholders' Equity	**30,742,683**	**28,722,031**
Total Liabilities and Stockholders' Equity	**$ 422,626,949**	**$ 311,177,072**

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

	Years Ended September 30, 2020	2019
INTEREST INCOME		
Interest and fees on loans	$ 16,629,824	$ 13,923,193
Interest on Federal Reserve balances	215,840	576,965
Other interest and dividend income	217,062	217,304
Total Interest Income	**17,062,726**	**14,717,462**
INTEREST EXPENSE		
Interest on deposits	2,963,062	3,869,141
Interest on borrowings	1,738,794	1,382,536
Total Interest Expense	**4,701,856**	**5,251,677**
Net Interest Income	**12,360,870**	**9,465,785**
PROVISION FOR (CREDIT FROM) LOAN LOSSES	**607,201**	**(109,399)**
Net Interest Income After Provision For (Credit From) Loan Losses	**11,753,669**	**9,575,184**
OTHER OPERATING INCOME		
Service charges on deposit accounts	325,811	428,150
Other fee revenue (See Note 12)	3,146,037	2,286,496
Gain (loss) on sale of foreclosed real estate	(106,382)	69,848
Loss on valuation of foreclosed real estate	(334,148)	(48,531)
Total Other Operating Income	**3,031,318**	**2,735,963**
OTHER OPERATING EXPENSES		
Salaries and employee benefits (See Note 13)	5,596,590	4,852,521
Occupancy	481,174	486,384
Furniture and office equipment	404,105	311,490
Data processing and computer equipment	688,493	749,473
FDIC insurance expense	468,488	305,218
Other (See Note 14)	3,642,546	3,331,366
Total Other Operating Expenses	**11,281,396**	**10,036,452**
Net Income from continuing operations, before tax	**3,503,591**	**2,274,695**

See Notes to Consolidated Financial Statements

	Years Ended September 30, 2020	2019
INCOME TAX EXPENSE	**765,963**	**546,499**
Net Income	**2,737,628**	**1,728,196**
Preferred stock dividends	450,000	450,000
Net Income Attributable to Common Stockholders	**$ 2,287,628**	**$ 1,278,196**

See Notes to Consolidated Financial Statements

Consolidated Statements of Stockholders' Equity

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Non-Controlling Interest	Total Stockholders' Equity
BALANCE AT SEPTEMBER 30, 2018	**$ 5,000,000**	**$ 600,160**	**$13,628,506**	**$8,993,120**	**$ (568,429)**	**$ 28,727**	**$27,682,084**
Cash Dividends Paid on Preferred Stock ($90.00 per share)	-	-	-	(450,000)	-	-	(450,000)
Cash Dividends Paid on Common Stock $0.21 per share)	-	-	-	(238,249)	-	-	(238,249)
Net income	-	-	-	1,728,196	-	-	1,728,196
BALANCE AT SEPTEMBER 30, 2019	**5,000,000**	**600,160**	**13,628,506**	**10,033,067**	**(568,429)**	**28,727**	**28,722,031**
Liquidation of Non-Controlling Interest	-	-	-	-	-	(28,727)	(28,727)
Cash Dividends Paid on Preferred Stock ($90.00 per share)	-	-	-	(450,000)	-	-	(450,000)
Cash Dividends Paid on Common Stock ($0.21 per share)	-	-	-	(238,249)	-	-	(238,249)
Net income	-	-	-	2,737,628	-	-	2,737,628
BALANCE AT SEPTEMBER 30, 2020	**$ 5,000,000**	**$ 600,160**	**$13,628,506**	**$12,082,446**	**$ (568,429)**	**$ -**	**$ 30,742,683**

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

	Years Ended September 30, 2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,737,628	$ 1,728,196
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (credit from) loan losses	607,201	(109,399)
(Gain) loss on sale of foreclosed real estate	106,382	(69,848)
Valuation loss on foreclosed real estate	334,148	48,531
Amortization of deferred loan fees and costs, net	145,606	118,888
Depreciation of premises and equipment	678,929	657,448
Loss on disposition of premises and equipment	1,952	44,514
(Increase) decrease in deferred tax asset	(145,214)	30,757
Increase in accrued interest receivable	(654,950)	(48,212)
(Increase) decrease in other assets	(470,611)	811,811
Increase in other liabilities	1,435,733	619,683
Increase (decrease) in accrued interest payable	(4,091)	152,877
Net Cash Provided by Operating Activities	4,772,713	3,985,246
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments in bank stock	(394,300)	(1,099,400)
Sale of restricted investments in bank stock	296,000	80,000
Net increase in loans	(74,572,734)	(17,576,076)
Purchases of premises and equipment	(675,982)	(686,030)
Proceeds from the sale of premises and equipment	-	219,367
Additional investment in foreclosed real estate	(194,015)	(310,195)
Proceeds from the sale of foreclosed real estate	2,242,302	2,454,701
Net Cash Used in Investing Activities	(73,298,729)	(16,917,633)

See Notes to Consolidated Financial Statements

	Years Ended September 30, 2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	**$ 52,016,205**	$ (1,430,388)
Dividends paid	**(688,249)**	(688,249)
Liquidation of Non-controlling interest	**(28,727)**	-
Proceeds from borrowings	**77,798,200**	27,281,500
Repayment on borrowings	**(21,826,800)**	(2,000,000)
Net Cash Provided by Financing Activities	**107,270,629**	23,162,863
Net Increase in Cash and Cash Equivalents	**38,744,613**	10,230,476
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**31,765,459**	21,534,983
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 70,510,072**	$ 31,765,459
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 4,705,097**	$ 5,098,800
Income tax paid	**$ 997,872**	$ 455,815
NON-CASH INVESTING TRANSACTIONS		
Loans transferred to foreclosed real estate	**$ 2,321,400**	$ 2,035,850
Loans to facilitate sales of foreclosed real estate	**$ 765,733**	$ 131,200

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, Inc., and Kuzneski & Lockard, Inc. All significant inter-company accounts and transactions have been eliminated in consolidation.

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

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

Cash and Cash Equivalents

Cash and Cash Equivalents includes cash in banks with original maturities of less than 90 days. For purposes of reporting cash flows, the Bank has defined cash and cash equivalents as those amounts included in the statement of financial condition captioned, "Cash and due from banks", "Cash on deposit with Federal Reserve Bank", and "Interest bearing deposits with banks."

Loans Receivable

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

The accrual of interest is discontinued when the contractual payment has become 90 days past due unless the credit is well secured and in the process of collection. For interest that has been accrued but unpaid at the time a loan is placed on nonaccrual status a reversal is made to either interest income in the current year or charged against the allowance for loan losses depending on the period in which the interest was originally accrued. For loans that are on nonaccrual, with measured impairment, payments received are generally applied against principal.

For loans that are on nonaccrual, with no measured impairment, a portion of payments received may be recognized as interest income on a cash basis. Generally, loans are restored to accrual status when the interest due is brought current, the loan has performed in accordance with the contractual terms for a reasonable period of time, and doubt about the ultimate collectability of the total contractual principal and interest has been alleviated.

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Loan Losses

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

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

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

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreclosed Real Estate

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

The Bank recorded net valuation losses on foreclosed real estate of $334,148 and $48,531 for the years ended September 30, 2020 and 2019, respectively. There were no gains recorded upon foreclosure of real estate for the year ended September 30, 2020 and September 30, 2019.

The Bank held foreclosed real estate with an aggregate carrying value, net of valuation allowance, of $4,050,233 and $5,448,748 at September 30, 2020 and 2019, respectively, which is included in other assets.

On September 30, 2020 the Bank had no loans secured by 1-4 family residential real estate that were in the process of foreclosure. On September 30, 2019 the Bank had recorded investments in loans of $531,098 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. Total advertising expense for the years ended September 30, 2020 and 2019 was $94,841 and $95,602 respectively.

Concentration of Risk

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

Fair Value of Financial Instruments

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

Adoption Of New Accounting Standards

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

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

Use of Estimates

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

Risks and Uncertainties

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

NOTE 2 – CASH BALANCES WITH FEDERAL RESERVE BANKS

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts (checking accounts, NOW accounts, etc.). Reserves are maintained in the form of vault cash or cash balances held with the Federal Reserve Bank. The Bank also, from time to time, maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing. Effective March 26, 2020, in response to the COVID-19 pandemic, the Federal Reserve reduced its reserve requirement ratios to zero percent. As a result the Bank's reserve requirement at September 30, 2020 was $0. The Bank's reserve requirement at September 30, 2019 was $972,000.

The Federal Reserve Bank paid interest on any required reserves and excess balances during the years ended September 30, 2020 and 2019. The Bank had interest bearing balances with the Federal Reserve of $69,005,246 and $30,726,989 at September 30, 2020 and 2019, 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, 2020 and 2019 as follows:

	2020	2019
Federal Home Loan Bank stock	$ 3,224,300	$ 3,126,000
Atlantic Community Bankers Bank stock	30,000	30,000
	$ 3,254,300	$ 3,156,000

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

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

NOTE 4 – LOANS RECEIVABLE

The composition of the Bank's loan portfolio at September 30, 2020 and 2019 is as follows:

	2020	2019
Real estate:		
Construction and land development	$ 14,958,546	$ 10,764,453
Mortgage:		
Residential	16,533,030	15,632,964
Commercial	216,803,550	197,416,987
Commercial and industrial loans	83,139,222	34,333,105
Consumer loans	66,055	72,122
Other	65,576	4,703
Total	331,565,979	258,224,334
Unamortized deferred loan fees and origination costs, net	(88,887)	622,076
	331,477,092	258,846,410
Less allowance for loan losses	(1,168,012)	(801,587)
Net loans	**$ 330,309,080**	**$ 258,044,823**

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

As of September 30, 2020, the Bank has concentrations in loans to lessors of non-residential buildings (except mini-warehouses), hotels, and lessors of residential buildings and dwellings in the amounts of $57,528,091, $22,144,215 and $30,240,064, 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 may apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. PPP loans are 100% guaranteed by the SBA and the borrower is eligible for loan forgiveness by the SBA if they meet certain criteria. The loans have a fixed interest rate of 1%. As of September 30, 2020, the Bank had 326 loans outstanding under the PPP program with an aggregate principal balance of $53,637,200. The balance of PPP loans at September 30, 2020, is 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: 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, 2020 and 2019 along with the value of risk mitigation programs in place to limit the Bank's exposure to loss from these loans:

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

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

NOTE 4 – LOANS RECEIVABLE (CONTINUED)

September 30, 2019		Days Past Due and Accruing			Past Due and		Total Loans
	Current	30-59	60-89	90+	Accruing Total	Nonaccrual	Receivable
Real Estate:							
Construction and land development	$ 10,764,453	$ -	$ -	$ -	$ -	$ -	$ 10,764,453
Mortgage:							
Residential	14,359,836	-	-	-	-	1,273,128	15,632,964
Commercial	182,820,528	1,688,313	2,302,991	-	3,991,304	10,605,155	197,416,987
Commercial and industrial loans	31,512,559	5,333	405,029	-	410,362	2,410,184	34,333,105
Consumer loans	72,122	-	-	-	-	-	72,122
Other	4,703	-	-	-	-	-	4,703
Total	239,534,201	1,693,646	2,708,020	-	4,401,666	14,288,467	258,224,334
Less government guaranteed portion	34,455,615	2,666	314,210	-	316,876	4,221,107	38,993,598
SBA 504 financing (1)	10,400,261	-	-	-	-	-	10,400,261
Net after SBA credit enhancements	**$ 194,678,325**	**$ 1,690,980**	**$ 2,393,810**	**$ --**	**$ 4,084,790**	**$ 10,067,360**	**$ 208,830,475**

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES

Allowance for Loan Losses Components:

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

There were no significant changes to the observable data used by the Bank to measure these components during the years ended September 30, 2020 and 2019.

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

Allowance for Loan Losses by Portfolio Segment

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

The following tables summarize the primary segments of the loan portfolio and the related allowance for loan losses for each segment as of September 30, 2020 and 2019. Generally, loans that are internally risk rated between 1 and 5 are collectively evaluated for impairment and loans with a risk grade of 6 are individually evaluated for impairment.

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

September 30, 2020

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2019

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Activity in the allowance for loan losses for the years ended September 30, 2020 and 2019 is summarized as follows:

September 30, 2020

	Residential Mortgage	Commercial Mortgage	Construction & Land Development	Commercial & Industrial	Consumer	Other	Total
Allowance for credit losses:							
Beginning Balance	$ 73,180	$ 477,837	$ 5,188	$ 244,593	$ 789	$ -	$ 801,587
Provision for (credit from) loan losses	45,783	402,679	36,774	120,415	(87)	1,682	607,201
Recoveries of previously charged off loans	450	499	-	5,841	-	-	6,790
Charge-offs	(25,000)	(209,224)	-	(13,342)	-	-	(247,566)
Ending Balance	**$ 94,368**	**$ 671,791**	**$ 41,962**	**$ 357,507**	**$ 702**	**$ 1,682**	**$ 1,168,012**

September 30, 2019

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

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, 2020 and 2019 are as follows:

September 30, 2020

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

September 30, 2019

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

Impaired Loans

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

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following tables summarize information for impaired loans by loan segment as of September 30, 2020 and 2019:

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, 2020

	Impaired Loans Credit Risk Grade 6 with Specific Allowance		Impaired Loans Grade 6 with no Specific Allowance	Troubled Debt Restructured With Risk Grade 1 through 5		Restructured with no Specific Allowance	Total Impaired Loans		
	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal	Related Allowance	Unpaid Principal	Unpaid Principal Balance	Average Investment In Impaired Loans	Interest Income Recognized on Impaired Loans
Construction and land development	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Mortgage									
Residential	462,480	40,771	240,345	588,677	12,725	390,763	1,682,265	1,535,075	33,862
Commercial	39,639	4,546	10,333,006	-	-	13,230,350	23,602,995	23,992,677	1,878,244
Commercial and industrial loans	2,007,454	235,459	574,574	24,115	4,411	389,165	2,995,308	3,588,811	259,164
Consumer loans	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-
Total	$ 2,509,573	$ 280,776	$ 11,147,925	$ 612,792	$ 17,136	$ 14,010,278	$ 28,280,568	$ 29,116,563	$ 2,171,270

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

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

September 30, 2019

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

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, and 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, 2020, total COVID-19 related modifications to the Company were approximately $8,002,381, representing 9 loans or 3.1% 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 are classified as TDRs for the years ended September 30, 2020 and 2019:

Troubled Debt Restructurings:

	Number of Contracts	Pre-Modification Outstanding Principal, Net	Post-Modification Outstanding Principal, Net
Year ended September 30, 2020			
Real Estate – Residential	3	$ 1,369,756	$ 1,369,756
Real Estate - Commercial	7	12,798,116	12,798,116
Commercial & Industrial	6	2,094,802	2,094,802
Total	16	$ 16,262,674	$ 16,262,674
Year ended September 30, 2019			
Real Estate – Residential	2	$ 1,316,854	$ 1,316,854
Real Estate – Commercial	7	5,186,707	5,186,707
Commercial & Industrial	6	3,096,409	3,096,409
Total	15	$ 9,599,970	$ 9,599,970

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

The following summarizes loan modifications that are classified as TDRs for the years ended September 30, 2020 and 2019:

September 30, 2020

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

September 30, 2019

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

NOTE 5 – ALLOWANCE FOR LOAN LOSSES (CONTINUED)

Troubled Debt Restructurings That Subsequently Defaulted

	Year Ended September 30, 2020		Year Ended September 30, 2019	
	Number of Contracts	Outstanding Principal, Net	Number of Contracts	Outstanding Principal, Net
Real Estate – Commercial	1	$ 553,412	1	$1,861,576
Total	1	$ 553,412	1	$1,861,576

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

Loans modified in a troubled debt restructuring are considered impaired loans for purposes of calculating the Allowance for Loan Losses. As of September 30, 2020 and 2019, included with the allowance for loan losses are reserves of $17,136 and $29,317, 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, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	2020	2019
Commitments to grant loans	$ 13,376,750	$ 7,201,800
Unfunded commitments under lines of credit	50,208,982	39,098,995
Standby letters of credit	1,721,653	3,136,098

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, 2020 and 2019:

	2020	2019
Land and improvements	$ 1,617,394	$ 1,609,498
Buildings and improvements	6,800,159	6,755,900
Furniture and equipment	4,388,402	3,978,009
Vehicles	751,899	692,997
Accumulated depreciation	(5,050,629)	(4,524,280)
	$ 8,507,225	$ 8,512,124

Depreciation expense of $678,929 and $657,448 was incurred by the company for the years ended September 30, 2020 and 2019, respectively and is included in other operating expense.

NOTE 8 – OTHER ASSETS

The following summarizes other assets at September 30, 2020 and 2019:

	2020	2019
Foreclosed real estate	$ 4,050,233	$ 5,448,748
Other foreclosed assets	75,000	183,675
SBA guarantee receivable	1,756,587	1,140,099
Loan costs receivable	473,900	719,232
Deferred tax assets	189,750	44,536
Other receivables	1,220,044	439,532
Other prepaid expenses	778,732	848,825
Miscellaneous	44,209	71,152
	$ 8,588,455	$ 8,895,799

NOTE 9 – INTEREST BEARING DEPOSITS

Interest bearing deposits at September 30, 2020 and 2019 are further detailed as follows:

	2020	2019
NOW accounts	$ 73,411,189	$ 47,261,972
Savings accounts	52,456,985	43,759,580
Certificates and other time deposits	124,582,034	110,185,727
	$ 250,450,208	$ 201,207,279

The Bank utilizes the services of deposit brokers to obtain a portion of its total deposits. The Bank had total deposit balances of $114,295,266 and $96,777,000 at September 30, 2020 and 2019, respectively that were obtained through the use of deposit brokers.

The Bank had $2,195,416 and $2,668,681 in outstanding certificates of deposit issued in denominations greater than $250,000 as of September 30, 2020 and 2019, 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:

2021	$ 68,409,348
2022	11,367,780
2023	13,623,260
2024	14,728,026
2025	16,453,620
	$ 124,582,034

NOTE 10 – BORROWINGS

Borrowings at September 30, 2020 and 2019 are as follows:

	2020	**2019**
Federal Home Loan Bank borrowings	$ 77,501,500	$ 75,201,500
Federal Reserve PPPLF borrowings	53,671,400	-
Junior subordinated debentures	195,000	195,000
	$ 131,367,900	$ 75,396,500

Federal Reserve Bank Discount Window

On September 30, 2020, the Bank had overnight borrowing capacity at the Federal Reserve Bank discount window in the amount of $19,652,360. Loans receivable with a book value of $23,310,056 were pledged to the Federal Reserve Bank of Cleveland as eligible collateral at September 30, 2020. The Bank had no outstanding borrowings at September 30, 2020 and 2019. These funds are advanced when necessary to meet the Bank's short-term liquidity needs. The rate of interest on these borrowings is an adjustable rate equal to the Federal Reserve discount rate, which was 0.25% at September 30, 2020.

Federal Reserve Bank Paycheck Protection Program Liquidity Facility

In 2020 the Bank participated 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). As of September 30, 2020 the Bank had aggregate advances outstanding in the amount of $53,671,400 under this program.

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, 2020, the Bank had pledged qualifying loans in the amount of $160,430,207 in support of a maximum borrowing capacity of approximately $112,253,934.

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 FHLB at September 30, 2020 and 2019 consisted of the following:

Loan Type	Maturity Date	Interest Rate	2020	2019
Fixed Rate	November 4, 2019	1.30%	$ -	$ 3,000,000
Fixed Rate	March 4, 2020	1.78%	-	4,400,000
Fixed Rate	August 13, 2020	1.88%	-	4,300,000
Fixed Rate	November 17, 2020	2.11%	2,000,000	2,000,000
Fixed Rate	December 10, 2020	1.81%	2,300,000	2,300,000
Fixed Rate	February 10, 2021	1.41%	5,920,000	5,920,000
Fixed Rate	July 27, 2021	1.52%	3,000,000	3,000,000
Fixed Rate	August 10, 2021	1.51%	2,500,000	2,500,000
Fixed Rate	September 9, 2021	1.48%	2,500,000	2,500,000
Fixed Rate	April 11, 2022	2.19%	1,000,000	1,000,000
Fixed Rate	May 16, 2022	2.21%	6,000,000	6,000,000
Fixed Rate	June 8, 2022	2.10%	5,000,000	5,000,000
Fixed Rate	July 5, 2022	2.27%	6,000,000	6,000,000
Fixed Rate	August 14, 2023	0.65%	5,000,000	-
Fixed Rate	November 13, 2023	1.93%	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	-
			$ 77,501,500	**$ 75,201,500**

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, 2020 and 2019, respectively.

Interest on the debentures is reset quarterly on the 15th of January, April, July and October at a rate equal to 3-Month Libor plus 4.25% (4.5229% as of July 15, 2020, 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 BENEFIT PLANS

Enterprise Bank 401(k) Plan

The Bank has a defined contribution pension plan covering all employees. The Bank makes a contribution equal to 3% of wages for each eligible employee regardless of the employees own elective contributions to the plan. The Bank’s contributions for the years ended September 30, 2020 and 2019 were $154,399 and $133,473, 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, 2020 and 2019.

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 $150,411 and $50,000 for the years ended September 30, 2020 and 2019, respectively. Additional expenses incurred in relation to the ESOP plan include professional fees associated with the administration of the plan. Administrative costs of $10,989 and $9,758 were incurred in the years ended September 30, 2020 and 2019, respectively.

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

There were 136,363 shares held by the ESOP and allocated to beneficiary accounts at September 30, 2020 and 2019. There were no unallocated shares held by the ESOP during these periods. The fair value of the allocated shares was $1,915,900 at September 30, 2020. This valuation was based on the independent appraisal of the Company’s shares completed as of June 30, 2020.

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, 2020 there are 35,080 shares subject to the repurchase obligation with a fair value of $492,867. Total account balances subject to distribution request are $506,928 at September 30, 2020. Of this amount, $168,298 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, 2020 there were approximately 416 shares, with a fair value of $5,845, whereby the employee has elected to exercise their diversification option.

NOTE 12 – REVENUE RECOGNITION AND ASC 606

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

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

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

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

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

NOTE 12 – REVENUE RECOGNITION AND ASC 606 (CONTINUED)

The following table presents the Company's sources of Total Other Operating Income for the fiscal years ending September 30, 2020 and 2019. Items outside the scope of ASC 606 are noted as such.

	Year Ended September 30, 2020	Year Ended September 30, 2019
Other Operating Income		
Service charges on deposit accounts		
Overdraft fees	$ 12,408	$ 20,184
Other	313,403	407,966
Total	**325,811**	**428,150**
Other Fee Revenue		
Real estate subsidiary commission income	1,380,114	1,236,055
Real estate subsidiary other fee income	18,546	169,082
Consulting subsidiary fee income	217,061	139,014
Rental income from foreclosed real estate	187,371	155,282
ATM Fee and service charge income	34,405	41,141
Insurance subsidiary income	1,287,691	530,330
Other fee income	20,849	15,592
Total	**3,146,037**	**2,286,496**
Gain (loss) on sale of foreclosed real estate	**(106,382)**	**69,848**
Loss on valuation of foreclosed real estate	**(334,148)**	**(48,531)**
Total Other Operating Income	**$ 3,031,318**	**$ 2,735,963**

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 income from foreclosed real estate:

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

NOTE 12 – REVENUE RECOGNITION AND ASC 606 (CONTINUED)

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

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

NOTE 13 – SALARIES AND EMPLOYEE BENEFITS

Salaries and employee benefits expense includes wages and cost of employee benefits plans paid to the employees of the Bank and its subsidiaries. Further detail of the expense for the year ended September 30, 2020 and 2019 is as follows:

	2020	2019
Wages and benefits		
Bank management and administrative	$ 2,641,039	$ 2,513,961
Enterprise Business Consultants	587,883	717,822
Kuzneski & Lockard	203,609	194,828
Enterprise Insurance Services	504,334	240,688
Relationship Manager compensation	1,937,475	1,410,722
ASC 310-20 salary deferral for loan origination activities	(277,750)	(225,500)
Total salaries and employee benefits	$ 5,596,590	$ 4,852,521

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, 2020 and 2019 is as follows:

	2020	2019
Business development	$ 417,146	$ 411,206
Foreclosed real estate expense	361,679	261,600
Real estate agency commissions	782,966	750,120
Legal and accounting services	327,322	456,457
Directors' fees	195,591	169,334
Telephone	132,133	148,766
Bank shares tax	258,797	242,809
Other loan and collection	129,648	150,415
Other – Bank operations	416,514	389,543
Other – Subsidiary operations	620,750	351,116
Total other operating expenses	$ 3,642,546	$ 3,331,366

NOTE 15 – INCOME TAXES

The components of net deferred tax assets and liabilities at September 30, 2020 and 2019 are as follows:

	2020	2019
Deferred tax assets:		
Allowance for loan losses	$ 220,066	$ 92,554
Deferred compensation	73,406	33,933
Other real estate owned	265,802	170,716
Nonaccrual interest	-	67,737
Subsidiary net-operating loss	209,318	209,855
Other	23,965	17,412
Total Deferred Tax Assets	792,557	592,207
Deferred tax liabilities:		
Premises and equipment	(447,458)	(417,035)
Deferred loan origination fees	(142,201)	(130,636)
Nonaccrual interest	(13,148)	-
Total Deferred Tax Liabilities	(602,807)	(547,671)
Net Deferred Tax Assets	$ 189,750	$ 44,536

NOTE 15 – INCOME TAXES (CONTINUED)

The Company has determined that no valuation allowance was required for the deferred tax asset balance at September 30, 2020 and 2019, respectively, because it is more likely than not that these assets will be realized through future reversals of existing temporary differences and through future taxable income.

The tax provision for financial reporting purposes differs from the amount computed by applying the statutory income tax rate to income before income taxes. The statutory rate was 21% for 2020 and 2019. The differences for the years ended September 30, 2020 and 2019 are as follows:

	2020	2019
Tax at statutory rate	$ 735,754	$ 477,686
Nondeductible and other expenses	30,209	68,813
	$ 765,963	$ 546,499

The Bank's provision for income taxes for 2020 and 2019 consists of the following:

	2020	2019
Current federal and state tax expense	$ 911,177	$ 515,742
Deferred federal tax (benefit) expense	(145,214)	30,757
	$ 765,963	$ 546,499

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, 2020 and 2019 there were no unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate. The Bank recognizes interest accrued and penalties (if any) related to unrecognized tax benefits in income tax expense. During the years ended September 30, 2020 and 2019, the Bank did not accrue any penalties or interest.

The Bank has evaluated its tax positions taken for all open tax years. Currently, the 2016 through current tax years are open and subject to examination by the Internal Revenue Service and the Commonwealth of Pennsylvania. Based on the evaluation of the Bank's tax positions and elections, management believes all tax positions taken and corporate elections will be upheld under examination.

NOTE 16 – PREFERRED STOCK

The Company is authorized to issue up to 5,000,000 shares of preferred stock with a par value of $.50 per share. There were 5,000 shares issued and outstanding with a liquidation value of $5,000,000, or $1,000 per share, on September 30, 2020 and 2019.

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

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

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

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

NOTE 17 – CONTINGENCIES AND COMMITMENTS

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

NOTE 18 – RELATED PARTY TRANSACTIONS

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

The aggregate amount of credit extended to these directors and principal officers was $1,557,576 and $1,734,674 (including unused lines of credit) at September 30, 2020 and 2019, respectively.

NOTE 18 – RELATED PARTY TRANSACTIONS (CONTINUED)

The following is an analysis of loans to these parties during the year ended September 30, 2020 and 2019:

	2020	2019
Balance at beginning of year	$ 1,234,675	$ 1,677,595
Repayments	(177,099)	(442,920)
Balance at end of year	$ 1,057,576	$ 1,234,675

The aggregate amount of deposits on account at the Bank for directors and principal officers and their related interests was $1,629,146 and $1,637,236 for the years ended September 30, 2020 and 2019 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, 2020, 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.

NOTE 20 - CAPITAL REQUIREMENTS (CONTINUED)

As of September 30, 2020 and 2019, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital, and Tier I leverage ratios as set forth in the following table. The requirements for capital adequacy purposes exclude the capital conservation buffer. There are no conditions or events since that notification that management believes have changed the institutions category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollar Amounts in Thousands)			
As of September 30, 2020:						
Total capital (to risk-weighted assets)	$31,110	11.10 %	$ 22,425	≥ 8.00 %	$ 28,031	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)	29,947	10.68	16,819	≥ 6.00	22,425	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	29,947	10.68	12,614	≥ 4.50	18,220	≥ 6.50
Tier 1 capital (to average assets)	29,947	8.26	14,502	≥ 4.00	18,128	≥ 5.00
As of September 30, 2019						
Total capital (to risk-weighted assets)	$29,001	11.58 %	$20,041	≥ 8.00 %	$25,051	≥ 10.00 %
Tier 1 capital (to risk-weighted assets)	28,472	11.37	15,031	≥ 6.00	20,041	≥ 8.00
Common Equity Tier 1 Capital (to risk-weighted assets)	28,472	11.37	11,273	≥ 4.50	16,283	≥ 6.50
Tier 1 capital (to average assets)	28,472	9.25	12,311	≥ 4.00	15,389	≥ 5.00

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, 2020 and 2019:

	2020	2019
Weighted average common shares (Denominator)		
Weighted-average common shares outstanding	1,200,320	1,200,320
Average treasury shares	(65,800)	(65,800)
Weighted-average common shares used to calculate basic earnings per share (base, denominator)	1,134,520	1,134,520
Weighted-average common shares and common stock equivalents outstanding used to calculate diluted earnings per share (diluted, denominator)	1,134,520	1,134,520
Net Income (Numerator)		
Net income	$ 2,737,628	$ 1,728,196
Less: Preferred stock dividend	(450,000)	(450,000)
Net income available to common shareholders	$ 2,287,628	$ 1,278,196
Earnings Per Share		
Net income available to common shareholders, per share		
Basic	$ 2.02	$ 1.13
Diluted	$ 2.02	$ 1.13

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS

Disclosures About Fair Value of Assets and Liabilities

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

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

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

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

Nonrecurring Measurements

The following table presents the fair value measurement of assets and liabilities measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2020 and 2019.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2020				
Other real estate owned				
Residential real estate	$ 204,750	$ -	$ -	$ 204,750
Commercial real estate	$ 2,592,091	$ -	$ -	$ 2,592,091
Total	$ 2,796,841	$ -	$ -	$ 2,796,841

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, 2019				
Other real estate owned				
Residential real estate	$ 1,305,137	$ -	$ -	$ 1,305,137
Commercial real estate	$ 3,187,562	$ -	$ -	$ 3,182,562
Total	$ 4,492,699	$ -	$ -	$ 4,492,699

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 95% as of September 30, 2020.

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements other than goodwill at September 30, 2020 and 2019:

	Fair Value at September 30, 2020	Valuation Technique
Other real estate owned		
Residential real estate	$ 204,750	
Commercial real estate	$ 2,592,091	
Total	**$ 2,796,841**	**Cost, Income and Sales Comparison**

	Fair Value at September 30, 2019	Valuation Technique
Other real estate owned		
Residential real estate	$ 1,305,137	
Commercial real estate	$ 3,187,562	
Total	**$ 4,492,699**	**Cost, Income and Sales Comparison**

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The carrying amounts and estimate fair values of financial instruments not carried at fair value, at September 30, 2020 and 2019 are as follows:

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

NOTE 22 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

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

Note 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 its 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, 2020 and 2019:

Year ended September 30, 2020:

	As Reported Financial Statements	Year Ended September 30, 2020 As Reported Regulatory Reporting	Variance
Consolidated Statements of Financial Condition			
Loans receivable	$ 331,477,092	$ 330,300,361	$ (1,176,731)
Allowance for loan losses	(1,168,012)	(1,163,466)	4,546
Net Loans	330,309,080	329,136,895	(1,172,185)
Other assets	8,588,455	8,813,284	224,829
Total Assets	422,626,949	421,679,593	(947,356)
Retained earnings	12,082,446	11,135,090	(947,356)
Total Stockholders' Equity	30,742,683	29,795,327	(947,356)
Total Liabilities and Stockholders' Equity	422,626,949	421,679,593	(947,356)

	As Reported Financial Statements	Year Ended September 30, 2020 As Reported Regulatory Reporting	Variance
Consolidated Statements of Income			
Interest and fees on loans	$ 16,629,824	$ 15,992,287	$ (637,537)
Total Interest Income	17,062,726	16,425,189	(637,537)
Provision for Loan Losses	607,201	862,215	(255,014)
Salaries and employee benefits	5,596,590	5,449,208	147,382
Total Other Operating Expenses	11,281,396	11,134,014	147,382
Income Before Income Tax Expense	3,503,591	2,758,422	(745,169)
Income tax expense	765,963	609,478	156,485
Net income	2,737,628	2,148,944	(588,684)
Net Income Attributable to Enterprise Financial Services Group, Inc.	2,737,628	2,148,944	(588,684)

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

Year ended September 30, 2019:

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

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

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

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

	As Reported Financial Statements	As Reported Regulatory Reporting	Variance
As of September 30, 2020			
Total Stockholders' Equity	$ 30,894	$ 29,947	$ (947)
Total Common Stockholders' Equity	30,894	29,947	(947)
Total Stockholders' Equity plus Allowance for Loan Losses	32,062	31,110	(952)
As of September 30, 2019			
Total Stockholders' Equity	$ 28,831	$ 28,472	$ (359)
Total Common Stockholders' Equity	28,831	28,472	(359)
Total Stockholders' Equity plus Allowance for Loan Losses	29,632	29,001	(631)

NOTE 24 – SUBSEQUENT EVENTS

The Company evaluated its September 30, 2020 financial statements for subsequent events through the date of the Independent Auditor's Report, which is the date the financial statements were available to be issued.

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