

ENTERPRISE FINANCIAL SERVICES CORP

Form 10-Q

July 29, 2016

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 June 30, 2016.

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  (Do not check if a smaller reporting company) 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

As of July 25, 2016, the Registrant had 20,018,101 shares of outstanding common stock, \$0.01 par value.

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

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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)	June 30, 2016	December 31, 2015
Assets		
Cash and due from banks	\$50,370	\$ 47,935
Federal funds sold	317	91
Interest-bearing deposits (including \$1,870 and \$1,320 pledged as collateral)	59,609	46,131
Total cash and cash equivalents	110,296	94,157
Interest-bearing deposits greater than 90 days	1,000	1,000
Securities available for sale	478,514	451,770
Securities held to maturity	42,514	43,714
Loans held for sale	9,669	6,598
Portfolio loans	2,883,909	2,750,737
Less: Allowance for loan losses	35,498	33,441
Portfolio loans, net	2,848,411	2,717,296
Purchased credit impaired loans, net of the allowance for loan losses (\$8,551 and \$10,175, respectively)	47,978	64,583
Total loans, net	2,896,389	2,781,879
Other real estate	4,901	8,366
Other investments, at cost	17,403	17,455
Fixed assets, net	14,512	14,842
Accrued interest receivable	8,123	8,399
State tax credits held for sale, including \$4,774 and \$5,941 carried at fair value, respectively	44,918	45,850
Goodwill	30,334	30,334
Intangible assets, net	2,589	3,075
Other assets	100,503	101,044
Total assets	\$3,761,665	\$ 3,608,483
Liabilities and Shareholders' Equity		
Demand deposits	\$753,173	\$ 717,460
Interest-bearing transaction accounts	628,505	564,420
Money market accounts	1,019,304	1,053,662
Savings	105,224	92,861
Certificates of deposit:		
Brokered	166,507	39,573
Other	355,523	316,615
Total deposits	3,028,236	2,784,591
Subordinated debentures	56,807	56,807
Federal Home Loan Bank advances	78,000	110,000
Other borrowings	200,362	270,326
Accrued interest payable	625	629
Other liabilities	26,006	35,301
Total liabilities	3,390,036	3,257,654
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; 20,234,235 and 20,093,119 shares issued, respectively	202	201
Treasury stock, at cost; 255,018 and 76,000 shares, respectively	(6,454	) (1,743
Additional paid in capital	211,227	210,589
Retained earnings	161,137	141,564
Accumulated other comprehensive income	5,517	218
Total shareholders' equity	371,629	350,829
Total liabilities and shareholders' equity	\$3,761,665	\$ 3,608,483
See accompanying notes to consolidated financial statements.		

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## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share data)	2016	2015	2016	2015
Interest income:				
Interest and fees on loans	\$34,183	\$29,875	\$66,791	\$59,483
Interest on debt securities:				
Taxable	2,397	2,117	4,784	4,258
Nontaxable	328	285	660	582
Interest on interest-bearing deposits	58	38	119	85
Dividends on equity securities	67	37	139	95
Total interest income	37,033	32,352	72,493	64,503
Interest expense:				
Interest-bearing transaction accounts	329	279	635	556
Money market accounts	1,013	672	2,019	1,314
Savings accounts	63	54	123	104
Certificates of deposit	1,183	1,594	2,202	3,185
Subordinated debentures	361	308	709	610
Federal Home Loan Bank advances	191	24	373	73
Notes payable and other borrowings	110	141	221	336
Total interest expense	3,250	3,072	6,282	6,178
Net interest income	33,783	29,280	66,211	58,325
Provision for portfolio loan losses	716	2,150	1,549	3,730
Provision reversal for purchased credit impaired loan losses	(336)	—	(409)	(3,270)
Net interest income after provision for loan losses	33,403	27,130	65,071	57,865
Noninterest income:				
Service charges on deposit accounts	2,188	1,998	4,231	3,854
Wealth management revenue	1,644	1,778	3,306	3,518
Other service charges and fee income	952	840	1,820	1,593
Gain on state tax credits, net	153	74	671	748
Gain on sale of other real estate	706	9	828	29
Gain on sale of investment securities	—	—	—	23
Change in FDIC loss share receivable	—	(945)	—	(3,209)
Miscellaneous income	1,406	2,052	2,198	2,833
Total noninterest income	7,049	5,806	13,054	9,389
Noninterest expense:				
Employee compensation and benefits	12,660	11,274	25,307	22,787
Occupancy	1,609	1,621	3,292	3,315
Data processing	1,187	1,127	2,291	2,157
FDIC and other insurance	738	665	1,461	1,391
Professional fees	719	854	1,403	1,826
Loan legal and other real estate expense	353	548	710	826
FDIC clawback	—	50	—	462
Other	4,087	3,319	7,651	6,644
Total noninterest expense	21,353	19,458	42,115	39,408
Income before income tax expense	19,099	13,478	36,010	27,846
Income tax expense	6,747	4,762	12,633	9,784



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Net income	\$12,352	\$8,716	\$23,377	\$18,062
Earnings per common share				
Basic	\$0.62	\$0.44	\$1.17	\$0.91
Diluted	0.61	0.43	1.16	0.90

See accompanying notes to 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income	\$ 12,352	\$ 8,716	\$ 23,377	\$ 18,062
Other comprehensive income (loss), net of tax:				
Unrealized gains (losses) on investment securities arising during the period, net of income tax expense (benefit) for three months of \$986 and \$(1,322), and for six months of \$3,290 and \$(277), respectively	1,588	(2,130 )	5,299	(418 )
Less: Reclassification adjustment for realized gains on sale of securities available for sale included in net income, net of income tax expense for three months of \$0 and \$0, and for six months of \$0 and \$9, respectively	—	—	—	(14 )
Total other comprehensive income (loss)	1,588	(2,130 )	5,299	(432 )
Total comprehensive income	\$ 13,940	\$ 6,586	\$ 28,676	\$ 17,630

See accompanying notes to 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, 2016	\$ —	\$ 201	\$(1,743)	\$210,589	\$141,564	\$ 218	\$ 350,829
Net income	—	—	—	—	23,377	—	23,377
Other comprehensive income	—	—	—	—	—	5,299	5,299
Cash dividends paid on common shares, \$0.19 per share	—	—	—	—	(3,804 )	—	(3,804 )
Repurchase of common shares	—	—	(4,711 )	—	—	—	(4,711 )
Issuance under equity compensation plans, 141,116 shares, net	—	1	—	(1,812 )	—	—	(1,811 )
Share-based compensation	—	—	—	1,626	—	—	1,626
Excess tax benefit related to equity compensation plans	—	—	—	824	—	—	824
Balance June 30, 2016	\$ —	\$ 202	\$(6,454)	\$211,227	\$161,137	\$ 5,517	\$ 371,629

(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, 2015	\$ —	\$ 199	\$(1,743)	\$207,731	\$108,373	\$ 1,681	\$ 316,241
Net income	—	—	—	—	18,062	—	18,062
Other comprehensive loss	—	—	—	—	—	(432 )	(432 )
Cash dividends paid on common shares, \$0.1125 per share	—	—	—	—	(2,252 )	—	(2,252 )
Issuance under equity compensation plans, 109,500 shares, net	—	1	—	(1,081 )	—	—	(1,080 )
Share-based compensation	—	—	—	1,738	—	—	1,738
Excess tax benefit related to equity compensation plans	—	—	—	153	—	—	153
Balance June 30, 2015	\$ —	\$ 200	\$(1,743)	\$208,541	\$124,183	\$ 1,249	\$ 332,430

See accompanying notes to consolidated financial statements.

## ENTERPRISE FINANCIAL SERVICES CORP AND SUBSIDIARIES

## Condensed Consolidated Statements of Cash Flows (Unaudited)

(in thousands)	Six months ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 23,377	\$ 18,062
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,070	1,009
Provision for loan losses	1,140	460
Deferred income taxes	3,509	2,803
Net amortization of debt securities	1,513	1,661
Amortization of intangible assets	486	569
Gain on sale of investment securities	—	(23 )
Mortgage loans originated for sale	(70,018 )	(69,434 )
Proceeds from mortgage loans sold	67,278	68,252
Gain on sale of other real estate	(828 )	(29 )
Gain on state tax credits, net	(671 )	(748 )
Excess tax benefit of share-based compensation	(824 )	(153 )
Share-based compensation	1,626	1,738
Valuation adjustment on other real estate	1	82
Net accretion of loan discount and indemnification asset	(5,692 )	(3,382 )
Changes in:		
Accrued interest receivable	276	36
Accrued interest payable	(4 )	(23 )
Other assets	(5,284 )	(2,601 )
Other liabilities	(9,295 )	196
Net cash provided by (used in) operating activities	7,660	18,475
Cash flows from investing activities:		
Net increase in loans	(112,500 )	(99,282 )
Net cash proceeds received from FDIC loss share receivable	—	1,574
Proceeds from the sale of securities, available for sale	—	41,069

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Proceeds from the paydown or maturity of securities, available for sale	29,398		25,813	
Proceeds from the paydown or maturity of securities, held to maturity	1,145		1,078	
Proceeds from the redemption of other investments	34,314		25,746	
Proceeds from the sale of state tax credits held for sale	3,952		4,489	
Proceeds from the sale of other real estate	6,355		3,723	
Payments for the purchase/origination of:				
Available for sale debt and equity securities	(49,012	)	(74,069	)
Other investments	(34,263	)	(19,641	)
State tax credits held for sale	(2,349	)	(3,425	)
Fixed assets	(740	)	(983	)
Net cash provided by (used in) investing activities	(123,700	)	(93,908	)
Cash flows from financing activities:				
Net increase in noninterest-bearing deposit accounts	35,713		15,328	
Net increase in interest-bearing deposit accounts	207,932		184,721	
Proceeds from Federal Home Loan Bank advances	981,000		531,900	
Repayments of Federal Home Loan Bank advances	(1,013,000	)	(602,900	)
Repayments of notes payable	—		(600	)
Net decrease in other borrowings	(69,964	)	(50,737	)
Cash dividends paid on common stock	(3,804	)	(2,252	)
Excess tax benefit of share-based compensation	824		153	
Payments for the repurchase of common stock	(4,711	)	—	
Issuance of common stock, net	(1,811	)	(1,080	)
Net cash provided by (used in) financing activities	132,179		74,533	
Net increase (decrease) in cash and cash equivalents	16,139		(900	)
	94,157		100,696	

Cash and cash equivalents, beginning of period			
Cash and cash equivalents, end of period	\$	110,296	\$ 99,796
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$	6,286	\$ 6,201
Income taxes		19,124	6,517
Noncash transactions:			
Transfer to other real estate owned in settlement of loans	\$	2,683	\$ 5,998
Sales of other real estate financed		140	—

See accompanying notes to 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 and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for any other interim period or for the year ending December 31, 2016. 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, 2015.

Basis of Financial Statement Presentation

The condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with the 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. 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 2016, the Company changed its presentation of certificates of deposit on the Condensed Consolidated Balance Sheets to separate brokered deposit sources from other sources. The corresponding prior period balances were reclassified to conform to the current year presentation. 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 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.

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income as reported	\$12,352	\$8,716	\$23,377	\$18,062
Weighted average common shares outstanding	20,003	19,978	20,002	19,958
Additional dilutive common stock equivalents	213	190	224	211
Weighted average diluted common shares outstanding	20,216	20,168	20,226	20,169
Basic earnings per common share:	\$0.62	\$0.44	\$1.17	\$0.91
Diluted earnings per common share:	\$0.61	\$0.43	\$1.16	\$0.90

For the three and six months ended June 30, 2016 and 2015, the amount of common stock equivalents excluded from the earnings per share calculations because their effect was anti-dilutive was zero, and 0.2 million common stock equivalents, respectively.



## NOTE 3 - INVESTMENTS

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

	June 30, 2016			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	\$98,064	\$ 1,622	\$ —	\$99,686
Obligations of states and political subdivisions	37,468	1,804	(307 )	38,965
Agency mortgage-backed securities	333,549	6,587	(273 )	339,863
Total securities available for sale	\$469,081	\$ 10,013	\$ (580 )	\$478,514
Held to maturity securities:				
Obligations of states and political subdivisions	\$14,795	\$ 471	\$ (3 )	\$15,263
Agency mortgage-backed securities	27,719	855	—	28,574
Total securities held to maturity	\$42,514	\$ 1,326	\$ (3 )	\$43,837
	December 31, 2015			
(in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale securities:				
Obligations of U.S. Government-sponsored enterprises	\$98,699	\$ 309	\$ —	\$99,008
Obligations of states and political subdivisions	40,700	1,343	(342 )	41,701
Agency mortgage-backed securities	311,516	2,046	(2,501 )	311,061
Total securities available for sale	\$450,915	\$ 3,698	\$ (2,843 )	\$451,770
Held to maturity securities:				
Obligations of states and political subdivisions	\$14,831	\$ 63	\$ (50 )	\$14,844
Agency mortgage-backed securities	28,883	—	(286 )	28,597
Total securities held to maturity	\$43,714	\$ 63	\$ (336 )	\$43,441

At June 30, 2016, and December 31, 2015, 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 agency mortgage-backed securities are all issued by U.S. Government-sponsored enterprises. Available for sale securities having a fair value of \$336.8 million and \$334.4 million at June 30, 2016, and December 31, 2015, 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 at June 30, 2016, 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 4 years.

(in thousands)	Available for sale		Held to maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$52,681	\$53,030	\$—	\$—
Due after one year through five years	70,311	72,722	7,365	7,569
Due after five years through ten years	9,009	9,607	7,430	7,694
Due after ten years	3,531	3,292	—	—
Agency mortgage-backed securities	333,549	339,863	27,719	28,574
	\$469,081	\$478,514	\$42,514	\$43,837

The following table represents a summary of investment securities that had an unrealized loss:

(in thousands)	June 30, 2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	\$—	\$ —	\$3,141	\$ 310	\$3,141	\$ 310
Agency mortgage-backed securities	904	5	19,910	268	20,814	273
	\$904	\$ 5	\$23,051	\$ 578	\$23,955	\$ 583

(in thousands)	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	\$2,199	\$ 12	\$9,395	\$ 380	\$11,594	\$ 392
Agency mortgage-backed securities	189,229	2,050	21,020	737	210,249	2,787
	\$191,428	\$ 2,062	\$30,415	\$ 1,117	\$221,843	\$ 3,179

The unrealized losses at both June 30, 2016, and December 31, 2015, 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 among other considerations (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 the Company would be required to sell the security before its anticipated recovery in market value. At June 30, 2016, 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 June 30, 2016	Six months ended June 30, 2015
	Gross gains realized	\$ —

Gross losses realized — — —(40 )  
Proceeds from sales — — —41,069

## NOTE 4 - PORTFOLIO LOANS

Below is a summary of Portfolio loans by category at June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016	December 31, 2015
Commercial and industrial	\$1,540,457	\$ 1,484,327
Real estate:		
Commercial - investor owned	466,713	428,064
Commercial - owner occupied	332,639	342,959
Construction and land development	171,778	161,061
Residential	211,155	196,498
Total real estate loans	1,182,285	1,128,582
Consumer and other	161,417	137,537
Portfolio loans	2,884,159	2,750,446
Unearned loan fees, net	(250	) 291
Portfolio loans, including unearned loan fees	\$2,883,909	\$ 2,750,737

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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 June 30, 2016, and at December 31, 2015, is as follows:

(in thousands)	Commercial and industrial	CRE - investor owned	CRE - owner occupied	Construction and land development	Residential real estate	Consumer and other	Total
Allowance for loan losses:							
Balance at December 31, 2015	\$ 22,056	\$ 3,484	\$ 2,969	\$ 1,704	\$ 1,796	\$ 1,432	\$ 33,441
Provision (provision reversal) charged to expense	1,120	(116 )	80	(65 )	11	(197 )	833
Losses charged off	(68 )	—	—	—	—	(5 )	(73 )
Recoveries	53	7	68	6	34	4	172
Balance at March 31, 2016	\$ 23,161	\$ 3,375	\$ 3,117	\$ 1,645	\$ 1,841	\$ 1,234	\$ 34,373
Provision (provision reversal) charged to expense	302	(27 )	(541 )	(434 )	(80 )	1,496	716
Losses charged off	(157 )	—	—	—	—	(6 )	(163 )
Recoveries	502	8	15	8	36	3	572
Balance at June 30, 2016	\$ 23,808	\$ 3,356	\$ 2,591	\$ 1,219	\$ 1,797	\$ 2,727	\$ 35,498

(in thousands)	Commercial and industrial	CRE - investor owned	CRE - owner occupied	Construction and land development	Residential real estate	Consumer and other	Total
Balance June 30, 2016							
Allowance for loan losses - Ending balance:							
Individually evaluated for impairment	\$ 2,716	\$—	\$—	\$ 31	\$ 3	\$ 1,927	\$ 4,677
Collectively evaluated for impairment	21,092	3,356	2,591	1,188	1,794	800	30,821
Total	\$ 23,808	\$ 3,356	\$ 2,591	\$ 1,219	\$ 1,797	\$ 2,727	\$ 35,498
Loans - Ending balance:							
Individually evaluated for impairment	\$ 5,019	\$ 248	\$ 1,704	\$ 2,576	\$ 670	\$ 4,571	\$ 14,788
Collectively evaluated for impairment	1,535,438	466,465	330,935	169,202	210,485	156,596	2,869,121
Total	\$ 1,540,457	\$ 466,713	\$ 332,639	\$ 171,778	\$ 211,155	\$ 161,167	\$ 2,883,909

(in thousands)	Commercial and industrial	CRE - investor owned	CRE - owner occupied	Construction and land development	Residential real estate	Consumer and other	Total
Balance December 31, 2015							
Allowance for Loan Losses - Ending Balance:							
Individually evaluated for impairment	\$ 1,953	\$—	\$ 6	\$ 369	\$ 7	\$—	\$ 2,335
Collectively evaluated for impairment	20,103	3,484	2,963	1,335	1,789	1,432	31,106
Total	\$ 22,056	\$ 3,484	\$ 2,969	\$ 1,704	\$ 1,796	\$ 1,432	\$ 33,441
Loans - Ending balance:							
Individually evaluated for impairment	\$ 4,514	\$ 921	\$ 1,962	\$ 2,800	\$ 681	\$—	\$ 10,878
Collectively evaluated for impairment	1,479,813	427,143	340,997	158,261	195,817	137,828	2,739,859
Total	\$ 1,484,327	\$ 428,064	\$ 342,959	\$ 161,061	\$ 196,498	\$ 137,828	\$ 2,750,737

A summary of Portfolio loans individually evaluated for impairment by category at June 30, 2016 and December 31, 2015, is as follows:

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(in thousands)	June 30, 2016					
	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	\$4,840	\$ 134	\$ 4,700	\$ 4,834	\$ 2,716	\$ 4,873
Real estate loans:						
Commercial - investor owned	—	249	—	249	—	250
Commercial - owner occupied	—	—	—	—	—	—
Construction and land development	3,481	2,970	367	3,337	31	2,646
Residential	670	642	65	707	3	679
Consumer and other	4,571	—	4,580	4,580	1,927	4,628
Total	\$13,562	\$ 3,995	\$ 9,712	\$ 13,707	\$ 4,677	\$ 13,076

(in thousands)	December 31, 2015					
	Unpaid Contractual Principal Balance	Recorded Investment With Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment
Commercial and industrial	\$5,554	\$ 509	\$ 4,204	\$ 4,713	\$ 1,953	\$ 6,970
Real estate loans:						
Commercial - investor owned	927	927	—	927	—	970
Commercial - owner occupied	329	85	113	198	6	301
Construction and land development	4,349	2,914	530	3,444	369	3,001
Residential	705	637	68	705	7	682
Consumer and other	—	—	—	—	—	—
Total	\$11,864	\$ 5,072	\$ 4,915	\$ 9,987	\$ 2,335	\$ 11,924

The following table presents details for past due and impaired loans:

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Total interest income that would have been recognized under original terms	\$329	\$229	\$477	\$544
Total cash received and recognized as interest income on non-accrual loans	44	98	50	125
Total interest income recognized on impaired loans	25	14	31	27

There were no loans over 90 days past due and still accruing interest at June 30, 2016 or December 31, 2015.

The recorded investment in impaired Portfolio loans by category at June 30, 2016 and December 31, 2015, is as follows:

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		June 30, 2016			
(in thousands)		Non-accrued	Restructured	Loans over 90 days past due and still accruing interest	Total
Commercial and industrial		\$2,524	\$ 2,310	\$ —	—\$4,834
Real estate:					
Commercial - investor owned		249	—	—	249
Commercial - owner occupied		—	—	—	—
Construction and land development		3,317	20	—	3,337
Residential		707	—	—	707
Consumer and other		4,580	—	—	4,580
Total		\$11,377	\$ 2,330	\$ —	—\$13,707

		December 31, 2015			
(in thousands)		Non-accrued	Restructured	Loans over 90 days past due and still accruing interest	Total
Commercial and industrial		\$4,406	\$ 307	\$ —	—\$4,713
Real estate:					
Commercial - investor owned		927	—	—	927
Commercial - owner occupied		198	—	—	198
Construction and land development		3,444	—	—	3,444
Residential		705	—	—	705
Consumer and other		—	—	—	—
Total		\$9,680	\$ 307	\$ —	—\$9,987

The recorded investment by category for the Portfolio loans that have been restructured during the three and six months ended June 30, 2016 and 2015, is as follows:

(in thousands, except for number of loans)	Three months ended June 30, 2016		Three months ended June 30, 2015	
	Pre-Modification Number Outstanding of Recorded Loans Balance	Post-Modification Outstanding Recorded Balance	Pre-Modification Number Outstanding of Recorded Loans Balance	Post-Modification Outstanding Recorded Balance
Commercial and industrial	1 \$ 2,300	\$ 2,300	— \$	— \$
Real estate:				
Commercial - investor owned	—	—	—	—
Commercial - owner occupied	—	—	—	—
Construction and land development	1 20	20	—	—
Residential	—	—	—	—
Consumer and other	—	—	—	—



Total	2	\$ 2,320	\$ 2,320	-\$	— \$	—
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(in thousands, except for number of loans)	Six months ended June 30, 2016		Six months ended June 30, 2015		
	Pre-Modification Number of Outstanding Recorded Loans Balance	Post-Modification Outstanding Recorded Balance	Pre-Modification Number of Outstanding Recorded Loans Balance	Post-Modification Outstanding Recorded Balance	
Commercial and industrial	2	\$ 2,341	\$ 2,341	—	\$ —
Real estate:					
Commercial - investor owned	1	248	248	—	—
Commercial - owner occupied	—	—	—	—	—
Construction and land development	1	20	20	—	—
Residential	—	—	—	—	—
Consumer and other	—	—	—	—	—
Total	4	\$ 2,609	\$ 2,609	—	\$ —

The restructured loans resulted from deferral of principal and extending the term to maturity. As of June 30, 2016, the Company had \$1.2 million specific reserves allocated to loans that have been restructured. There were no Portfolio loans restructured that subsequently defaulted during the six months ended June 30, 2016 or 2015.

The aging of the recorded investment in past due Portfolio loans by portfolio class and category at June 30, 2016 and December 31, 2015 is shown below.

(in thousands)	June 30, 2016				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$83	\$2,407	\$2,490	\$1,537,967	\$1,540,457
Real estate:					
Commercial - investor owned	—	—	—	466,713	466,713
Commercial - owner occupied	—	—	—	332,639	332,639
Construction and land development	367	2,189	2,556	169,222	171,778
Residential	10	605	615	210,540	211,155
Consumer and other	4	—	4	161,163	161,167
Total	\$464	\$5,201	\$5,665	\$2,878,244	\$2,883,909

(in thousands)	December 31, 2015				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$505	\$888	\$1,393	\$1,482,934	\$1,484,327
Real estate:					
Commercial - investor owned	464	—	464	427,600	428,064
Commercial - owner occupied	94	184	278	342,681	342,959
Construction and land development	384	2,273	2,657	158,404	161,061
Residential	70	681	751	195,747	196,498
Consumer and other	20	—	20	137,808	137,828

Total	\$1,537	\$4,026	\$5,563	\$2,745,174	\$2,750,737
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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, 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 – Includes 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 – Includes loans to borrowers with positive trends in profitability, satisfactory capitalization and balance sheet condition, and sufficient liquidity and cash flow.

Grade 5 – Includes loans to borrowers that may display fluctuating trends in sales, profitability, capitalization, liquidity, and cash flow.

Grade 6 – 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 where the borrower is starting to reverse a negative trend or condition, or has recently been upgraded from a 7, 8, or 9 rating.

Grade 7 – Watch credits are borrowers that have experienced financial setback of a nature that is not determined to be severe or influence ‘ongoing concern’ expectations. Although possible, no loss is anticipated, due to strong collateral and/or guarantor support.

Grade 8 – Substandard credits will include those borrowers characterized by significant losses and sustained downward trends in balance sheet condition, liquidity, and cash flow. Repayment reliance may have shifted to secondary sources. Collateral exposure may exist and additional reserves may be warranted.

Grade 9 – Doubtful credits include borrowers that may show deteriorating trends that are unlikely to be corrected.

Collateral values may appear insufficient for full recovery, therefore requiring a partial charge-off, or debt renegotiation with the borrower. The borrower may have declared bankruptcy or bankruptcy is likely in the near term. All doubtful rated credits will be on non-accrual.

The recorded investment by risk category of the Portfolio loans by portfolio class and category at June 30, 2016, which is based upon the most recent analysis performed, and December 31, 2015 is as follows:

(in thousands)	June 30, 2016				Total
	Pass (1-6)	Watch (7)	Substandard (8)	Doubtful (9)	
Commercial and industrial	\$ 1,396,684	\$ 82,775	\$ 60,998	\$	—\$ 1,540,457
Real estate:					
Commercial - investor owned	448,321	13,223	5,169	—	466,713
Commercial - owner occupied	302,411	27,144	3,084	—	332,639
Construction and land development	161,528	6,258	3,992	—	171,778
Residential	202,880	4,840	3,435	—	211,155
Consumer and other	154,500	714	5,953	—	161,167
Total	\$ 2,666,324	\$ 134,954	\$ 82,631	\$	—\$ 2,883,909

(in thousands)	December 31, 2015				Total
	Pass (1-6)	Watch (7)	Substandard (8)	Doubtful (9)	
Commercial and industrial	\$1,356,864	\$90,370	\$ 37,093	\$	—\$1,484,327
Real estate:					
Commercial - investor owned	403,820	18,868	5,376	—	428,064
Commercial - owner occupied	314,791	24,727	3,441	—	342,959
Construction and land development	146,601	10,114	4,346	—	161,061
Residential	188,269	5,138	3,091	—	196,498
Consumer and other	131,060	721	6,047	—	137,828
Total	\$2,541,405	\$149,938	\$ 59,394	\$	—\$2,750,737

## NOTE 5 - PURCHASED CREDIT IMPAIRED ("PCI") LOANS

Below is a summary of PCI loans by category at June 30, 2016 and December 31, 2015:

(in thousands)	June 30, 2016		December 31, 2015	
	Weighted-Average Risk Rating <sup>1</sup>	Recorded Investment PCI Loans	Weighted-Average Risk Rating <sup>1</sup>	Recorded Investment PCI Loans
Commercial and industrial	6.45	\$ 3,498	6.70	\$ 3,863
Real estate:				
Commercial - investor owned	7.14	19,328	6.98	25,272
Commercial - owner occupied	6.35	13,068	6.30	19,414
Construction and land development	5.70	5,523	6.28	6,838
Residential	5.44	15,047	5.44	19,287
Total real estate loans		52,966		70,811
Consumer and other	1.60	65	1.89	84
Purchased credit impaired loans		\$ 56,529		\$ 74,758

<sup>1</sup>Risk ratings are based on the borrower's contractual obligation, which is not reflective of the purchase discount.

The aging of the recorded investment in past due PCI loans by portfolio class and category at June 30, 2016 and December 31, 2015 is shown below:

(in thousands)	June 30, 2016				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$22	\$—	\$22	\$3,476	\$3,498
Real estate:					
Commercial - investor owned	—	—	—	19,328	19,328
Commercial - owner occupied	—	—	—	13,068	13,068
Construction and land development	—	—	—	5,523	5,523
Residential	372	144	516	14,531	15,047
Consumer and other	—	—	—	65	65
Total	\$394	\$144	\$538	\$55,991	\$56,529

  

(in thousands)	December 31, 2015				
	30-89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total
Commercial and industrial	\$—	\$—	\$—	\$3,863	\$3,863
Real estate:					
Commercial - investor owned	2,342	3,661	6,003	19,269	25,272
Commercial - owner occupied	731	—	731	18,683	19,414
Construction and land development	—	—	—	6,838	6,838

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Residential	1,594	130	1,724	17,563	19,287
Consumer and other	4	—	4	80	84
Total	\$4,671	\$3,791	\$8,462	\$66,296	\$74,758

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The following table is a rollforward of PCI loans, net of the allowance for loan losses, for the six months ended June 30, 2016 and 2015.

(in thousands)	Contractual Cashflows	Non-accretable Difference	Accretable Yield	Carrying Amount
Balance January 1, 2016	\$ 116,689	\$ 26,765	\$ 25,341	\$ 64,583
Principal reductions and interest payments	(11,768 )	—	—	(11,768 )
Accretion of loan discount	—	—	(3,431 )	3,431
Changes in contractual and expected cash flows due to remeasurement	6,144	1,522	(788 )	5,410
Reductions due to disposals	(21,663 )	(4,912 )	(3,073 )	(13,678 )
Balance June 30, 2016	\$ 89,402	\$ 23,375	\$ 18,049	\$ 47,978
Balance January 1, 2015	\$ 178,145	\$ 65,719	\$ 28,733	\$ 83,693
Principal reductions and interest payments	(13,214 )	—	—	(13,214 )
Accretion of loan discount	—	—	(5,989 )	5,989
Changes in contractual and expected cash flows due to remeasurement	(12,100 )	(26,187 )	5,304	8,783
Reductions due to disposals	(13,831 )	(2,794 )	(1,836 )	(9,201 )
Balance June 30, 2015	\$ 139,000	\$ 36,738	\$ 26,212	\$ 76,050

The accretable yield is recognized in interest income over the estimated life of the acquired loans using the effective yield method. Outstanding customer balances on PCI loans were \$75.1 million and \$98.6 million as of June 30, 2016, and December 31, 2015, respectively.



## 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 in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit 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 June 30, 2016, there were \$0.1 million unadvanced commitments on impaired loans.

The contractual amounts of off-balance-sheet financial instruments as of June 30, 2016, and December 31, 2015, are as follows:

(in thousands)	June 30, 2016	December 31, 2015
Commitments to extend credit	\$1,067,353	\$ 1,140,028
Standby letters of credit	82,606	54,648

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 June 30, 2016, and December 31, 2015, approximately \$115 million and \$94 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. Collateral held varies, but may include accounts receivable, inventory, premises and equipment, and real estate. Other liabilities include \$0.3 million for estimated losses attributable to the unadvanced commitments at June 30, 2016 and December 31, 2015.

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 term of standby letters of credit range from 1 month to 2 years 11 months at June 30, 2016.

## Contingencies

The Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes 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

The Company is a party to various derivative financial instruments that are used in the normal course of business to meet the needs of its clients and as part of its risk management activities. These instruments include interest rate swaps and option contracts and foreign exchange forward contracts. The Company does not enter into derivative financial instruments for trading purposes.

**Risk Management Instruments.** The Company enters into interest rate caps in order to economically hedge changes in fair value of State tax credits held for sale. See Note 8 – Fair Value Measurements for further discussion on the fair value of state tax credits. The notional amount of the derivative instruments used to manage risk was \$3.5 million at June 30, 2016 and December 31, 2015, and the fair value was zero in both periods.

**Client-Related Derivative Instruments.** The Company enters into interest rate swaps to allow customers to hedge changes in fair value of certain loans while maintaining a variable rate loan on its own books. The Company also enters into foreign exchange forward contracts with clients, and enters into offsetting foreign exchange forward contracts with established financial institution counterparties. The table below summarizes the notional amounts and fair values of the client-related derivative instruments:

(in thousands)	Notional Amount		Asset Derivatives (Other Assets)		Liability Derivatives (Other Liabilities)	
			Fair Value		Fair Value	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Non-designated hedging instruments						
Interest rate swap contracts	\$ 161,598	\$ 153,630	\$ 2,264	\$ 1,155	\$ 2,264	\$ 1,155

Changes in the fair value of client-related derivative instruments are recognized currently in operations. For the three and six months ended June 30, 2016 and 2015, the gains and losses offset each other due to the Company's hedging of the client swaps with other bank counterparties.

## 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 June 30, 2016 and December 31, 2015, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

(in thousands)	June 30, 2016			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>				
Securities available for sale				
Obligations of U.S. Government-sponsored enterprises	\$ -99,686	\$ —		\$99,686
Obligations of states and political subdivisions	—35,872	3,093		38,965
Residential mortgage-backed securities	—339,863	—		339,863
Total securities available for sale	\$ -475,421	\$ 3,093		\$478,514
State tax credits held for sale	—	4,774		4,774
Derivative financial instruments	—2,264	—		2,264
Total assets	\$ -477,685	\$ 7,867		\$485,552
<b>Liabilities</b>				
Derivative financial instruments	\$ -2,264	\$ —		\$2,264
Total liabilities	\$ -2,264	\$ —		\$2,264
<b>December 31, 2015</b>				
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)			Total Fair Value
	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Assets</b>				
Securities available for sale				
Obligations of U.S. Government-sponsored enterprises	\$ -99,008	\$ —		\$99,008
Obligations of states and political subdivisions	—38,624	3,077		41,701
Residential mortgage-backed securities	—311,061	—		311,061
Total securities available for sale	\$ -448,693	\$ 3,077		\$451,770
State tax credits held for sale	—	5,941		5,941
Derivative financial instruments	—1,155	—		1,155
Total assets	\$ -449,848	\$ 9,018		\$458,866
<b>Liabilities</b>				
Derivative financial instruments	\$ -1,155	\$ —		\$1,155
Total liabilities	\$ -1,155	\$ —		\$1,155

Securities available for sale. Securities classified as available for sale are reported at fair value utilizing Level 2 and Level 3 inputs. 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 June 30, 2016, 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.

State tax credits held for sale. At June 30, 2016, of the \$44.9 million of state tax credits held for sale on the condensed consolidated balance sheet, approximately \$4.8 million were carried at fair value. The remaining \$40.1 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 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 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 as of June 30, 2016 and 2015.

Purchases, sales, issuances and settlements. There were no Level 3 purchases during the quarter ended June 30, 2016 or 2015.

Transfers in and/or out of Level 3. There were no Level 3 transfers during the quarter ended June 30, 2016 and 2015.

(in thousands)	Securities available for sale, at fair value			
	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	Six months ended June 30, 2015
Beginning balance	\$3,085	\$3,071	\$3,077	\$3,059
Total gains:				
Included in other comprehensive income	8	(1)	16	11
Purchases, sales, issuances and settlements:				
Purchases	—	—	—	—
Ending balance	\$3,093	\$3,070	\$3,093	\$3,070
Change in unrealized gains (losses) relating to assets still held at the reporting date	\$8	\$(1)	\$16	\$11

(in thousands)	State tax credits held for sale			
	Three months ended June 30, 2016	2015	Six months ended June 30, 2016	2015
Beginning balance	\$4,733	\$10,286	\$5,941	\$11,689
Total gains:				
Included in earnings	41	66	117	194
Purchases, sales, issuances and settlements:				
Sales	—	(387)	(1,284)	(1,918)
Ending balance	\$4,774	\$9,965	\$4,774	\$9,965
Change in unrealized gains (losses) relating to assets still held at the reporting date	\$41	\$(36)	\$(264)	\$(310)

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 June 30, 2016.

(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 gains (losses) for the three months ended June 30, 2016	Total gains (losses) for the six months ended June 30, 2016
Impaired loans	\$	—\$	—\$	—\$	—\$(163)	\$(236)
Other real estate	—	—	—	—	—	(1)
Total	\$	—\$	—\$	—\$	—\$(163)	\$(237)

(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 for collateral dependent loans. Fair values for impaired loans are obtained from current appraisals by qualified licensed appraisers or independent valuation specialists. Other real estate owned is adjusted to fair value upon foreclosure of the underlying loan. 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. Certain state tax credits are reported at cost.

Following is a summary of the carrying amounts and fair values of the Company's financial instruments on the consolidated balance sheets at June 30, 2016 and December 31, 2015.

(in thousands)	June 30, 2016		December 31, 2015	
	Carrying Amount	Estimated fair value	Carrying Amount	Estimated fair value
<b>Balance sheet assets</b>				
Cash and due from banks	\$50,370	\$ 50,370	\$47,935	\$ 47,935
Federal funds sold	317	317	91	91
Interest-bearing deposits	60,609	60,609	47,131	47,131
Securities available for sale	478,514	478,514	451,770	451,770
Securities held to maturity	42,514	43,837	43,714	43,441
Other investments, at cost	17,403	17,403	17,455	17,455
Loans held for sale	9,669	9,669	6,598	6,598
Derivative financial instruments	2,264	2,264	1,155	1,155
Portfolio loans, net	2,896,382	2,902,083	2,781,872	2,782,704
State tax credits, held for sale	44,918	49,961	45,850	49,588
Accrued interest receivable	8,123	8,123	8,399	8,399
<b>Balance sheet liabilities</b>				
Deposits	3,028,236	3,030,334	2,784,591	2,784,654
Subordinated debentures	56,807	35,771	56,807	35,432
Federal Home Loan Bank advances	78,000	78,000	110,000	109,994
Other borrowings	200,362	200,332	270,326	270,286
Derivative financial instruments	2,264	2,264	1,155	1,155
Accrued interest payable	625	625	629	629

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 19 – Fair Value Measurements in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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 June 30, 2016, and December 31, 2015.



(in thousands)	Estimated Fair Value			Balance at June 30, 2016
	Measurement at Reporting Date Using			
	Level 1	Level 2	Level 3	
<b>Financial Assets:</b>				
Securities held to maturity	\$-\$43,837	\$	—	\$ 43,837
Portfolio loans, net	—	2,902,083		2,902,083
State tax credits, held for sale	—	45,187		45,187
<b>Financial Liabilities:</b>				
Deposits	2,506,206	524,128		3,030,334
Subordinated debentures	—35,771	—		35,771
Federal Home Loan Bank advances	—78,000	—		78,000
Other borrowings	—200,332	—		200,332

(in thousands)	Estimated Fair Value			Balance at December 31, 2015
	Measurement at Reporting Date Using			
	Level 1	Level 2	Level 3	
<b>Financial Assets:</b>				
Securities held to maturity	\$-\$43,441	\$	—	\$ 43,441
Portfolio loans, net	—	2,782,704		2,782,704
State tax credits, held for sale	—	43,647		43,647
<b>Financial Liabilities:</b>				
Deposits	2,428,403	356,251		2,784,654
Subordinated debentures	—35,432	—		35,432
Federal Home Loan Bank advances	—109,994	—		109,994
Other borrowings	—270,286	—		270,286

#### NOTE 9 - NEW AUTHORITATIVE ACCOUNTING GUIDANCE

FASB ASU 2014-09, "Revenue from Contracts with Customers" In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers". The objective of ASU 2014-09 is to establish a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of ASU 2014-09 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU 2014-09 applies to all contracts with customers except those that are within the scope of other topics in the FASB Accounting Standards Codification. The new guidance was originally effective for annual reporting periods (including interim periods within those periods) beginning after December 15, 2016 for public companies. In August 2015, the FASB issued ASU 2015-14, which defers the effective date of this guidance to annual reporting periods beginning after December 15, 2017 for public companies, and permits early adoption on a limited basis. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements, nor decided upon the method of adoption. Entities have the option of using either a full retrospective or

modified approach to adopt ASU 2014-09.

FASB ASU 2016-01 "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" In January 2016, the FASB issued ASU 2016-01, "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 requires equity investments to be measured at fair value through earnings, and eliminates the available-for-sale classification for equity securities with readily determinable fair values. For financial liabilities where the fair value option has been elected, changes in fair value due to instrument-specific credit risk must be recognized in other

comprehensive income. When measuring the fair value of financial instruments at amortized cost, the exit price must be used for disclosure purposes. The ASU also requires that financial assets and liabilities be presented separately in the notes to the financial statements. This ASU becomes effective for the Company in the first quarter of 2018. Early adoption is permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements.

FASB ASU 2016-02 "Leases (Topic 842)" In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" which requires organizations that lease assets ("lessees") to recognize the assets and liabilities for the rights and obligations created by leases with terms of more than 12 months. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee remains dependent on its classification as a finance or operating lease. The criteria for determining whether a lease is a finance or operating lease has not been significantly changed by this ASU. The ASU also requires additional disclosure of the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. The guidance becomes effective for periods beginning after December 15, 2018. Early adoption will be permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its consolidated balance sheets.

FASB ASU 2016-09 "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" In March 2016, the FASB issued ASU 2016-09, "Compensation-Stock Compensation (Topic 718)" which impacts accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 requires all excess tax benefits and tax deficiencies to be recognized in the income statement as income tax expense (or benefit.) The tax effects of exercised or vested awards must be treated as discrete items in the reporting period in which they occur, regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits will be classified with other income tax cash flows as an operating activity, and cash paid by an employer when withholding shares for tax liabilities should be classified as a financing activity. The guidance becomes effective for annual periods beginning after December 15, 2017, and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements.

FASB ASU 2016-13 "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" In June 2016, the FASB issued ASU 2016-13, "Financial Instruments (Topic 326)" which changes the methodology for evaluating impairment of most financial instruments. The ASU replaces the currently used incurred loss model with a forward-looking expected loss model, which will generally result in a more timely recognition of losses. The guidance becomes effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the new guidance and has not determined the impact this standard may have on its financial statements.

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

### Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

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](http://www.enterprisebank.com) under "Investor Relations."

### Introduction

The following discussion describes the significant changes to the financial condition of the Company that have occurred during the first six months of 2016 compared to the financial condition as of December 31, 2015. In addition, this discussion summarizes the significant factors affecting the results of operations, liquidity and cash flows of the Company for the three and six months ended June 30, 2016, compared to the same periods in 2015. This discussion should be read in conjunction with the accompanying condensed consolidated financial statements included in this report and our Annual Report on Form 10-K for the year ended December 31, 2015.

## Executive Summary

Below are highlights of our financial performance for the quarter ended June 30, 2016, as compared to the linked quarter ended March 31, 2016, and prior year quarter ended June 30, 2015.

(in thousands, except per share data)	For the Three Months ended and At			For the Six Months ended		
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015	
<b>EARNINGS</b>						
Total interest income	\$37,033	\$35,460	\$32,352	\$72,493	\$64,503	
Total interest expense	3,250	3,032	3,072	6,282	6,178	
Net interest income	33,783	32,428	29,280	66,211	58,325	
Provision for portfolio loans	716	833	2,150	1,549	3,730	
Provision reversal for PCI loans	(336 )	(73 )	—	(409 )	(3,270 )	
Net interest income after provision for loan losses	33,403	31,668	27,130	65,071	57,865	
Total noninterest income	7,049	6,005	5,806	13,054	9,389	
Total noninterest expense	21,353	20,762	19,458	42,115	39,408	
Income before income tax expense	19,099	16,911	13,478	36,010	27,846	
Income tax expense	6,747	5,886	4,762	12,633	9,784	
Net income	\$12,352	\$11,025	\$8,716	\$23,377	\$18,062	
Basic earnings per share	\$0.62	\$0.55	\$0.44	\$1.17	\$0.91	
Diluted earnings per share	0.61	0.54	0.43	1.16	0.90	
Return on average assets	1.33	% 1.22	% 1.06	% 1.27	% 1.11	%
Return on average common equity	13.57	% 12.46	% 10.56	% 13.02	% 11.16	%
Return on average tangible common equity	14.91	% 13.74	% 11.77	% 14.34	% 12.47	%
Net interest margin (fully tax equivalent)	3.93	% 3.87	% 3.85	% 3.90	% 3.88	%
Efficiency ratio	52.29	% 54.02	% 55.46	% 53.13	% 58.20	%
<b>ASSET QUALITY (1)</b>						
Net charge-offs (recoveries)	\$(409 )	\$(99 )	\$672	\$(508 )	\$2,150	
Nonperforming loans	12,813	9,513	17,498			
Classified assets	87,532	73,194	61,722			
Nonperforming loans to portfolio loans	0.44	% 0.34	% 0.69	%		
Nonperforming assets to total assets (2)	0.47	% 0.52	% 0.58	%		
Allowance for loan losses to portfolio loans	1.23	% 1.21	% 1.25	%		
Net charge-offs (recoveries) to average loans (annualized)	(0.06 )	% (0.01 )	% 0.11	% (0.04 )	% 0.19	%

(1) Excludes PCI loans and related assets, except for their inclusion in total assets.

(2) Other real estate from PCI loans included in Nonperforming assets beginning with the period ended December 31, 2015 due to termination of FDIC loss share agreements.

Below are highlights of the Company's Core performance measures, which we believe are important measures of financial performance, but are non-GAAP measures. Core performance measures include contractual interest on PCI loans, but exclude incremental accretion on these loans, and exclude the Change in the FDIC receivable, gain or loss on the sale of other real estate from PCI loans, and certain other income and expense items the Company believes are not indicative of or useful to measure the Company's operating performance on an ongoing basis. A reconciliation of



Core performance measures has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures".

(in thousands)	For the Three Months ended			For the Six Months ended		
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015	
<b>CORE PERFORMANCE MEASURES (1)</b>						
Net interest income	\$30,212	\$29,594	\$26,277	\$59,806	\$51,864	
Provision for portfolio loans	716	833	2,150	1,549	3,730	
Noninterest income	6,105	6,005	6,741	12,110	12,580	
Noninterest expense	20,446	20,435	19,030	40,881	38,098	
Income before income tax expense	15,155	14,331	11,838	29,486	22,616	
Income tax expense	5,237	4,897	4,134	10,134	7,781	
Net income	\$9,918	\$9,434	\$7,704	\$19,352	\$14,835	
Earnings per share	\$0.49	\$0.47	\$0.38	\$0.96	\$0.74	
Return on average assets	1.07	% 1.04	% 0.93	% 1.06	% 0.91	%
Return on average common equity	10.89	% 10.66	% 9.34	% 10.78	% 9.17	%
Return on average tangible common equity	11.98	% 11.76	% 10.41	% 11.87	% 10.24	%
Net interest margin (fully tax equivalent)	3.52	% 3.54	% 3.46	% 3.53	% 3.46	%
Efficiency ratio	56.30	% 57.40	% 57.64	% 56.85	% 59.12	%

(1) A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

During the six months ended June 30, 2016, the Company noted the following trends:

The Company reported net income of \$23.4 million, or \$1.16 per share, for the six months ended June 30, 2016, compared to \$18.1 million, or \$0.90 per share, for the same period in 2015. The increase in net income was primarily due to an increase in net interest income and an increase in noninterest income.

On a core basis<sup>1</sup>, net income was \$19.4 million, or \$0.96 per share, for the six months ended June 30, 2016, compared to \$14.8 million, or \$0.74 per share, in the prior year period. The increase from the prior year was primarily due to increases in earning asset balances, driving growth in core net interest income. Additionally, a decrease in provision for losses on portfolio loans contributed to the increase, and was offset by a modest increase in noninterest expense.

- Net interest income for the first six months of 2016 increased \$7.9 million or 14%, from the prior year period due to strong portfolio loan growth.

Net interest margin for the first six months of 2016 increased two basis points to 3.90% when compared to the prior year period. Core net interest margin<sup>1</sup>, for the first six months of 2016, defined as Net interest margin (fully tax equivalent), including contractual interest on PCI loans, but excluding the incremental accretion on these loans, increased seven basis points from the prior year period primarily due to managed reductions in funding costs combined with an improved earning asset mix, and an increase in the yield on portfolio loans.

Noninterest income for the first six months of 2016 increased \$3.7 million, or 39%, compared to the prior year period largely due to a decrease in the Change in FDIC receivable from termination of the Company's loss share agreements in the fourth quarter of 2015. Core noninterest income<sup>1</sup> declined \$0.5 million, or 4%, from the prior year period

primarily due to higher allocation fees from tax credit projects and higher fees earned from recoveries received during the first six months of 2015.



Noninterest expense increased \$2.7 million, or 7%, from the prior year period, and the Company's efficiency ratio improved to 53.1% from 58.2% when compared to the prior year. The increase was largely due to an increase in Employee compensation and benefits, including \$0.3 million of executive severance. Core noninterest expense<sup>1</sup> also increased 7% when compared to the prior year. However, the Core efficiency ratio<sup>1</sup> also improved to 56.9% from 59.1% when compared to the prior year period due to revenue growth resulting from investments in customer facing associates driving continued revenue growth.

Other highlights:

- The Company's Board approved a sixth consecutive increase in the Company's quarterly cash dividend to \$0.11 per common share for the third quarter of 2016 from \$0.10, payable on September 30, 2016 to shareholders of record as of the close of business on September 15, 2016.

The Company repurchased 18,918 shares at \$26.46 per share pursuant to its publicly announced program during the quarter ended June 30, 2016, and 160,100 shares at \$26.30 per share during the quarter ended March 31, 2016. The Company's Board authorized the repurchase plan in May of 2015, which allows the Company to repurchase up to two million common shares, representing approximately 10% of the Company's currently outstanding shares. Shares may be bought back in open market or privately negotiated transactions over an indeterminate time period based on market and business conditions.

Balance sheet highlights:

Loans – Loans totaled \$2.9 billion at June 30, 2016, including \$56.5 million of PCI loans. Portfolio loans increased \$133.2 million, or 5%, from December 31, 2015. Commercial and industrial loans increased \$56.1 million, or 4%, Consumer and other loans increased \$23.9 million, or 17%, Construction loans and Residential real estate loans increased \$25.4 million, or 7%, and Commercial real estate increased \$28.3 million, or 4%. See Item 1, Note 4 – Portfolio Loans for more information.

Deposits – Total deposits at June 30, 2016 were \$3.0 billion, an increase of \$243.6 million, or 9%, from December 31, 2015. Deposits increased from both core deposit gathering efforts and brokered sources to supplement and fund our loan growth.

Asset quality – Nonperforming loans were \$12.8 million at June 30, 2016, compared to \$9.1 million at December 31, 2015. Nonperforming loans represented 0.44% of portfolio loans at June 30, 2016 versus 0.33% at December 31, 2015. There were no portfolio loans that were over 90 days delinquent and still accruing at June 30, 2016 or December 31, 2015.

Provision for portfolio loan losses was \$1.5 million for the six months ended June 30, 2016, compared to \$3.7 million for the six months ended June 30, 2015. See Item 1, Note 4 – Portfolio Loans, and Provision and Allowance for Loan Losses in this section for more information.

## RESULTS OF OPERATIONS

## 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 June 30, 2016			2015		
	Average Balance	Interest Income/Expense	Average Yield/ Rate	Average Balance	Interest Income/Expense	Average Yield/ Rate
<b>Assets</b>						
Interest-earning assets:						
Taxable portfolio loans (1)	\$2,832,279	\$ 29,377	4.17 %	\$2,450,453	\$ 25,273	4.14 %
Tax-exempt portfolio loans (2)	42,253	628	5.98	38,443	627	6.54
Purchased credit impaired loans	59,110	4,419	30.07	92,168	4,212	18.33
Total loans	2,933,642	34,424	4.72	2,581,064	30,112	4.68
Taxable investments in debt and equity securities	479,844	2,464	2.07	421,912	2,154	2.05
Non-taxable investments in debt and equity securities (2)	48,276	531	4.42	41,895	459	4.39
Short-term investments	45,039	58	0.52	51,423	38	0.30
Total securities and short-term investments	573,159	3,053	2.14	515,230	2,651	2.06
Total interest-earning assets	3,506,801	37,477	4.30	3,096,294	32,763	4.24
Noninterest-earning assets:						
Cash and due from banks	56,662			48,599		
Other assets	214,880			208,897		
Allowance for loan losses	(44,151 )			(43,212 )		
Total assets	\$3,734,192			\$3,310,578		
<b>Liabilities and Shareholders' Equity</b>						
Interest-bearing liabilities:						
Interest-bearing transaction accounts	\$582,482	\$ 329	0.23 %	\$506,073	\$ 279	0.22 %
Money market accounts	1,029,122	1,013	0.40	879,685	672	0.31
Savings	103,564	63	0.24	86,860	54	0.25
Certificates of deposit	481,140	1,183	0.99	539,387	1,594	1.19
Total interest-bearing deposits	2,196,308	2,588	0.47	2,012,005	2,599	0.52
Subordinated debentures	56,807	361	2.56	56,807	308	2.18
Other borrowed funds	350,783	301	0.35	230,492	165	0.29
Total interest-bearing liabilities	2,603,898	3,250	0.50	2,299,304	3,072	0.54
Noninterest bearing liabilities:						
Demand deposits	735,580			655,635		
Other liabilities	28,582			24,640		
Total liabilities	3,368,060			2,979,579		
Shareholders' equity	366,132			330,999		
Total liabilities & shareholders' equity	\$3,734,192			\$3,310,578		
Net interest income		\$ 34,227			\$ 29,691	
Net interest spread			3.80 %			3.70 %
Net interest margin			3.93 %			3.85 %

Average balances include non-accrual loans. Loan fees, net of amortization of deferred loan origination fees and (1) costs, included in interest income are approximately \$0.4 million and \$0.5 million for the three months ended June 30, 2016 and 2015 respectively.

(2) Non-taxable income is presented on a fully tax-equivalent basis using a 38% tax rate in 2016 and 2015. The tax-equivalent adjustments were \$0.4 million and \$0.4 million for the three months ended June 30, 2016 and 2015.

(in thousands)	Six months ended June 30,			2015		
	2016			2015		
	Average Balance	Interest Income/Expense	Average Yield/Rate	Average Balance	Interest Income/Expense	Average Yield/Rate
<b>Assets</b>						
<b>Interest-earning assets:</b>						
Taxable portfolio loans (1)	\$2,786,733	\$ 57,687	4.16 %	\$2,420,949	\$ 49,498	4.12 %
Tax-exempt portfolio loans (2)	41,542	1,288	6.24	38,424	1,252	6.57
Purchased credit impaired loans	64,071	8,310	26.08	94,670	9,209	19.62
Total loans	2,892,346	67,285	4.68	2,554,043	59,959	4.73
Taxable investments in debt and equity securities	472,567	4,923	2.09	420,371	4,353	2.09
Non-taxable investments in debt and equity securities (2)	48,836	1,069	4.40	42,429	939	4.46
Short-term investments	46,547	119	0.51	55,345	85	0.31
Total securities and short-term investments	567,950	6,111	2.16	518,145	5,377	2.09
Total interest-earning assets	3,460,296	73,396	4.27	3,072,188	65,336	4.29
<b>Noninterest-earning assets:</b>						
Cash and due from banks	55,829			48,417		
Other assets	215,623			213,596		
Allowance for loan losses	(43,998 )			(44,611 )		
Total assets	\$3,687,750			\$3,289,590		
<b>Liabilities and Shareholders' Equity</b>						
<b>Interest-bearing liabilities:</b>						
Interest-bearing transaction accounts	\$567,083	\$ 635	0.23 %	\$495,457	\$ 556	0.23 %
Money market accounts	1,046,869	2,019	0.39	861,565	1,314	0.31
Savings	99,815	123	0.25	84,149	104	0.25
Certificates of deposit	432,616	2,202	1.02	532,974	3,185	1.21
Total interest-bearing deposits	2,146,383	4,979	0.47	1,974,145	5,159	0.53
Subordinated debentures	56,807	709	2.51	56,807	610	2.17
Other borrowed funds	366,616	594	0.33	252,137	409	0.33
Total interest-bearing liabilities	2,569,806	6,282	0.49	2,283,089	6,178	0.55
<b>Noninterest bearing liabilities:</b>						
Demand deposits	725,165			655,367		
Other liabilities	31,723			24,723		
Total liabilities	3,326,694			2,963,179		
Shareholders' equity	361,056			326,411		
Total liabilities & shareholders' equity	\$3,687,750			\$3,289,590		
Net interest income		\$ 67,114			\$ 59,158	
Net interest spread			3.78 %			3.74 %
Net interest margin			3.90 %			3.88 %

Average balances include non-accrual loans. Loan fees, net of amortization of deferred loan origination fees and (1) costs, included in interest income are approximately \$0.8 million and \$0.9 million for the three months ended June 30, 2016 and 2015 respectively.

(2) Non-taxable income is presented on a fully tax-equivalent basis using a 38% tax rate in 2016 and 2015. The tax-equivalent adjustments were \$0.9 million and \$0.8 million for the six months ended June 30, 2016 and 2015.

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.

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(in thousands)	2016 compared to 2015					
	Three months ended June 30,			Six months ended June 30,		
	Increase (decrease) due to			Increase (decrease) due to		
	Volume	Rate(2)	Net	Volume	Rate(2)	Net
Interest earned on:						
Taxable portfolio loans	\$3,893	\$211	\$4,104	\$7,696	\$493	\$8,189
Tax-exempt portfolio loans (3)	58	(57)	1	101	(65)	36
Purchased credit impaired loans	(1,857)	2,064	207	(3,459)	2,560	(899)
Taxable investments in debt and equity securities	292	18	310	556	14	570
Non-taxable investments in debt and equity securities (3)	69	3	72	143	(13)	130
Short-term investments	(5)	25	20	(16)	50	34
Total interest-earning assets	\$2,450	\$2,264	\$4,714	\$5,021	\$3,039	\$8,060
Interest paid on:						
Interest-bearing transaction accounts	\$42	\$8	\$50	\$82	\$(3)	\$79
Money market accounts	125	216	341	318	387	705
Savings	10	(1)	9	20	(1)	19
Certificates of deposit	(163)	(248)	(411)	(546)	(437)	(983)
Subordinated debentures	—	53	53	—	99	99
Borrowed funds	98	38	136	187	(2)	185
Total interest-bearing liabilities	112	66	178	61	43	104
Net interest income	\$2,338	\$2,198	\$4,536	\$4,960	\$2,996	\$7,956

(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 tax 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 \$34.2 million for the three months ended June 30, 2016, compared to \$29.7 million for the same period of 2015, an increase of \$4.5 million, or 15%. Total interest income increased \$4.7 million and total interest expense increased \$0.2 million. The tax-equivalent net interest margin was 3.93% for the second quarter of 2016, compared to 3.87% for the first quarter of 2016, and 3.85% in the second quarter of 2015, and combined with portfolio loan growth, supported the \$4.7 million increase in net interest income. The yield on taxable portfolio loans increased three basis points from the prior year period to 4.17% for the three months ended June 30, 2016. The increase was due to an increase in yields on variable rate loans, aided by the Federal Reserve's raise in the targeted Fed Funds rate of 25 basis points, to a range of 0.25% to 0.50%, in December 2015. The run-off of higher yielding PCI loans continues to negatively impact net interest margin leading to a \$1.9 million decrease in interest income due to volume for the three months ended June 30, 2016.

Net interest income was \$67.1 million for the six months ended June 30, 2016, compared to \$59.2 million for the same period of 2015, an increase of \$8.0 million, or 13%. Total interest income increased \$8.1 million and total interest expense increased \$0.1 million. The tax-equivalent net interest margin was 3.90% for the six months ended June 30, 2016, compared to 3.88% for the same period of 2015. The yield on taxable portfolio loans increased four basis points from the prior year period to 4.16% for the six months ended June 30, 2016.

Core net interest margin<sup>1</sup> was 3.53% for the six months ended June 30, 2016, compared to 3.46% for the prior year period. Core net interest margin<sup>1</sup> increased seven basis points from the prior year quarter primarily due to loan growth

improving the earning asset mix, lower funding costs, and the aforementioned increase in the yield on portfolio loans.

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These factors have been partially offset by reductions in PCI loan balances and the higher contractual rates associated with these loans. The Company continues to manage its balance sheet to grow core net interest income and expects to maintain core net interest margin over the coming quarters; however, pressure on funding costs and continued reductions in PCI loan balances could negate the expected trends in core net interest margin.

#### Purchased Credit Impaired "PCI" Contribution

The following table illustrates the non-core contribution of PCI loans and related assets for the periods indicated.

(in thousands)	For the Three Months ended		For the Six Months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Accelerated cash flows and other incremental accretion	\$3,571	\$3,003	\$6,405	\$6,461
Provision reversal for PCI loan losses	336	—	409	3,270
Gain (loss) on sale of other real estate	705	10	705	(5 )
Other income from other real estate	239	—	239	—
Change in FDIC loss share receivable	—	(945 )	—	(3,209 )
Change in FDIC clawback liability	—	(50 )	—	(462 )
Other expenses	(325 )	(378 )	(652 )	(849 )
PCI assets income before income tax expense	\$4,526	\$1,640	\$7,106	\$5,206

Accelerated cash flows and other incremental accretion consists of the interest income on PCI loans in excess of contractual interest on the loans. The contractual amount of interest is included in the Company's core results. At June 30, 2016, the remaining accretable yield on the portfolio was estimated to be \$18 million and the non-accretable difference was approximately \$23 million. Absent cash flow accelerations or pool impairment, the Company currently estimates average PCI loan balances for 2016 to be approximately \$60 million, and income from accelerated cash flows and other incremental accretion to be between \$9 million and \$11 million.



## Noninterest Income

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

(in thousands)	Three months ended June 30,				
	2016	2015	Increase (decrease)		
Service charges on deposit accounts	\$2,188	\$1,998	\$190	10	%
Wealth management revenue	1,644	1,778	(134)	(8)	)%
Other service charges and fee income	952	840	112	13	%
Gain on state tax credits, net	153	74	79	107	%
Miscellaneous income - core	1,168	2,051	(883)	(43)	)%
Core noninterest income (1)	6,105	6,741	(636)	(9)	)%
Gain on sale of other real estate from PCI loans	705	10	695	6,950	%
Change in FDIC loss share receivable	—	(945)	945	(100)	)%
Other income from PCI assets	239	—	239	—	%
Total noninterest income	\$7,049	\$5,806	\$1,243	21	%

(1) A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

(in thousands)	Six months ended June 30,				
	2016	2015	Increase (decrease)		
Service charges on deposit accounts	\$4,231	\$3,854	\$377	10	%
Wealth management revenue	3,306	3,518	(212)	(6)	)%
Other service charges and fee income	1,820	1,593	227	14	%
Gain on state tax credits, net	671	748	(77)	(10)	)%
Gain on sale of other real estate - core	123	34	89	262	%
Miscellaneous income - core	1,959	2,833	(874)	(31)	)%
Core noninterest income (1)	12,110	12,580	(470)	(4)	)%
Gain (loss) on sale of other real estate from PCI loans	705	(5)	710	(14,200)	)%
Gain on sale of investment securities	—	23	(23)	(100)	)%
Change in FDIC loss share receivable	—	(3,209)	3,209	(100)	)%
Other income from PCI assets	239	—	239	—	%
Total noninterest income	\$13,054	\$9,389	\$3,665	39	%

(1) A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

Noninterest income increased \$3.7 million, or 39% in the first six months of 2016 compared to the first six months of 2015, primarily from the impact of the Company's termination of FDIC loss share agreements in the fourth quarter of 2015. Core noninterest income<sup>1</sup> declined 4% in the first six months of 2016 due to higher allocation fees from tax credit projects and higher fees earned from recoveries received during the first six months of 2015.

## Noninterest Expense

The following table presents a comparative summary of the major components of noninterest expense for the periods indicated.

(in thousands)	Three months ended June 30,				
	2016	2015	Increase (decrease)		
Core expenses (1):					
Employee compensation and benefits - core	\$12,185	\$11,030	\$1,155	10	%
Occupancy - core	1,584	1,598	(14)	(1)	%
Data processing - core	1,172	1,097	75	7	%
FDIC and other insurance	738	665	73	11	%
Professional fees - core	718	837	(119)	(14)	%
Loan, legal and other real estate expense - core	218	490	(272)	(56)	%
Other - core	3,831	3,313	518	16	%
Core noninterest expense (1)	20,446	19,030	1,416	7	%
FDIC clawback	—	50	(50)	(100)	%
Executive severance	332	—	332	—	%
Other non-core	250	—	250	—	%
Other expenses related to PCI loans	325	378	(53)	(14)	%
Total noninterest expense	\$21,353	\$19,458	\$1,895	10	%

(1) A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

(in thousands)	Six months ended June 30,				
	2016	2015	Increase (decrease)		
Core expenses (1):					
Employee compensation and benefits - core	\$24,650	\$22,280	\$2,370	11	%
Occupancy - core	3,241	3,265	(24)	(1)	%
Data processing - core	2,261	2,097	164	8	%
FDIC and other insurance	1,461	1,391	70	5	%
Professional fees - core	1,402	1,809	(407)	(22)	%
Loan, legal and other real estate expense - core	472	621	(149)	(24)	%
Other - core	7,394	6,635	759	11	%
Core noninterest expense (1)	40,881	38,098	2,783	7	%
FDIC clawback	—	462	(462)	(100)	%
Executive severance	332	—	332	—	%
Other non-core	250	—	250	—	%
Other expenses related to PCI loans	652	848	(196)	(23)	%
Total noninterest expense	\$42,115	\$39,408	\$2,707	7	%

(1) A non-GAAP measure. A reconciliation has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures."

Noninterest expenses were \$42.1 million for the six months ended June 30, 2016, compared to \$39.4 million for the six months ended June 30, 2015. The increase was partly due to an increase in Employee compensation and benefits from investments in revenue producers. Core noninterest expenses<sup>1</sup>, which exclude \$0.3 million of executive

severance, \$0.3 million of other non-core expense and expenses directly related to PCI loans and related assets, increased \$2.8

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million to \$40.9 million for the six months ended June 30, 2016, from \$38.1 million for the prior year period. The increase was largely due to an increase in Employee compensation and benefits from the addition of client service personnel to facilitate growth.

The Company's Core efficiency ratio<sup>1</sup> was 56.9% for the six months ended June 30, 2016, compared to 59.1% for the prior year, and reflects overall expense management and revenue growth trends. Core efficiency ratio is a non-GAAP measure. A reconciliation of Core efficiency ratio has been included in this MD&A section under the caption "Use of Non-GAAP Financial Measures".

The Company anticipates total noninterest expenses to be between \$19.5 million and \$21.5 million per quarter for 2016.

#### Income Taxes

The Company's income tax expense for the three and six months ended June 30, 2016, which includes both federal and state taxes, was \$6.7 million and \$12.6 million, respectively, compared to \$4.8 million and \$9.8 million, respectively, for the same periods of 2015. The combined federal and state effective income tax rate for the six months ended June 30, 2016 and 2015 was 35.1%.

## Summary Balance Sheet

(in thousands)	June 30, 2016	December 31, 2015	Increase (decrease)		
Total cash and cash equivalents	\$ 110,296	\$ 94,157	16,139	17.1	%
Securities	521,028	495,484	25,544	5.2	%
Portfolio loans	2,883,909	2,750,737	133,172	4.8	%
Purchased credit impaired loans	56,529	74,758	(18,229)	(24.4)	%
Total assets	3,761,665	3,608,483	153,182	4.2	%
Deposits	3,028,236	2,784,591	243,645	8.7	%
Total liabilities	3,390,036	3,257,654	132,382	4.1	%
Total shareholders' equity	371,629	350,829	20,800	5.9	%

## Assets

## Loans by Type

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 secured by real estate, including loans classified as C&I loans. 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)	June 30, 2016	December 31, 2015	Increase (decrease)		
Commercial and industrial	\$ 1,540,457	\$ 1,484,327	\$ 56,130	3.8	%
Commercial real estate - investor owned	466,713	428,064	38,649	9.0	%
Commercial real estate - owner occupied	332,639	342,959	(10,320)	(3.0)	%
Construction and land development	171,778	161,061	10,717	6.7	%
Residential real estate	211,155	196,498	14,657	7.5	%
Consumer and other	161,167	137,828	23,339	16.9	%
Portfolio loans	2,883,909	2,750,737	133,172	4.8	%
Purchased credit impaired loans	56,529	74,758	(18,229)	(24.4)	%
Total loans	\$ 2,940,438	\$ 2,825,495	\$ 114,943	4.1	%

Portfolio loans grew by \$133.2 million, to \$2.9 billion at June 30, 2016, when compared to December 31, 2015. PCI loans totaled \$56.5 million at June 30, 2016, a decrease of \$18.2 million, or 24%, from December 31, 2015, primarily as a result of principal paydowns and accelerated loan payoffs.

The following table illustrates loan growth with selected specialized lending detail:

(in thousands)	June 30, 2016	December 31, 2015	Increase (decrease)	
Enterprise value lending	\$353,915	\$350,266	\$3,649	1.0 %
C&I - general	737,904	732,186	5,718	0.8 %
Life insurance premium financing	295,643	265,184	30,459	11.5%
Tax credits	152,995	136,691	16,304	11.9%
CRE, Construction, and land development	971,130	932,084	39,046	4.2 %
Residential	211,155	196,498	14,657	7.5 %
Other	161,167	137,828	23,339	16.9%
Portfolio loans	\$2,883,909	\$2,750,737	\$133,172	4.8 %

Specialty lending products, especially Enterprise value lending, Life insurance premium financing, and Tax credits, consists of primarily C&I loans, and have contributed significantly to the Company's loan growth. These loans are sourced through relationships developed with estate planning firms and private equity funds, and are not bound geographically by our traditional three markets. These specialized loan products offer opportunities to expand and diversify geographically by entering into new markets. The Company continues to focus on originating high-quality C&I relationships as they typically have variable interest rates and allow for cross selling opportunities involving other banking products. C&I loan growth also supports our efforts to maintain the Company's asset sensitive interest rate risk position. The Company continues to expect loan growth at or above 10% for 2016.

## 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Allowance at beginning of period, for portfolio loans	\$34,373	\$30,288	\$33,441	\$30,185
Loans charged off:				
Commercial and industrial	(157 )	(1,578 )	(225 )	(3,062 )
Real estate:				
Commercial	—	(664 )	—	(664 )
Construction and land development	—	(350 )	—	(350 )
Residential	—	—	—	(1,073 )
Consumer and other	(6 )	(4 )	(11 )	(15 )
Total loans charged off	(163 )	(2,596 )	(236 )	(5,164 )
Recoveries of loans previously charged off:				
Commercial and industrial	502	420	555	1,189
Real estate:				
Commercial	23	1,300	98	1,456
Construction and land development	8	115	14	175
Residential	36	87	70	113
Consumer and other	3	1	7	81
Total recoveries of loans	572	1,923	744	3,014
Net loan recoveries (chargeoffs)	409	(673 )	508	(2,150 )
Provision for portfolio loan losses	716	2,150	1,549	3,730
Allowance at end of period, for portfolio loans	\$35,498	\$31,765	\$35,498	\$31,765
Allowance at beginning of period, for purchased credit impaired loans	\$9,569	\$11,625	\$10,175	\$15,410
Loans charged off	(495 )	(5 )	(983 )	(2 )
Other	(187 )	(26 )	(232 )	(544 )
Net loan chargeoffs	(682 )	(31 )	(1,215 )	(546 )
Provision reversal for PCI loan losses	(336 )	—	(409 )	(3,270 )
Allowance at end of period, for purchased credit impaired loans	\$8,551	\$11,594	\$8,551	\$11,594
Total allowance at end of period	\$44,049	\$43,359	\$44,049	\$43,359
Portfolio loans, average	\$2,874,532	\$2,482,291	\$2,483,488	\$2,255,180
Portfolio loans, ending	2,883,909	2,542,555	2,883,909	2,542,555
Net chargeoffs to average portfolio loans	(0.06 )%	0.11 %	(0.04 )%	0.19 %
Allowance for portfolio loan losses to loans	1.23	1.25	1.23	1.25

The provision for loan losses on portfolio loans for the six months ended June 30, 2016 was \$1.5 million, compared to \$3.7 million for the comparable 2015 period. The provision for loan losses for the six month period ended June 30, 2016 was primarily to provide for loan growth.

For PCI loans, the Company remeasures contractual and expected cash flows periodically. 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. There was \$0.4 million of provision reversal for loan losses on PCI loans for the six months ended June 30, 2016, compared to provision reversal of \$3.3 million for the comparable 2015 period.

The allowance for loan losses on portfolio loans was 1.23% of portfolio loans at June 30, 2016 compared to 1.25% at June 30, 2015. Management believes the allowance for loan losses is adequate to absorb inherent losses in the loan portfolio and coverage trends reflect relatively steady improvements in credit quality measures and classified loan levels. The reduction in the ratio of allowance for loan losses to total loans over the prior year period is due to lower levels of nonperforming loans, as well as continued improvement in loss migration results.

#### Nonperforming assets

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

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015	
Non-accrual loans	\$10,493	\$8,797	\$16,751	
Restructured loans	2,320	303	747	
Total nonperforming loans (1)	12,813	9,100	17,498	
Other real estate from originated loans	2,741	3,218	1,933	
Other real estate from acquired loans	2,160	5,148	—	
Total nonperforming assets (1) (2)	\$17,714	\$17,466	\$19,431	
Total assets	\$3,761,665	\$3,608,483	\$3,371,078	
Portfolio loans	2,883,909	2,750,737	2,542,555	
Portfolio loans plus other real estate	2,888,810	2,759,103	2,544,488	
Nonperforming loans to portfolio loans (1)	0.44	% 0.33	% 0.69	%
Nonperforming assets to total loans plus other real estate (1) (2)	0.61	0.63	0.76	
Nonperforming assets to total assets (1) (2)	0.47	0.48	0.58	
Allowance for portfolio loans to nonperforming loans (1)	277	% 367	% 182	%

(1) Excludes PCI loans, except for their inclusion in total assets.

(2) Other real estate from PCI loans included in Nonperforming assets beginning with the year ended December 31, 2015 due to termination of all existing FDIC loss share agreements.



## Nonperforming loans

Nonperforming loans exclude PCI loans that are accounted for on a pool basis, as the pools are considered to be performing. See Item 1, Note 5 – Purchased Credit Impaired Loans for more information on these loans.

Nonperforming loans based on loan type were as follows:

(in thousands)	June 30, 2016	December 31, 2015	June 30, 2015
Commercial and industrial	\$4,748	\$ 4,514	\$5,998
Commercial real estate	248	1,105	3,026
Construction and land development	2,576	2,800	5,968
Residential real estate	670	681	2,506
Consumer and other	4,571	—	—
Total	\$12,813	\$ 9,100	\$17,498

The increase in Nonperforming loans was primarily due to the increase in the Consumer and other loans category which consists of one tax credit relationship for a multifamily property.

The following table summarizes the changes in nonperforming loans:

(in thousands)	Six months ended June 30,	
	2016	2015
Nonperforming loans beginning of period	\$9,100	\$22,244
Additions to nonaccrual loans	7,555	16,100
Additions to restructured loans	2,320	—
Chargeoffs	(35 )	(5,297 )
Other principal reductions	(4,932 )	(14,523 )
Moved to other real estate	(283 )	(450 )
Moved to performing	(912 )	(576 )
Loans past due 90 days or more and still accruing interest	—	—
Nonperforming loans end of period	\$12,813	\$17,498

Nonperforming loans at June 30, 2016 increased by \$3.7 million, or 41%, when compared to December 31, 2015, and decreased by \$4.7 million, or 27%, when compared to June 30, 2015.

## Other real estate

Other real estate at June 30, 2016, was \$4.9 million, compared to \$9.8 million at June 30, 2015.

The following table summarizes the changes in Other real estate:

(in thousands)	Six months ended June 30,	
	2016	2015
Other real estate beginning of period	\$8,366	\$7,840
Additions and expenses capitalized to prepare property for sale	2,203	5,998
Writedowns in value	—	(295 )
Sales	(5,668 )	(3,701 )
Other real estate end of period	\$4,901	\$9,842



Writedowns in fair value are recorded in Loan legal and other real estate expense based on current market activity shown in the appraisals. In the six months ended June 30, 2016, the Company realized a net gain of \$0.8 million from the sales of other real estate, primarily from the sale of a property related to PCI loans, and recorded these gains as part of Noninterest income.

## Liabilities

Liabilities totaled \$3.4 billion at June 30, 2016, compared to \$3.3 billion at December 31, 2015. The increase in liabilities was largely due to a \$244 million increase in total deposits, offset by a decrease of \$32 million in Federal Home Loan Bank advances and a decrease of \$70 million in other borrowings.

## Deposits

(in thousands)	June 30, 2016	December 31, 2015	Increase (decrease)		
Demand deposits	\$753,173	\$717,460	35,713	5.0	%
Interest-bearing transaction accounts	628,505	564,420	64,085	11.4	%
Money market accounts	1,019,304	1,053,662	(34,358)	(3.3)	%
Savings	105,224	92,861	12,363	13.3	%
Certificates of deposit:					
Brokered	166,507	39,573	126,934	320.8	%
Other	355,523	316,615	38,908	12.3	%
Total deposits	\$3,028,236	\$2,784,591	243,645	8.7	%
Non-time deposits / total deposits	83	% 87			%
Demand deposits / total deposits	25	% 26			%

Total deposits at June 30, 2016 were \$3.0 billion, an increase of \$244 million, or 9%, from December 31, 2015. The increase in deposits within our brokered certificates of deposit was to provide for loan growth in the year. The composition of our noninterest bearing deposits remained relatively stable at 25% of total deposits at June 30, 2016 compared to December 31, 2015. Lower rates on time deposit balances and a change in composition modestly improved deposit costs during the first six months of 2016 to 0.35%, as compared to 0.40% for the same period in 2015.

Core deposits, defined as total deposits excluding time deposits, were \$2.5 billion at June 30, 2016, an increase of \$78 million, or 3%, from December 31, 2015.

## Shareholders' Equity

Shareholders' equity totaled \$372 million at June 30, 2016, an increase of \$20.8 million from December 31, 2015. Significant activity during the six months ended June 30, 2016 was as follows:

- Net income of \$23.4 million,
- Other comprehensive income of \$5.3 million from the change in unrealized gains on investment securities,
- Repurchase of 179,018 common shares for \$4.7 million,
- Dividends paid on common shares of \$3.8 million.

## Liquidity and Capital Resources

### Liquidity

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, borrowings from the Federal Reserve 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 and other debt instruments.

The parent company currently has a senior unsecured revolving credit agreement ("Revolving Agreement") with another bank allowing for borrowings up to \$20 million. As of June 30, 2016, there are no outstanding balances under the Revolving Agreement. Additionally, the Company received two quarterly dividends from the Bank of \$2.5 million each as part of the Company's ongoing capital management. Management believes the current level of cash at the holding company of \$7.0 million will be sufficient to meet projected cash needs for at least the next year.

As of June 30, 2016, the Company had \$56.8 million of outstanding subordinated debentures as part of eight Trust Preferred Securities Pools. These securities are classified as debt but are included in regulatory capital and the related interest expense is tax-deductible, which makes them an attractive source of funding.

#### Bank liquidity

The Bank has a variety of funding sources available to increase financial flexibility. In addition to amounts currently borrowed, at June 30, 2016 the Bank has borrowing capacity of \$310.7 million from the FHLB of Des Moines under blanket loan pledges, and has an additional \$889.9 million available from the Federal Reserve Bank under a pledged loan agreement. The Bank has unsecured federal funds lines with five correspondent banks totaling \$60.0 million.

Investment securities are another important tool to the Bank's liquidity objectives. Of the \$478.5 million of the securities available for sale at June 30, 2016, \$336.8 million was pledged as collateral for deposits of public institutions, treasury, loan notes, and other requirements. The remaining \$141.7 million could be pledged or sold to enhance liquidity, if necessary.

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 \$1.1 billion in unused commitments as of June 30, 2016. While

this commitment level would exhaust the majority the Company's current liquidity resources, 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 banking affiliate'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, Tier 1, and Common equity 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 total risk-based (10%), Tier 1 risk-based (8%), Common equity tier 1 risk-based (6.5%), and Tier 1 leverage ratios (5%). As of June 30, 2016, and December 31, 2015, the Company and the Bank met all capital adequacy requirements to which they are subject.

The Bank continues to exceed regulatory standards and met the definition of "well-capitalized" (the highest category) at June 30, 2016. The Company adopted the Regulatory Capital Framework (Basel III) in 2015, and has implemented the necessary processes and procedures to comply.

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

(in thousands)	June 30, 2016	December 31, 2015	Well Capitalized Minimum %	%	%
Total capital to risk-weighted assets	12.16	% 11.85	% 10.00	%	
Tier 1 capital to risk-weighted assets	10.92	% 10.61	% 8.00	%	
Common equity tier 1 capital to risk-weighted assets	9.38	% 9.05	% 6.50	%	
Leverage ratio (Tier 1 capital to average assets)	10.53	% 10.71	% 5.00	%	
Tangible common equity to tangible assets <sup>1</sup>	9.08	% 8.88	% N/A		
Tier 1 capital	\$389,978	\$374,676			
Total risk-based capital	434,102	418,367			

<sup>1</sup> Not a required regulatory capital ratio

The Company believes the tangible common equity ratio and the common equity tier 1 capital ratio are important measures of capital strength even though they are considered to be non-GAAP measures. The tables further within MD&A reconcile these ratios to U.S. GAAP.





Use of Non-GAAP Financial Measures:

The Company's accounting and reporting policies conform to generally accepted accounting principles in the United States ("GAAP") and the prevailing practices in the banking industry. However, the Company provides other financial measures, such as Core net income and net interest margin, and other Core performance measures, regulatory capital ratios, and the tangible common equity ratio, in this report 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 GAAP.

The Company considers its Core performance measures presented in this report and the included tables as important measures of financial performance, even though they are non-GAAP measures, as they provide supplemental information by which to evaluate the impact of PCI loans and related income and expenses, the impact of certain non-comparable items, and the Company's operating performance on an ongoing basis. Core performance measures include contractual interest on PCI loans, but exclude incremental accretion on these loans. Core performance measures also exclude the Change in FDIC receivable, Gain or loss on sale of other real estate from PCI loans, and expenses directly related to PCI loans and other assets formerly covered under FDIC loss share agreements. Core performance measures also exclude certain other income and expense items, such as executive separation costs and the gain or loss on sale of investment securities, the Company believes to be not indicative of or useful to measure the Company's operating performance on an ongoing basis. The Company believes that the tangible common equity ratio provides useful information to investors about the Company's capital strength even though it is considered to be a non-GAAP financial measure and is not part of the regulatory capital requirements to which the Company is subject. The Company believes these non-GAAP measures and ratios, when taken together with the corresponding 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 operating results and related trends and when 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 GAAP. In the following tables, 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 for the periods indicated.

## Core Performance Measures

(in thousands)	For the Three Months ended			For the Six Months ended		
	June 30, 2016	March 31, 2016	June 30, 2015	June 30, 2016	June 30, 2015	
<b>CORE PERFORMANCE MEASURES</b>						
Net interest income	\$33,783	\$32,428	\$29,280	\$66,211	\$58,325	
Less: Incremental accretion income	3,571	2,834	3,003	6,405	6,461	
Core net interest income	30,212	29,594	26,277	59,806	51,864	
Total noninterest income	7,049	6,005	5,806	13,054	9,389	
Less: Change in FDIC loss share receivable	—	—	(945 )	—	(3,209 )	
Less (plus): Gain (loss) on sale of other real estate from PCI loans	705	—	10	705	(5 )	
Less: Gain on sale of investment securities	—	—	—	—	23	
Less: Other income from PCI assets	239	—	—	239	—	
Core noninterest income	6,105	6,005	6,741	12,110	12,580	
Total core revenue	36,317	35,599	33,018	71,916	64,444	
Provision for portfolio loans	716	833	2,150	1,549	3,730	
Total noninterest expense	21,353	20,762	19,458	42,115	39,408	
Less: FDIC clawback	—	—	50	—	462	
Less: Other expenses related to PCI loans	325	327	378	652	848	
Less: Executive severance	332	—	—	332	—	
Less: Other non-core expense	250	—	—	250	—	
Core noninterest expense	20,446	20,435	19,030	40,881	38,098	
Core income before income tax expense	15,155	14,331	11,838	29,486	22,616	
Total income tax expense	6,747	5,886	4,762	12,633	9,784	
Less: Non-core income tax expense	1,510	989	628	2,499	2,003	
Core income tax expense	5,237	4,897	4,134	10,134	7,781	
Core net income	\$9,918	\$9,434	\$7,704	\$19,352	\$14,835	
Core earnings per share	\$0.49	\$0.47	\$0.38	\$0.96	\$0.74	
Core return on average assets	1.07	% 1.04	% 0.93	% 1.06	% 0.91	%
Core return on average common equity	10.89	% 10.66	% 9.34	% 10.78	% 9.17	%
Core return on average tangible common equity	11.98	% 11.76	% 10.41	% 11.87	% 10.24	%
Core efficiency ratio	56.30	% 57.40	% 57.64	% 56.85	% 59.12	%

## Net Interest Margin to Core Net Interest Margin (fully tax equivalent)

(in thousands)	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net interest income	\$34,227	\$29,691	\$67,114	\$59,158
Less: Incremental accretion income	3,571	3,003	6,405	6,461
Core net interest income	\$30,656	\$26,688	\$60,709	\$52,697
Average earning assets	\$3,506,801	\$3,096,294	\$3,460,296	\$3,072,188
Reported net interest margin	3.93	% 3.85	% 3.90	% 3.88
Core net interest margin	3.52	% 3.46	% 3.53	% 3.46

## Tangible common equity ratio

(in thousands)	June 30, 2016	December 31, 2015
Total shareholders' equity	\$371,629	\$350,829
Less: Goodwill	30,334	30,334
Less: Intangible assets	2,589	3,075
Tangible common equity	\$338,706	\$317,420
Total assets	\$3,761,665	\$3,608,483
Less: Goodwill	30,334	30,334
Less: Intangible assets	2,589	3,075
Tangible assets	\$3,728,742	\$3,575,074
Tangible common equity to tangible assets	9.08	% 8.88

## Common equity tier 1 ratio

(in thousands)	June 30, 2016	December 31, 2015	
Total shareholders' equity	\$371,629	\$350,829	
Less: Goodwill	30,334	30,334	
Less: Intangible assets, net of deferred tax liabilities	958	759	
Less: Unrealized gains	5,517	218	
Plus: Qualifying trust preferred securities	55,100	55,100	
Plus: Other	58	58	
Total tier 1 capital	389,978	374,676	
Less: Qualifying trust preferred securities	55,100	55,100	
Less: Other	35	23	
Common equity tier 1 capital	\$334,843	\$319,553	
Total risk-weighted assets determined in accordance with prescribed regulatory requirements	\$3,570,437	\$3,530,521	
Common equity tier 1 capital to risk-weighted assets	9.38	% 9.05	%

## Critical Accounting Policies

The impact and any associated risks related to the Company's critical accounting policies on business operations are described 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 description 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, 2015.

## 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 risk management practices are aimed at optimizing net interest income, while guarding against deterioration that could be caused by certain interest rate scenarios. 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 300 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	8.2%
+ 200 bp	5.7%
+ 100 bp	3.0%
- 100 bp	-3.4%

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 June 30, 2016, the Company had \$3.5 million in notional amount of outstanding interest rate caps, to help manage interest rate risk.

#### 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 June 30, 2016. 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 the Company's disclosure controls and procedures were effective as of June 30, 2016 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 Company and its subsidiaries are, from time to time, parties to various legal proceedings arising out of their businesses. Management believes 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.

##### 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, 2015. There have been no material changes to the risk factors described in such Annual Report on Form 10-K.

## ITEM 2: UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Issuer Purchases of Equity Securities

The following table provides information on repurchases by the Company of its common stock in each month of the quarter ended June 30, 2016.

Period	Total number of shares purchased (a)	Weighted-average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1, 2016 through April 30, 2016	—	\$ —	—	1,839,900
May 1, 2016 through May 31, 2016	—	—	—	1,839,900
June 1, 2016 through June 30, 2016	18,918	26.46	18,918	1,820,982
Total	18,918	\$ 26.46	18,918	

(a) In May 2015, the Company's board of directors authorized the repurchase of up to two million shares of the Company's common stock. The repurchases may be made in open market or privately negotiated transactions and the repurchase program will remain in effect until fully utilized or until modified, superseded or terminated. The timing and exact amount of common stock repurchases will depend on a number of factors including, among others, market and general economic conditions, economic capital and regulatory capital considerations, alternative uses of capital, the potential impact on our credit ratings, and contractual and regulatory limitations.

## ITEM 6: EXHIBITS

Exhibit No.	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	Employment separation and release agreement dated effective July 23, 2016 by and between Registrant and Frank H. Sanfilippo
*12.1	Computation of Ratio of Earnings to Fixed Charges and Preferred Dividends.
*31.1	Chief Executive Officer's Certification required by Rule 13(a)-14(a).
*31.2	Chief Financial Officer's Certification required by Rule 13(a)-14(a).
**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.

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, 2016, is formatted in XBRL interactive data files: (i) Consolidated Balance Sheet at March 31, 2016 and December 31, 2015; (ii) Consolidated Statement of Income for the three months ended March 31, 2016 and 2015; (iii) Consolidated Statement of Comprehensive Income for the three months ended March 31, 2016 and 2015; (iv) Consolidated Statement of Changes in Equity for the three months ended March 31, 2016 and 2015; (v) Consolidated Statement of Cash Flows for the three months ended March 31, 2016 and 2015; and (vi) Notes to Financial Statements.



\* Filed herewith

\*\* 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.

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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 July 29, 2016.

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