

ENTERPRISE FINANCIAL SERVICES CORP
Form 10-Q
May 02, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 31, 2014.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____

Commission file number 001-15373

ENTERPRISE FINANCIAL SERVICES CORP

Incorporated in the State of Delaware
I.R.S. Employer Identification # 43-1706259
Address: 150 North Meramec
Clayton, MO 63105
Telephone: (314) 725-5500

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes No

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As of April 30, 2014, the Registrant had 19,754,102 shares of outstanding common stock, \$0.01 par value.

This document is also available through our website at <http://www.enterprisebank.com>.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
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PART 1 – ITEM 1 – FINANCIAL STATEMENTS

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands, except share and per share data)

| | March 31, 2014 | December 31, 2013 |
|---|----------------|-------------------|
| Assets | | |
| Cash and due from banks | \$35,260 | \$19,573 |
| Federal funds sold | 56 | 76 |
| Interest-bearing deposits (including \$990 and \$990 pledged as collateral) | 102,335 | 190,920 |
| Total cash and cash equivalents | 137,651 | 210,569 |
| Interest-bearing deposits greater than 90 days | 5,300 | 5,300 |
| Securities available for sale | 456,059 | 434,587 |
| Loans held for sale | 1,901 | 1,834 |
| Portfolio loans | 2,173,988 | 2,137,313 |
| Less: Allowance for loan losses | 27,905 | 27,289 |
| Portfolio loans, net | 2,146,083 | 2,110,024 |
| Purchase credit impaired loans, net of the allowance for loan losses (\$18,513 and \$15,438, respectively) | 110,159 | 125,100 |
| Total loans, net | 2,256,242 | 2,235,124 |
| Other real estate not covered under FDIC loss share | 10,001 | 7,576 |
| Other real estate covered under FDIC loss share | 14,898 | 15,676 |
| Other investments, at cost | 14,944 | 12,605 |
| Fixed assets, net | 18,028 | 18,180 |
| Accrued interest receivable | 7,476 | 7,303 |
| State tax credits, held for sale, including \$14,900 and \$16,491 carried at fair value, respectively | 45,660 | 48,457 |
| FDIC loss share receivable | 29,781 | 34,319 |
| Goodwill | 30,334 | 30,334 |
| Intangible assets, net | 5,092 | 5,418 |
| Other assets | 106,584 | 102,915 |
| Total assets | \$3,139,951 | \$3,170,197 |
| Liabilities and Shareholders' Equity | | |
| Demand deposits | \$612,715 | \$653,686 |
| Interest-bearing transaction accounts | 221,816 | 219,802 |
| Money market accounts | 924,105 | 948,884 |
| Savings | 80,731 | 79,666 |
| Certificates of deposit: | | |
| \$100 and over | 456,558 | 475,544 |
| Other | 156,193 | 157,371 |
| Total deposits | 2,452,118 | 2,534,953 |
| Subordinated debentures | 56,807 | 62,581 |
| Federal Home Loan Bank advances | 130,000 | 50,000 |
| Other borrowings | 183,718 | 203,831 |
| Notes payable | 6,600 | 10,500 |
| Accrued interest payable | 874 | 957 |
| Other liabilities | 18,385 | 27,670 |
| Total liabilities | 2,848,502 | 2,890,492 |
| Shareholders' equity: | | |

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| | | | |
|--|-------------|-------------|---|
| Preferred stock, \$0.01 par value; 5,000,000 shares authorized; 0 shares issued and outstanding | — | — | |
| Common stock, \$0.01 par value; 30,000,000 shares authorized; 19,781,608 and 19,399,709 shares issued, respectively | 198 | 194 | |
| Treasury stock, at cost; 76,000 shares | (1,743 |) (1,743 |) |
| Additional paid in capital | 205,436 | 200,258 | |
| Retained earnings | 90,181 | 85,376 | |
| Accumulated other comprehensive loss | (2,623 |) (4,380 |) |
| Total shareholders' equity | 291,449 | 279,705 | |
| Total liabilities and shareholders' equity | \$3,139,951 | \$3,170,197 | |
| See accompanying notes to condensed consolidated financial statements. | | | |

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Condensed Consolidated Statements of Operations (Unaudited)

| (In thousands, except per share data) | Three months ended March 31, | |
|---|------------------------------|----------|
| | 2014 | 2013 |
| Interest income: | | |
| Interest and fees on loans | \$31,444 | \$39,349 |
| Interest on debt securities: | | |
| Taxable | 2,166 | 2,113 |
| Nontaxable | 299 | 301 |
| Interest on interest-bearing deposits | 66 | 47 |
| Dividends on equity securities | 49 | 100 |
| Total interest income | 34,024 | 41,910 |
| Interest expense: | | |
| Interest-bearing transaction accounts | 112 | 138 |
| Money market accounts | 742 | 882 |
| Savings | 49 | 59 |
| Certificates of deposit: | | |
| \$100 and over | 1,326 | 1,452 |
| Other | 424 | 486 |
| Subordinated debentures | 407 | 952 |
| Federal Home Loan Bank advances | 399 | 734 |
| Notes payable and other borrowings | 199 | 308 |
| Total interest expense | 3,658 | 5,011 |
| Net interest income | 30,366 | 36,899 |
| Provision for portfolio loan losses | 1,027 | 1,853 |
| Provision for purchase credit impaired loan losses | 3,304 | 2,256 |
| Net interest income after provision for loan losses | 26,035 | 32,790 |
| Noninterest income: | | |
| Wealth Management revenue | 1,722 | 1,943 |
| Service charges on deposit accounts | 1,738 | 1,533 |
| Other service charges and fee income | 637 | 647 |
| Gain on sale of other real estate | 683 | 728 |
| Gain on state tax credits, net | 497 | 867 |
| Gain on sale of investment securities | — | 684 |
| Change in FDIC loss share receivable | (2,410 |) (4,085 |
| Miscellaneous income | 1,055 | 597 |
| Total noninterest income | 3,922 | 2,914 |
| Noninterest expense: | | |
| Employee compensation and benefits | 12,116 | 11,463 |
| Occupancy | 1,640 | 1,916 |
| Data processing | 1,126 | 921 |
| FDIC and other insurance | 699 | 859 |
| Loan legal and other real estate expense | 1,134 | 33 |
| Professional fees | 1,267 | 1,425 |
| Other | 3,120 | 3,668 |
| Total noninterest expense | 21,102 | 20,285 |
| Income before income tax expense | 8,855 | 15,419 |
| Income tax expense | 3,007 | 5,379 |

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| | | |
|---------------------------|---------|----------|
| Net income | \$5,848 | \$10,040 |
| Earnings per common share | | |
| Basic | \$0.30 | \$0.56 |
| Diluted | 0.30 | 0.53 |

See accompanying notes to condensed consolidated financial statements.

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ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

| (in thousands) | Three months ended March 31, | |
|--|------------------------------|----------|
| | 2014 | 2013 |
| Net income | \$5,848 | \$10,040 |
| Other comprehensive income (loss), net of tax: | | |
| Unrealized gain/(loss) on investment securities available for sale arising during the period, net of income tax expense/(benefit) of \$1,091, and \$(1,159), respectively | 1,757 | (1,822) |
| Less reclassification adjustment for realized gains on sale of securities available for sale included in net income, net of income tax expense of \$0, and \$267, respectively | — | (417) |
| Total other comprehensive income (loss) | 1,757 | (2,239) |
| Total comprehensive income | \$7,605 | \$7,801 |

See accompanying notes to condensed consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity (Unaudited)

| (in thousands, except per share data) | Preferred Stock | Common Stock | Treasury Stock | Additional paid in capital | Retained earnings | Accumulated other comprehensive income (loss) | Total shareholders' equity |
|---|--------------------|-----------------|-------------------|----------------------------------|----------------------|--|----------------------------------|
| Balance January 1, 2014 | \$— | \$ 194 | \$(1,743) | \$200,258 | \$85,376 | \$ (4,380) | \$ 279,705 |
| Net income | — | — | — | — | 5,848 | — | 5,848 |
| Other comprehensive income | — | — | — | — | — | 1,757 | 1,757 |
| Cash dividends paid on common shares, \$0.0525 per share | — | — | — | — | (1,043) | — | (1,043) |
| Issuance under equity compensation plans, 94,047 shares | — | 1 | — | (630) | — | — | (629) |
| Trust preferred securities conversion 287,852 shares | — | 3 | — | 4,999 | — | — | 5,002 |
| Share-based compensation | — | — | — | 735 | — | — | 735 |
| Excess tax benefit related to equity compensation plans | — | — | — | 74 | — | — | 74 |
| Balance March 31, 2014 | \$— | \$ 198 | \$(1,743) | \$205,436 | \$90,181 | \$ (2,623) | \$ 291,449 |

| (in thousands, except per share data) | Preferred Stock | Common Stock | Treasury Stock | Additional paid in capital | Retained earnings | Accumulated other comprehensive income | Total shareholders' equity |
|---|--------------------|-----------------|-------------------|----------------------------------|----------------------|---|----------------------------------|
| Balance January 1, 2013 | \$— | \$ 181 | \$(1,743) | \$173,299 | \$56,218 | \$ 7,790 | \$ 235,745 |
| Net income | — | — | — | — | 10,040 | — | 10,040 |
| Other comprehensive loss | — | — | — | — | — | (2,239) | (2,239) |
| Cash dividends paid on common shares, \$0.0525 per share | — | — | — | — | (948) | — | (948) |
| Repurchase of common stock warrants | — | — | — | (1,006) | — | — | (1,006) |
| Issuance under equity compensation plans, 93,996 shares | — | 1 | — | 1,323 | — | — | 1,324 |
| Share-based compensation | — | — | — | 778 | — | — | 778 |
| Excess tax benefit related to equity compensation plans | — | — | — | 10 | — | — | 10 |
| Balance March 31, 2013 | \$— | \$ 182 | \$(1,743) | \$174,404 | \$65,310 | \$ 5,551 | \$ 243,704 |

See accompanying notes to condensed consolidated financial statements.

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)

| (in thousands) | Three months ended March 31, | |
|--|------------------------------|-----------|
| | 2014 | 2013 |
| Cash flows from operating activities: | | |
| Net income | \$5,848 | \$10,040 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 533 | 789 |
| Provision for loan losses | 4,331 | 4,109 |
| Deferred income taxes | 1,032 | (405) |
| Net amortization of debt securities | 951 | 1,846 |
| Amortization of intangible assets | 383 | 433 |
| Gain on sale of investment securities | — | (684) |
| Mortgage loans originated for sale | (10,050) | (19,389) |
| Proceeds from mortgage loans sold | 10,008 | 25,905 |
| Gain on sale of other real estate | (683) | (728) |
| Gain on state tax credits, net | (497) | (867) |
| Excess tax benefit of share-based compensation | (74) | — |
| Share-based compensation | 735 | 778 |
| Valuation adjustment on other real estate | 344 | 544 |
| Net accretion of loan discount and indemnification asset | (4,096) | (6,981) |
| Changes in: | | |
| Accrued interest receivable | (173) | (1,565) |
| Accrued interest payable | (83) | (91) |
| Prepaid FDIC insurance | — | 524 |
| Other assets | (6,621) | (6,479) |
| Other liabilities | (9,285) | (5,984) |
| Net cash (used in) provided by operating activities | (7,397) | 1,795 |
| Cash flows from investing activities: | | |
| Net (increase) decrease in loans | (23,344) | 43,922 |
| Net cash proceeds received from FDIC loss share receivable | 2,255 | 1,685 |
| Proceeds from the sale of debt and equity securities, available for sale | — | 122,894 |
| Proceeds from the maturity of debt and equity securities, available for sale | 10,278 | 29,484 |
| Proceeds from the redemption of other investments | 1,118 | 129 |
| Proceeds from the sale of state tax credits held for sale | 3,294 | 6,303 |
| Proceeds from the sale of other real estate | 3,014 | 3,983 |
| Payments for the purchase/origination of: | | |
| Available for sale debt and equity securities | (29,853) | — |
| Other investments | (3,457) | (240) |
| Fixed assets | (381) | (501) |
| Net cash (used in) provided by investing activities | (37,076) | 207,659 |
| Cash flows from financing activities: | | |
| Net decrease in noninterest-bearing deposit accounts | (40,971) | (81,258) |
| Net decrease in interest-bearing deposit accounts | (41,863) | (82,804) |
| Proceeds from Federal Home Loan Bank advances | 80,000 | 153,000 |
| Repayments of Federal Home Loan Bank advances | — | (153,000) |
| Repayments of notes payable | (3,900) | (300) |
| Net decrease in other borrowings | (20,113) | (39,391) |
| Cash dividends paid on common stock | (1,043) | (948) |

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| | | | |
|--|-----------|------------|---|
| Excess tax benefit of share-based compensation | 74 | 10 | |
| Payments for the repurchase of common stock warrants | — | (1,006 |) |
| Employee stock issuances, net | (629 |) 1,324 | |
| Net cash used by financing activities | (28,445 |) (204,373 |) |
| Net (decrease) increase in cash and cash equivalents | (72,918 |) 5,081 | |
| Cash and cash equivalents, beginning of period | 210,569 | 116,370 | |
| Cash and cash equivalents, end of period | \$137,651 | \$121,451 | |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the period for: | | | |
| Interest | \$3,741 | \$4,920 | |
| Income taxes | 8,549 | 7,657 | |
| Noncash transactions: | | | |
| Transfer to other real estate owned in settlement of loans | 4,721 | 3,594 | |
| Sales of other real estate financed | 495 | 1,896 | |
| Issuance of common stock from Trust Preferred Securities conversion | 5,002 | — | |
| See accompanying notes to condensed consolidated financial statements. | | | |

ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used by Enterprise Financial Services Corp (the “Company” or “Enterprise”) in the preparation of the condensed consolidated financial statements are summarized below:

Business and Consolidation

Enterprise is a financial holding company that provides a full range of banking and wealth management services to individuals and corporate customers located in the St. Louis, Kansas City and Phoenix metropolitan markets through its banking subsidiary, Enterprise Bank & Trust (the “Bank”).

Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2014. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

Basis of Financial Statement Presentation

The condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. They do not include all information and footnotes required by U.S. GAAP for annual financial statements. The condensed consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All intercompany accounts and transactions have been eliminated. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

NOTE 2 - EARNINGS PER SHARE

Basic earnings per common share data is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Common shares outstanding include common stock and restricted stock awards where recipients have satisfied the vesting terms. Diluted earnings per common share gives effect to all dilutive potential common shares outstanding during the period using the treasury stock method and the if-converted method for convertible trust preferred securities.

The following table presents a summary of per common share data and amounts for the periods indicated.

| (in thousands, except per share data) | Three months ended March 31, | |
|---|------------------------------|----------|
| | 2014 | 2013 |
| Net income as reported | \$5,848 | \$10,040 |
| Impact of assumed conversions | | |
| Interest on 9% convertible trust preferred securities, net of income tax | 66 | 354 |
| Net income available to common shareholders and assumed conversions | \$5,914 | \$10,394 |
| Weighted average common shares outstanding | 19,521 | 18,011 |
| Incremental shares from assumed conversions of convertible trust preferred securities | 230 | 1,439 |
| Additional dilutive common stock equivalents | 198 | 74 |
| Weighted average diluted common shares outstanding | 19,949 | 19,524 |
| Basic earnings per common share: | \$0.30 | \$0.56 |
| Diluted earnings per common share: | \$0.30 | \$0.53 |

For the three months ended March 31, 2014 and 2013, the amount of common stock equivalents that were excluded from the earnings per share calculations because their effect was anti-dilutive was 284,469, and 515,550 common stock equivalents (including 28,807 common stock warrants), respectively.

NOTE 3 - INVESTMENTS

The following table presents the amortized cost, gross unrealized gains and losses and fair value of securities available-for-sale:

| (in thousands) | March 31, 2014 | | | |
|--|-------------------|------------------------|-------------------------|-------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for sale securities: | | | | |
| Obligations of U.S. Government-sponsored enterprises | \$92,754 | \$703 | \$(306) |) \$93,151 |
| Obligations of states and political subdivisions | 49,678 | 1,149 | (1,232) |) 49,595 |
| Agency mortgage-backed securities | 317,754 | 2,720 | (7,161) |) 313,313 |
| | \$460,186 | \$4,572 | \$(8,699) |) \$456,059 |
| (in thousands) | December 31, 2013 | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available for sale securities: | | | | |
| Obligations of U.S. Government-sponsored enterprises | \$93,218 | \$700 | \$(388) |) \$93,530 |
| Obligations of states and political subdivisions | 49,721 | 983 | (1,761) |) 48,943 |
| Agency mortgage-backed securities | 298,623 | 2,675 | (9,184) |) 292,114 |
| | \$441,562 | \$4,358 | \$(11,333) |) \$434,587 |

At March 31, 2014, and December 31, 2013, there were no holdings of securities of any one issuer in an amount greater than 10% of shareholders' equity, other than the U.S. government agencies and sponsored enterprises. The residential mortgage-backed securities are all issued by U.S. government sponsored enterprises. Available for sale securities having a fair value of \$259.0 million and \$270.1 million at March 31, 2014, and December 31, 2013, respectively, were pledged as collateral to secure deposits of public institutions and for other purposes as required by law or contract provisions.

The amortized cost and estimated fair value of debt securities classified as available for sale at March 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. The weighted average life of the mortgage-backed securities is approximately 5 years.

| (in thousands) | Amortized Cost | Estimated Fair Value |
|--|----------------|----------------------|
| Due in one year or less | \$1,262 | \$1,276 |
| Due after one year through five years | 109,526 | 110,475 |
| Due after five years through ten years | 20,810 | 20,768 |
| Due after ten years | 10,834 | 10,227 |
| Mortgage-backed securities | 317,754 | 313,313 |
| | \$460,186 | \$456,059 |

The following table represents a summary of available-for-sale investment securities that had an unrealized loss:

| (in thousands) | March 31, 2014 | | | | Total Fair Value | Unrealized Losses |
|---|---------------------|----------------------|-------------------|----------------------|---------------------|----------------------|
| | Less than 12 months | | 12 months or more | | | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | | |
| Obligations of U.S. Government-sponsored enterprises | \$30,251 | \$306 | \$— | \$— | \$30,251 | \$306 |
| Obligations of states and political subdivisions | \$11,700 | \$419 | \$8,874 | \$813 | \$20,574 | \$1,232 |
| Agency mortgage-backed securities | 166,999 | 5,339 | 26,167 | 1,822 | 193,166 | 7,161 |
| | \$208,950 | \$6,064 | \$35,041 | \$2,635 | \$243,991 | \$8,699 |
| (in thousands) | December 31, 2013 | | | | Total Fair Value | Unrealized Losses |
| | Less than 12 months | | 12 months or more | | | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | | |
| Obligations of U.S. Government-sponsored enterprises | \$30,221 | \$388 | \$— | \$— | \$30,221 | \$388 |
| Obligations of states and political subdivisions | 17,141 | 952 | 7,168 | 809 | 24,309 | 1,761 |
| Agency mortgage-backed securities | 159,999 | 7,338 | 21,437 | 1,846 | 181,436 | 9,184 |
| | \$207,361 | \$8,678 | \$28,605 | \$2,655 | \$235,966 | \$11,333 |

The unrealized losses at both March 31, 2014, and December 31, 2013, were primarily attributable to changes in market interest rates since the securities were purchased. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) the present value of the cash flows expected to be collected compared to the amortized cost of the security, (2) duration and magnitude of the decline in value, (3) the financial condition of the issuer or issuers, (4) structure of the security and (5) the intent to sell the security or whether it is more likely than not that the Company would be required to sell the security before its anticipated recovery in market value. At March 31, 2014, management performed its quarterly analysis of all securities with an unrealized loss and concluded no individual securities were other-than-temporarily impaired.

The gross gains and gross losses realized from sales of available-for-sale investment securities were as follows:

| (in thousands) | Three months ended March 31, | |
|-----------------------|------------------------------|---------|
| | 2014 | 2013 |
| Gross gains realized | \$— | \$866 |
| Gross losses realized | — | (182 |
| Proceeds from sales | — | 122,894 |

NOTE 4 - PORTFOLIO LOANS

Below is a summary of Portfolio loans by category at March 31, 2014, and December 31, 2013:

| (in thousands) | March 31, 2014 | December 31, 2013 |
|--|----------------|-------------------|
| Real Estate Loans: | | |
| Construction and land development | \$ 121,869 | \$ 117,032 |
| Commercial real estate - Investor owned | 416,777 | 437,688 |
| Commercial real estate - Owner occupied | 367,300 | 341,631 |
| Residential real estate | 160,195 | 158,527 |
| Total real estate loans | \$ 1,066,141 | \$ 1,054,878 |
| Commercial and industrial | 1,060,368 | 1,041,576 |
| Consumer and other | 46,302 | 39,838 |
| Portfolio loans | \$ 2,172,811 | \$ 2,136,292 |
| Unearned loan costs, net | 1,177 | 1,021 |
| Portfolio loans, including unearned loan costs | \$ 2,173,988 | \$ 2,137,313 |

The Company grants commercial, residential, and consumer loans primarily in the St. Louis, Kansas City and Phoenix metropolitan areas. The Company has a diversified loan portfolio, with no particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio is concentrated in and secured by real estate. The ability of the Company's borrowers to honor their contractual obligations is partially dependent upon the local economy and its effect on the real estate market.

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A summary of the year-to-date activity in the allowance for loan losses and the recorded investment in Portfolio loans by class and category based on impairment method through March 31, 2014, and at December 31, 2013, is as follows:

| (in thousands) | Commercial & Industrial | Commercial Real Estate Owner Occupied | Commercial Real Estate Investor Owned | Construction and Land Development | Residential Real Estate | Consumer & Other | Total |
|---|----------------------------|--|--|---|----------------------------|---------------------|-------------|
| Allowance for Loan Losses: | | | | | | | |
| Balance at December 31, 2013 | \$12,246 | \$4,096 | \$6,600 | \$2,136 | \$2,019 | \$192 | \$27,289 |
| Provision charged to expense | 899 | 589 | (9) | (532) | 16 | 64 | 1,027 |
| Losses charged off | (474) | (336) | (250) | (305) | — | (4) | (1,369) |
| Recoveries | 187 | 8 | 34 | 688 | 41 | — | 958 |
| Balance at March 31, 2014 | \$12,858 | \$4,357 | \$6,375 | \$1,987 | \$2,076 | \$252 | \$27,905 |
| (in thousands) | Commercial & Industrial | Commercial Real Estate Owner Occupied | Commercial Real Estate Investor Owned | Construction and Land Development | Residential Real Estate | Consumer & Other | Total |
| Balance March 31, 2014 | | | | | | | |
| Allowance for Loan Losses - Ending Balance: | | | | | | | |
| Individually evaluated for impairment | \$1,472 | \$401 | \$— | \$386 | \$11 | \$— | \$2,270 |
| Collectively evaluated for impairment | 11,386 | 3,956 | 6,375 | 1,601 | 2,065 | 252 | 25,635 |
| Total | \$12,858 | \$4,357 | \$6,375 | \$1,987 | \$2,076 | \$252 | \$27,905 |
| Loans - Ending Balance: | | | | | | | |
| Individually evaluated for impairment | \$5,046 | \$2,232 | \$678 | \$7,729 | \$430 | \$— | \$16,115 |
| Collectively evaluated for impairment | 1,055,322 | 365,068 | 416,099 | 114,140 | 159,765 | 47,479 | 2,157,873 |
| Total | \$1,060,368 | \$367,300 | \$416,777 | \$121,869 | \$160,195 | \$47,479 | \$2,173,988 |
| Balance at December 31, 2013 | | | | | | | |
| Allowance for Loan Losses - Ending Balance: | | | | | | | |
| Individually evaluated for impairment | \$736 | \$107 | \$— | \$703 | \$4 | \$— | \$1,550 |
| Collectively evaluated for impairment | 11,510 | 3,989 | 6,600 | 1,433 | 2,015 | 192 | 25,739 |
| Total | \$12,246 | \$4,096 | \$6,600 | \$2,136 | \$2,019 | \$192 | \$27,289 |

Loans - Ending

Balance:

| | | | | | | | |
|--|-------------|-----------|-----------|-----------|-----------|----------|-------------|
| Individually evaluated for impairment | \$3,380 | \$606 | \$6,811 | \$9,484 | \$559 | \$— | \$20,840 |
| Collectively evaluated for impairment | 1,038,196 | 341,025 | 430,877 | 107,548 | 157,968 | 40,859 | 2,116,473 |
| Total | \$1,041,576 | \$341,631 | \$437,688 | \$117,032 | \$158,527 | \$40,859 | \$2,137,313 |

A summary of Portfolio loans individually evaluated for impairment by category at March 31, 2014, and December 31, 2013, is as follows:

| (in thousands) | March 31, 2014 | | | | | |
|-----------------------------------|--------------------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|-----------------------------|
| | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment |
| Commercial & Industrial | \$5,605 | \$— | \$4,449 | \$4,449 | \$1,364 | \$3,625 |
| Real Estate: | | | | | | |
| Commercial - Owner Occupied | 3,371 | 1,399 | 1,041 | 2,440 | 401 | 1,105 |
| Commercial - Investor Owned | 678 | 679 | — | 679 | — | 3,593 |
| Construction and Land Development | 8,225 | 7,595 | 454 | 8,049 | 386 | 8,185 |
| Residential | 429 | 406 | 32 | 438 | 11 | 532 |
| Consumer & Other | — | — | — | — | — | — |
| Total | \$18,308 | \$10,079 | \$5,976 | \$16,055 | \$2,162 | \$17,040 |

| (in thousands) | December 31, 2013 | | | | | |
|-----------------------------------|--------------------------------------|---------------------------------------|------------------------------------|---------------------------|-------------------|-----------------------------|
| | Unpaid Contractual Principal Balance | Recorded Investment With No Allowance | Recorded Investment With Allowance | Total Recorded Investment | Related Allowance | Average Recorded Investment |
| Commercial & Industrial | \$4,377 | \$— | \$3,384 | \$3,384 | \$736 | \$6,574 |
| Real Estate: | | | | | | |
| Commercial - Owner Occupied | 606 | 201 | 421 | 622 | 107 | 1,868 |
| Commercial - Investor Owned | 8,033 | 7,190 | — | 7,190 | — | 11,348 |
| Construction and Land Development | 10,668 | 7,383 | 2,419 | 9,802 | 703 | 5,770 |
| Residential | 559 | 348 | 221 | 569 | 4 | 1,930 |
| Consumer & Other | — | — | — | — | — | — |
| Total | \$24,243 | \$15,122 | \$6,445 | \$21,567 | \$1,550 | \$27,490 |

There were no loans over 90 days past due and still accruing interest at March 31, 2014. If interest on impaired loans would have been accrued based upon the original contractual terms, such income would have been \$0.3 million and \$0.8 million for the three months ended March 31, 2014 and 2013, respectively. The cash amount collected and recognized as interest income on impaired loans was \$9,000 and \$15,000 for the three months ended March 31, 2014 and 2013, respectively. There was \$6,000 of interest income recognized on impaired loans continuing to accrue interest for the three months ended March 31, 2014 and \$29,000 for the three months ended March 31, 2013, respectively. At March 31, 2014, there were \$0.2 million of unadvanced commitments on impaired loans. Other liabilities include approximately \$0.2 million for estimated losses attributable to the unadvanced commitments.

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The recorded investment in impaired Portfolio loans by category at March 31, 2014, and December 31, 2013, is as follows:

| (in thousands) | March 31, 2014 | | | Total |
|-----------------------------------|----------------|--------------|---|----------|
| | Non-accrual | Restructured | Loans over 90 days past due and still accruing interest | |
| Commercial & Industrial | \$4,449 | \$— | \$— | \$4,449 |
| Real Estate: | | | | |
| Commercial - Investor Owned | — | 679 | — | 679 |
| Commercial - Owner Occupied | 1,648 | 792 | — | 2,440 |
| Construction and Land Development | 8,049 | — | — | 8,049 |
| Residential | 438 | — | — | 438 |
| Consumer & Other | — | — | — | — |
| Total | \$14,584 | \$1,471 | \$— | \$16,055 |

| (in thousands) | December 31, 2013 | | | Total |
|-----------------------------------|-------------------|--------------|---|----------|
| | Non-accrual | Restructured | Loans over 90 days past due and still accruing interest | |
| Commercial & Industrial | \$3,384 | \$— | \$— | \$3,384 |
| Real Estate: | | | | |
| Commercial - Investor Owned | 6,511 | 678 | — | 7,189 |
| Commercial - Owner Occupied | 622 | — | — | 622 |
| Construction and Land Development | 9,802 | — | — | 9,802 |
| Residential | 569 | — | — | 569 |
| Consumer & Other | — | — | — | — |
| Total | \$20,888 | \$678 | \$— | \$21,566 |

The recorded investment by category for the Portfolio loans that have been restructured during the three months ended March 31, 2014 and 2013, is as follows:

| (in thousands, except for number of loans) | Number of Loans | Three months ended March 31, 2014 | | Number of Loans | Three months ended March 31, 2013 | |
|--|-----------------|---|--|-----------------|---|--|
| | | Pre-Modification Outstanding Recorded Balance | Post-Modification Outstanding Recorded Balance | | Pre-Modification Outstanding Recorded Balance | Post-Modification Outstanding Recorded Balance |
| Commercial & Industrial | — | \$ — | \$ — | 1 | \$ 5 | \$ 5 |
| Real Estate: | | | | | | |
| Commercial - Owner Occupied | 2 | 1,292 | 1,042 | — | — | — |
| Commercial - Investor Owned | — | — | — | — | — | — |
| Construction and Land Development | — | — | — | — | — | — |
| Residential | — | — | — | — | — | — |
| Consumer & Other | — | — | — | — | — | — |

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| | | | | | | |
|-------|---|----------|----------|---|------|------|
| Total | 2 | \$ 1,292 | \$ 1,042 | 1 | \$ 5 | \$ 5 |
|-------|---|----------|----------|---|------|------|

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The restructured Portfolio loans resulted from interest rate concessions and changing the terms of the loans. As of March 31, 2014, the Company allocated \$0.4 million of specific reserves to the loans that have been restructured.

There were no Portfolio loans that have been restructured and subsequently defaulted in the three months ended March 31, 2014 and 2013.

The aging of the recorded investment in past due Portfolio loans by portfolio class and category at March 31, 2014, and December 31, 2013, is shown below.

| (in thousands) | March 31, 2014 | | Total Past Due | Current | Total |
|-----------------------------|------------------------|--------------------------------|-------------------|-------------|-------------|
| | 30-89 Days Past Due | 90 or More Days Past Due | | | |
| Commercial & Industrial | \$114 | \$— | \$114 | \$1,060,254 | \$1,060,368 |
| Real Estate: | | | | | |
| Commercial - Owner Occupied | 2,010 | 1,195 | 3,205 | 364,095 | 367,300 |
| Commercial - Investor Owned | 6,992 | — | 6,992 | 409,785 | 416,777 |
| Construction and Land | — | 5,955 | 5,955 | 115,914 | 121,869 |
| Development | | | | | |
| Residential | 370 | 206 | 576 | 159,619 | 160,195 |
| Consumer & Other | 51 | — | 51 | 47,428 | 47,479 |
| Total | \$9,537 | \$7,356 | \$16,893 | \$2,157,095 | \$2,173,988 |
| | December 31, 2013 | | | | |
| (in thousands) | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due | Current | Total |
| Commercial & Industrial | \$229 | \$— | \$229 | \$1,041,347 | \$1,041,576 |
| Real Estate: | | | | | |
| Commercial - Owner Occupied | — | 428 | 428 | 341,203 | 341,631 |
| Commercial - Investor Owned | — | 6,132 | 6,132 | 431,556 | 437,688 |
| Construction and Land | 464 | 7,344 | 7,808 | 109,224 | 117,032 |
| Development | | | | | |
| Residential | 237 | 213 | 450 | 158,077 | 158,527 |
| Consumer & Other | — | — | — | 40,859 | 40,859 |
| Total | \$930 | \$14,117 | \$15,047 | \$2,122,266 | \$2,137,313 |

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, and current economic factors, among other factors. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Grades 1, 2, and 3- These grades include loans to borrowers with a continuous record of strong earnings, sound balance sheet condition and capitalization, ample liquidity with solid cash flow, and whose management team has experience and depth within their industry.

Grade 4- This grade includes loans to borrowers with positive trends in profitability, satisfactory capitalization and balance sheet condition, and sufficient liquidity and cash flow.

Grade 5- This grade includes loans to borrowers that may display fluctuating trends in sales, profitability, capitalization, liquidity, and cash flow.

Grade 6- This grade includes loans to borrowers where an adverse change or perceived weakness has occurred, but may be correctable in the near future. Alternatively, this rating category may also include circumstances

NOTE 5 - PURCHASE CREDIT IMPAIRED ("PCI") LOANS (FORMERLY REFERRED TO AS PORTFOLIO LOANS COVERED UNDER FDIC LOSS SHARE OR COVERED LOANS)

Below is a summary of PCI loans by category at March 31, 2014, and December 31, 2013:

| (in thousands) | March 31, 2014 | | December 31, 2013 | |
|---|------------------------------|-------------------------------|------------------------------|-------------------------------|
| | Weighted-Average Risk Rating | Recorded Investment PCI Loans | Weighted-Average Risk Rating | Recorded Investment PCI Loans |
| Real Estate Loans: | | | | |
| Construction and land development | 6.86 | \$12,320 | 6.84 | \$14,325 |
| Commercial real estate - Investor owned | 7.01 | 44,103 | 6.81 | 48,146 |
| Commercial real estate - Owner occupied | 6.66 | 30,246 | 6.75 | 32,525 |
| Residential real estate | 5.89 | 32,727 | 5.92 | 34,498 |
| Total real estate loans | | \$119,396 | | \$129,494 |
| Commercial and industrial | 6.85 | 8,716 | 6.87 | 9,271 |
| Consumer and other | 4.40 | 560 | 6.47 | 1,773 |
| Portfolio loans | | \$128,672 | | \$140,538 |

The aging of the recorded investment in past due PCI loans by portfolio class and category at March 31, 2014, and December 31, 2013, is shown below.

| (in thousands) | March 31, 2014 | | | Current | Total |
|-----------------------------------|---------------------|--------------------------|----------------|-----------|-----------|
| | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due | | |
| Commercial & Industrial | \$497 | \$485 | \$982 | \$7,734 | \$8,716 |
| Real Estate: | | | | | |
| Commercial - Owner Occupied | 66 | 6,213 | 6,279 | 23,967 | 30,246 |
| Commercial - Investor Owned | 3,125 | 4,788 | 7,913 | 36,190 | 44,103 |
| Construction and Land Development | — | 3,580 | 3,580 | 8,740 | 12,320 |
| Residential | 1,000 | 2,679 | 3,679 | 29,048 | 32,727 |
| Consumer & Other | 6 | — | 6 | 554 | 560 |
| Total | \$4,694 | \$17,745 | \$22,439 | \$106,233 | \$128,672 |
| (in thousands) | December 31, 2013 | | | Current | Total |
| | 30-89 Days Past Due | 90 or More Days Past Due | Total Past Due | | |
| Commercial & Industrial | \$397 | \$573 | \$970 | \$8,301 | \$9,271 |
| Real Estate: | | | | | |
| Commercial - Owner Occupied | 255 | 6,595 | 6,850 | 25,675 | 32,525 |
| Commercial - Investor Owned | 5,143 | 3,167 | 8,310 | 39,836 | 48,146 |
| Construction and Land Development | 32 | 4,198 | 4,230 | 10,095 | 14,325 |
| Residential | 639 | 5,276 | 5,915 | 28,583 | 34,498 |
| Consumer & Other | — | — | — | 1,773 | 1,773 |
| Total | \$6,466 | \$19,809 | \$26,275 | \$114,263 | \$140,538 |

The following table is a rollforward of PCI loans, net of the allowance for loan losses, for the three months ended March 31, 2014 and 2013.

| (In thousands) | Contractual Cashflows | Less: Non-accretable Difference | Less: Accretable Yield | Carrying Amount |
|---|--------------------------|---------------------------------------|------------------------------|--------------------|
| Balance January 1, 2014 | \$266,068 | \$87,438 | \$53,530 | \$125,100 |
| Principal reductions and interest payments | (9,849) |) — | — | (9,849) |
| Accretion of loan discount | — | — | (4,560) |) 4,560 |
| Changes in contractual and expected cash flows due to remeasurement | 4,888 |) 10,503 | (5,076) |) (539) |
| Reductions due to disposals | (14,297) |) (3,142) | (2,042) |) (9,113) |
| Balance March 31, 2014 | \$246,810 | \$94,799 | \$41,852 | \$110,159 |
| Balance January 1, 2013 | \$386,966 | \$118,627 | \$78,768 | \$189,571 |
| Principal reductions and interest payments | (13,083) |) — | — | (13,083) |
| Accretion of loan discount | — | — | (7,112) |) 7,112 |
| Changes in contractual and expected cash flows due to remeasurement | (3,099) |) (4,084) |) 599 | 386 |
| Reductions due to disposals | (35,274) |) (14,641) | (5,956) |) (14,677) |
| Balance March 31, 2013 | \$335,510 | \$99,902 | \$66,299 | \$169,309 |

The accretable yield is accreted into interest income over the estimated life of the acquired loans using the effective yield method.

A summary of activity in the FDIC loss share receivable for the three months ended March 31, 2014 is as follows:

| (In thousands) | March 31, 2014 |
|--|-------------------|
| Balance at beginning of period | \$34,319 |
| Adjustments not reflected in income: | |
| Cash received from the FDIC for covered assets | (2,255) |
| FDIC reimbursable losses, net | 127 |
| Adjustments reflected in income: | |
| Amortization, net | (3,195) |
| Loan impairment | 2,642 |
| Reductions for payments on covered assets in excess of expected cash flows | (1,857) |
| Balance at end of period | \$29,781 |

Due to continued favorable projections in the expected cash flows, the Company continues to anticipate that it will be required to pay the FDIC at the end of two of its loss share agreements. Accordingly, a liability of \$1.5 million has been recorded at March 31, 2014. The liability will continue to be adjusted as part of the quarterly remeasurement process through the end of the loss share agreements.

NOTE 6 - COMMITMENTS AND CONTINGENCIES

The Company issues financial instruments with off balance sheet risk in the normal course of the business of meeting the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments may involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Company's extent of involvement and maximum potential exposure to credit loss under commitments to extend credit and standby letters of credit in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of these instruments.

The Company uses the same credit policies in making commitments and conditional obligations as it does for financial instruments included on its consolidated balance sheets. At March 31, 2014, there were \$0.2 million of unadvanced commitments on impaired loans compared to \$0.1 million at December 31, 2013. Other liabilities include approximately \$0.2 million at both March 31, 2014 and December 31, 2013 for estimated losses attributable to the unadvanced commitments.

The contractual amounts of off-balance-sheet financial instruments as of March 31, 2014, and December 31, 2013, are as follows:

| (in thousands) | March 31, 2014 | December 31, 2013 |
|------------------------------|-------------------|----------------------|
| Commitments to extend credit | \$779,698 | \$804,420 |
| Standby letters of credit | 43,268 | 44,376 |

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments usually have fixed expiration dates or other termination clauses, may have significant usage restrictions, and may require payment of a fee. Of the total commitments to extend credit at March 31, 2014, and December 31, 2013, approximately \$64.1 million and \$50.3 million, respectively, represent fixed rate loan commitments. Since certain of the commitments may expire without being drawn upon or may be revoked, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the borrower. The type of collateral held varies, but may include accounts receivable, inventory, premises and equipment, and real estate.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These standby letters of credit are issued to support contractual obligations of the Company's customers. The credit risk involved in issuing letters of credit is essentially the same as the risk involved in extending loans to customers. The approximate remaining terms of standby letters of credit range from 1 month to 4 years at March 31, 2014.

Contingencies

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes that there are no such proceedings pending or threatened against the Company or its subsidiaries which, if determined adversely, would have a material adverse effect on the business, consolidated financial condition, results of operations or cash flows of the Company or any of its subsidiaries.

NOTE 7 - DERIVATIVE FINANCIAL INSTRUMENTS

Risk Management Instruments. The Company enters into certain derivative contracts to economically hedge state tax credits and certain loans.

Economic hedge of state tax credits. In November 2008, the Company paid \$2.1 million to enter into a series of interest rate caps in order to economically hedge changes in fair value of the state tax credits held for sale. In February 2010, the Company paid \$751,000 for an additional series of interest rate caps. See Note 8—Fair Value Measurements for further discussion of the fair value of the state tax credits.

The table below summarizes the notional amounts and fair values of the derivative instruments used to manage risk.

| (in thousands) | Notional Amount | | Asset Derivatives (Other Assets) Fair Value | | Liability Derivatives (Other Liabilities) Fair Value | |
|------------------------------------|-------------------|----------------------|---|----------------------|--|----------------------|
| | March 31, 2014 | December 31, 2013 | March 31, 2014 | December 31, 2013 | March 31, 2014 | December 31, 2013 |
| Non-designated hedging instruments | | | | | | |
| Interest rate cap contracts | \$23,800 | \$ 23,800 | \$ 10 | \$ 10 | \$— | \$— |

The following table shows the location and amount of gains and losses related to derivatives used for risk management purposes that were recorded in the condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013.

| (in thousands) | Location of Gain or (Loss) Recognized in Operations on Derivative | Amount of Gain or (Loss) Recognized in Operations on Derivative Three months ended March 31, | |
|------------------------------------|---|--|--------|
| | | 2014 | 2013 |
| Non-designated hedging instruments | | | |
| Interest rate cap contracts | Gain on state tax credits, net | \$— | \$(1) |

Client-Related Derivative Instruments. As an accommodation to certain customers, the Company enters into interest rate swaps to economically hedge changes in fair value of certain loans. The table below summarizes the notional amounts and fair values of the client-related derivative instruments.

| (in thousands) | Notional Amount | | Asset Derivatives (Other Assets) Fair Value | | Liability Derivatives (Other Liabilities) Fair Value | |
|------------------------------------|-------------------|----------------------|---|----------------------|--|----------------------|
| | March 31, 2014 | December 31, 2013 | March 31, 2014 | December 31, 2013 | March 31, 2014 | December 31, 2013 |
| Non-designated hedging instruments | | | | | | |
| Interest rate swap contracts | \$ 180,809 | \$ 185,213 | \$968 | \$ 990 | \$968 | \$ 990 |

Changes in the fair value of client-related derivative instruments are recognized currently in operations. The following table shows the location and amount of gains and losses recorded in the condensed consolidated statements of operations for the three months ended March 31, 2014 and 2013. For the three months ended March 31, 2014 the Company has entered into derivative contracts with third parties to fully offset the client-related derivative instruments. Accordingly, there was no fair value adjustment recorded.

| (in thousands) | Location of Gain or (Loss) Recognized in Operations on Derivative | Amount of Gain or (Loss) Recognized in Operations on Derivative | |
|------------------------------------|---|--|----------|
| | | Three months ended March 31, 2014 | 2013 |
| Non-designated hedging instruments | | | |
| Interest rate swap contracts | Interest and fees on loans | \$— | \$(105) |

At both March 31, 2014 and December 31, 2013, the Company had \$1.0 million of counterparty credit exposure on derivatives. At both March 31, 2014, and December 31, 2013, the Company had pledged cash of \$1.0 million, as collateral in connection with our interest rate swap agreements.

NOTE 8 - FAIR VALUE MEASUREMENTS

Below is a description of certain assets and liabilities measured at fair value.

The following table summarizes financial instruments measured at fair value on a recurring basis as of March 31, 2014, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

| (in thousands) | March 31, 2014 | | | Total Fair Value |
|--|--|---|--|------------------|
| | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | |
| Assets | | | | |
| Securities available for sale | | | | |
| Obligations of U.S. Government-sponsored enterprises | \$— | \$93,151 | \$— | \$93,151 |
| Obligations of states and political subdivisions | — | 46,549 | 3,046 | 49,595 |
| Agency mortgage-backed securities | — | 313,313 | — | 313,313 |
| Total securities available for sale | \$— | \$453,013 | \$3,046 | \$456,059 |
| State tax credits held for sale | — | — | 14,900 | 14,900 |
| Derivative financial instruments | — | 978 | — | 978 |
| Total assets | \$— | \$453,991 | \$17,946 | \$471,937 |
| Liabilities | | | | |
| Derivative financial instruments | \$— | \$968 | \$— | \$968 |
| Total liabilities | \$— | \$968 | \$— | \$968 |

Securities available for sale. Securities classified as available for sale are reported at fair value utilizing Level 2 and Level 3 inputs. The Company obtains fair value measurements from an independent pricing service. Fair values for Level 2 securities are based upon dealer quotes, market spreads, the U.S. Treasury yield curve, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions at the security level. At March 31, 2014, Level 3 securities available for sale consist primarily of three Auction Rate Securities that are valued based on the securities' estimated cash flows, yields of comparable securities, and live trading levels.

Portfolio Loans. Certain fixed rate portfolio loans are accounted for as trading instruments and reported at fair value. Fair value on these loans is determined using a third party valuation model with observable Level 2 market data inputs.

State tax credits held for sale. At March 31, 2014, of the \$45.7 million of state tax credits held for sale on the condensed consolidated balance sheet, approximately \$14.9 million were carried at fair value. The remaining \$30.8 million of state tax credits were accounted for at cost.

The Company is not aware of an active market that exists for the 10-year streams of state tax credit financial instruments. However, the Company's principal market for these tax credits consists of Missouri state residents who buy these credits and from local and regional accounting firms who broker them. As such, the Company employed a discounted cash flow analysis (income approach) to determine the fair value.

The fair value measurement is calculated using an internal valuation model with observable market data including discounted cash flows based upon the terms and conditions of the tax credits. If the underlying project remains in compliance with the various federal and state rules governing the tax credit program, each project will generate about 10 years of tax credits. The inputs to the discounted cash flow calculation include: the amount of tax credits generated

each year, the anticipated sale price of the tax credit, the timing of the sale and a discount rate. The discount rate is estimated using the LIBOR swap curve at a point equal to the remaining

life in years of credits plus a 205 basis point spread. With the exception of the discount rate, the other inputs to the fair value calculation are observable and readily available. The discount rate is considered a Level 3 input because it is an “unobservable input” and is based on the Company’s assumptions. An increase in the discount rate utilized would generally result in a lower estimated fair value of the tax credits. Alternatively, a decrease in the discount rate utilized would generally result in a higher estimated fair value of the tax credits. Given the significance of this input to the fair value calculation, the state tax credit assets are reported as Level 3 assets.

Derivatives. Derivatives are reported at fair value utilizing Level 2 inputs. The Company obtains counterparty quotations to value its interest rate swaps and caps. In addition, the Company validates the counterparty quotations with third party valuation sources. Derivatives with negative fair values are included in Other liabilities in the consolidated balance sheets. Derivatives with positive fair value are included in Other assets in the consolidated balance sheets.

Level 3 financial instruments

The following table presents the changes in Level 3 financial instruments measured at fair value on a recurring basis for the periods ended March 31, 2014 and 2013, respectively.

Purchases, sales, issuances and settlements, net. There were no Level 3 purchases during the quarter ended March 31, 2014 or 2013.

Transfers in and/or out of Level 3. There were no Level 3 transfers during the quarter ended March 31, 2014 or 2013.

| (in thousands) | Securities available for sale, at fair value | |
|---|--|----------|
| | Three months ended March 31, | |
| | 2014 | 2013 |
| Beginning balance | \$3,040 | \$3,049 |
| Total (losses) gains: | | |
| Included in other comprehensive income | 6 | 2 |
| Purchases, sales, issuances and settlements: | | |
| Purchases | — | — |
| Transfer in and/or out of Level 3 | — | — |
| Ending balance | \$3,046 | \$3,051 |
| Change in unrealized (losses) gains relating to assets still held at the reporting date | \$6 | \$2 |
| | | |
| (in thousands) | State tax credits held for sale | |
| | Three months ended March 31, | |
| | 2014 | 2013 |
| Beginning balance | \$16,491 | \$23,020 |
| Total gains: | | |
| Included in earnings | 118 | 156 |
| Purchases, sales, issuances and settlements: | | |
| Sales | (1,709 |) (3,123 |
| Ending balance | \$14,900 | \$20,053 |
| Change in unrealized gains relating to assets still held at the reporting date | \$(334 |) \$(674 |

From time to time, the Company measures certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or fair value that were recognized at fair value below cost at the end of the period. The following table presents financial instruments and non-financial assets measured at fair value on a non-recurring basis as of March 31, 2014:

| (in thousands) | (1) Total Fair Value | (1) Quoted Prices in Active Markets for Identical Assets (Level 1) | (1) Significant Other Observable Inputs (Level 2) | (1) Significant Unobservable Inputs (Level 3) | Total losses for the three months ended March 31, 2014 |
|-------------------|-------------------------|--|--|---|--|
| Impaired loans | \$3,035 | \$— | \$— | \$3,035 | \$(1,369) |
| Other real estate | 3,756 | — | — | 3,756 | (344) |
| Total | \$6,791 | \$— | \$— | \$6,791 | \$(1,713) |

(1) The amounts represent only balances measured at fair value during the period and still held as of the reporting date.

Impaired loans are reported at the fair value of the underlying collateral or by determining the net present value of future cash flows. Fair values for collateral dependent impaired loans are obtained from current appraisals by qualified licensed appraisers or independent valuation specialists. Fair values of impaired loans that are not collateral dependent are determined by using a discounted cash flow model to determine the net present value of future cash flows. Other real estate owned is adjusted to fair value upon foreclosure of the loan collateral. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value less costs to sell. Fair value of other real estate is based upon the current appraised values of the properties as determined by qualified licensed appraisers and the Company's judgment of other relevant market conditions.

Following is a summary of the carrying amounts and fair values of the Company's financial instruments on the consolidated balance sheets at March 31, 2014, and December 31, 2013.

| (in thousands) | March 31, 2014 | | December 31, 2013 | |
|----------------------------------|--------------------|-------------------------|--------------------|-------------------------|
| | Carrying Amount | Estimated fair value | Carrying Amount | Estimated fair value |
| Balance sheet assets | | | | |
| Cash and due from banks | \$35,260 | \$35,260 | \$19,573 | \$19,573 |
| Federal funds sold | 56 | 56 | 76 | 76 |
| Interest-bearing deposits | 107,635 | 107,635 | 196,220 | 196,220 |
| Securities available for sale | 456,059 | 456,059 | 434,587 | 434,587 |
| Other investments, at cost | 14,944 | 14,944 | 12,605 | 12,605 |
| Loans held for sale | 1,901 | 1,901 | 1,834 | 1,834 |
| Derivative financial instruments | 978 | 978 | 1,000 | 1,000 |
| Portfolio loans, net | 2,256,242 | 2,251,063 | 2,235,124 | 2,232,134 |
| State tax credits, held for sale | 45,660 | 49,517 | 48,457 | 52,159 |
| Accrued interest receivable | 7,476 | 7,476 | 7,303 | 7,303 |
| Balance sheet liabilities | | | | |
| Deposits | 2,452,118 | 2,457,394 | 2,534,953 | 2,540,822 |
| Subordinated debentures | 56,807 | 33,729 | 62,581 | 39,358 |

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| | | | | |
|----------------------------------|---------|---------|---------|---------|
| Federal Home Loan Bank advances | 130,000 | 133,911 | 50,000 | 54,137 |
| Other borrowings | 190,318 | 190,348 | 214,331 | 214,377 |
| Derivative financial instruments | 968 | 968 | 990 | 990 |
| Accrued interest payable | 874 | 874 | 957 | 957 |

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For information regarding the methods and assumptions used to estimate the fair value of each class of financial instruments for which it is practical to estimate such value, refer to Note 20—Fair Value Measurements in the Company’s Annual Report on Form 10-K for the year ended December 31, 2013.

The following table presents the level in the fair value hierarchy for the estimated fair values of only the Company’s financial instruments that are not already presented on the condensed consolidated balance sheets at fair value at March 31, 2014, and December 31, 2013:

| (in thousands) | Estimated Fair Value Measurement at Reporting Date | | | Balance at March 31, 2014 |
|----------------------------------|--|---------|-------------|---------------------------------|
| | Using Level 1 | Level 2 | Level 3 | |
| Financial Assets: | | | | |
| Portfolio loans, net | \$— | \$— | \$2,251,063 | \$2,251,063 |
| State tax credits, held for sale | \$— | \$— | \$34,617 | \$34,617 |
| Financial Liabilities: | | | | |
| Deposits | 1,839,367 | — | 618,027 | 2,457,394 |
| Subordinated debentures | — | 33,729 | — | 33,729 |
| Federal Home Loan Bank advances | — | 133,911 | — | 133,911 |
| Other borrowings | — | 190,348 | — | 190,348 |
| | | | | |
| (in thousands) | Estimated Fair Value Measurement at Reporting Date | | | Balance at December 31, 2013 |
| | Using Level 1 | Level 2 | Level 3 | |
| Financial Assets: | | | | |
| Portfolio loans, net | \$— | \$— | \$2,232,134 | \$2,232,134 |
| State tax credits, held for sale | \$— | \$— | \$35,668 | \$35,668 |
| Financial Liabilities: | | | | |
| Deposits | 1,902,038 | — | 638,784 | 2,540,822 |
| Subordinated debentures | — | 39,358 | — | 39,358 |
| Federal Home Loan Bank advances | — | 54,137 | — | 54,137 |
| Other borrowings | — | 214,377 | — | 214,377 |

NOTE 9 - SEGMENT REPORTING

The Company has two primary operating segments, Banking and Wealth Management, which are delineated by the products and services that each segment offers. The segments are evaluated separately on their individual performance, as well as their contribution to the Company as a whole.

The Banking operating segment consists of a full-service commercial bank, with locations in St. Louis, Kansas City, and Phoenix. The majority of the Company’s assets and income result from the Banking segment. All banking locations have the same product and service offerings, have similar types and classes of customers and utilize similar service delivery methods. Pricing guidelines and operating policies for products and services are the same across all regions.

The Banking operating segment also includes activities surrounding the assets acquired under FDIC loss share agreements.

The Wealth Management operating segment includes the Trust division of the Bank and the state tax credit brokerage activities. The Trust division provides estate planning, investment management, and retirement planning as well as

strategic planning and management succession issues. State tax credits are part of a fee initiative designed to augment the Company's Wealth Management segment and Banking lines of business.

The Company's Corporate and Intercompany activities represent the elimination of items between segments as well as Corporate related items that management feels are not allocable to either of the two respective segments.

The financial information for each business segment reflects that information which is specifically identifiable or which is allocated based on an internal allocation method. There were no material intersegment revenues among the two segments. Management periodically makes changes to methods of assigning costs and income to its business segments to better reflect operating results. When appropriate, these changes are reflected in prior year information presented below.

Following are the financial results for the Company's operating segments.

| (in thousands) | Banking | Wealth Management | Corporate and Intercompany | Total |
|---|------------------------------|-------------------|----------------------------|------------|
| | Three months ended March 31, | | | |
| Income Statement Information | 2014 | | | |
| Net interest income (expense) | \$30,820 | \$(18 |) \$(436 |) \$30,366 |
| Provision for loan losses | 4,331 | — | — | 4,331 |
| Noninterest income | 1,699 | 2,217 | 6 | 3,922 |
| Noninterest expense | 17,631 | 1,833 | 1,638 | 21,102 |
| Income (loss) before income tax expense (benefit) | 10,557 | 366 | (2,068 |) 8,855 |
| | 2013 | | | |
| Net interest income (expense) | \$37,857 | \$7 | \$(965 |) \$36,899 |
| Provision for loan losses | 4,109 | — | — | 4,109 |
| Noninterest income | 45 | 2,794 | 75 | 2,914 |
| Noninterest expense | 16,724 | 2,056 | 1,505 | 20,285 |
| Income (loss) before income tax expense (benefit) | 17,069 | 745 | (2,395 |) 15,419 |
| Balance Sheet Information | March 31, 2014 | | December 31, 2013 | |
| Total assets: | | | | |
| Banking | \$3,025,589 | | \$3,051,256 | |
| Wealth Management | 96,698 | | 101,026 | |
| Corporate and Intercompany | 17,664 | | 17,915 | |
| Total | 3,139,951 | | 3,170,197 | |

ITEM 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Some of the information in this report contains "forward-looking statements" within the meaning of and intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically are identified with use of terms such as "may," "might," "will," "should," "expect," "plan," "anticipate," "b," "estimate," "predict," "potential," "could," "continue" and the negative of these terms and similar words, although some forward-looking statements are expressed differently. Our ability to predict results or the actual effect of future plans or strategies is inherently uncertain. You should be aware that our actual results could differ materially from those contained in the forward-looking statements due to a number of factors, including, but not limited to: credit risk; changes in the appraised valuation of real estate securing impaired loans; outcomes of litigation and other contingencies; exposure to general and local economic conditions; risks associated with rapid increases or decreases in prevailing interest rates; consolidation within the banking industry; competition from banks and other financial institutions; our ability to attract and retain relationship officers and other key personnel; burdens imposed by federal and state regulation; changes in regulatory requirements; changes in accounting regulation or standards applicable to banks; and other risks discussed under the caption "Risk Factors" of our most recently filed Form 10-K and within this Form 10-Q, all of which could cause the Company's actual results to differ from those set forth in the forward-looking statements.

Readers are cautioned not to place undue reliance on our forward-looking statements, which reflect management's analysis and expectations only as of the date of such statements. Forward-looking statements speak only as of the date they are made, and the Company does not intend, and undertakes no obligation, to publicly revise or update forward-looking statements after the date of this report, whether as a result of new information, future events or otherwise, except as required by federal securities law. You should understand that it is not possible to predict or identify all risk factors. Readers should carefully review all disclosures we file from time to time with the Securities and Exchange Commission which are available on our website at www.enterprisebank.com.

Introduction

The following discussion describes the significant changes to the financial condition of the Company that have occurred during the first three months of 2014 compared to the financial condition as of December 31, 2013. In addition, this discussion summarizes the significant factors affecting the results of operations, liquidity and cash flows of the Company for the three months ended March 31, 2014, compared to the same period in 2013. This discussion should be read in conjunction with the accompanying consolidated financial statements included in this report and our Annual Report on Form 10-K for the year ended December 31, 2013.

Executive Summary

Below are highlights of our financial performance for the quarter ended March 31, 2014 as compared to the linked quarter ended December 31, 2013 and prior year quarter ended March 31, 2013.

| (in thousands, except per share data) | For the Quarter Ended and At | | | |
|---|------------------------------|-------------------|----------------|---|
| | March 31, 2014 | December 31, 2013 | March 31, 2013 | |
| EARNINGS | | | | |
| Total interest income | \$34,024 | \$36,435 | \$41,910 | |
| Total interest expense | 3,658 | 4,064 | 5,011 | |
| Net interest income | 30,366 | 32,371 | 36,899 | |
| Provision for portfolio loans | 1,027 | 2,452 | 1,853 | |
| Provision for purchase credit impaired loans | 3,304 | 2,185 | 2,256 | |
| Net interest income after provision for loan losses | 26,035 | 27,734 | 32,790 | |
| Fee income | 5,277 | 7,276 | 5,718 | |
| Other noninterest income | (1,355 |) (2,330 |) (2,804 | |
| Total noninterest income | 3,922 | 4,946 | 2,914 | |
| FHLB prepayment penalty | — | 2,590 | — | |
| Other noninterest expenses | 21,102 | 25,609 | 20,285 | |
| Total noninterest expenses | 21,102 | 28,199 | 20,285 | |
| Income before income tax expense | 8,855 | 4,481 | 15,419 | |
| Income tax expense | 3,007 | 860 | 5,379 | |
| Net income | \$5,848 | \$3,621 | \$10,040 | |
| Basic earnings per share | 0.30 | 0.19 | 0.56 | |
| Diluted earnings per share | 0.30 | 0.18 | 0.53 | |
| Return on average assets | 0.77 | % 0.46 | % 1.26 | % |
| Return on average common equity | 8.26 | % 5.07 | % 16.91 | % |
| Efficiency ratio | 61.54 | % 75.57 | % 50.95 | % |
| Net interest margin | 4.39 | % 4.55 | % 5.10 | % |
| ASSET QUALITY | | | | |
| Net charge-offs | 411 | 1,763 | 3,731 | |
| Nonperforming loans | 15,508 | 20,840 | 32,222 | |
| Classified Assets | 80,108 | 86,020 | 103,948 | |
| Nonperforming loans to total loans | 0.71 | % 0.98 | % 1.54 | % |
| Nonperforming assets to total assets | 0.81 | % 0.90 | % 1.26 | % |
| Allowance for loan losses to total loans | 1.28 | % 1.28 | % 1.56 | % |
| Net charge-offs to average loans (annualized) | 0.08 | % 0.33 | % 0.72 | % |

During the quarter the Company noted the following :

The Company reported net income of \$5.8 million for the three months ended March 31, 2014, compared to \$3.6 million in the linked fourth quarter, and \$10.0 million for the same period in 2013. The Company reported diluted earnings per share of \$0.30, \$0.18 and \$0.53 in the same respective periods. The increase in net income from the linked fourth quarter is primarily due to reduced noninterest expenses in the current

period. The decrease in net income from the prior year period is due to reduced revenue from our purchase credit impaired ("PCI") loans due to declining balances in these loan amounts, lower interest yields on our portfolio loans, lower investment security gains and higher noninterest expenses from increased salaries and benefits and loan legal costs.

Net interest income decreased \$2.0 million in the first quarter of 2014 from the linked fourth quarter and \$6.5 million from the prior year period, primarily due to lower balances on PCI loans, lower prepayment fees on portfolio loans, and lower interest rates on newly originated loans. These items were offset by lower interest expense primarily related to the prepayment of \$30.0 million of FHLB borrowings at a weighted average interest rate of 4.09%.

The Company continued to experience improvements in asset quality. Nonperforming loans declined to 0.71% of portfolio loans at March 31, 2014, versus 0.98% of portfolio loans at December 31, 2013, and 1.54% at March 31, 2013. The Company's allowance for loan losses was 1.28% of loans at March 31, 2014, representing 180% of nonperforming loans, as compared to 1.28% at December 31, 2013 representing 131% of nonperforming loans, and 1.56% at March 31, 2013, representing 101% of nonperforming loans.

Fee income which primarily includes the Company's wealth management revenue, service charges and other fees on deposit accounts, sales of other real estate, and state tax brokerage activity declined by approximately \$2.0 million as compared to the linked fourth quarter. This was primarily due to a \$1.1 million reduction in gains on the sale of other real estate as well as \$0.8 million decrease in gains on state tax credits. Sales of state tax credits can vary by quarter.

Noninterest expenses were \$21.1 million for the quarter ended March 31, 2014, compared to \$28.2 million for the quarter ended December 31, 2013 and \$20.3 million for the quarter ended March 31, 2013. Noninterest expenses have decreased when compared to the linked quarter and increased from the prior year. The decrease from the linked quarter is primarily due to non-recurring expenses in the fourth quarter of 2013 from the FHLB prepayment penalty of \$2.6 million, costs associated with the sale and closure of certain branches in our Kansas City region, as well as increased employee compensation expense associated with higher variable compensation. The increase in noninterest expenses over the prior year period is due to higher salaries and benefits costs related to investments in risk management functions, insurance and payroll taxes, as well as loan related legal expense primarily from the timing of reimbursements under FDIC loss share arrangements offset by lower occupancy costs from the branch closures in our Kansas City region.

Income Before Income Tax Expense

Income before income tax expense on the Company's Core Bank and Covered assets for the three months ended March 31, 2014 and 2013 were as follows:

| (In thousands) | Three months ended March 31, | |
|----------------------------------|------------------------------|----------|
| | 2014 | 2013 |
| Income before income tax expense | | |
| Core Bank | \$6,913 | \$7,950 |
| Covered assets | 1,942 | 7,469 |
| Total | \$8,855 | \$15,419 |

Income before income tax expense for the Core Bank represents results without direct income and expenses related to Covered assets, as well as an internal estimate of associated asset funding costs for those covered assets. Core Bank pre-tax income declined \$1.0 million, or 13%, in the quarter as the Company's interest income was reduced from lower loan yields on originations. Income from our Covered assets declined \$5.5 million, or 74%, from

declining balances in our PCI loans as well as reduced net interest income from a reduction in accelerated cash flows and increased provision expense.

The Core net interest margin, defined as the Net interest margin (fully tax equivalent), including contractual interest on Covered loans, but excluding the incremental accretion on these loans, for the quarters ended March 31, 2014 and 2013 is as follows:

| | Three months ended March 31, | | |
|--------------------------|------------------------------|--------|---|
| | 2014 | 2013 | |
| Core net interest margin | 3.44 | % 3.55 | % |

The Core net interest margin decline was due to lower loan yields from lower prepayment fees, lower balances of PCI loans which have higher contractual interest rates, as well as originations at lower interest rates. This was partially offset by lower costs of interest bearing liabilities including lower deposit costs and lower cost of borrowings from the aforementioned FHLB prepayment and conversion of \$25.0 million, 9% coupon, trust preferred securities into common stock. Continued pressure on loan yields could lead to slight reductions in the core net interest margin throughout 2014. Included in this MD&A under the caption "Use of Non-GAAP Financial Measures" is a reconciliation of net interest margin to Core net interest margin. The Average Balance Sheet and Rate/Volume sections following contain additional information regarding our net interest income.

2014 Significant Transactions

During the first quarter of 2014, we completed the following significant transaction:

On March 14, 2014 the remaining \$5.0 million, 9% coupon, trust preferred securities were converted to shares of common stock. As a result of this transaction the Company reduced its long-term debt by \$5.0 million and issued 287,852 shares of common stock.

Net Interest Income

Average Balance Sheet

The following table presents, for the periods indicated, certain information related to our average interest-earning assets and interest-bearing liabilities, as well as, the corresponding interest rates earned and paid, all on a tax equivalent basis.

| (in thousands) | Three months ended March 31, 2014 | | | 2013 | | | Average Yield/ Rate | % |
|--|--------------------------------------|----------------------------|---------------------------|--------------------|----------------------------|---------------------------|---------------------------|---|
| | Average Balance | Interest Income/Expense | Average Yield/ Rate | Average Balance | Interest Income/Expense | Average Yield/ Rate | | |
| Assets | | | | | | | | |
| Interest-earning assets: | | | | | | | | |
| Taxable loans (1) | \$2,107,805 | \$ 22,381 | 4.31 | % \$2,060,818 | \$ 24,182 | 4.76 | % | |
| Tax-exempt loans (2) | 37,622 | 665 | 7.17 | 46,809 | 856 | 7.42 | | |
| Purchase credit impaired loans (3) | 134,466 | 8,652 | 26.09 | 189,230 | 14,644 | 31.38 | | |
| Total loans | 2,279,893 | 31,698 | 5.64 | 2,296,857 | 39,682 | 7.01 | | |
| Taxable investments in debt and equity securities | 403,523 | 2,215 | 2.23 | 547,672 | 2,212 | 1.64 | | |
| Non-taxable investments in debt and equity securities (2) | 44,011 | 484 | 4.46 | 43,551 | 492 | 4.58 | | |
| Short-term investments | 121,087 | 66 | 0.22 | 87,975 | 47 | 0.22 | | |
| Total securities and short-term investments | 568,621 | 2,765 | 1.97 | 679,198 | 2,751 | 1.64 | | |
| Total interest-earning assets | 2,848,514 | 34,463 | 4.91 | 2,976,055 | 42,433 | 5.78 | | |
| Noninterest-earning assets: | | | | | | | | |
| Cash and due from banks | 15,869 | | | 18,327 | | | | |
| Other assets | 263,606 | | | 270,982 | | | | |
| Allowance for loan losses | (43,269) | | | (46,082) | | | | |
| Total assets | \$3,084,720 | | | \$3,219,282 | | | | |
| Liabilities and Shareholders' Equity | | | | | | | | |
| Interest-bearing liabilities: | | | | | | | | |
| Interest-bearing transaction accounts | \$214,984 | \$ 112 | 0.21 | % \$260,224 | \$ 138 | 0.22 | % | |
| Money market accounts | 939,033 | 742 | 0.32 | 1,007,642 | 882 | 0.35 | | |
| Savings | 80,759 | 49 | 0.25 | 88,334 | 59 | 0.27 | | |
| Certificates of deposit | 621,874 | 1,750 | 1.14 | 553,250 | 1,938 | 1.42 | | |
| Total interest-bearing deposits | 1,856,650 | 2,653 | 0.58 | 1,909,450 | 3,017 | 0.64 | | |
| Subordinated debentures | 61,362 | 407 | 2.69 | 85,081 | 952 | 4.54 | | |
| Borrowed funds | 250,381 | 598 | 0.97 | 356,713 | 1,042 | 1.18 | | |
| Total interest-bearing liabilities | 2,168,393 | 3,658 | 0.68 | 2,351,244 | 5,011 | 0.86 | | |
| Noninterest bearing liabilities: | | | | | | | | |
| Demand deposits | 609,609 | | | 612,090 | | | | |
| Other liabilities | 19,537 | | | 15,186 | | | | |
| Total liabilities | 2,797,539 | | | 2,978,520 | | | | |
| Shareholders' equity | 287,181 | | | 240,762 | | | | |
| | \$3,084,720 | | | \$3,219,282 | | | | |

| | | | | | |
|--|-----------|------|---|-----------|--------|
| Total liabilities & shareholders' equity | | | | | |
| Net interest income | \$ 30,805 | | | \$ 37,422 | |
| Net interest spread | | 4.23 | % | | 4.92 % |
| Net interest rate margin (4) | | 4.39 | | | 5.10 |

(1) Average balances include non-accrual loans. The income on such loans is included in interest but is recognized only upon receipt. Loan fees, net of amortization of deferred loan origination fees and costs, included in interest income are approximately \$196,000 and \$504,000 for the three months ended March 31, 2014 and 2013, respectively.

Non-taxable income is presented on a fully tax-equivalent basis using a 38% tax rate in 2014 and 39% tax rate in (2)2013. The tax-equivalent adjustments were \$439,000 and \$523,000 for the three months ended March 31, 2014 and 2013, respectively.

(3) Purchase credit impaired loans are loans acquired as part of our acquisitions of Valley Capital, Home National, Legacy, and/or FNBO.

(4) Net interest income divided by average total interest-earning assets.

Rate/Volume

The following table sets forth, on a tax-equivalent basis for the periods indicated, a summary of the changes in interest income and interest expense resulting from changes in yield/rates and volume.

| (in thousands) | 2014 compared to 2013 | | |
|---|------------------------------|-----------|-----------|
| | Three months ended March 31, | | |
| | Increase (decrease) due to | | |
| | Volume(1) | Rate(2) | Net |
| Interest earned on: | | | |
| Taxable portfolio loans | \$541 | \$(2,342) | \$(1,801) |
| Tax-exempt portfolio loans (3) | (163) | (28) | (191) |
| Purchase credit impaired loans | (3,787) | (2,205) | (5,992) |
| Taxable investments in debt and equity securities | (670) | 673 | 3 |
| Non-taxable investments in debt and equity securities (3) | 5 | (13) | (8) |
| Short-term investments | 18 | 1 | 19 |
| Total interest-earning assets | \$(4,056) | \$(3,914) | \$(7,970) |
| Interest paid on: | | | |
| Interest-bearing transaction accounts | \$(24) | \$(2) | \$(26) |
| Money market accounts | (58) | (82) | (140) |
| Savings | (5) | (5) | (10) |
| Certificates of deposit | 222 | (410) | (188) |
| Subordinated debentures | (221) | (324) | (545) |
| Borrowed funds | (276) | (168) | (444) |
| Total interest-bearing liabilities | (362) | (991) | (1,353) |
| Net interest income | \$(3,694) | \$(2,923) | \$(6,617) |

(1) Change in volume multiplied by yield/rate of prior period.

(2) Change in yield/rate multiplied by volume of prior period.

(3) Nontaxable income is presented on a fully tax-equivalent basis using the combined statutory federal and state income tax rate in effect for each year.

NOTE: The change in interest due to both rate and volume has been allocated to rate and volume changes in proportion to the relationship of the absolute dollar amounts of the change in each.

Net interest income (on a tax equivalent basis) was \$30.8 million for the three months ended March 31, 2014 compared to \$37.4 million for the same period of 2013, a decrease of \$6.6 million, or 18%. Total interest income decreased \$8.0 million and total interest expense decreased \$1.4 million. The tax-equivalent net interest rate margin was 4.39% for the first quarter of 2014, compared to 4.55% for the fourth quarter of 2013 and 5.10% in the first quarter of 2013.

Interest rates remain at historically low levels and continue to negatively impact loan yields leading to lower net interest margins. As seen in the table above, changes in interest rates have led to a \$2.4 million and \$2.2 million

reduction in interest income in our portfolio and PCI loans. Additionally, the run-off of higher yielding PCI loans continue to negatively impact net interest margin leading to a \$3.8 million decrease in interest income due to volume. To partially mitigate lower yields on loans the Company has taken specific actions to lower deposit and other borrowing costs including the prepayment of \$30.0 million of FHLB borrowings with a weighted average interest rate of 4.09%, the

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conversion of \$25.0 million of 9% coupon, trust preferred securities to common stock, and the prepayment of \$3.6 million of the Company's term loan to lower the contractual interest rate by 50 basis points.

The following table illustrates the net revenue contribution of PCI loans and other assets covered under FDIC shared loss agreements for the most recent five quarters. The presentation excludes the cost of funding the related assets and the operating expenses to service the assets.

| (in thousands) | For the Quarter ended | | | | |
|--------------------------------------|-----------------------|----------------------|-----------------------|---------------|-------------------|
| | March 31, 2014 | December 31, 2013 | September 30, 2013 | June 30, 2013 | March 31, 2013 |
| Accretion income | \$4,560 | \$5,332 | \$6,252 | \$6,623 | \$7,112 |
| Accelerated cash flows | 3,916 | 4,111 | 4,309 | 4,689 | 7,209 |
| Other | 176 | 229 | 219 | 59 | 324 |
| Total interest income | 8,652 | 9,672 | 10,780 | 11,371 | 14,645 |
| Provision for loan losses | (3,304) | (2,185) | (2,811) | 2,278 | (2,256) |
| Gain on sale of other real estate | 131 | 97 | 168 | 116 | 689 |
| Change in FDIC loss share receivable | (2,410) | (4,526) | (2,849) | (6,713) | (4,085) |
| Change in FDIC clawback liability | 110 | (136) | (62) | (449) | (304) |
| Pre-tax net revenue | \$3,179 | \$2,922 | \$5,226 | \$6,603 | \$8,689 |

Our current projection of average PCI loans is \$113 million and \$69 million for the years ended December 31, 2014 and 2015, respectively.

Noninterest Income

The following table presents a comparative summary of the major components of noninterest income.

| (in thousands) | Three months ended March 31, | | |
|--------------------------------------|------------------------------|----------|---------------------|
| | 2014 | 2013 | Increase (decrease) |
| Wealth Management revenue | \$ 1,722 | \$ 1,943 | \$(221) |
| Service charges on deposit accounts | 1,738 | 1,533 | 205 |
| Other service charges and fee income | 637 | 647 | (10) |
| Sale of other real estate | 683 | 728 | (45) |
| State tax credit activity, net | 497 | 867 | (370) |
| Sale of securities | — | 684 | (684) |
| Change in FDIC loss share receivable | (2,410) | (4,085) | 1,675 |
| Miscellaneous income | 1,055 | 597 | 458 |
| Total noninterest income | \$ 3,922 | \$ 2,914 | \$ 1,008 |

Noninterest income increased \$1.0 million, or 35%, in the first quarter of 2014 compared to the first quarter of 2013. The increase is primarily due to a \$1.7 million increase in the change in FDIC loss share receivable from higher provision for loan losses and accelerated cash flows as demonstrated in the above table partially offset by \$0.7 million reduction in gains on the sale of investment securities as the Company has not sold any securities in 2014.

Noninterest Expense

The following table presents a comparative summary of the major components of noninterest expense:

| (in thousands) | Three months ended March 31, | | | | |
|--|------------------------------|-----------|---------------------|-------|----|
| | 2014 | 2013 | Increase (decrease) | | |
| Employee compensation and benefits | \$ 12,116 | \$ 11,463 | \$ 653 | 6 | % |
| Occupancy | 1,640 | 1,916 | (276 |) (14 |)% |
| Data processing | 1,126 | 921 | 205 | 22 | % |
| FDIC and other insurance | 699 | 859 | (160 |) (19 |)% |
| Loan legal and other real estate expense | 1,134 | 33 | 1,101 | 3,336 | % |
| Professional fees | 1,267 | 1,425 | (158 |) (11 |)% |
| Other | 3,120 | 3,668 | (548 |) (15 |)% |
| Total noninterest expense | \$ 21,102 | \$ 20,285 | \$ 817 | 4 | % |

Noninterest expenses were \$21.1 million in the first quarter of 2014, an increase of \$0.8 million, from the same quarter of 2013. The increase over the prior year period is primarily due to an increase in salaries and benefits costs of \$0.7 million due to investments in our risk management functions, higher payroll taxes and insurance costs as well as an increase of \$1.1 million from the timing of loan related legal expenses. These amounts were partially offset by decreases in occupancy expenses from the closure of 4 branches in the Kansas City region as well as a \$0.6 million decrease in other expenses primarily due to \$0.4 million less recorded expense for expected payments to the FDIC associated with our loss share agreements.

The Company's efficiency ratio, which measures noninterest expense as a percentage of total revenue, was 61.5% for the quarter ended March 31, 2014 compared to 51.0% for the prior year period. The increase in the efficiency ratio compared to the prior year quarter is due to decreased revenue from PCI and portfolio loans, as well as slightly higher expenses related to salaries and benefits and loan related legal costs.

Income Taxes

For the quarter ended March 31, 2014, the Company's income tax expense, which includes both federal and state taxes, was \$3.0 million compared to \$5.4 million for the same period in 2013. The combined federal and state effective income tax rates were relatively consistent at 34.0% and 34.9% for the quarters ended March 31, 2014, and 2013, respectively.

Summary Balance Sheet

| (in thousands) | March 31, 2014 | December 31, 2013 | Increase (decrease) | | |
|---------------------------------|----------------|-------------------|---------------------|--------|----|
| Total cash and cash equivalents | \$137,651 | \$210,569 | \$(72,918) | (34.6) |)% |
| Securities available for sale | 456,059 | 434,587 | 21,472 | 4.9 | % |
| Portfolio loans | 2,173,988 | 2,137,313 | 36,675 | 1.7 | % |
| Purchase credit impaired loans | 128,672 | 140,538 | (11,866) | (8.4) |)% |
| Total assets | 3,139,951 | 3,170,197 | (30,246) | (1.0) |)% |
| Deposits | 2,452,118 | 2,534,953 | (82,835) | (3.3) |)% |
| Total liabilities | 2,848,502 | 2,890,492 | (41,990) | (1.5) |)% |
| Total shareholders' equity | 291,449 | 279,705 | 11,744 | 4.2 | % |

Assets

Loans by Type

The Company grants commercial, residential, and consumer loans primarily in the St. Louis, Kansas City and Phoenix metropolitan areas. The Company has a diversified loan portfolio, with no particular concentration of credit in any one economic sector; however, a substantial portion of the portfolio is concentrated in and secured by real estate. The ability of the Company's borrowers to honor their contractual obligations is partially dependent upon the local economy and its effect on the real estate market. The following table summarizes the composition of the Company's loan portfolio:

| (in thousands) | March 31, 2014 | December 31, 2013 | Increase (decrease) | | |
|---|----------------|-------------------|---------------------|-------|----|
| Commercial and industrial | \$1,060,368 | \$1,041,576 | \$18,792 | 1.8 | % |
| Commercial real estate - Investor owned | 416,777 | 437,688 | (20,911) | (4.8) |)% |
| Commercial real estate - Owner occupied | 367,300 | 341,631 | 25,669 | 7.5 | % |
| Construction and land development | 121,869 | 117,032 | 4,837 | 4.1 | % |
| Residential real estate | 160,195 | 158,527 | 1,668 | 1.1 | % |
| Consumer and other | 47,479 | 40,859 | 6,620 | 16.2 | % |
| Portfolio loans | \$2,173,988 | \$2,137,313 | \$36,675 | 1.7 | % |
| Purchase credit impaired loans | 128,672 | 140,538 | (11,866) | (8.4) |)% |
| Total loans | \$2,302,660 | \$2,277,851 | \$24,809 | 1.1 | % |

Portfolio loans totaled \$2.2 billion at March 31, 2014, increasing \$36.7 million, compared to the linked quarter as the Company experienced continued growth in the Commercial and Industrial ("C&I"), as well as its Owner Occupied Commercial real estate and Consumer portfolios given the Company's focus on these types of customers and their business. PCI loans totaled \$129 million at March 31, 2014, a decrease of \$11.9 million, or 8%, from the linked fourth quarter, primarily as a result of principal paydowns and accelerated loan payoffs.

Provision and Allowance for Loan Losses

The following table summarizes changes in the allowance for loan losses arising from loans charged off and recoveries on loans previously charged off, by loan category, and additions to the allowance charged to expense.

| (in thousands) | Three months ended March 31, | |
|--|------------------------------|-------------|
| | 2014 | 2013 |
| Allowance at beginning of period, for portfolio loans | \$27,289 | \$34,330 |
| Loans charged off: | | |
| Commercial and industrial | (474 |) (206 |
| Real estate: | | |
| Commercial | (586 |) (3,364 |
| Construction and Land Development | (305 |) (190 |
| Residential | — | (986 |
| Consumer and other | (4 |) (34 |
| Total loans charged off | (1,369 |) (4,780 |
| Recoveries of loans previously charged off: | | |
| Commercial and industrial | 187 | 298 |
| Real estate: | | |
| Commercial | 42 | 341 |
| Construction and Land Development | 688 | 14 |
| Residential | 41 | 396 |
| Consumer and other | — | — |
| Total recoveries of loans | 958 | 1,049 |
| Net loan chargeoffs | (411 |) (3,731 |
| Provision for loan losses | 1,027 | 1,853 |
| Allowance at end of period, for portfolio loans | \$27,905 | \$32,452 |
| Allowance at beginning of period, for purchase credit impaired loans | \$15,438 | \$11,547 |
| Loans charged off | (155 |) (178 |
| Recoveries of loans | — | — |
| Other | (74 |) (112 |
| Net loan chargeoffs | (229 |) (290 |
| Provision for loan losses | 3,304 | 2,256 |
| Allowance at end of period, for purchase credit impaired loans | \$18,513 | \$13,513 |
| Total Allowance at end of period | \$46,418 | \$45,965 |
| Excludes purchase credit impaired loans | | |
| Average loans | \$2,143,449 | \$2,101,933 |
| Total portfolio loans | 2,173,988 | 2,085,872 |
| Net chargeoffs to average loans | 0.08 | % 0.72 |
| Allowance for loan losses to loans | 1.28 | 1.56 |

The provision for loan losses on portfolio loans for the three months ended March 31, 2014 was \$1.0 million compared to \$1.9 million for the comparable 2013 period. The decrease in the loan loss provision in the first quarter of 2014 was primarily due to continued improvements in credit quality including lower charge-offs and lower levels of classified loans.

For PCI loans, the Company remeasures contractual and expected cash flows on a quarterly basis. When the remeasurement process results in a decrease in expected cash flows, typically due to an increase in expected credit losses, impairment is recorded through provision for loan losses. Similarly, when expected credit losses decrease in the remeasurement process, prior recorded impairment is reversed before the yield is increased prospectively. The provision for loan losses on PCI loans for the three months was \$3.3 million compared to \$2.3 million for the comparable 2013 periods.

The allowance for loan losses on portfolio loans was 1.28% of total loans at March 31, 2014, flat when compared to December 31, 2013, and 1.56% at March 31, 2013. Management believes that the allowance for loan losses is adequate to absorb inherent losses in the loan portfolio.

Nonperforming assets

The following table presents the categories of nonperforming assets and other ratios as of the dates indicated.

| (in thousands) | March 31, 2014 | December 31, 2013 | March 31, 2013 | |
|--|----------------|----------------------|----------------|---|
| Non-accrual loans | \$14,040 | \$20,163 | \$30,374 | |
| Loans past due 90 days or more and still accruing interest | — | — | 1,843 | |
| Restructured loans | 1,468 | 677 | 5 | |
| Total nonperforming loans | 15,508 | 20,840 | 32,222 | |
| Foreclosed property (1) | 10,001 | 7,576 | 7,202 | |
| Total nonperforming assets (1) | \$25,509 | \$28,416 | \$39,424 | |
| Excludes assets covered under FDIC loss share | | | | |
| Total assets (1) | \$3,139,951 | \$3,170,197 | \$3,123,928 | |
| Total portfolio loans | 2,173,988 | 2,137,313 | 2,085,872 | |
| Total loans plus foreclosed property | 2,183,989 | 2,144,889 | 2,093,074 | |
| Nonperforming loans to total loans | 0.71 | % 0.98 | % 1.54 | % |
| Nonperforming assets to total loans plus foreclosed property | 1.17 | 1.32 | 1.88 | |
| Nonperforming assets to total assets (1) | 0.81 | 0.90 | 1.26 | |
| Allowance for loans not covered under FDIC loss share to nonperforming loans | 180 | % 131 | % 101 | % |

(1) Excludes assets covered under FDIC shared-loss agreements, except for their inclusion in total assets.

Nonperforming loans

Nonperforming loans exclude PCI loans that are accounted for on a pool basis, as the pools are considered to be performing. See Note 5 – Purchase Credit Impaired ("PCI") Loans for more information on these loans.

Nonperforming loans at March 31, 2014 were \$15.5 million, a decrease from \$20.8 million at December 31, 2013, and \$32.2 million at March 31, 2013. The nonperforming loans are comprised of approximately 17 relationships, with the largest from a \$2.9 million Commercial and Industrial loan. The top five relationships comprise 67% of the nonperforming loans. Approximately 46% of nonperforming loans were located in the St. Louis market, 35% were located in the Kansas City market, and 19% were located in the Arizona market. At March 31, 2014, there was 1 performing restructured loan in the amount of \$0.6 million that has been excluded from the nonperforming loan amounts.

Nonperforming loans represented 0.71% of portfolio loans at March 31, 2014, versus 0.98% at December 31, 2013 and 1.54% at March 31, 2013.

Nonperforming loans based on loan type were as follows:

| | 2014 | 2013 | | | |
|-----------------------------------|----------|----------|----------|----------|----------|
| (in thousands) | 1st Qtr | 4th Qtr | 3rd Qtr | 2nd Qtr | 1st Qtr |
| Construction and Land Development | \$7,729 | \$9,484 | \$6,499 | \$4,396 | \$5,387 |
| Commercial Real Estate | 2,910 | 7,417 | 11,021 | 12,439 | 16,495 |
| Residential Real Estate | 430 | 559 | 675 | 2,432 | 2,528 |
| Commercial & Industrial | 4,439 | 3,380 | 5,974 | 6,681 | 7,812 |
| Consumer & Other | — | — | — | — | — |
| Total | \$15,508 | \$20,840 | \$24,169 | \$25,948 | \$32,222 |

The following table summarizes the changes in nonperforming loans by quarter.

| | 2014 | 2013 | | | |
|--|----------|-----------|-----------|-----------|-----------|
| (in thousands) | 1st Qtr | 4th Qtr | 3rd Qtr | 2nd Qtr | 1st Qtr |
| Nonperforming loans beginning of period | \$20,840 | \$24,169 | \$25,948 | \$32,222 | \$38,727 |
| Additions to nonaccrual loans | 2,571 | 4,417 | 9,765 | 3,393 | 4,590 |
| Additions to restructured loans | 790 | 677 | — | — | — |
| Chargeoffs | (1,369) |) (2,332) |) (2,514) |) (752) |) (4,780) |
| Other principal reductions | (2,457) |) (2,046) |) (3,650) |) (2,664) |) (6,115) |
| Moved to Other real estate | (4,722) |) (101) |) (5,257) |) (2,179) |) (225) |
| Moved to performing | (145) |) (3,944) |) (123) |) (2,229) |) (1,818) |
| Loans past due 90 days or more and still accruing interest | — | — | — | (1,843) |) 1,843 |
| Nonperforming loans end of period | \$15,508 | \$20,840 | \$24,169 | \$25,948 | \$32,222 |

Other real estate

Other real estate at March 31, 2014, was \$24.9 million, compared to \$23.3 million at December 31, 2013, and \$24.8 million at March 31, 2013. Approximately 60% of total Other real estate, or \$14.9 million, is covered by FDIC loss share agreements.

The following table summarizes the changes in Other real estate.

| | 2014 | 2013 | | | |
|---|----------|-----------|-----------|-----------|-----------|
| (in thousands) | 1st Qtr | 4th Qtr | 3rd Qtr | 2nd Qtr | 1st Qtr |
| Other real estate beginning of period | \$23,252 | \$28,125 | \$25,363 | \$24,807 | \$26,500 |
| Additions and expenses capitalized to prepare property for sale | 4,722 | 188 | 5,257 | 2,179 | 225 |
| Additions from FDIC assisted transactions | — | 1,319 | 4,951 | 5,135 | 3,369 |
| Writedowns in value | (536) |) (698) |) (741) |) (977) |) (1,080) |
| Sales | (2,539) |) (5,682) |) (6,705) |) (5,781) |) (4,207) |
| Other real estate end of period | \$24,899 | \$23,252 | \$28,125 | \$25,363 | \$24,807 |

At March 31, 2014, Other real estate was comprised of 43 properties, with the largest being a \$3.0 million commercial property in the Kansas City region.

Writedowns in fair value were recorded in Loan legal and other real estate expense or are charged-off existing loan balances based on current market activity shown in the appraisals. In addition, for the three months ended March 31, 2014, the Company realized a net gain of \$0.7 million on the sale of other real estate and recorded these gains as part of Noninterest income.

Liabilities

Liabilities totaled \$2.8 billion at March 31, 2014, a decrease of \$42 million from \$2.9 billion at December 31, 2013. The decrease in liabilities was primarily due to a decrease in the Company's total deposits of \$83 million, or 3%, during the period. Additionally, to further lower its cost of funds during the quarter, the Company converted the remaining \$5.0 million, 9% coupon, trust preferred securities to shares of common stock, and prepaid \$3.6 million of its Term Loan with another financial institution. These decreases in liabilities were offset by \$80 million in incremental short-term FHLB advances.

Deposits

| (in thousands) | March 31, 2014 | December 31, 2013 | Increase (decrease) | | |
|---------------------------------------|----------------|-------------------|---------------------|-------|----|
| Demand deposits | \$612,715 | \$653,686 | \$(40,971) | (6.3) |)% |
| Interest-bearing transaction accounts | 221,816 | 219,802 | 2,014 | 0.9 |)% |
| Money market accounts | 924,105 | 948,884 | (24,779) | (2.6) |)% |
| Savings | 80,731 | 79,666 | 1,065 | 1.3 |)% |
| Certificates of deposit: | | | | | |
| \$100 and over | 456,558 | 475,544 | (18,986) | (4.0) |)% |
| Other | 156,193 | 157,371 | (1,178) | (0.7) |)% |
| Total deposits | \$2,452,118 | \$2,534,953 | \$(82,835) | (3.3) |)% |
| Non-time deposits / total deposits | 75 | % 75 | | % | |

Total deposits at March 31, 2014 were \$2.5 billion, a decrease of \$82.8 million, or 3%, from December 31, 2013. The decrease in deposits from the linked quarter was primarily in our demand deposits, money market accounts and certificates of deposits primarily resulting from seasonality. During the quarter ending March 31, 2014, our cost of deposits essentially was maintained compared to the linked fourth quarter at 0.44% as compared to 0.42%, and improved significantly from the 0.49% for the prior year period.

Shareholders' Equity

Shareholders' Equity totaled \$291.4 million at March 31, 2014, an increase of \$11.7 million from December 31, 2013. Significant activity during the three months ended March 31, 2014 included:

• Net income of \$5.8 million,

• Other comprehensive income of \$1.8 million from the change in unrealized gain/loss on available-for-sale investment securities

• The conversion of \$5.0 million of trust preferred securities to common stock

Liquidity and Capital Resources

Liquidity management

The objective of liquidity management is to ensure we have the ability to generate sufficient cash or cash equivalents in a timely and cost-effective manner to meet our commitments as they become due. Typical demands on liquidity are run-off from demand deposits, maturing time deposits which are not renewed, and fundings under credit commitments to customers. Funds are available from a number of sources, such as from the core deposit base and from loans and securities repayments and maturities.

Additionally, liquidity is provided from sales of the securities portfolio, Fed fund lines with correspondent banks, the Federal Reserve Bank and the FHLB, the ability to acquire large and brokered deposits, and the ability to sell loan participations to other banks. These alternatives are an important part of our liquidity plan and provide flexibility and efficient execution of the asset-liability management strategy.

The Bank's Asset-Liability Management Committee oversees our liquidity position, the parameters of which are approved by the Bank's Board of Directors. Our liquidity position is monitored monthly by producing a liquidity report, which measures the amount of liquid versus non-liquid assets and liabilities. Our liquidity management framework includes measurement of several key elements, such as the loan to deposit ratio, a liquidity ratio, and a dependency ratio. The Company's liquidity framework also incorporates contingency planning to assess the nature and volatility of funding sources and to determine alternatives to these sources. While core deposits and loan and investment repayments are principal sources of liquidity, funding diversification is another key element of liquidity management and is achieved by strategically varying depositor types, terms, funding markets, and instruments.

Parent Company liquidity

The parent company's liquidity is managed to provide the funds necessary to pay dividends to shareholders, service debt, invest in subsidiaries as necessary, and satisfy other operating requirements. The parent company's primary funding sources to meet its liquidity requirements are dividends and payments from the Bank and proceeds from the issuance of equity (i.e. stock option exercises, stock offerings). Another source of funding for the parent company includes the issuance of subordinated debentures. Management believes our current level of cash at the holding company of approximately \$9.3 million will be sufficient to meet all projected cash needs for at least the next year.

On September 16, 2011, the Company filed a shelf registration statement on Form S-3 registering up to \$40.0 million of common stock, preferred stock, debt securities, and various other securities, including combinations of such securities. The registration statement became effective on September 29, 2011. The Company's ability to offer securities pursuant to the registration statement depends on market conditions and the Company's continuing eligibility to use the Form S-3 under rules of the Securities and Exchange Commission.

On November 6, 2012, the parent company entered into a \$12.0 million unsecured term loan agreement ("Term Loan") with another bank with proceeds used to redeem the Company's preferred stock held by the U.S. Treasury. The loan has a maturity date of November 6, 2015 and will be repaid in quarterly installments of \$300,000, with a balloon payment at maturity. The outstanding balance under the Term Loan was \$6.6 million and \$10.5 million at March 31, 2014, and December 31, 2013, respectively. The Term Loan pays interest based on LIBOR plus a spread determined by the Company's outstanding balance under the Term Loan agreement. In the first quarter of 2014, the Company prepaid \$3.6 million to reduce the interest rate by 50 basis points. The Term Loan is subject to ongoing compliance with a number of customary affirmative and negative covenants as well as specified financial covenants. The Company was in compliance in all material respects with all relevant covenants under the Term Loan at March 31, 2014.

As of March 31, 2014, the Company had \$56.8 million of outstanding subordinated debentures as part of seven trust preferred securities pools. On March 14, 2014 the Company converted the remaining \$5.0 million, 9% coupon, trust preferred securities to shares of common stock. As a result of this transaction the Company reduced its long-term debt by \$5.0 million and issued 287,852 shares of common stock. The trust preferred securities are classified as debt but are currently included in regulatory capital and the related interest expense is tax-deductible. Regulations recently finalized by the Federal Reserve Board to implement the Basel III regulatory capital reforms allow our currently outstanding trust preferred securities to retain their Tier 1 capital status.

On January 9, 2013, the Company repurchased warrants issued by the U.S. Treasury as part of the Capital Purchase Program. The repurchase price was approximately \$1.0 million.

Bank liquidity

The Bank has a variety of funding sources available to increase financial flexibility. In addition to amounts currently borrowed, at March 31, 2014, the Bank could borrow an additional \$235.5 million from the FHLB of Des Moines under blanket loan pledges and has an additional \$607.0 million available from the Federal Reserve Bank under a pledged loan agreement. The Bank has unsecured federal funds lines with four correspondent banks totaling \$45.0 million.

Of the \$456.1 million of the securities available for sale at March 31, 2014, \$270.1 million was pledged as collateral for deposits of public institutions, treasury, loan notes, and other requirements. The remaining \$186.0 million could be pledged or sold to enhance liquidity, if necessary.

The Bank belongs to the Certificate of Deposit Account Registry Service, or CDARS, which allows us to provide our customers with access to additional levels of FDIC insurance coverage on their deposits. The Company considers the reciprocal deposits placed through the CDARS program as core funding and does not report the balances as brokered sources in its internal or external financial reports. As of March 31, 2014, the Bank had \$48.2 million of reciprocal CDARS money market sweep balances and \$17.1 million of reciprocal certificates of deposits outstanding. In addition to the reciprocal deposits available through CDARS, the Company has access to the “one-way buy” program, which allows the Company to bid on the excess deposits of other CDARS member banks. The Company will report any outstanding “one-way buy” funds as brokered funds in its internal and external financial reports. At March 31, 2014, we had no outstanding “one-way buy” deposits. In addition, the Bank has the ability to sell certificates of deposit through various national or regional brokerage firms, if needed.

In the normal course of business, the Bank enters into certain forms of off-balance sheet transactions, including unfunded loan commitments and letters of credit. These transactions are managed through the Bank's various risk management processes. Management considers both on-balance sheet and off-balance sheet transactions in its evaluation of the Company's liquidity. The Bank has \$823.0 million in unused commitments as of March 31, 2014. The nature of these commitments is such that the likelihood of funding them in the aggregate at any one time is low.

Capital Resources

The Company and the Bank are subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and its bank affiliate must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk

weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. To be categorized as “well capitalized”, banks must maintain minimum

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total risk-based (10%), Tier 1 risk-based (6%) and Tier 1 leverage ratios (5%). As of March 31, 2014, and December 31, 2013, the Company and the Bank met all capital adequacy requirements to which they are subject.

The Company continues to exceed regulatory standards and met the definition of “well-capitalized” (the highest category) at March 31, 2014, and December 31, 2013.

The following table summarizes the Company’s various capital ratios at the dates indicated:

| (Dollars in thousands) | March 31, 2014 | December 31, 2013 | |
|---|----------------|-------------------|---|
| Tier 1 capital to risk weighted assets | 12.39 | % 12.52 | % |
| Total capital to risk weighted assets | 13.65 | % 13.78 | % |
| Tier 1 common equity to risk weighted assets | 10.22 | % 10.08 | % |
| Leverage ratio (Tier 1 capital to average assets) | 10.29 | % 9.94 | % |
| Tangible common equity to tangible assets | 8.25 | % 7.78 | % |
| Tier 1 capital | \$313,801 | \$308,490 | |
| Total risk-based capital | \$345,631 | \$339,433 | |

Use of Non-GAAP Financial Measures:

The Company's accounting and reporting policies conform to generally accepted accounting principles ("GAAP") in the U.S. and the prevailing practices in the banking industry. However, the Company provides other financial measures, such as Core net interest margin, tangible common equity ratio and Tier 1 common equity ratio, in this filing that are considered “non-GAAP financial measures.” Generally, a non-GAAP financial measure is a numerical measure of a company's financial performance, financial position or cash flows that exclude (or include) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with U.S. GAAP.

The Company believes these non-GAAP financial measures and ratios, when taken together with the corresponding U.S. GAAP measures and ratios, provide meaningful supplemental information regarding the Company's performance and capital strength. The Company's management uses, and believes that investors benefit from referring to, these non-GAAP measures and ratios in assessing the Company's financial and operating results and related trends and when planning and forecasting future periods. However, these non-GAAP measures and ratios should be considered in addition to, and not as a substitute for or preferable to, ratios prepared in accordance with U.S. GAAP. The Company has provided a reconciliation of, where applicable, the most comparable GAAP financial measures and ratios to the non-GAAP financial measures and ratios, or a reconciliation of the non-GAAP calculation of the financial measure. The Company believes the tangible common equity and Tier 1 common equity ratios are important financial measures of capital strength even though they are considered to be non-GAAP measures and provide useful information about the Company's capital adequacy. The tables below contain reconciliations of these ratios to the most comparable measure under U.S. GAAP.

Tangible common equity ratio

| (In thousands) | March 31, 2014 | | December 31, 2013 | |
|---|----------------|---|-------------------|---|
| Total shareholders' equity | \$291,449 | | \$279,705 | |
| Less: Goodwill | (30,334 |) | (30,334 |) |
| Less: Intangible assets | (5,092 |) | (5,418 |) |
| Tangible common equity | \$256,023 | | \$243,953 | |
| | | | | |
| Total assets | \$3,139,951 | | \$3,170,197 | |
| Less: Goodwill | (30,334 |) | (30,334 |) |
| Less: Intangible assets | (5,092 |) | (5,418 |) |
| Tangible assets | \$3,104,525 | | \$3,134,445 | |
| | | | | |
| Tangible common equity to tangible assets | 8.25 | | % 7.78 | % |

Tier 1 common equity ratio

| (In thousands) | March 31, 2014 | | December 31, 2013 | |
|---|----------------|---|-------------------|---|
| Total shareholders' equity | \$291,449 | | \$279,705 | |
| Less: Goodwill | (30,334 |) | (30,334 |) |
| Less: Intangible assets | (5,092 |) | (5,418 |) |
| Plus (Less): Unrealized losses (gains) | 2,623 | | 4,380 | |
| Plus: Qualifying trust preferred securities | 55,100 | | 60,100 | |
| Other | 55 | | 57 | |
| Tier 1 capital | \$313,801 | | \$308,490 | |
| Less: Qualifying trust preferred securities | (55,100 |) | (60,100 |) |
| Tier 1 common equity | \$258,701 | | \$248,390 | |
| | | | | |
| Total risk weighted assets determined in accordance with prescribed regulatory requirements | 2,531,899 | | 2,463,605 | |
| | | | | |
| Tier 1 common equity to risk weighted assets | 10.22 | | % 10.08 | % |

The Company believes that Core net interest margin is an important measure of our financial performance, even though it is a non-GAAP financial measure, because it provides supplemental information by which to evaluate the impact of excess Covered loan accretion on the Company's net interest margin and the Company's operating performance on an ongoing basis, excluding such impact. The table below reconciles Core net interest margin to the most comparable number under U.S. GAAP.

Net Interest Margin to Core Net Interest Margin

| (In thousands) | Three months ended March 31, | | |
|--|------------------------------|-------------|---|
| | 2014 | 2013 | |
| Net interest income (fully tax equivalent) | \$30,803 | \$37,422 | |
| Less: Incremental accretion income | (6,664 |) (11,363 |) |
| Core net interest income | \$24,139 | \$26,059 | |
| Average earning assets | \$2,848,514 | \$2,976,054 | |
| Reported net interest margin | 4.39 | % 5.10 | % |
| Core net interest margin | 3.44 | % 3.55 | % |

Critical Accounting Policies

The impact and any associated risks related to the Company's critical accounting policies on business operations are discussed throughout "Management's Discussion and Analysis of Financial Condition and Results of Operations," where such policies affect our reported and expected financial results. For a detailed discussion on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The disclosures set forth in this item are qualified by the section captioned "Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995" included in Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations of this report and other cautionary statements set forth elsewhere in this report.

Interest Rate Risk

Our interest rate sensitivity management seeks to avoid fluctuating interest margins to provide for consistent growth of net interest income through periods of changing interest rates. Interest rate sensitivity varies with different types of interest-earning assets and interest-bearing liabilities. We attempt to maintain interest-earning assets, comprised primarily of both loans and investments, and interest-bearing liabilities, comprised primarily of deposits, maturing or repricing in similar time horizons in order to minimize or eliminate any impact from market interest rate changes. In order to measure earnings sensitivity to changing rates, the Company uses an earnings simulation model.

The Company determines the sensitivity of its short-term future earnings to a hypothetical plus or minus 100 to 400 basis point parallel rate shock through the use of simulation modeling. The simulation of earnings includes the modeling of the balance sheet as an ongoing entity. Future business assumptions involving administered rate products, prepayments for future rate-sensitive balances, and the reinvestment of maturing assets and liabilities are included. These items are then modeled to project net interest income based on a hypothetical change in interest rates. The resulting net interest income for the next 12-month period is compared to the net interest income amount calculated using flat rates. This difference represents the Company's earnings sensitivity to a plus or minus 100 basis points parallel rate shock.

The following table summarizes the expected impact of interest rate shocks on net interest income (due to the current level of interest rates, the 200 and 300 basis point downward shock scenarios are not shown):

| Rate Shock | Annual % change in net interest income |
|------------|---|
| + 300 bp | + 6.9% |
| + 200 bp | + 4.4% |
| + 100 bp | + 1.7% |
| - 100 bp | - 0.9% |

Interest rate simulations for March 31, 2014, demonstrate that a rising rate environment will have a positive impact on net interest income.

The Company occasionally uses interest rate derivative financial instruments as an asset/liability management tool to hedge mismatches in interest rate exposure indicated by the net interest income simulation described above. They are used to modify the Company's exposures to interest rate fluctuations and provide more stable spreads between loan yields and the rate on their funding sources. At March 31, 2014, the Company had \$23.8 million in notional amount of outstanding interest rate caps, to help manage interest rate risk. Derivative financial instruments are also discussed in Part I, Item 1, Note 7 - Derivative Financial Instruments.

ITEM 4: CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15, as of March 31, 2014. Disclosure controls and procedures include without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of March 31, 2014 to provide reasonable assurance of the achievement of the objectives described above.

Changes to Internal Controls

There were no changes during the period covered by this Quarterly Report on Form 10-Q in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, those controls.

PART II – OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

The information required by this item is set forth in Part I, Item 1, Note 6 Commitments and Contingencies.

ITEM 1A: RISK FACTORS

For information regarding risk factors affecting the Company, please see the cautionary language regarding forward-looking statements in the introduction to Item 2 of Part I of this Report on Form 10-Q, and Part I - Item 1A of our Report on Form 10-K for the fiscal year ended December 31, 2013. There have been no material changes to the risk factors described in such Annual Report on Form 10-K.

ITEM 6: EXHIBITS

| Exhibit Number | Description |
|----------------|---|
| | Registrant hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of holders of each issue of long-term debt of Registrant and its consolidated subsidiaries. |
| *10.1.1 | Key Executive Employment Agreement dated effective as of September 24, 2008, by and between Registrant and Peter F. Benoist (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on September 30, 2008), amended by that First Amendment of Executive Employment Agreement dated as of December 19, 2008 (incorporated herein by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K filed on December 23, 2008), amended by that Second Amendment of Executive Employment Agreement dated as of March 25, 2013 (incorporated herein by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K filed on March 26, 2013), and amended by that Third Amendment of Executive Employment Agreement dated as of February 4, 2014 (incorporated by reference herein to Exhibit 10.1.3 to Registrant's Annual Report on Form 10-K filed on March 17, 2014). |
| *10.1.2 | Restricted Stock Unit Agreement by and between Registrant and Keene S. Turner (filed herewith). |
| *10.1.3 | Form of Enterprise Financial Services Corp LTIP Grant Agreement (filed herewith). |
| 12.1 | Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends (filed herewith). |
| 31.1 | Chief Executive Officer's Certification required by Rule 13(a)-14(a) (filed herewith). |
| 31.2 | Chief Financial Officer's Certification required by Rule 13(a)-14(a) (filed herewith). |
| **32.1 | Chief Executive Officer Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to section § 906 of the Sarbanes-Oxley Act of 2002. |
| **32.2 | Chief Financial Officer Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to section § 906 of the Sarbanes-Oxley Act of 2002. |
| 101 | Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2014, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheet at March 31, 2014 and December 31, 2013; (ii) Consolidated Statement of Income for the three months ended March 31, 2014 and 2013; (iii) Consolidated Statement of Comprehensive Income for the three months ended March 31, 2014 and 2013; (iv) Consolidated Statement of Changes in Equity for the three months ended March 31, 2014 and 2013; (v) Consolidated Statement of Cash Flows for the three months ended March 31, 2014 and 2013; and (vi) Notes to Financial Statements. |

* Management contract or compensatory plan or arrangement.

** Furnished herewith. Notwithstanding any incorporation of this Quarterly Statement on Form 10-Q in any other filing by the Registrant, Exhibits furnished herewith and designated with two (**) shall not be deemed incorporated by reference to any other filing unless specifically otherwise set forth herein or therein.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Clayton, State of Missouri on the day of May 2, 2014.

ENTERPRISE FINANCIAL SERVICES CORP

By: /s/ Peter F. Benoist
Peter F. Benoist
Chief Executive Officer

By: /s/ Keene S. Turner
Keene S. Turner
Chief Financial Officer